IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us.

Confirmation of your representation: You have accessed the attached document on the basis that you have confirmed to Standard Chartered Bank (the "**Sole Arranger**") that (1) you are not a resident in a country where delivery of this document by electronic transmission may not be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, AND (2) that you consent to delivery of this document and any amendments or supplements thereto by electronic transmission.

This document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently the Sole Arranger and its affiliates accept no liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version.

You understand that: The information in the offering circular has been provided by BDO Unibank, Inc. (the "**Issuer**" or the "**Bank**") in relation to its ₱365,000,000,000.00 Bond Programme (the "**Programme**"). The Sole Arranger has not independently verified all the information contained in the offering circular. The Sole Arranger (1) accepts no liability or responsibility for (a) the contents of this offering circular or for any other statement, made or purported to be made by the Sole Arranger or on its behalf in connection with the Issuer, (b) the accuracy or completeness of the information contained in the offering circular or on which the offering circular is based, or (c) the issue and offering of the Bonds, (2) nor makes any representation or warranty, express or implied, with respect to, the information contained in the offering circular or on which the offering circular is based. The Sole Arranger accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering circular or any such statement.

This offering circular should not be considered as a recommendation by the Sole Arranger or any of their affiliates to any recipient of the offering circular in relation to the Programme. Each person to whom the offering circular is made available by the Sole Arranger must make its own independent assessment of the Transaction after making such investigation as it deems necessary.

If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described herein.

You are reminded that you have accessed the attached offering circular on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

BDO UNIBANK, INC.
(A BANKING CORPORATION ORGANIZED AND EXISTING UNDER PHILIPPINE LAWS)

₱365,000,000,000.00
BOND PROGRAMME

Under this ₱365,000,000,000 Bond Programme (the "**Programme**"), BDO Unibank, Inc ("**BDO**", the "**Bank**" or the "**Issuer**") may offer from time to time, in one or more series of tranches, bonds (the "**Bonds**"), pursuant to BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019), and any other circulars and regulations as may be relevant for the transaction, as amended from time to time.

The Bonds constitute direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, enforceable according to Terms and Conditions of the Bonds, and shall at all times rank pari passu and ratably without any preference or priority amongst themselves, and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

The Bonds will be issued in scripless form, and will be registered and lodged with the Registrar through the Registry in the name of the Bondholders. The Bonds will be represented by a Bond Certificate deposited with the Registrar. The electronic registry book of the Registrar (the **"Registry"**) shall serve as the best evidence of ownership with respect to the Bonds. However, a written advice will be issued by the Registrar to the Bondholders to confirm the registration of Bonds in their name in the Registry including the amount and summary terms and conditions of the Bonds (the **"Registry Confirmations"**).

The Bank has a Baa2 rating for its long-term local currency bank deposits from Moody's Investor Services. The Bank also has an Issuer/Debt Rating (long-term) of BBB- from Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned. The Bonds are not rated.

Bonds issued under the Programme will be listed by the Bank in the Philippine Dealing & Exchange Corp. ("**PDEx**"). Once registered and lodged, the Bonds will be eligible for transfer through the trading participants of the PDEx upon listing of the Bonds in PDEx by electronic book-entry transfers in the Registry, and issuance of Registry Confirmations in favor of transferee Bondholders.

SOLE ARRANGER

standard chartered

SELLING AGENTS

BDO

standard chartered

ADVISOR

BDO Capital

THIS PAGE IS INTENTIONALLY LEFT BLANK

The date of this Offering Circular is 24 November 2023.

This offering circular ("**Offering Circular**") has been prepared solely for the information of persons to whom it is transmitted by Standard Chartered Bank as the Sole Arranger and Selling Agent, BDO Capital & Investment Corporation ("**BDO Capital**") as the Advisor, or the Bank, with respect to the Programme. This Offering Circular shall not be reproduced in any form, in whole or in part, for any purpose whatsoever nor shall it be transmitted to any other person.

The Bank confirms that this document contains all information with respect to the Bank and its subsidiaries and associates (collectively, the "**Group**") and the Bonds which is material in the context of the issue and offering of the Bonds, that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds, make this document as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank accepts full and sole responsibility accordingly.

The Sole Arranger and the Selling Agents have not independently verified the information contained or incorporated by reference herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Sole Arranger or Selling Agents as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Bank in connection with the offering of the Bonds. To the fullest extent permitted by law, each of the Sole Arranger and Selling Agents assumes no liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Bank or any statement made or purported to be made by the Sole Arranger or Selling Agents or any of its affiliates or advisors, in connection with the offering of the Bonds. No person is or has been authorized by the Bank or the Sole Arranger or Selling Agents to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorized by the Bank or the Sole Arranger or Selling Agents. Neither this Offering Circular nor any other information supplied in connection with the offering of the Bonds (a) is intended to provide the basis of any credit or other evaluations or (b) should be considered as a recommendation by the Bank or the Sole Arranger or the Selling Agents that any recipient of this Offering Circular, or any other information supplied in connection with the offering of the Bonds, should purchase any Bonds. Each investor contemplating to purchase any Bonds should rely on its own examination of the Bank and the terms of the offering of the Bonds, including the merits and risks involved. By receiving this Offering Circular, the prospective Bondholder acknowledges that (i) it has not relied on the Sole Arranger or the Selling Agents or any person affiliated with them in connection with its investigation of the accuracy of any information in this Offering Circular or its investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group or the Bonds and other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank or the Sole Arranger or the Selling Agents.

In making an investment decision, you must rely on your own examination of the Bank and the terms of the offering of Bonds, including the merits and risks involved. By receiving this Offering Circular, you acknowledge that (i) you have not relied on the Sole Arranger nor the Selling Agents, nor Development Bank of the Philippines – Trust Banking Group (the "**Trustee**"), nor any person affiliated with the Sole Arranger, Selling Agents or the Trustee in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group or the Bonds other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank, or the Sole Arranger, the Selling Agents or the Trustee.

Each of the Sole Arranger and the Trustee is a third party that has no subsidiary or affiliate or any other relationship with the Bank that would undermine its independence.

Neither the delivery of this Offering Circular nor the offer of Bonds shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank or the Group since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof. Each of the Sole Arranger and the Selling Agents expressly does not undertake to review the financial condition or affairs of the Bank during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Bonds.

None of the Bank, the Sole Arranger, the Selling Agents or the Trustee, or any of their respective affiliates, associates or representatives is making any representation to any purchaser of the Bonds regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business or tax advice. You should be aware that you may be required to bear the financial risks of an investment in the Bonds for an indefinite period. You should consult with your own advisers as to the legal, tax, business, financial and related aspects of a purchase of Bonds.

This Offering Circular does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make any such offer or solicitation. Each investor in the Bonds must comply with all applicable laws and regulations in force in the jurisdiction in which it purchases or offers to purchase such Bonds, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchase or offer, and neither the Bank nor the Sole Arranger shall have any responsibility thereof. Interested investors should inform themselves as to the applicable legal requirements under the laws and regulations of the countries of their nationality, residence, or domicile and as to any relevant tax or foreign exchange control laws and regulations that may affect them. See "*Distribution and Sale*".

The Bank's audited financial statements as of and for the years ended 31 December 2020, 2021 and 2022 and the reviewed consolidated financial statements for the nine months ended 30 September 2022 and 2023 which will be considered an integral part hereof, have been prepared in compliance with Philippine Financial Reporting Standards ("**PFRS**"). The Bank's financial statements as of and for the years ended 31 December 31 2020, 2021 and 2022 were audited by, and the Bank's reviewed consolidated financial statements for the nine months ended 30 September 2022 and 2023 were reviewed by Punongbayan & Araullo.

Conventions

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references herein to the "Government" are references to the Government of the Philippines. All references herein to "United States" or "U.S." are to the United States of America. Unless otherwise specified or the context otherwise requires, references herein to "U.S. dollars" and "U.S. $" are to the lawful currency of the United States of America and references herein to "Pesos" and "₱" are to the lawful currency of the Republic of the Philippines. Certain monetary amounts and currency translations included in this document have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures, which precede them. References in this document to ownership interests are, save as otherwise disclosed, as at the date of this document.

Forward-looking Statements

All statements contained in this Offering Circular that are not statements of historical fact constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "plan", "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Group's expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Group's business strategy, revenue and profitability, planned projects and other matters discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Bank or any third party) involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

Any forward-looking statements contained in this Offering Circular speak only as at the date of this Offering Circular. Each of the Bank and the Sole Arranger and Selling Agents expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

Industry and Market Data

Unless otherwise indicated, all industry and market data with respect to the Philippine banking and financial services industries was derived from information compiled and made available by the BSP or other public sources. While the Bank has ensured that such information has been extracted accurately and is believed by the Bank to be reasonable and presented in its proper context, the Bank has not independently verified any of the data from third-party sources or ascertained the correctness of the underlying economic assumptions relied upon therein.

Unless otherwise indicated, the description of the Bank's business activities in this Offering Circular is presented on a consolidated basis. For further information on the Group, see "*Description of the Bank — Subsidiaries and Affiliates*".

Pricing Supplement

For each issuance of Bonds under the Bank's Bond Programme, the Bank shall distribute the Pricing Supplement which shall be disclosed to the public.

The Pricing Supplement shall contain the following information:

(a) Name of the issuer;

(b) Description of the issue;

(c) Description of the specified currency or currencies;

(d) Description of the offer size of the specific offering;

(e) Description of the manner of distribution;

(f) Description of the issue size;

(g) Description of the form and denominations of the Issuance;

(h) Description of the timetable and offer period;

(i) Description of the interest rate and the mode of settlement of the offering;

(j) Description of the interest payable;

(k) Description of the provisions relating to redemption;

(l) Distribution;

(m) Parties to the distribution; and

(n) Relevant payment account.

The Pricing Supplement shall also contain amendments or updates to this Offering Circular, if any.

TABLE OF CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and form part of, this Offering Circular:

(a) The most recently published audited non-consolidated and (if produced) consolidated annual financial statements and, if published later, the most recently published unaudited interim non-consolidated and (if produced) consolidated financial results of the Issuer, (see *"Selected Financial Information"* for a description of the financial statements currently published by the Issuer); and

(b) All supplements or amendments to this Offering Circular prepared by the Issuer from time to time.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, to an extent which is material in the context of the Programme, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer, subject to compliance with all relevant laws, regulations, and directives, may from time to time issue the Bonds, subject to the terms set out herein. A summary of the general terms and conditions of the Bonds appears below. The applicable terms of any Bond will be agreed between the Issuer and the relevant Arranger(s) prior to the issuance and will be set out in the Terms and Conditions of the Bonds endorsed on, attached to, or incorporated by reference into, the Bond Certificate for the relevant Bonds, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Bonds.

This Offering Circular and any supplement will only be valid for listing the Bonds on PDEx in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Bonds previously or simultaneously issued under the Programme, does not exceed ₱365,000,000,000.

OFFERING CIRCULAR SUMMARY

*This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. Each prospective Bondholder is recommended to read this entire Offering Circular carefully, including the Bank's consolidated financial statements and related notes (the "**Financial Statements**") and "**Investment Considerations**".*

DESCRIPTION OF THE BANK

BDO Unibank, Inc. (the "**Bank"**) is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust and investments, investment banking, private banking, cash management, leasing and finance, remittance, insurance, rural banking, stock brokerage, retail cash cards and credit card services. The Bank is the product of a merger between Banco de Oro Universal Bank, Inc. ("**BDO**") and Equitable PCI Bank, Inc. ("**EPCIB"**), which took effect on 31 May 2007. As at 30 June 2023, according to the statements of condition submitted by banks to the BSP, the Bank ranked as the number one bank in the Philippines in terms of total resources, loans and, total deposits, capital, and total trust funds under management. The Bank's consolidated total resources were ₱3.4 trillion, ₱3.6 trillion, ₱4.1 trillion and ₱4.2 trillion, as at 31 December 2020, 2021, 2022 and 30 June 2023, respectively, while total capital funds stood at ₱393.0 billion, ₱424.5 billion, ₱461.5 billion, and ₱489.7 billion, respectively.

The Bank's strategic focus is to enhance its position as a leading full-service bank in the Philippines and to continue its focus on growing its business and improving operational efficiency. The Bank's principal markets are currently the top-tier corporate market, the middle-market banking segment (consisting of medium-sized corporations and small- and medium-sized enterprises ("**SMEs**") and the retail/consumer market. The Bank's customers are based primarily in the Philippines, and include large multinational corporations with local operations. The Bank has experienced significant growth over the last few years arising from offering new products and services and as a result of recent mergers and acquisitions.

As at 30 September 2023, the Bank had a network of 1,705 operating domestic branches (including 505 BDO Network Bank, Inc. ("**BDONB"**) (formerly One Network Bank, Inc.) branches) and two full-service branches in Hong Kong and Singapore. As at 30 September 2023, its network includes 14 overseas remittance and representative offices across Asia, North America, Europe and the Middle East, and 4,755 automated teller machines ("**ATMs**"), 607 cash deposit machines ("**CDMs"**), 4 self-service teller machines ("**STMs"**) and 50 universal teller machines (**"UTMs"**). As at 30 September 2023, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 55.0% of the Bank's issued common share capital.

As at 30 September 2023, the Bank had a market capitalization on the PSE of approximately ₱747.5 billion. The Bank's consolidated common equity tier 1 ("**CET1**") ratio, tier 1 capital adequacy ratio, and total capital adequacy ratio were 14.5%, 14.7% and 15.6%, respectively, as at 30 September 2023.

COMPETITIVE STRENGTHS

The Bank believes it has the following competitive advantages in relation to its competitors:

Leading brand name and banking franchise in the Philippines

The Bank believes that its combination of scale, reach, business mix, product offerings and brand recognition has made it a leading financial institution in the Philippines. According to statements of condition submitted by banks to the BSP, as at 30 June 2023, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank has one of the widest domestic branch networks in the Philippines, with 1,705 domestic branches (including 505 BDONB branches) spanning all major cities across the country as at 30 September 2023. The Bank believes that all of these factors have helped to develop the BDO brand, which covers the Bank's entire range of banking products and financial services under a single brand name, as one of the most well-known in the domestic market. The Bank's premier branding and market dominance are also reflected in leading market shares across most business segments including corporate banking, retail banking, private banking, investment banking, rural banking, remittances and credit cards. The Bank believes that its scale of operations and brand recognition support the continued growth and diversification of its business, network and product mix.

Diversified business model providing full-service operations

The Bank is a full-service universal bank offering a host of industry-leading banking products and services to serve the retail and corporate markets, including lending products (such as loan products tailored to corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, bancassurance, insurance brokerage and stock brokerage services. See "– *Subsidiaries and Affiliates*". The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products. The Bank has implemented plans and strategies, such as the consolidation of BDO Life in 2016, increasing capabilities in wealth management, and leveraging its distribution network to cross-sell fee income generating products, which the Bank believes will increase the contribution of recurring fee income to its overall operating income. While for the year ended 31 December 2020, the Bank's other operating income, mainly comprising non-interest income, decreased by 8.2% to ₱55.2 billion from ₱60.1 billion for the year ended in 31 December 2019 due to the impact of the COVID-19 pandemic and the resulting slowdown in business activity, the next two years showed notable growth. Other operating income grew by 11.1% to ₱61.4 billion in the year ended 31 December 2021 and by 16.6% to P71.5 billion in the year ended 31 December 2022. For the nine months ended 30 September 2023, the Bank's other operating income, mainly comprising non-interest income, increased by 8.8% to ₱57.9 billion from ₱53.2 billion in the nine months ended 30 September 2022. Moreover, the Bank believes that it has built a stable earnings base, wherein approximately 95.5% of its income is from recurring sources for the nine months ended 30 September 2023, rendering it less susceptible to market and industry volatility.

Customer-centric culture complemented by strategic distribution platform

The Bank believes it has instilled a "customer-centric culture" across its branches and personnel, embodied in its "We Find Ways" philosophy which it believes has elevated the customer convenience it offers to a higher level. For example, the Bank is the first Philippine bank to offer weekend operating schedules and all of its branches operate on extended banking hours.

To efficiently serve its customers, the Bank's branch network stretches to cover all major cities in the Philippines, with the Bank often establishing multiple branches in general areas it has identified to have greater potential for business. The Bank believes that this extensive domestic distribution network, including strategic locations within SM malls and other high-customer traffic areas, allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As at 30 September 2023, the Bank's network consists of 1,705 domestic branches (including 505 BDONB branches), 4,755 ATMs, 607 CDMs, 4 STMs and 50 UTMs. As at 30 September 2023, the Bank also had 2 full service branches abroad (Hong Kong and Singapore) and 14 remittance and representative offices across Asia, North America, Europe and the Middle East. The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low-cost deposit base. As at 31 December 2020, its CASA deposit base (comprising demand and savings ("**CASA**") deposits) grew to ₱2.1 trillion, or an increase of 16.6%, year-on-year. CASA deposits continued to grow by 13.2% in 2021 to P2.4 trillion, and by 5.5% to P2.5 trillion in 2022. As at 30 September 2023, CASA deposits base was stable at P2.5 trillion. As at 30 September 2023, 31 December 2022, 2021, and 2020, 72.3%, 78.8%, 85.2%, and 81.4%, respectively, of the Bank's total deposit base comprised CASA deposits. In addition, the Bank also believes that its branch network and premier customer service have allowed it to actively utilize its branches to expand its loan portfolio and transform its non-interest income franchise, mainly through aggressive cross-selling of loan and other fee income-related products and customer referrals across branches. The Bank believes that these endeavors will increase the ratio of recurring fee income to the Bank's overall operating income and reduce the Bank's reliance on trading and foreign exchange-related gains.

Strong and experienced management team

The Bank believes it has assembled a strong management team, with significant experience and proven track records in Philippine banking. The Bank's senior executive officers (comprising officers from the senior vice-president level and above who head business or support groups) have an average of over 20 years of experience in the banking and financial services sectors, primarily with certain of the Philippines' largest and most well-known banks. In addition, the Bank's executives and officers have a broad range of experience in their respective areas at banking and finance, with certain executives and officers gaining international banking experience with some of the leading global financial institutions. The Bank believes that its management team has successfully and continually improved the Bank's operating and business fundamentals, contributing substantially to the Bank's organic and acquisitive growth and expansion, and provides the Bank with a significant competitive advantage.

Synergies with controlling shareholder group

The Bank believes it has and continues to leverage its position as the main banking arm of the SM Group, which is the Philippines' largest retail conglomerate and mall operator. As a result of this relationship, the Bank enjoys synergies with the SM network of companies, such as new business opportunities for joint project development, origination of mortgage products through referrals from residential real estate projects, cross-selling of products to customers and shared marketing networks, knowledge and expertise with respect to key economic sectors and business industries such as retail, middle market and real estate, and strategic locations of the Bank's branches and ATMs in SM Group malls located across the Philippines. The Bank also believes that its business segments and product lines effectively support the business objectives of other SM Group companies in the areas at loans, other types of financing and portfolio investments.

RECENT DEVELOPMENTS

Recent Offers and Capital Raising Transactions

On 24 October 2016, the Bank issued Senior Notes under its U.S. $2 billion Medium Term Note Program with a face value of U.S. $300 million at a price of 99.977%. The Senior Notes matured on 24 October 2021 and bore a fixed interest rate of 2.625% per annum. The net proceeds from the issuance were allocated for the Bank's general corporate purposes.

On 31 January 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The net proceeds were allocated to support the Bank's medium-term growth objectives and will support the Bank's higher capital requirements as a result of the phase-in of a capital surcharge on D-SIBs by the BSP.

On 18 August 2017, the Bank issued ₱11.8 billion of long-term negotiable certificates of deposit ("**LTNCDs**") with a rate of 3.625% per annum which matured on 18 February 2023. On 7 May 2018, the Bank issued ₱8.2 billion of LTNCDs with a rate of 4.375% per annum which matured on 7 November 2023. On 12 April 2019, the Bank issued ₱7.3 billion of LTNCDs with a rate of 5.375% per annum and a maturity date of 12 October 2024. On 27 September 2019, the Bank issued ₱6.5 billion of LTNCDs with a rate of 4.000% per annum and a maturity date of 27 March 2025.

On 31 August 2017, the Bank issued Senior Notes under its MTN Program with a face value of U.S. $700 million at a price of 99.909%. The Senior Notes matured on 6 March 2023 and bore a fixed interest rate of 2.950% per annum. The issue was part of the Bank's liability management initiatives to tap longer-term funding sources to support the Bank's lending operations and for general corporate purposes.

On 8 December 2017, the Bank announced that it signed an agreement to issue its first green bond, raising U.S. $150 million to expand financing for private sector investments that help to address climate change. The issuance was the first green bond issued by a commercial bank in the Philippines, and the International Finance Corporation ("**IFC**") was the sole investor in the bond.

On 11 February 2019, the Bank issued ₱35.0 billion of senior fixed rate bonds with a rate of 6.42% per annum which matured on 11 August 2020. The bond issuance was part of the Bank's efforts to diversify its funding sources and support its business expansion.

On 3 February 2020, the Bank issued ₱40.1 billion of senior fixed rate bonds with a rate of 4.408% per annum which matured on 3 August 2022.

On 3 July 2020, the Bank issued another ₱36.0 billion of senior fixed rate bonds with a rate of 3.125% per annum which matured on 3 April 2022.

On 13 July 2020, the Bank issued Senior Notes with a face value of U.S. $600 million at a price of 99.562%. The Senior Notes will mature on 13 January 2026 and bear a fixed interest rate of 2.125% per annum. The issuance was part of the Bank's U.S. $5.0 billion Medium Term Note Program.

On 28 January 2022, the Bank issued ₱52.7 billion of senior fixed rate Sustainability Bonds with a rate of 2.900% per annum and maturity date of 28 January 2024.

On 16 May 2022, the Bank issued its maiden blue bond amounting to U.S. $100 million through an investment from the IFC. The bond, which has a tenor of seven years, expanded financing for projects that help prevent marine pollution and preserve clean water resources. The issuance marked a milestone for BDO for being the first private sector issuance for a blue bond in Southeast Asia.

Other Recent Developments

In March 2017, the Bank signed a Memorandum of Understanding with Shinkin Central Bank ("**Shinkin**") to develop a business cooperation envisioned to benefit the Japanese bank's existing SME clients operating in the Philippines and potential investors. The Bank may provide banking services including financial facilities, cash management and payment services, foreign exchange and other treasury products to Shinkin's SME clients.

In June 2018, the Bank announced that it had entered into a Memorandum of Understanding with Bank of Fukuoka, Ltd. ("**BoF**"), Japan's third largest regional bank, under which the Bank was chosen by BoF as its partner-bank in the Philippines to serve BoF's clients who wish to invest or expand into the Philippines.

In October 2018, the Bank entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore) ("**Osmanthus**") for the latter's acquisition of a 15% stake in BDONB, the Bank's rural bank subsidiary, which was completed on 16 May 2019. The partnership with Osmanthus will further strengthen BDONB's strategic foothold in the microfinance business and contribute to the government's efforts at improving financial inclusion.

On 28 January 2020, the Bank announced that it had entered into an agreement to sell a controlling stake in its publicly listed subsidiary, BDO Leasing and Finance, Inc. ("**BDOLF**"), to a third party as part of the Bank's restructuring of its leasing business, with the completion of the transaction subject to closing conditions. On 21 October 2020, BDOLF reported that it transferred 27.02% of its assets to BDO Finance Corporation ("**BDOFC**"). The transfer of assets is part of the restructuring of the Bank's leasing business in order to optimize the financial needs of clients in light of new accounting regulations covering lease transactions. IFRS 16, which took effect on January 2019, requires leases to be recognized on-balance sheet, similar to a loan facility, which makes lease transactions a less attractive option to corporate borrowers compared to the previous arrangement. Under the restructuring, BDO incorporated a new, privately-held company BDOFC to provide customers continuing access to lease products and services. However, on 24 January 2021, the Bank's agreement for the sale of a controlling stake in BDOLF lapsed due to the non-completion of certain closing conditions that were a pre-requisite to the sale transaction. The parties thereafter agreed to terminate the agreement. BDOLF remains a listed holding company of the Bank. On 7 March 2022, BDO further disclosed that BDO is now contemplating keeping BDOLF, repurposed as a holding company, for its own investment purpose or, depending on the terms of outstanding offers, pursue the sale of its shares with other prospective buyers.

On 26 November 2020, the Bank announced the completion of the buyout of Nomura's ownership in BDO Nomura following an announcement last 23 June 2020 terminating their joint venture arrangement. BDO Capital acquired Nomura's 49% stake in BDO Nomura. BDO Nomura was merged with BDO Securities Corporation ("**BDO Securities**") with the latter as the surviving entity. BDO Securities was reorganized into a full-service brokerage firm with an expanded product offering to include non-equity securities.

On 11 January 2021, the Bank announced that its Sustainable Finance Framework ("**SFF**") had recently been given the endorsement by Sustainalytics, a leading independent Environmental, Social and Governance ("**ESG**") research and ratings provider based in New York. Sustainalytics expressed that in their opinion "BDO's Sustainable Finance Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines in 2018, Green Loan Principles 2020, and the ASEAN Sustainability Bond Standards 2018." On 28 June 2022, the Bank received an updated accreditation on its SFF from Sustainalytics relative to the expansion of SFF eligible categories to include blue projects aligned with current market standards. The expanded SFF includes eligible blue categories such as sustainable water and waste water management, and offshore renewable energy. These are in addition to green categories that include among others, renewable energy, green buildings, clean transportation, as well as social categories that include employment generation and food security.

On 11 December 2021, there were reports of unauthorized transactions in certain BDO accounts. The Bank immediately responded to the fraud incident by implementing additional security controls to block further attempts from fraudsters and protect clients' bank credentials. At the same time, the Bank began processing the reimbursement of affected clients. On 20 May 2022, the Bank disclosed that the related examination by the BSP has been completed and that there are no monetary sanctions imposed by the BSP on this matter.

On 26 March 2022 and 24 September 2022, the Bank's Board of Directors approved the additional equity investment in BDO Network Bank ("**BDONB**") via the subscription of common shares of up to Php1.7 billion and Php 4.25 billion, respectively, with the latter to be infused in tranches depending on the business need of BDONB. The subscriptions amounting to Php 1.7 billion and Php 2.55 billion were paid in August 2022 and October 2022, respectively. The capital infusion was made to support BDONB's business expansion.

On 25 March 2023, the BDO Board of Directors approved the purchase of the entire equity interest of Keppel Philippines Properties, Inc.'s and Opon-KE Properties, Inc. ("**Keppel**") in SM Keppel Land, Inc. ("**SMKL**"). In view of Keppel's decision to divest its investment in SMKL, the Bank, as Keppel's joint venture partner in SMKL, agreed to buy out Keppel's 50% direct equity ownership in SMKL.

On 3 April 2023, the Bank signed a business alliance agreement through a memorandum of understanding ("**MOU**") with The Hyakujushi Bank Ltd. ("**HBL**") to provide banking support services to Japanese business entities who are HBL customers and have existing operations or plan to build or expand their businesses in the country.

INVESTMENT CONSIDERATIONS

Before making an investment decision, investors should carefully consider the risks associated with the Bank, including:

- Considerations relating to the Philippines
- Considerations relating to the Philippine Banking Industry
- Considerations relating to the Bank and its Business
- Considerations relating to the Bonds
- Considerations relating to the Bonds issued as Sustainability Bonds

Please refer to the section entitled *"Investment Considerations"*, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Bonds

BANK INFORMATION

The registered office of the Bank is BDO Towers Valero, 8741 Paseo de Roxas, Salcedo Village, Makati City. The Bank's telephone number is +(632) 8840 7000 and its corporate website is *www.bdo.com.ph.* The information on the Bank's website is not incorporated by reference into, and does not constitute part of, this Offering Circular.

SELECTED FINANCIAL INFORMATION

SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

*The following tables present selected consolidated financial information of the Bank and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular and the section entitled "Description of the Bank" in this Offering Circular. The selected financial information presented below as at and for the years ended 31 December 2020, 2021 and 2022 were derived from the consolidated financial statements prepared in accordance with financial reporting standards in the Philippines for banks and which include Philippine Financial Reporting Standards ("**PFRS**"), and audited by Punongbayan & Araullo ("**P&A**") in accordance with Philippine Standards on Auditing. The selected financial information as of 30 September 2023 and for the nine months ended 30 September 2023 were derived from the unaudited interim consolidated financial statements of the Bank, prepared in accordance with PAS 34, Interim Financial Reporting and reviewed by P&A in accordance with Philippine Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("**PSRE 2410**"). The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date.*

CONSOLIDATED STATEMENTS OF INCOME

	For the year ended 31 December			For the nine months ended 30 September
	2020	2021	2022	2023
	Audited			Unaudited
	(in ₱ millions)			
Interest income on				
Loans and other receivables	138,736	124,548	140,760	142,183
Trading and investment securities	16,092	18,717	24,868	26,906
Due from BSP and other banks	2,158	1,554	3,366	5,991
Others	45	60	77	67
	157,031	144,879	169,071	175,147
Interest expense on				
Deposit liabilities	15,521	6,952	12,377	31,685
Bills payable and other borrowings	7,120	5,764	6,535	5,382
Finance lease payment payable	690	817	927	649
	23,331	13,533	19,839	37,716
Net interest income	133,700	131,346	149,232	137,431
Impairment losses - net	30,240	17,063	16,366	10,679
Net interest income after impairment losses	103,460	114,283	132,866	126,752
Other operating income				
Trading gain — net	5,563	220	-600	290
Service charges and fees	24,822	30,485	38,545	31,707
Miscellaneous	24,825	30,649	33,590	25,853
	55,210	61,354	71,535	57,850

Other operating expenses				
Employee compensation and benefits	37,392	41,744	44,405	37,264
Occupancy	9,572	9,222	10,553	8,098
Taxes and licenses	12,703	11,180	13,167	13,946
Other operating expenses	52,973	57,729	63,083	55,417
	112,640	119,875	131,208	114,725
Profit before Pre-acquisition Income	46,030	55,762	73,193	69,877
Profit before tax	46,030	55,762	73,193	69,877
Tax expense	17,776	12,907	15,959	15,880
Net profit	28,254	42,855	57,234	53,997

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 September
	2020	**2021**	**2022**	**2023**
	Audited			**Unaudited**
	(in ₱ millions)			
Cash and other cash items	74,851	69,105	82,944	57,812
Due from the Bangko Sentral ng Pilipinas	308,636	304,906	385,779	388,425
Due from other banks	65,289	70,092	58,766	63,501
Trading and investment securities	508,810	616,261	722,830	914,212
Loans and other receivables — net	2,301,981	2,450,903	2,696,901	2,738,277
Premises, furniture, fixtures and equipment - net	44,330	44,807	46,471	46,218
Investment properties	15,851	18,795	21,158	21,094
Equity investments	4,862	5,194	5,501	5,731
Deferred tax assets — net	7,911	6,768	5,355	4,396
Other resources — net	42,379	36,918	49,003	48,671
Total resources	3,374,900	3,623,749	4,074,708	4,288,337
Deposit liabilities				
Demand	314,256	404,568	459,511	476,783
Savings	1,810,164	2,000,245	2,077,360	1,987,101
Time	485,731	416,083	684,012	944,204
Total deposit liabilities	2,610,151	2,820,896	3,220,883	3,408,088
Bills payable	209,744	204,431	198,891	182,333
Subordinated notes payable	-	-	-	-
Insurance contract liabilities	58,410	65,328	64,363	72,160
Other liabilities	103,574	108,546	129,114	123,055
Total liabilities	2,981,879	3,199,201	3,613,251	3,785,636
Equity	393,021	424,548	461,457	502,701
Total liabilities and equity	3,374,900	3,623,749	4,074,708	4,288,337

SELECTED FINANCIAL RATIOS

Selected financial ratios	For the year ended 31 December 2020	2021	2022	For the nine months ended 30 September 2023
	(in percentages except Earnings per Share)			
Return on assets[(1)]	0.9	1.2	1.5	1.7
Return on shareholders' equity[(2)]	7.5	10.4	12.9	15.0
Return on average common equity[(3)]	7.6	10.5	13.0	15.1
Net interest margin[(4)]	4.4	4.0	4.1	4.7
Cost-income ratio[(5)]	59.6	62.2	59.4	58.8
Loans to deposits[(6)]	86.7	85.1	81.2	79.8
Common equity tier 1 capital adequacy ratio[(7)]	13.2	13.6	13.4	14.5
Tier 1 capital adequacy ratio[(8)]	13.4	13.8	13.6	14.7
Total capital adequacy ratio[(9)]	14.4	14.7	14.5	15.6
Gross non-performing loans to total loans [(10)]	2.7	2.8	2.0	2.0
Net non-performing loans to total loans [(11)]	1.5	1.5	0.8	0.8
Allowances for probable loan losses to total non-performing loans[(12)]	109.5	111.2	166.7	175.8
Earnings per share (₱)[(13)]	6.37	9.68	10.77	10.16

Notes:
(1) Net income divided by average total resources for the period indicated.
(2) Net income divided by average total capital funds for the period indicated.
(3) Net income attributable to shareholders of the Bank divided by average common equity for the period indicated.
(4) Net interest income divided by average interest-earning assets.
(5) Total operating expenses divided by the sum of net interest income and other income.
(6) Net receivables from customers divided by total deposits.
(7) Common equity tier 1 capital divided by total risk-weighted assets.
(8) Tier 1 capital divided by total risk-weighted assets.
(9) Total capital divided by total risk-weighted assets.
(10) Gross non-performing loans divided by total loans – per BSP Circular 941.
(11) Net non-performing loans divided by total loans – per BSP Circular 941.
(12) Total allowance for probable loan losses divided by total non-performing loans.
(13) Net income divided by total number of outstanding shares.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the indebtedness and capitalization of the Bank as at 30 September 2023. This table should be read in conjunction with the Bank's limited review financial statements as at 30 September 2023 and the notes presented elsewhere herein.

	As at 30 September 2023 (Actual)
	(in ₱ millions)
Short-term liabilities	
Deposit liabilities	3,331,245
Bills payable and subordinated notes payable	116,733
Insurance contract liabilities	3,876
Other liabilities	102,767
Total short-term liabilities	3,554,621
Long-term liabilities net of current portion	
Deposit liabilities	76,843
Bills payable	65,600
Insurance contract liabilities	68,284
Other long-term liabilities	20,288
Total long-term liabilities net of current portion	231,015
Capital funds	
Issued share capital	
Preferred stock	6,180
Common stock	52,681
Capital paid in excess of par value	230,422
Surplus reserves	23,238
Other reserves	(76)
Surplus free	219,070
Net unrealized fair value loss on financial assets at Fair Value through Other Comprehensive Income (FVOCI)	(19,327)
Accumulated actuarial gains (losses)	(17,566)
Remeasurement on life insurance reserves	4,752
Revaluation Increment	1,010
Accumulated translation adjustment	94
Accumulated Share in Other Comprehensive Income (Loss) of Associates	(10)
Non-controlling interest	2,233
Total capital funds	502,701
Total capitalization and indebtedness(1)(2)	4,288,337

Notes:

(1) Total capitalization is the sum of long-term debt net of current portion and stockholders' equity.

(2) As at 30 September 2023, the Bank had no contingent liabilities save for those set out in Note 30.3 to the reviewed condensed financial statements of the Bank as at 30 September 2023, included elsewhere in this Offering Circular.

FORM OF PRICING SUPPLEMENT

PRICING SUPPLEMENT DATED [●]

OFFER OF SERIES [●] TRANCHE [●] BONDS
BY BDO UNIBANK, INC.
OF UP TO ₱[●]

Under its ₱365 Billion Bond Programme

This document constitutes the Pricing Supplement relating to Series [●] Tranche [●] Bonds being offered and described herein (the "Offer"). Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "Terms and Conditions") set forth in the Trust Agreement and the Offering Circular dated [●] (the "Offering Circular"). This Pricing Supplement contains the final terms of this Offer and the Series [●] Tranche [●] Bonds and must be read in conjunction with the Offering Circular. Full information on the Bank and the Offer is contained in the Offering Circular and in this Pricing Supplement. All information contained in the Offering Circular are deemed incorporated by reference in this Pricing Supplement.

Issuer	BDO Unibank, Inc. (the "Bank")
Issue	Bonds constituting the direct, unconditional, unsecured and unsubordinated obligations of the Bank
Specified Currency or Currencies	Philippine Peso
The Offer Size	[₱●]
Issue Price	At par (or 100% of face value) / [●]% of the face value
Form and Denomination of the Bonds	The Series [●] Tranche [●] Bonds shall be issued in scripless form in minimum denominations of [₱●] each, and in multiples of [₱●] thereafter, and traded in denominations of [₱●] in the secondary market.
Manner of Offering	[●]
Use of Proceeds	[●]
Offer Period	The offer of the Bonds shall commence at 10:00 am on [●] and end at 5:00 pm on [●]
Issue Date	[●]

Interest:

(a) For Fixed Rate:

Interest Commencement Date	[●]
Interest Payment Date (s)	[●],[●],[●] and [●] of each year
Interest Rate	[●]% per annum
Day Count Fraction	30/360 day count basis

(b) For Floating Rate:

Specified Period(s) / Interest Payment Dates	[●]
Manner in which the Interest Rate and Interest Amount is to be determined	[●]
Party Responsible for calculating the Interest Rate and Interest Amount	[●]
Reference Rate	[●]
Margin	[●]
Interest Determination Date	[●]

(c) For Zero-Coupon

Actual Yield	[●]
Reference Price	[●]
Any other formula/basis for determining amount payable	[●]
Maturity Date	[●] years from Issue Date or [●]
Rating	Unrated
Payment Account Name	[●]
Listing	The Series [●] Tranche [●] Bonds are intended to be listed at the Philippine Dealing & Exchange Corp.

Governing Law	Philippine Law
PROVISIONS RELATING TO REDEMPTION	
Issuer Redemption Option	[●]
Final Redemption Amount	[●]
Early Redemption Date	[●]
Early Redemption Amount	[●]
PARTIES	
Trustee	Development Bank of the Philippines – Trust Banking Group
Registrar & Paying Agent	Philippine Depository & Trust Corp.
Arranger	Standard Chartered Bank
Selling Agents	BDO Unibank, Inc. and Standard Chartered Bank

ADDITIONAL INFORMATION
Amendment or Supplement to the Offering Circular
[Changes or updates to the Offering Circular]

THE BANK CONFIRMS THE INFORMATION CONTAINED IN THIS PRICING SUPPLEMENT AND ACCEPTS RESPONSIBILITY THEREFOR.

BDO UNIBANK, INC
Issuer and Selling Agent
By:

____
Name:
Position:

INVESTMENT CONSIDERATIONS

An investment in the Bonds involves a number of investment considerations. You should carefully consider all the information contained in this Offering Circular including the investment considerations described below, before any decision is made to invest in the Bonds. The Bank's business, financial condition and results of operations could materially and adversely be affected by any of these investment considerations. The market price of the Bonds could decline due to any one of these risks, and all or part of an investment in the Bonds could be lost. The following discussion is not intended to be a comprehensive description of the risks and other factors and is not in any way meant to be exhaustive. Prospective Bondholders are encouraged to make their own independent legal, financial, and business examination of the Bank and the market. Neither the Bank nor the Sole Arranger makes any warranty or representation on the marketability or price on any investment in the Bonds.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

CONSIDERATIONS RELATING TO THE PHILIPPINES

Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Bank's businesses.

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso has declined from approximately ₱29.00 to U.S.$1 in July 1997 to ₱56.18 to one U.S.$1 by December 2004.

The value of the Peso may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an out flow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As at end-of-period 2020, according to BSP data, the Peso has appreciated by 5.64% to ₱48.03 per U.S.$1 from ₱50.74 per U.S.$1 at the end of 2019. As at 23 November 2023, the Peso was at ₱55.51 against the U.S. dollar, per BSP data.

Substantially all of the Bank's operations and assets are based in the Philippines and, therefore, a slowdown in economic growth in the Philippines could materially and adversely affect the Bank's business, financial position and results of operations.

Substantially all of the Bank's business activities and assets are based in the Philippines, which exposes the Bank to risks associated with the country, including the performance of the Philippine economy. Historically, the Bank has derived substantially all of its revenues and operating profits from the Philippines and, as such, its businesses are highly dependent on the state of the Philippine economy. Demand for banking services, residential real estate, automotives, electricity and insurance are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from OFWs and overseas Filipinos.

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency and the imposition of exchange controls. The country's GDP growth also stagnated in 2020 as a result of the COVID-19 pandemic, as the Philippine Statistics Authority has announced that the Philippines' GDP in 2020 contracted by 9.5%. In 2021, the Philippine economy recovered and expanded by 5.7% year-on-year as the lifting of pandemic-related restrictions stimulated business activity. The growth, which put the economy on track to return to its pre-pandemic level, was driven by increased household consumption, government expenditure and public construction. The growth continued in 2022 when the country's GDP expanded to 7.6%, surpassing the government's projection of 6.5% to 7.5%. The expansion is among the strongest in Southeast Asia and was driven by the services and industry sectors, with production in most subsectors reverting to its pre-pandemic levels. The Philippines' economic performance during the first half of

2023 has yielded positive results with its GDP growing by 5.3% anchored on historic high employment levels, acceleration of tourism and increasing investment registration activities. The government is targeting a growth of 6% to 7% by the end of the year.

Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations and foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies, including tax laws and regulations that impact or may impact inflation and consumer demand such as the Train Law or subsequent legislation;
- Government budget deficits;
- The COVID-19 pandemic including case surges and virus mutations, emergence of new variants, re-emergence of Middle East Respiratory Syndrome-Corona virus ("**MERS-CoV**"), SARS, avian influenza (commonly known as bird flu), H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition and results of operations.

Political instability may have a negative effect on the Philippine economic condition which could have a material impact on the Bank's businesses.

The Philippines has, from time to time, experienced political and military instability, including acts of political violence. In the last decade, there has been political instability in the Philippines, including extra-judicial killings, alleged electoral fraud, impeachment proceedings against two former presidents, two chief justices of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of officials of the Philippine government are currently under investigation or have been indicted on corruption charges stemming from allegations of misuse of public funds, extortion, bribery, or usurpation of authority. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy.

Likewise, the Bank may be affected by political and social developments in the country as well as changes in the political leadership and/or government policies. On 9 May 2022, the Philippine general elections for national, provincial and local officials, with Ferdinand R. Marcos, Jr. and Sara Z. Duterte garnering the majority votes for the Presidential and Vice-Presidential positions, respectively. The incumbency of President Marcos, Jr. may lead to political or regulatory changes such as, but not limited to, the promulgation of new banking laws and regulations and/or the appointment of new officers to lead the financial sector.

No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material adverse effect on the business, operations, and financial position of the Bank.

Acts of terrorism and violent crimes could destabilize the country and could have a material adverse effect on the Bank's business and financial condition.

The Philippines has also been subject to a number of terrorist attacks and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in May 2017, the city of Marawi in Lanao del Sur, Mindanao, was assaulted by the Maute Group, terrorists which were inspired by pledged allegiance to the Islamic State of Iraq and Syria (ISIS). Due to the clash between the Government forces and the terrorists and the risk of the armed conflict spilling over to other parts of Mindanao, martial law was declared in the entire island of Mindanao, Philippines. In October 2017, the city was declared liberated from the terrorists. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. Martial law in Mindanao was lifted on 1 January 2020, however certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy. These armed conflict and terror attacks could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

The Philippine legislature passed the Anti-Terrorism Act of 2020 (Republic Act No. 11479), which has drawn criticism from, and sparked protests by, various sectors because of its controversial provisions on warrantless arrests and its broad definition of terrorist acts, which may be used to target government critics. The Supreme Court, nevertheless, upheld the constitutionality of the said law, save for two provisions which exclude mass actions and similar exercise of civil and political rights from the definition of terrorism and requests by foreign agencies or bodies to designate persons as terrorists and terrorist organizations.

Continued conflicts between the government and separatist groups and attacks from terrorist groups could lead to further injuries or deaths by civilians and members of the police and military, which could destabilize parts of the country and adversely affect the country's economy. Any such destabilization could cause interruption to parts of the Bank's business and materially and adversely affect its financial conditions, results of operations and prospects. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines and adversely affect the country's economy.

No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. An unstable political or social environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Bank's business, financial condition and results of operations.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

Public health epidemics in the Philippines and globally may significantly impact the Bank's business, results of operations and financial condition. Any outbreak of contagious diseases in the Philippines, such as SARS, COVID-19, MERS-CoV, bird flu or H1N1 influenza (or swine flu) or Monkeypox Virus ("**Mpox**"), could have a material adverse effect on our financial condition and results of operations. In particular, any outbreak of contagious diseases could adversely affect the general level of economic activity in the Philippines.

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, has spread globally over the course of 2020, and in March 2020 it was declared as a pandemic by the World Health Organization ("**WHO**"). Countries have taken measures in varying degrees to contain the spread, including social distancing measures, community quarantine, suspension of operations of nonessential businesses and travel restrictions. As of 23 October 2023, there have been over 4.1 million total confirmed cases (of which 2.9 thousand are active cases) according to data from the Department of Health of the Philippines.

In order to contain the spread of the disease, the Philippine government declared a State of Public Health Emergency and State of Calamity. This declaration facilitated the implementation of the following: mandatory reporting of infections, intensified government response and measures, and enforcement of quarantine and disease control prevention measures, among others. Such quarantine measures were implemented throughout the country in the form of Enhanced Community Quarantine ("**ECQ**"), General Community Quarantine ("**GCQ**"), and modified versions of the two. These measures were focused on restricting the movement of individuals outside their respective homes, prohibiting mass gatherings, limiting the industries that may operate, and limiting the capacity of public transportation, among others.

To help ease the consequences of limited economic activity, banks and other covered institutions were mandated to implement a 30-day grace period for all loans with debt obligations (principal and/or interest) falling due within the ECQ period of 17 March 2020 until 15 May 2021 without incurring penalties, fees, and other charges in accordance with the Section 4(aa) of Bayanihan to Heal as One Act (Republic Act No. 11469 or the "**Bayanihan Act**") and its implementing regulations (through the BSP Memorandum No. M-2020-017 dated 1 April 2020). The grace period provided under the Bayanihan Act ceased to be effective on 1 June 2020, in accordance with BSP Memorandum No. M-2020-45.

On 11 September 2020, the Bayanihan to Recover as One Act (Republic Act No. 11494 or "**Bayanihan 2**"), was signed into law and directed banks and other covered institutions to implement a one-time 60-day grace period to be granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before 31 December 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans.

The State of Calamity was automatically lifted after 31 December 2022 by virtue of Proclamation No. 57 issued on 12 September 2022. Likewise, under Proclamation No. 297 issued on 21 July 2023, President Marcos, Jr. lifted the State of Public Health Emergency. Thus, all prior orders, memoranda and issuances effective only during the state of public health emergency shall be deemed withdrawn, revoked or canceled and shall no longer be in effect.

There can be no assurance that the policies and controls for outbreak prevention and disease recurrence, will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu or any other contagious disease affecting the Philippines or elsewhere will not occur. There can also be no assurance that any current or future outbreak of contagious diseases will not have a material adverse effect on the Bank's business, financial condition, and results of operations. If the outbreak of the COVID-19 or any public health epidemic becomes widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

The sovereign credit ratings of the Philippines may adversely affect the Bank's business.

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as the Bank. Historically the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. In February 2022, Fitch retained the sovereign rating of "BBB" with a "negative" outlook, citing that the rating agency remained wary of the country's post-pandemic economic recovery due to the May 2022 election uncertainties, risk of new COVID-19 variant spreading within the country, and the fiscal cost of the government's pandemic response. The rating and outlook were maintained by the agency in - November 2023. In September 2022, Moody's affirmed the country's long-term local and foreign currency issuer and senior unsecured ratings at "Baa2" with a "stable" outlook, citing the following factors: (i) recovery resilient to external pressures although it may take time to address the economic impact of the pandemic; (ii) policy continuity attributable to the results of the national elections supports post-pandemic fiscal recovery; and (iii) ESG considerations. In November 2022, S&P affirmed the Philippine's investment-grade long-term credit rating of "BBB+" short-term rating of "A-2" with a "stable" outlook. The agency mentioned that the sovereign ratings reflected the country's "above-average economic growth potential" and that the domestic economy has sustained recovery driven by strong domestic demand as it lifts mobility restrictions and fully reopens.

However, no assurance can be given that Fitch, Moody's, S&P Global Ratings or any other international credit rating agency, will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Bank. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

Natural or other catastrophes, including severe weather conditions, may adversely affect the Bank's business materially disrupt the Bank's operations and result in losses not covered by its insurance as customers intentionally default on their loans secured by the vehicles damaged by the calamity.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, droughts, volcanic eruptions and earthquakes. For example, in January 2020, Taal Volcano, which is located approximately 50 kilometres south of Manila, erupted in mid-January 2020, spewing ashes across several towns and cities in Cavite, Laguna, Batangas, Rizal and Quezon, Metro Manila and even some parts of Central Luzon. The phreatic eruption caused the evacuation of nearby areas, and interrupted business operations as well as electricity and internet connectivity. Taal Volcano subsequently erupted in July 2020, November 2021 and most recently in March 2022. However, the volcano continues to spew high emissions of sulfur dioxide and remains under Alert Level 1.

Similarly, on 5 June 2023, the alert status of Mayon Volcano was raised to Alert Level 2 and then to Alert Level 3 three (3) days after, following a sharp increase in the incidence of rockfall from its summit lava dome. Alert Level 3 is maintained over Mayon Volcano, which means that it is currently in a relatively high level of unrest and risks of hazardous eruption remain present.

Moreover, the Philippines – ranked as one of the world's most vulnerable to the impacts of a warming planet – is hit by an average of 20 storms and typhoons every year, which typically wipe out harvests, homes and infrastructure in already impoverished areas. In November 2020, two typhoons, Super Typhoon Rolly/Goni and Typhoon Ulysses/Vamco, and in December 2021 and September 2022, Super Typhoon Odette/Rai and Super Typhoon Karding/Noru, respectively, brought strong winds and rain to the Philippines. In July 2023, Super Typhoon Egay/Doksuri likewise brought strong winds and rain causing destruction in the affected areas.

There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Bank's operations. These factors, which are not within the Bank's control, could potentially have significant effects on the Bank's branches and operations. While the Bank carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Bank believes are in line with general industry practices in the Philippines, there are losses for which the Bank cannot obtain insurance at a reasonable cost or at all. The Bank also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Bank could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Bank's business, financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

While the SRC and rules of Philippine Stock Exchange ("**PSE**") require full and fair disclosure of material corporate information, there may be less publicly available information on Philippine public companies such as the Bank, compared to information regularly made available by public companies in the U.S. and other more developed countries. Bondholders may therefore not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and other jurisdictions. Furthermore, although the Bank complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may still not be at par with best practices already instituted in more advanced jurisdictions.

For example, the Philippine Code of Corporate Governance for Publicly Listed Companies (SEC Memorandum Circular No. 19, Series of 2016) requires the Bank, being a publicly listed company, to have at least three independent directors or such number as to constitute at least one-third of the members of the Board, whichever is the higher number. A higher number of independent directors may be required in other more developed countries as compared to the required number in the Philippines. The Bank currently has four incumbent independent directors out of the ten directors, sitting in its Board of Directors, which is compliant with the minimum required number locally for publicly listed companies.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

Competing and overlapping territorial claims by the Philippines, China and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts. China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea ("**UNCLOS**"). In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of China is invalid. The Philippine government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China. Since March 2021, however, increasing tension in the West Philippine Sea has been triggered by the continued presence of Chinese vessels in the Philippines' exclusive economic zone. The Philippines has filed and continues to file diplomatic protests against China and has called on China to recall its ships in Philippine waters. The Philippine Navy has also deployed additional naval vessels to augment Philippine Coast Guard vessels protect the maritime territories of the Philippines.

In early August 2023, a Chinese coast guard ship used a water cannon against Philippine supply boats to prevent it from approaching Second Thomas Shoal in the Spratly Islands, where Filipino military personnel are stationed. The move, which was caught on video, outraged President Marcos, Jr. and prompted the Department of Foreign Affairs in Manila to summon the Chinese ambassador to convey a strongly worded protest. On September 2023, the Philippine coastguard removed a floating barrier at a disputed reef that was deployed by China to block Filipinos from the traditional fishing ground within the exclusive economic zone of the Philippines. In November 2023, a Chinese ship fired water cannons at M/L Kalayaan while the latter was on a resupply mission to troops stationed at BRP Sierra Madre in the Second Thomas Shoal. The Philippines also claimed that ships belonging to a Chinese maritime militia were involved in the harassment and that inflatable boats belonging to the Chinese coast guard were similarly involved. BRP Sierra Madre, a former US Navy ship, has been grounded in the contested Second Thomas Shoal (Ayugin Shoal to the Philippines and Ren'ai Reef to China) since 1999. The Philippine Embassy in Beijing has protested to the Chinese Foreign Ministry over the latest incident.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Any deterioration in the Philippine economy as a result of these or other factors, including a significant depreciation of the Philippine peso or increase in interest rate, may adversely affect consumer sentiment and lead to a reduction in consumer spending generally. This, in turn, could materially and adversely affect the Bank's financial condition and results of operations, and its ability to implement its business strategy and expansion plans.

CONSIDERATIONS RELATING TO PHILIPPINE BANKING INDUSTRY

The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the Bank's principal businesses.

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, a greater market share and greater brand name recognition than the Bank.

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board's lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank, United Overseas Bank, First Commercial Bank of Taiwan, Hua Nan Commercial Bank, Ltd. and Chang Hwa Commercial Bank, being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery. As at 30 June 2023, according to data from the BSP, there were a total of 45, universal and commercial banks, domestic and foreign, operating in the Philippines.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products, larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (enacted on 15 July 2014): a) the acquisition, purchase or ownership of up to 100% of the voting stock of an existing bank; b) investment in up to 100% of the voting stock of a new banking subsidiary incorporated under Philippine law; or c) establishment of branches with full banking authority;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases, resulting in excess capital that can be used as leverage for asset growth and market share gains;
- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions; and
- the emergence of financial technology, or new technology that seeks to improve and automate the delivery and use of financial services ("**FinTech**"), including businesses such as an all-digital bank set up by CIMB and mobile payment tools or e-wallet applications such as GCash and PayMaya, and the growing popularity of peer-to-peer lending through digital platforms; and
- the emergence and inclusion of digital banks as licensed by the BSP, which may offer banking products more aggressively on the back of reduced physical operating costs; and
- as banks venture into micro-finance and other consumer financing products, other consumer-focused players, including informal lenders.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition, which also may make it difficult for the Bank to continue to increase the size of its loan portfolio and deposit base. This could likewise result in increased pricing competition, which could have a material adverse effect on its growth plans, margins, results of operations and financial condition.

Interest rate volatility could significantly affect the Bank's financial condition and results of operations.

A significant portion of the Bank's assets consists of, and a significant portion of its revenue is derived from, assets that are monetary in nature. Although the Bank engages only in limited trading activities through positions in fixed income instruments and, to some extent, in financial derivative instruments, which are mostly to facilitate other banking services to its customers, these assets are subject to the normal risks associated with investing activities, including the risk that a change in market prices, rates, indices, volatility, correlations, liquidity or other factors may result in losses for a specific position or portfolio. In the Philippines, the Monetary Board ("**MB**") decided to take off-cycle action to raise the BSP's Target Reverse Repurchase ("**RRP**") Rate by 25 basis points to 6.50% effective 27 October 2023. This takes the cumulative BSP rate increases to 450 basis points since May 2022, when interest rates were eased to historically low levels at 2.00% RRP at the height of the COVID-19 pandemic. However, there is no assurance that interest rates in the Philippines will not increase in the future, including in response to inflationary pressures resulting from strong economic growth, tax reforms, geopolitical conflict, and global developments. Any new shocks to prices of some key commodities may shift BSP's policy decision and may cause the MB to increase policy rates to ensure price stability.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio and the Bank's ability to earn excess trading gains as revenue. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Bank's credit portfolio in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding. Lower levels of liquidity in the system may likewise lead to an increase in the cost of funding as banks actively compete for funds by raising the interest rates they charge on deposits.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- The vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances
- The large foreign debt of the Government and the corporate sector, relative to the gross domestic product ("**GDP**") of the Philippines; and
- Volatility of interest rates and U.S.$/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine banking system were 4.0%, 3.6%, 3.2%, and 3.4% as at the years ended 31 December 2020, 2021, 2022, and for the nine months ended 30 September 2023, respectively.

The Philippine banking sector may face another downturn, which could materially and adversely affect the Bank.

Although the Philippine banking sector has generally recovered from past regional and global economic crises, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, in Asia or globally, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges. The average NPL ratio in the Philippine banking industry (exclusive of interbank loans) was 3.4% as of 30 September 2023, slightly lower than the annual average of 3.6% during the past three years, primarily on the back of resumption of economic activity and normalcy since the COVID-19 pandemic which has helped borrowers' repayment capacity.

Philippine banks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries.

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within each bank, including the Bank, may be incomplete or obsolete. The Bank may have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Bank's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on the Bank's ability to manage these risks and on the Bank's financial condition, liquidity and results of operations.

Philippine banks face regulatory pressure to comply with new and stricter capital standards, liquidity and leverage standards, as well as meet prudential limits for real estate exposures.

The BSP Monetary Board approved major revisions to the country's risk-based capital adequacy framework on 1 July 2007, to align the current framework with the Basel II standards as issued by the Basel Committee on Banking Supervision ("**BCBS**"), which is an international committee of banking supervisory authorities. Basel II standards make regulatory capital requirements more risk sensitive and reflective of all, or at least most, of the risks financial institutions are exposed to. In terms of minimum capital requirements, Basel II standards include the addition of specific capital requirements for credit derivatives, securitization exposures, counterparty risk in the trading book, and operational risk.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. The revised standards also distinguish further (i) Tier 1 capital, which is also referred to as Going-Concern Capital, and is composed of Common Equity and Additional Tier 1 capital; and (ii) Tier 2 capital, which is also referred to as Gone-Concern capital and establish new eligibility criteria for such capital instruments previously not implemented in regulatory capital instruments.

In response to Basel III, the BSP and Monetary Board imposed a number of new requirements, including a capital surcharge to banks deemed as Domestic Systemically Important Banks ("**D-SIB**"), with compliance to be phased in starting from January 2017, as well as increased minimum capital requirements for banks in all categories and new liquidity requirements for local banks such as the Liquidity Coverage Ratio ("**LCR**") and the Net Stable Funding Ratio ("**NSFR**"). In March 2016, the Monetary Board announced that it had approved the LCR framework which requires universal and commercial banks to hold sufficient High Quality Liquid Assets ("**HQLAs**") that can be easily converted into cash to service liquidity requirements over a 30-day stress period. The approval of the LCR framework by the Monetary Board provides for an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. Banks are required to publicly disclose information related to the LCR on solo and consolidated bases beginning 1 January 2019. This is required to be disclosed in single currency, to be published in the quarterly published balance sheet, as well as in the annual reports or published financial reports.

In January 2018, the Monetary Board approved the adoption of a minimum leverage ratio requirement for universal banks, commercial banks and their subsidiary banks and quasi-banks. Beginning on 1 July 2018, covered institutions must maintain a leverage ratio of no lower than 5%. The leverage ratio is a non-risk-based measure, which serves as a backstop to the capital adequacy ratio ("**CAR**"). The BSP introduced the leverage ratio framework in June 2015, under Circular No. 881 with the implementation limited to monitoring purposes. With the Monetary Board's recent decision, the leverage ratio will form part of Basel III minimum capital requirements, along with the 6% common equity tier 1 ("**CET1**") ratio, 7.5% tier 1 ("**Tier 1**") ratio and the 10% CAR.

On 6 June 2018, the BSP issued Circular No. 1007, which imposed a NSFR framework on all universal and commercial banks, including subsidiary banks and quasi-banks, on both solo and consolidated basis. The NSFR Framework seeks to limit overreliance on short-term wholesale funding and to promote enhanced assessment of funding risk across all on- and off- balance sheet accounts. Said covered entities are required to maintain an NSFR of at least 100% at all times. The BSP issued the implementing guidelines, template and details on the submission of the NSFR report, with an observation period that ran from 1 July 2018 to 31 December 2018. Beginning 1 January 2019, covered institutions are required to maintain an NSFR of 100.0% on both solo and consolidated bases. Although these measures are aimed at strengthening the ability of banks to withstand liquidity stress and promote resilience of the banking sector, compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

In December 2018, the Monetary Board approved the Philippine adoption of the Basel III countercyclical buffer ("**CCyB**"), completing the BSP's implementation of international standards for banks in terms of capital. The BSP under Circular No. 1024 initially set the CCyB at 0%, citing that the ongoing buildup of credit does not pose an imminent risk. The CCyB is subject to upward adjustment to a rate determined by the BSP when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement. Meanwhile, reductions in the buffer take effect immediately.

On 4 May 2020, the BSP issued Memorandum No. M-2020-039 which provides for the utilization of Basel III capital and liquidity buffers in light of the COVID-19 situation. A covered bank or quasi-bank ("**QB**") which has built up its CCyB and LCR buffer is allowed to utilize the same during the state of COVID-19 health emergency, but is expected to integrate regulatory flexibilities into its internal policies and processes to ensure that these buffers are efficiently utilized. *First*, in relation to the CCyB, the covered bank/QB which draws down 2.5% minimum CCyB will not be considered in breach of the Basel III risk-based capital adequacy framework. When the CCyB is utilized, the covered bank/QB is restricted from making distributions in the form of dividends, profit remittance in the case of a foreign bank branch, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff. *Second*, for the LCR, the covered bank/QB may draw on its stock of liquid assets to meet liquidity demands even if this may cause the bank to maintain an LCR below the 100% minimum requirement. However, a bank that has recorded a shortfall in the stock of its HQLA for three banking days within any two-week rolling calendar period, thereby causing the LCR to fall below 100%, must notify the BSP of such breach on the banking day immediately following the occurrence of the third liquidity shortfall. After the COVID-19 crisis, covered banks/QB are to be given a reasonable time period to restore their Basel III CCB and LCR. The Memorandum also provides that the non-compliance by a covered bank/QB with the minimum risk-based capital adequacy ratios and the minimum 100% Net Stable Funding Ratio as a result of the COVID-19 situation will be handled on a case-by-case basis by the BSP.

As a result of these directives, the Bank is exposed to the risk that the BSP may increase applicable capital requirements and other supplementary requirements from time to time. Any incremental capital requirement may adversely impact the Bank's ability to grow its business and may even require the Bank to withdraw from or curtail some of its business operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future on terms favorable to it.

In December 2017, the BCBS came out with a document finalizing the reforms which will amend the methodology to banks' calculation of their risk weighted assets ("**RWAs**"), as well as sets a capital floor of 72.5% using the standardized approach that includes credit risk, counterparty credit risk, credit valuation adjustment ("**CVA**") risk, securitization, market risk and operational risk. The implementation date for the Basel IV amendments begins on 1 January 2022, except for the capital floor which shall be phased in over five years (i.e., 50% effective 1 January 2022, and gradually increased to "fully loaded" 72.5% beginning 1 January 2027). The BSP has not set any timetable for implementation for Philippine banks, thus the impact remains uncertain.

In addition, the BSP issued BSP Circular No. 855 (Series of 2014) regarding guidelines on sound credit risk management practices, including the amendment on loan loss provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. Under the new rules, the maximum collateral value for real estate collateral shall be 60% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value (LTV) ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20% under current industry practice). Under the enhanced guidelines of the BSP however, the bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market.

On 28 April 2020, the BSP issued BSP Memorandum No. M-2020-034 which provides for the temporary relaxation in the assigned credit risk weight for loans to micro-, small- and Medium Enterprises ("**MSMEs**") for the purpose of computing compliance with the BSP's Risk-Based Capital Adequacy Frameworks. MSME exposures that meet the criteria of a qualified MSME portfolio and current MSME exposures that do not qualify as a highly diversified MSME portfolio shall be assigned a credit risk weight of 50%. Nonetheless, the provisions on the use of credit risk mitigation in the MORB and the Manual of Regulations for Non-Bank Financial Institutions as well as provisions on claims with eligible collateral or guarantees in the MORB will continue to apply. The relaxation of the credit risk weight for loans to MSMEs was effective until 31 December 2021.

Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the new BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Group's business, financial condition and results of operations. Further, through its compliance with these regulations, the Bank's business, financial position and results of operations may be adversely affected.

Any future changes in Philippine taxation may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to the taxation laws and regulations in effect in the Philippines. In the event of any changes to existing laws, the Bank's business, financial condition and results of operations could be materially affected.

The TRAIN Law, which was the first package of the Comprehensive Tax Reform Program ("**CTRP**") of the Duterte administration, brought about extensive changes to individual income taxation. Among the amendments from the TRAIN Law included increasing the rate of documentary stamp tax ("**DST**") on the original issue of shares of stock and debt instruments. The original issue of shares is now subject to documentary stamp tax of ₱2.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. Meanwhile, all such affected debt instruments are generally subject to DST at the rate of ₱1.50 on each ₱200.00, or fractional part thereof, of the issue value of such instruments. The TRAIN Law (including the increase in documentary stamp taxes) was one of the reasons for the increase in the Bank's operating expenses for the year ended 31 December 2018.

On 26 March 2021, the second package of the CTRP, Republic Act No. 11534, otherwise known as the CREATE Act, was signed into law, amending provisions of the Tax Code, as amended, relating to, among others, corporate income tax, lowering corporate income taxes and modernizing fiscal incentives in a bid to complement the expected incremental revenues from the first package.

The salient provisions of the CREATE Act include:

(i) reduction in corporate income tax ("**CIT"**) from the current 30% to 20% for MSMEs and to 25% for other corporate taxpayers by 1 July 2020;
(ii) reduction in the minimum corporate income tax rate to 1% effective 1 July 2020 until 30 June 2023;
(iii) effective 1 July 2020, a period of four to seven years during which export enterprises may enjoy the 5% special corporate income based on the gross income earned in lieu of all national and local taxes;
(iv) extension of the applicability of the net operating loss carryover for losses incurred during the first three years from the start of commercial operation by registered projects or activities, from the current three to five consecutive taxable years immediately following the year of such loss;
(v) net capital gains derived by resident foreign corporations on the sale of shares of stock of domestic corporations not traded on the Philippine stock exchange will be subject to a final tax of 15%, increased from the current rate of 5% on the first ~US$2,000 and 10% on the excess thereof;
(vi) Regional Operating Headquarters will be subject to regular CIT rates effective 1 January 2022, increased from the current 10% rate on taxable income;
(vii) Qualified Registered Business Enterprises ("**RBE**") will be granted an income tax holiday for four to seven years, depending on the assigned RBE category level. After the income tax holiday period, a special corporate income tax rate of 5% beginning 1 July 2020 will be imposed on gross income earned in lieu of all national and local taxes. The duration of the special corporate income tax is five to ten years depending on the assigned Registered Business Enterprises tier level; and

(viii) in lieu of the special corporate income tax, enhanced deductions may be granted for a period of five to ten years depending on the assigned RBE category level.

The other tax reform packages that the government hopes to implement include tax amnesty (estate, general), as well as "sin" (e.g., alcohol, gaming), property, passive income and financial intermediaries, and luxury taxes. The fourth package under the CTRP, or the Passive Income and Financial Intermediary Taxation Act ("**PIFITA Bill**") is a proposed tax reform measure relating to passive income and financial intermediaries and is currently pending before the Senate. The proposal aims to, among others, impose: (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from DST.

During the State of the Nation Address on 24 July 2023, President Marcos, Jr. called on Congress to support the following priority legislations on essential tax measures under the Medium-Term Fiscal Framework: (1) Excise tax on single-use plastics; (2) VAT on digital services; (3) Rationalization of the mining fiscal regime; (4) Motor vehicle user's charge/road users tax; and (5) Military and Uniformed Personnel Pension.

While the tax reform program ensures fiscal sustainability, the dampening impact of higher taxes on consumer demand and affected industries (in terms of added costs), could slow down the country's growth pace and affect the Bank's business. Further, the new regulations (such as the fourth package of the CTRP) may directly affect the business and results of operations of the Bank. If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

Non-compliance with FATCA may cause material and adverse impact on the Bank's business, financial conditions and results of operations.

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay $780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organizations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions ("**FFIs**") that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens. An FFI will have to set up a process to identify U.S. accounts as part of its on boarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

After the identification of impacted accounts, an FFI will have to collect documentation on each of these accounts to prove whether or not they are a U.S. person. If they are not a U.S. person and the FFI has the appropriate documentation, the FFI's obligations have been fulfilled. If they are a U.S. person, the FFI's next move will depend on the country that has jurisdiction over the FFI. By default, the Participating Foreign Financial Institutions ("**PFFIs**") in countries without an intergovernmental agreement will directly report to the US Internal Revenue Service ("**IRS**").

There is a requirement for PFFIs to withhold 30% of income from recalcitrant account holders in order to comply with FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request.

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on 25 April 2014 as a PFFI and then amended its FATCA status on 27 March 2015 to Registered Deemed Compliant Foreign Financial

Institution under a Model 1 Intergovernmental Agreement ("**IGA**"). The Bank's FATCA ID and Global Intermediary Identification Number is URSOGI.00000.LE.608.

Under the IGA, the local tax authority and the BIR are the competent authority to receive FATCA information for reporting to the IRS. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force.

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. It has been ruled by the Supreme Court that a passbook representing an interest earning deposit account issued by a bank qualifies as a certificate of deposit drawing interest. The Supreme Court also held that to claim that that time deposits evidenced by passbooks should not be subject to documentary stamp tax is a clear evasion of the rule on equality and uniformity in taxation that requires the imposition of documentary stamp tax on documents evidencing transactions of the same kind i.e., on all certificates of deposits drawing interest. These Supreme Court rulings could result in the Bank's taxation charge being increased.

Any future changes in PFRS may affect the financial reporting of the Bank's business.

PFRS continues to evolve as new standards and interpretations come into effect.

PFRS 9, the local adoption of International Financial Reporting Standards ("**IFRS**") 9 Financial Instruments, originally issued in 2009, reflects the first and third phases of the three-phase improvement project by the International Accounting Standards Board to replace International Accounting Standards ("**IAS**") 39 Financial Instruments: Recognition and Measurement. Phases 1 and 3 of the project apply to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. It requires entities to classify and subsequently measure financial assets at either amortized cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Banks financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. PFRS 9 also requires enhanced disclosures to help the users of financial statements better understand the risks and the likely cash flows from the financial assets. Guidelines on the early adoption of PFRS 9 by banks and other BSP-supervised financial institutions of PFRS 9 were approved by the BSP in 2011 under Circular No. 708 s. 2011.

IFRS 9, issued in July 2014, replaces previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010), a new hedge accounting model (in 2013) and PAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The adoption of IFRS 9 with the approval of Philippine Financial Reporting Standards Committee ("**FRSC**") and Board of Accountancy primarily has an effect on the classification and measurement of the Bank's financial assets and liabilities, hedge accounting and impairment methodology of the Bank. Full provisions of PFRS 9 include the implementation of a credit loss model for impairment requirements on an expected loss basis that replaces the currently adopted model on an incurred loss basis as per IAS 39. The Bank opted not to undertake early adoption of PFRS 9 for its 2014 and 2015 financial reporting.

Financial statements of Philippine banks are prepared in accordance with financial reporting standards in the Philippines for banks which requires the use of certain critical accounting estimates. Following the issuance of BSP Circular No. 912 dated 27 May 2016 citing the mandatory implementation date and closure of the early adoption window of PFRS 9 *Financial Instruments*, the Bank no longer conducted impact evaluation study on the early adoption of PFRS 9 for the second quarter of 2016. Instead, the Bank adopted the full provisions of PFRS 9 on its mandatory effectivity date of 1 January 2018.

PFRS 16*, Leases* is a new standard which came into effect on 1 January 2019, under which lessees will no longer classify leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees are required to report leases on the balance sheet as assets and liabilities, subject to depreciation. Leases with terms of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. The Bank has adopted PFRS 16.

A discussion on the newly adopted PFRS, and other new PFRS and amendments to existing standards to be adopted or which will be effective after 2022, can be found in Note 2.2 of the Bank's audited financial statements as at 31 December 2022 as well as Note 2 of the Bank's limited review financial statements as at 30 September 2023 included elsewhere in this Offering Circular.

The Bank believes that other amendments and improvement to PFRS issued effective after 30 September 2023 have no material impact on the Bank's financial statements.

The continuing effects of the COVID-19 pandemic could have negative effects on the Bank's asset portfolio and business operations.

On 5 May 2023, the WHO declared the end of COVID-19 as a global health emergency. Notwithstanding such declaration by the WHO, the Philippine Department of Health issued a warning to the public on 9 May 2023 that the threat of COVID-19 remains.

The lingering effects of the COVID-19 pandemic continue to cause widespread concern and financial and economic hardship not only to consumers, but also to businesses and communities in the Philippines. Specific segments of the population are already experiencing the impact of the pandemic and have found themselves in financially vulnerable positions. Private sector businesses have cut back production and have been forced to temporarily lay off employees leaving thousands jobless. The Philippine banking industry is not impervious to the adverse effects of the pandemic. Although rules and regulations that have been introduced by the BSP, Bureau of Internal Revenue ("**BIR**"), and the SEC certainly helped banks to continue their business operations, they still face alarming pressures on their capital and liquidity position, especially since the duration and severity of this outbreak remains uncertain. As the economic situation in the Philippines remains highly strained, there is an expected credit loss and a rise of non-performing loans exposing the bank to higher credit exposure.

Furthermore, substantially all of the Bank's business operations and assets are based in the Philippines, and thus its income, results of operations and the quality and growth of its assets depend, to a large extent, on the performance of the Philippine economy. Any deterioration of the Philippine economy as a result of the measures that have been or may be undertaken to contain public health epidemics or outbreaks of diseases such as the COVID-19 pandemic could materially and adversely affect the Bank's financial position and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets, and its ability to implement the Bank's business strategy.

CONSIDERATIONS RELATING TO THE BANK AND ITS SUBSIDIARIES

Risks Relating to the Bank's Business

The Bank may not be able to successfully sustain its growth strategy.

Over several years, the Bank experienced substantial growth (organically and through acquisitions). Loan growth however, slowed down to 2.5% in 2020 due to slower business activity during the COVID-19 pandemic. Subsequently, the Bank's loan portfolio expanded by 6.0% and 8.9% in the years ended 31 December 2021 and 2022, respectively. As of 30 September 2023, the loan portfolio expanded by 7.5% year-on-year. The Bank was the first local bank to achieve the milestone of reaching ₱4.0 trillion in terms of total assets as at 31 December 2022, and as at 30 June 2023, the Bank was the largest domestic bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital and total trust funds under management. Total resources of the Bank were at ₱3.4 trillion, ₱3.6 trillion, P4.1 trillion and ₱4.2 trillion as at 31 December 2020, 2021, 2022 and 30 June 2023, respectively. The Bank is also currently the industry leader in terms of investment banking, private banking, rural banking, remittances, leasing and finance, insurance brokerage and credit cards. However, the Bank's strategy, which includes growing and diversifying its loan portfolio and expanding its range of products and services to better cater to the needs of its customers, is also dependent on a number of external factors.
In particular, the Bank may not be successful in relation to the introduction of new services and products. It is entering into new lines of business and expanding into new provincial areas in the Philippines in which it is likely to encounter significant competition from other banks already offering similar products and services being

introduced. There can be no assurance that the Bank will be able to compete effectively against such existing banks. Furthermore, there may not be sufficient demand for such services and products, and they may not generate sufficient revenues relative to the costs associated with developing and introducing such services and products. Even if the Bank were able to introduce new products and services successfully, there can be no assurance that the Bank will be able to achieve its intended return on such investments.

The Bank also faces a number of operational risks in executing its growth strategy and in particular the Bank's potential acquisition plans. The Bank will have to train its employees (including employees absorbed from acquired entities), to adhere to and comply with new internal controls and risk management procedures. Failure to properly train and integrate employees, including employees from other banks that are acquired or merged or who join laterally, may increase employee attrition rates, require additional hiring, erode the quality of customer service, divert management resources, increase the Bank´s exposure to high-risk credit and impose significant costs on the Bank.

The Bank has some concentration of loans to certain customers and to certain sectors and if a substantial portion of these loans were to become non-performing, the quality of its loan portfolio could be adversely affected.

As at 30 September 2023, the Bank's total exposure to borrowers (or gross loans to and receivables from customers) was ₱2.7 trillion. The ten largest borrower groups in aggregate accounted for 30.0% of the Bank's total exposure and its ten largest individual borrowers in aggregate accounted for 14.1% of its total exposure.

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group, excluding Government-related entities, of connected persons in excess of 25% of its net worth (the single borrower limit). As at 30 September 2023, the Bank's single borrower limit was ₱130.0 billion. In determining whether the Bank meets the single borrower limit of the BSP, the Bank includes exposures to related accounts (including accounts of subsidiaries and parent companies of the borrower). The Bank's largest borrower as at 30 December 2022 accounted for 3.9% of the Bank's total exposure and 21.9% of the Bank's total equity. The largest borrower group as at 30 September 2023 accounted for 5.1% of the Bank's total exposure and for 27.6% of the Bank's total equity. Credit losses on these large single borrower and group exposures could adversely affect the business, financial position and results of operation of the Bank. See "*Philippine Banking Industry*" and "*Banking Supervision and Regulation*".

The Bank extends loans to various sectors in the Philippines. The table below sets out the Bank's five largest industry exposures (net of unearned interest or discount) as at 30 September 2023.

Rank	**Industry (based on the Philippine Standard Industrial Classification Code)**	**Amount**	**per cent. of Total Exposure to Borrowers**
		(₱ millions)	
1	Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	426,391	15.7
2	Financial and insurance activities	365,419	13.4
3	Wholesale and retail trade	338,723	12.5
4	Electricity, gas, steam and air conditioning supply	331,782	12.2
5	Real estate activities	314,579	11.6
	Total	**1,776,894**	**65.3**

The Bank's exposure to these five sectors, totaling ₱1,776.9 billion, constituted 65.3% of the Bank's total loan portfolio (net of unearned interest or discount) as at 30 September 2023. Although the Bank's portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of non-performing loans ("**NPLs**") and restructured assets, and adversely affect the Bank's business, financial position and results of operations.

The Bank may face increasing levels of non-performing loans ("NPLs") and provisioning expense for impairment of assets.

The Bank's results of operations have been, and continue to be, negatively affected by the level of its NPLs. For the years ended 31 December 2020, 2021, 2022 and the nine months ended 30 September 2023, the Bank's provisioning expense for impairment of assets amounted to ₱30.2 billion, ₱17.1 billion, ₱16.4 billion and ₱10.7 billion, respectively, which represented 22.6%, 13.0%, 11.0% and 7.8% , respectively, of net interest income in those periods, and 1.3%, 0.7%, 0.6% and 0.4%, respectively, of gross loans in those periods. The continued effects of the pandemic and a slowdown in global growth have adversely affected the ability of the Bank's borrowers to finance their indebtedness and, as a result, the Bank may further experience an increase in NPLs and loan loss provisions.

The Bank's consolidated NPLs increased by 144.3% to ₱61.6 billion as at 31 December 2020 (representing 2.7% of the Bank's total gross customer loans net of interbank loans as at that date) from ₱25.2 billion as at 31 December 2019. As of 31 December 2021, the Bank's NPL stood at ₱69.8 billion, an increase of 13.3% from ₱61.6 billion as at 31 December 2020. As at 31 December 2022, the Bank's NPL stood at ₱53.3 billion, a decrease of 23.6% from ₱69.8 billion as at 31 December 2021. As at 30 September 2023, the Bank's NPL stood at ₱55.5 billion, a decrease of 4.1% from ₱57.8 billion as at 30 September 2022. As at 31 December 2020, 2021, 2022 and 30 September 2023, the Bank's NPL coverage ratio was 109.5%, 111.2%, 166.7% and 175.8%, respectively. The Bank has experienced significant growth in its loan portfolio in recent years and it may experience problems in non-payment arising from these new loans in the future. Any significant increase in the Bank's NPLs would have a material adverse effect on its financial condition, capital adequacy and results of operations.

Although the Bank believes that it has set aside adequate provisions and reflected current valuations as regards its investment portfolio and while financial markets have stabilized, there can be no assurance that the value of the Bank's investment portfolio will not deteriorate should renewed volatility in global financial markets occur.

The Bank's provisioning policies in respect of NPLs require significant subjective determinations which may increase the variation of application of such policies.

In January 2017, the BSP amended the regulatory definitions of past due accounts, restructured loans and NPLs, and other related provisions under BSP Circular 941. The circular cites the conditions under which an account will be classified as NPL (i.e., meeting any of the following: considered impaired under existing accounting standards; classified as doubtful or loss; in litigation; full repayment of principal and interest is unlikely without foreclosure of collateral, if any; 91-days past due; and restructured). Banks were required to make the necessary revisions in their management information and reporting systems relating to past due loans and NPLs to comply with the requirements of the circular effective 1 January 2018.

Certain accounting standards have been adopted in the Philippines based on International Accounting Standards, which require the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral. These new accounting standards may result in the Bank recognizing significantly higher provisions for loan loss in the future. The PFRS 9 Expected Credit Loss ("**ECL**") poses risk of variability of provisions due to the subjective nature of assumptions used and complexity of data requirements for the model forecasts as well as potentially unforeseen changes in macroeconomic and industry conditions.

The Bank adopted PFRS 9 effective 1 January 2018 and the application of the ECL model decreased the Bank's allowance for credit losses by ₱6.7 billion and increased other comprehensive income by ₱69 million as at 1 January 2018.

While the Bank believes its current level of provisions and collateral position are more than adequate to cover its NPLs exposure, an unexpected or significant increase in NPL levels may result in the need for higher levels of loan loss provisions in the future.

The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses.

As at 30 September 2023, the Bank's secured loans represented 18.7% of the Bank's total gross customer loans, and 68.9% of the collateral on these secured loans consisted of real estate properties. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the market value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its loan loss provisions may be inadequate and the Bank may need to increase such provisions. Any increase in the Bank's loan loss provisions could adversely affect its business, financial position, results of operations and capital adequacy ratios.

Moreover, the Bank may not be able to recover the value of any collateral or enforce any guarantee due, in part, to the difficulties and delays involved in enforcing such obligations in the Philippine legal system. In order to foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank's ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it makes. The Bank carries the value of the foreclosed properties at the lower of the bid price and the loan balance plus accrued interest at the time of such foreclosures. While the Bank at each reporting date marks to market its foreclosed properties in accordance with financial reporting standards in the Philippines ("**FRSP**") for banks and BSP regulations, it may incur further expenses to maintain such properties. In realizing cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realization.

The Bank has a high exposure to the Philippine property and real estate market through its ROPA holdings.

The Bank has significant exposure to the Philippine property and real estate market due to the level of its holdings in Real and Other Properties Acquired ("**ROPA**"). ROPA generally refers to real estate assets the Bank has acquired as a result of foreclosures of real estate property which stand as collateral for real estate loans. When the Bank's collection efforts on its real estate loans are unsuccessful, the Bank is constrained to institute foreclosure proceedings against the collateral property, and subsequent to foreclosure, these real properties are consolidated in the Bank's name and booked as ROPA. The Philippine property market is highly cyclical, and property prices in general have been volatile. Property prices collapsed following the Asian financial crisis but recovered until the global financial crisis in 2008 restrained demand. However, property demand and prices have since recovered on favorable macroeconomic conditions, increasing home ownership in the Philippines, and strong demand from families of overseas Filipino workers ("**OFWs**") as well as workers from the Information and Communication Technology ("**ICT**") and Business Process Outsourcing ("**BPO**") industries. Property prices are affected by a number of factors, including the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and economic developments. Historically, the Bank has low home loan default rates compared to industry standards As at 31 December 2022, BDO's home loan default rate was at 6.3%, compared to the average industry rate of 7.6%.

For the nine months ended 30 September 2023, the Bank sold ₱3.5 billion worth of acquired assets, and intends to continue with its strategy of gradually reducing ROPA levels. As a result, the Bank recorded net ROPA (which represents ROPA net of accumulated depreciation and allowance for impairment) of ₱13.8 billion as at 30 September 2023, representing 0.3% of the Bank's total resources. As at 31 December 2021, 2022, the Bank's net ROPA amounted to ₱11.8 billion and ₱15.2 billion, respectively, representing 0.3% and 0.4% of the Bank's total resources as at such dates.

To the extent that property values decline in the future, there can be no assurance that the Bank will be able to sell off and recover the full estimated value of its ROPA. Furthermore, in an extended downturn in the property market, given the Bank's significant amount of ROPA it may take a number of years before the Bank is able to realize a significant part of the value of its ROPA. Accordingly, an extended downturn in the Philippine property sector could increase the level of the Bank's provisions set against its ROPA holdings, reduce the Bank's net income and, consequently, adversely affect the Bank's business, financial condition and results of operations generally.

Changes to regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP, the Bureau of Internal Revenue (the "BIR") and international bodies, including the Financial Action Task Force (the "FATF") may have an adverse impact on the Bank.

The Bank is regulated principally by, and has reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation and other laws in effect in the Philippines. The regulatory and legal framework governing the Bank differs in certain material respects from that in effect in other countries and may continue to change as the Philippine economy and commercial and financial markets evolve. In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the reserve requirements of Philippine banks and the banking industry's exposure to the real estate sector.

For example, while the Philippines enacted the Anti-Money Laundering Act of 2001 (the **Anti-Money Laundering Act** or "**AMLA**") to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the Financial Action Task Force (the "**FATF**"). However, following pressure from the FATF, an amendment to the Anti-Money Laundering Act became effective on 23 March 2003. In January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories ("**NCCTs**"), confirming that anti-money laundering ("**AML**") measures to remedy deficiencies that were originally identified by the FATF were in place. AML systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. In June 2012, President Benigno S. Aquino III signed into law two measures intended to further strengthen the country's campaign against money laundering. These measures included criminalizing terrorist financing activities as well as allowing the Government, upon determination of probable cause, to examine bank accounts or investments *ex parte*, or without informing the account holder concerned. The enactment of these measures resulted in the Philippines being upgraded by the FATF to the anti-money laundering compliance "gray list", signifying sufficient progress in the country's campaign against money laundering and terrorist financing. There can be no assurance however, that current Philippine AML systems will continue to be effective against money laundering and similar transactions, as shown by the recent incident involving a large Philippine universal bank in an international money laundering case. Any deficiencies or lapses, whether minor or material, in such systems could result in sanctions against Philippine banks, including the Bank, and other financial institutions or persons included in the web of transfers and currency conversions, which could adversely affect its reputation, business and operations or cause it to be in breach of its contractual obligations.

On 25 June 2021, the FATF released its grey list of countries that will be subjected to increased monitoring to prove their progress as they address strategic deficiencies in their regimes against money laundering, terrorist financing, and proliferation financing. With its inclusion in the grey list, the Philippines needs to implement the eighteen (18) action items required within the prescribed timelines to ensure the country's removal from such list. Progress reports must likewise be submitted to the FATF thrice a year. The AMLC emphasized, however, that the Philippines will not yet be subjected to countermeasures. It is only when a country fails to meet the deadlines that the FATF will call on countries to impose countermeasures against it. In January 2023, the BSP communicated that the Philippines had missed the first deadline on the same month but had similarly disclosed that the country was given another year, or until January 2024, to meet the requirements in order to facilitate its exit from the grey list. The Philippines remains in the grey list of the FATF as of 23 June 2023.

On 15 February 2013, then President Aquino signed into law Republic Act No. 10365, which expanded the AMLA covered institutions and crimes. This law took effect on 7 March 2013 and required jewelry dealers to report transactions worth ₱1 million and above. The law also requires the Philippine Land Registration Authority to submit to the Anti-Money Laundering Council ("**AMLC**") reports covering real estate purchases worth ₱500,000 and above. Aside from this, predicate crimes – or those criminal acts where the law may also be applied if money is involved – were also expanded to cover 20 additional offenses or crimes, including bribery, extortion, malversation of public funds, fraud and financing of terrorism.

The controversy involving the U.S. $81 million theft involving the Bangladesh central bank account in 2016 prompted Philippine legislators and agencies, such as the Department of Finance and the BSP, to propose further amendments to the AMLA. On 15 March 2017, BSP issued Circular 950 Series of 2017 containing the amendments approved by the Monetary Board to the Anti-Money Laundering-Combating the Financing of Terrorism ("**AML/CFT**") regulations. The changes reflected the amendments to the AMLA that took effect in January 2017 as well as the recommendations from the FATF and added the requirements for group-wide AML compliance function and monitoring systems are incorporated for a holistic management and prevention of money laundering and terrorist financing risks.

On 14 July 2017, President Rodrigo Duterte signed into law Republic Act No. 10927 which further amended the AMLA to include casinos in the coverage of the law. The amendments categorize any single casino cash transaction of more than ₱5 million, or its equivalent in other currencies, as a "covered transaction" which must be reported to the AMLC, and also grants authority to the Philippine Court of Appeals, upon verified petition by AMLC and after determination of existence of probable cause, to issue a 20-day freeze order against any monetary instrument or property linked to unlawful activities as those defined and enumerated under the AMLA.

There can be no assurance however, that current Philippine AML systems will continue to be effective against money laundering and similar transactions, as shown by the U.S.$81 million theft involving the Bangladesh central bank account in 2016. Any deficiencies or lapses, whether minor or material, in such systems could result in sanctions against Philippine banks, including the Bank, and other financial institutions or persons included in the web of transfers and currency conversions, which could adversely affect its reputation, business and operations or cause it to be in breach of its contractual obligations.

In April 2012, the BSP implemented Circular No. 753 ("**Circular 753**"), which provided for the unification of the statutory/legal and liquidity reserve requirements applicable to banks, the exclusion of vault cash as eligible forms of reserve requirement compliance, and the reduction in the unified reserve requirement ratios (e.g., from 21% to 18% for universal commercial banks). Circular 753 also terminated the interest on reserve deposits placed with the BSP. In its meeting in May 2019, the Monetary Board of the BSP decided to reduce the reserve requirements by 200 basis points given the continued downtrend in inflation and to help mitigate any tightness in domestic liquidity conditions. The adjustments in the reserve requirements were implemented on a staggered basis as follows: 100 basis points on 31 May 2019; 50 basis points on 28 June 2019, and 50 basis points to 16% on 26 July 2019. The BSP announced further rate cuts on 27 September 2019 (reduction of 100 basis points effective November 2019) and on 24 October 2019 (reduction of a further 100 basis points effective December 2019), which brought down the reserve requirement to 14% as at 31 December 2019. The reserve requirement was further reduced to 12% on 3 April 2020. The reserve requirement currently stands at 12%.

To better monitor the banking industry's exposure to the property sector, the BSP issued Circular no. 600 in 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures ("**REE**") to include mortgages and loans extended to the following: individuals to finance the acquisition or construction of residential real estate for own-occupancy as well as land developers and construction companies for the development of socialized and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included. Further, in 2017, the BSP issued Circular No. 976 which requires banks to report granular information on their real estate loans to mid- and high-end housing units, in addition to socialized and low-cost housing. Under the new reporting rules, covered banks are also required to report commercial real estate loans as to the underlying commercial project being financed such as residential units, office buildings, malls and factory/plant facilities. Universal and commercial banks shall also be required to submit a new Report on Project Finance Exposures which shall include information in terms of type of infrastructure project and project phase. Circular 976 also clarified the definitions of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate limits as provided under BSP Circular 600, the expanded definition of REE, and the Real Estate Stress Test limits. As these guidelines are for monitoring purposes only, banks shall continue to comply with the 20% adjusted REE limit. There is no guarantee, however, that the BSP will not enforce further tightening of REE limits in the future to head off potential asset bubbles.

In May 2013, the BSP released new guidelines governing its Special Deposit Account ("**SDA**") facility limiting SDA access by trust departments/entities to fund management activities of trust accounts effective 1 January 2014 and banning other fiduciary business including agency accounts and investment management activities access to the SDA facility. The new rules likewise required banks to wind down all SDA placements not consistent with the BSP memorandum by at least 30% by 31 July 2013, until these were eventually phased out by on 30 November 2013. In addition, the BSP intermittently reduced SDA rates by a total of 150 basis points in 2013 to

2.0%. Further, the participation of Unit Investment Trust Funds ("**UITFs**") in SDA facilities was gradually wound down, i.e., 50% in December 2016, 30% in March 2017 and fully terminated in June 2017 in line with the BSP's adoption of the interest rate corridor ("**IRC**").

In June 2016, the BSP implemented the IRC which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the SDA prior to the IRC, is now replaced by the overnight deposit facility ("**ODF**"), and forms the lower bound of the IRC. Meanwhile, the overnight lending facility ("**OLF**") replaced the repurchase facility ("**RP**"). The BSP likewise introduced the Term Deposit Facility (**TDF**) to serve as the main tool for absorbing liquidity through weekly TDF auctions, the frequency for which may be changed depending on the BSP's liquidity forecasts. According to the BSP, the changes from IRC were purely operational in nature to allow it to conduct monetary policy effectively. The ODF and OLF currently stand at 1.50% and 2.50%.

On 23 June 2016, the BSP issued Circular No. 914, Series of 2016, amending the prudential policy on loans, other credit accommodations, and guarantees granted to directors, officers, stockholders and their related interests ("**DOSRI**"), subsidiaries and affiliates. The circular raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programs particularly infrastructure projects under the Philippine Development Plan/Public Investment Program ("**PDP/PIP**") needed to support economic growth; in particular, exposures to subsidiaries and affiliates in PDP/PIP projects were increased to individual and unsecured limits of 25% (instead of 10%) and 12.5% (instead of 5%) of the net worth of the lending bank, respectively, subject to certain conditions. Furthermore, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and pre-empt potential abuse in a borrowing transaction between the related entities. The circular also amended the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to affiliates. The circular further excludes loans granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase.

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Philippine Supreme Court has held that special savings accounts granting a higher tax rate to depositors who are able to maintain the required minimum deposit balance for the specified holding period, and evidenced by a passbook, are certificates of deposit bearing interest and thus subject to documentary stamp tax.

On 23 June 2023 and 29 June 2023, the BSP issued Circular No. 1175 and Circular No. 1176, respectively, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of 30 June 2023 for universal and commercial banks, to 9.5% against demand deposits, negotiable order of withdrawal ("**NOW**") accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificates of time deposits ("**CTDs**"), long-term non-negotiable tax-exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks, and Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank).

If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan and credit card portfolios.

The Bank plans to continue to expand its consumer loan operations. Such expansion plans will increase the Bank's exposure to consumer debt and vulnerability with respect to changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's consumer loan and credit card portfolios. A rise in unemployment or an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults and NPLs, and reduce demand for consumer loans.

The Bank may incur significant losses from its trading and investment activities due to market fluctuations and volatility.

The Bank's asset portfolio is comprised primarily of loans to customers and investments in securities held at fair value through profit or loss ("**FVTPL**"), fair value through other comprehensive income ("**FVOCI**") securities and hold-to-collect ("**HTC**") securities (comprised primarily of Philippine Government securities). As at 30 September 2023, the Bank's total Philippine Government securities balance was ₱740.3 billion representing 81.0% of the Bank's investment securities portfolio.

During periods of declining interest rates, the Bank is able to generate relatively higher earnings from its trading and investment activities. The varying gains recognized by the Bank as a result of its trading of securities have caused the Bank's trading income to vary from period to period. The Bank realized a trading gain of ₱5.6 billion for the year ended 31 December 2020, a trading gain of ₱0.2 billion for the year ended 31 December 2021 a trading loss of ₱(600) million for 31 December 2022 and a trading gain of ₱0.3 billion for the nine months ended 30 September 2023 which amounts represented 12.1%, 0.4%, -0.8% and 0.4% of the Bank's total operating income for such periods, respectively. A slowdown in domestic or global growth may make it more difficult for the Bank to generate substantial gains from its trading activities.

The results of operations of the Bank's businesses may vary significantly from time to time.

As a consequence, in part, of the acquisitions the Bank has made over the financial years ended 31 December 2020, 2021 and 2022 and nine months ended 30 September 2023, and the varying levels of provisions it has made in respect of NPLs, ROPA, pension liabilities, impairment in the value of investments and other developments, the Bank's results of operations have varied from period to period in the past and may fluctuate significantly in the future due to these and other factors.

The Bank's results of operations may be adversely affected if the assumptions used to determine the cost of retirement benefits under the Bank's retirement plans change.

The Bank has a funded non-contributory retirement plan covering substantially all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As at 31 December 2022, the fair value of the retirement plan assets of the Bank was ₱43.4 billion and the present value of the obligation was at ₱43.1 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized retirement benefit assets of ₱ 215 million for 2022.

The principal actuarial assumptions used by the Bank to determine the cost of retirement benefits include a discount rate of 7.62% to 7.88% and a salary increase of 2.0% to 14.0% per annum, compounded annually. If these assumptions prove to be incorrect, the Bank's funding obligations in respect of its retirement plans may be significantly higher than currently anticipated. The Bank regularly reviews its assumptions and methodology and takes appropriate actions to ensure that the retirement plan assets meet actuarial requirements. Any change in methodology or assumptions affects the amount that the Bank amortizes each year in respect of its retirement fund liabilities, which would adversely affect the Bank's net income.

The Bank's recent and potential acquisitions may represent a risk if not managed effectively, and expected synergies may not be realized.

The Bank completed several acquisitions in 2014 and 2015, including acquiring Citibank Savings in March 2014, the trust business of Deutsche Bank in June 2014, Real Bank in August 2014 and BDONB (formerly, One Network Bank, Inc.) in July 2015. On 9 June 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle Generali Pilipinas Holdings Company Inc. ("**GPHC**"), the parent firm of life insurer Generali Pilipinas Life Assurance Company ("**GPLAC**") and non-life insurer Generali Pilipinas Insurance Company ("**GPIC**"). On 30 June 2016, the Bank secured final regulatory approval to acquire full interest in GPHC. GPHC and GPLAC were thereafter renamed BDO Life Assurance Holdings Corp. ("**BDO Life**"), and BDO Life Assurance Company, Inc., respectively.

On 14 June 2016, the Bank announced the acquisition of SB Cards Corp.'s ("**SB Cards**") exclusive rights as issuer and acquirer of Diners Club International credit cards in the Philippines. The acquisition, which includes SB Cards' existing Diners Club portfolio and its cardholder base, was completed on 30 September 2016.

On 11 February 2019, the Bank disclosed that its subsidiary, BDONB had signed an agreement with Rural Bank of Pandi Inc. ("**RBPI**") for the acquisition of RBPI's banking business in Bulacan. On 31 October 2019, BDONB completed its purchase of the recorded gross loan receivables and assumption of the recorded deposit liabilities of RBPI.

On 26 November 2020, the Bank announced the completion of the buyout of Nomura's ownership in BDO Nomura following an announcement last 23 June 2020 terminating their joint venture arrangement. BDO Capital acquired Nomura's 49% stake in BDO Nomura. BDO Nomura was merged with BDO Securities with the latter as the surviving entity. BDO Securities was reorganized into a full-service brokerage firm with an expanded product offering to include non-equity securities.

While the Bank believes these acquisitions complement the Bank's existing business lines and will provide opportunities to seize new market opportunities in line with the Bank's goal to maximize long-term shareholder value, there are a number of risks inherent in any merger/acquisition process. These include risks that:

- The expected cost savings or revenue enhancing opportunities cannot be realized in the amounts or within the time frames contemplated;
- The extraordinary expenses, costs or difficulties relating to the integration of the businesses and information management systems are greater than expected;
- The existing customer and employee relationships are adversely affected, which may cause, among others, potential deposit attrition from target entity customers; and
- The integration difficulties or other factors relating to the rationalization of the business cause unexpected business interruption.

Moreover, the Bank continually examines opportunities for acquisitions in the future as a means of accelerating growth or expanding its market coverage. Any future mergers or acquisitions will also subject the Bank to risks such as the deterioration of asset quality, the diversion of management's attention required to integrate the acquired business, failure to retain key acquired personnel and clients, leverage synergies, rationalize operations, or develop the skills required for new businesses and markets, some or all of which could have an adverse effect on its business. Further, while the Bank believes that the transaction agreements relating to its mergers or acquisitions contain provisions that protect the Bank against unknown and known liabilities, there can be no assurance that the Bank will not be subject to such liabilities in the future.

Accordingly, no assurance can be given that the Bank's recent, contemplated or potential mergers or acquisitions will result in the benefits to its business anticipated by the Bank or that the balance of the integration process will not adversely affect the Bank's existing operations or financial condition.

The Bank is affiliated with one shareholder group, with which it has extensive financial and business connections.

As at 30 September 2023, SM Investments Corporation ("**SMIC**") directly owned approximately 40.71% of the Bank's common shares. Multi Realty Development Corporation, Sybase Equity Investments Corporation and SM Prime Holdings (formerly SM Land), companies affiliated with SMIC and its controlling shareholders (the "**SM Group**"), held 6.64%, 5.37% and 2.05%, respectively, of the Bank's issued common shares. There can be no assurance that the interests of the SM Group will necessarily coincide with the interests of the Bank and the Bank's other Shareholders. *See "Management, Employees and Shareholders" and "Principal Shareholders".*

The Bank has historically had close business relationships with the SM Group, and as at 30 September 2023, the Bank's loans to the SM Group amounted to ₱26.1 billion, or 1.0% of the Bank's total loan portfolio (including secured non-risk loans not subject to the BSP's single borrower's limit), which is below the BSP's single borrower limit for related party transactions. The Bank's loans to the SM Group are on commercial, arm's length terms. While the Bank is not dependent on the SM Group for any funding, financial guarantees, or other forms of financial support, any default by the SM Group on such loans from the Bank, or failure by the SM Group to make timely payments of amounts due under such loans, could have a material adverse effect on the Bank's financial condition and results of operation. Furthermore, the Bank benefits from its relationship with the SM Group through certain business synergies, including access to SM clients and prospective clients, joint product development and branch or ATM locations in SM malls. As a result, deterioration in the financial condition of the SM Group could have a material adverse effect on the Bank's financial condition and business opportunities.

In addition, if there is any public perception in the Philippines that the Bank is reliant on the financial condition of the SM Group, there could be a loss of confidence in the Bank's solvency among its depositors or creditors in the event of deterioration in the financial condition of the SM Group. In particular, this could result in withdrawals of deposits or decrease in new deposits beyond levels anticipated by the Bank, or otherwise have a material adverse effect on the Bank's financial condition and results of operation.

If the Bank fails to maintain desired levels of customer deposits, its business operations may be materially and adversely affected.

Customer deposits are the Bank's primary source of funding and the Bank intends to continue expansion of its deposit base, particularly low-cost sources such as demand and savings ("**CASA**") deposits to help fund its future loan growth. However, many factors affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, retail customers may reduce their deposits and increase their investment in securities for a higher return or increase their deposits in trust accounts, while small, mid-market and large corporate customers may reduce their deposits in order to fund projects in a favorable economic environment, or the Bank may need to increase the rates it offers to its customers to minimize deposit outflows, which would have an adverse impact on the Bank's cost of funding. If the Bank fails to maintain its desired level of deposits, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In such an event, the Bank may need to seek more expensive sources of funding (including external sources), and it is uncertain whether the Bank will be able to obtain additional funding on commercially reasonable terms as and when required, or at all. The Bank's ability to raise additional funds may be impaired by factors over which it has little or no control, such as deteriorating market conditions or severe disruptions in the financial markets.

The Bank may fail to upgrade or effectively operate its information technology systems.

The Bank's businesses are heavily dependent on the ability to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at its various branches, at a time when transaction processes have become increasingly complex with increasing volume and at a time of increased disruption to the financial services sector from the emergence of financial technology firms. The proper functioning of the Bank's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting the Bank's various branches and offices is critical to its business and its ability to compete effectively. The Bank employs a core banking system with centralized database to support its domestic and international business operations. The core banking system is linked to the Bank's electronic channels including ATMs, internet banking, and mobile banking, which provides online real-time transaction processing. The data on the Bank's core banking system, centralized database and electronic channels are protected with real-time backup and replication infrastructure. Any failure in the Bank's systems or to implement new systems, particularly for retail products and banking transactions could have a negative effect on its business, financial condition and results of operations.

The Bank's failure to manage risks associated with its information and technology systems could adversely affect its business.

The Bank is subject to risks relating to its information and technology systems and processes. The hardware and software used by the Bank in its information technology is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in the Bank. These may, in turn, adversely affect the Bank's business, financial position and results of operations.

As the Bank increases its digital capabilities, its business and internal systems have, and will increasingly rely on software and processes that are highly technical and complex. In addition, the Bank's digitization capabilities will depend on the ability of such software and processes to store, retrieve, process and manage large amounts of data. The software and processes on which the Bank relies may now or in the future contain, undetected errors or bugs.

The Bank seeks to protect its computer systems and network infrastructure from physical break-ins as well as cybersecurity breaches and other disruptive problems caused by the Bank's increased use of mobile apps and digital solutions. The Bank also has access to and analyzes certain data from its customers with their authorization, which makes it an attractive target and potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. Computer break-ins and security breaches could affect the confidence, integrity and availability of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs IT security solutions such as firewalls data encryption and multifactor authentication, designed to minimize the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and security problems is likely to persist and there can be no assurance that these security measures will be adequate or successful in view of the dynamic and evolving transformation of cybercrimes. Further, as techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, the Bank may be unable to anticipate these techniques or to implement adequate preventative measures. The Bank has incurred and will continue to incur expenses and costs related to such security measures, such as the engagement of external cyber security partners to conduct vulnerability testing and compromise assessments the hiring of skilled IT personnel. The failure of the Bank to successfully implement security measures or prevent any security breaches could have a material adverse effect on the Bank's business, financial condition and results of operations as well as the reputation of the Bank.

The Bank is subject to credit, market and liquidity risks, all of which may have an adverse effect on its credit ratings and its cost of funds.

To the extent any of the instruments or strategies used by the Bank to manage its exposure to market or credit risk proves ineffective, the Bank may not be able to effectively mitigate its risk exposures, in particular to market environments or against particular types of risk. The Bank's balance sheet growth will be dependent upon economic conditions, as well as upon its determination to securitize, sell, purchase or syndicate particular loans or loan portfolios and availability of liquid funding sources with which to originate lending activities. The Bank's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the values of financial instruments caused by changes in market prices or rates. The Bank's earnings are dependent upon the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its loan loss provisions. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, the Bank could suffer higher than anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing the Bank's liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the Bank to effectively manage its credit, market and liquidity risks could have an adverse effect on its business, financial position, results of operations, and capital adequacy ratios.

The Bank is subject to interest rate risk.

The Bank realizes income from the margin between interest-earning assets (due from BSP on balances above the minimum reserve requirement, due from other banks, interbank loans receivable and securities purchased under resale agreement with BSP, investment securities and loans and receivables), and interest paid on interest-bearing liabilities (deposit liabilities, bills payable and subordinated debt, and other forms of borrowings). The business of the Bank is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of the Bank. In a rising interest rate environment, if the Bank is not able to pass along higher interest costs to its customers, it may negatively affect the Bank's profitability. If such increased costs are passed along to customers, such increased rates may make loans less attractive to potential customers and result in a reduction in customer volume and hence operating revenues. In a decreasing interest rate environment, potential competitors may find it easier to enter the markets in which the Bank operates and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on the Bank's margins and volumes and in turn adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to foreign exchange risk.

As a financial organization, the Bank is exposed to foreign exchange risk. Movements in foreign exchange rates could adversely affect the Bank's business, financial condition and results of operations. The foreign exchange transactions of Philippine banks are subject to stringent BSP regulation. Under BSP guidelines, the Bank is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit ("**FCDU**") books. As at 30 September 2023, the Bank had ₱558.6 billion of foreign assets and ₱545.4 billion of foreign currency liabilities. The decline in the value of the Peso against foreign currencies, in particular, the U.S. dollar may affect the ability of the Bank's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the

Peso can depress the export market which can negatively affect the ability of the Bank's customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the Peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on the Bank.

Failure to meet the Government's mandatory exposure to agricultural, fisheries, and rural sectors could affect the Bank's business, financial position and results of operations.

In 2022, Republic Act No. 11901, otherwise known as "The Agriculture, Fisheries, and Rural Development Financing Enhancement Act of 2022 ("**AFRD**") was passed into law and revised the implementation of the Government's priority lending to the agricultural, fisheries, and rural sectors. The AFRD provided additional modes of compliance which banking institutions can avail when fulfilling the legal requirement of setting aside twenty-five percent (25%) of their total loanable funds for AFRD financing. Failure to meet the specified level of compliance may result in fines being imposed against a non-compliant bank.

The Parent Bank has been able to meet and exceed the required exposure under the AFRD. As at 31 December 2022, the Parent Bank's required AFRD financing was ₱447.5 billion and its total compliance reached ₱570.1 billion. The Bank's continued positive compliance to the AFRD requirement will largely depend on the commensurate growth of eligible loans and investments as against its total loanable funds, as defined in the AFRD.

The ratings of third-party rating agencies could adversely impact the Bank's ability to obtain, renew or extend credit facilities, or otherwise raise funds.

Rating agencies from time to time review prior corporate and specific transaction ratings in light of changes in ratings. In the event of a downgrade of the Bank by one or more credit rating agencies, the Bank may have to accept terms that are not as favorable in its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. This could have a negative impact on the Bank's treasury operations and also adversely affect its financial position and results of operations. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. The rating agencies may also decide to withdraw their ratings altogether, which may have the same effect as a reduction in its ratings. In March 2023, Moody's affirmed the Bank's Long-Term Bank Deposits Rating of Baa2 and Baseline Credit Assessment Rating of baa2 as well as retained its outlook at stable, on account of the Bank's stabilizing asset quality, strong capital and adequate profitability. In May 2023, Fitch raised the outlook for the Bank to stable from negative and affirmed its credit rating of BBB-. The revised credit rating outlook of the Bank was in line with revision of the outlook for four other local banks and on the sovereign rating of the Philippines.

However, any reduction in the Bank's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce the Bank's liquidity and negatively impact its operating results and financial position.

The Bank relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain other highly capable individuals may negatively affect its business.

The Bank's success depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some of the Bank's key management, senior executives or an inability to attract or retain other key individuals could materially and adversely affect the Bank's business, financial position and results of operations.

The Bank's business, reputation and prospects may be adversely affected if the Bank is not able to detect and prevent fraud or other misconduct committed by the Bank's employees or outsiders on a timely basis.

The Bank is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidents may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through the financial sector. Any occurrence of fraudulent events may damage the reputation of the Bank and may adversely affect its business, financial position, results of operations and prospects. In addition, failure on the part of the Bank to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Bank's banking and other business activities. Although the Bank has in place certain internal procedures to prevent and detect fraudulent activities, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that the Bank will be able to avoid incidents of fraud in the course of its business.

The Bank is involved in litigation, which could result in financial losses or harm its business.

The Bank is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank or subject the Bank to significant liabilities to third parties.

There can be no assurance that the results of legal proceedings in which the Bank is involved will not materially harm the Bank's business, reputation or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. Further, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of bank insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial position or results of operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

The Bank has previously been involved in litigation relating to the use of its brand name and related intellectual property rights, and any future dispute over these rights could adversely affect the Bank.

The Bank has, in the past, been involved in litigation relating to the use of its brand name and related intellectual property rights. On 10 April 2014, the Bank successfully resolved its litigation with Stichting BDO, an international accounting firm ("**Stichting**"), and the Bank and Stichting signed and executed a Global Trademark Use and Co-Existence Agreement, stipulating the intellectual property ownership and use of the "BDO" and "BDO-related" marks. Consequently, all litigations between the two companies have been resolved, and the parameters for the respective parties' uses of their "BDO" and "BDO"-related marks in and outside the Philippines have been agreed.

If other parties bring suit and are successful against the Bank in preventing it from using its brand names and related intellectual property rights, the Bank may be forced to cease using the name "BDO" and other trademarks or property rights, which would adversely impact the Bank's ability to market its product offerings. Alternatively, if other parties sell products that use counterfeit versions of the Bank's brands or otherwise look like the Bank's brands, consumers may confuse the Bank's products with products that they consider inferior. This could cause consumers to refrain from utilizing the Bank's services and purchasing the Bank's products in the future and adversely affect the Bank's brand image and revenues. It cannot be assured that the Banks will be successful either in defending suits against it for trademark infringement or related litigation, or in seeking to prevent others from using counterfeit versions of its brands. Any failure by the Bank to protect its proprietary rights could have an adverse effect on the Bank's competitive position, business, results of operations and prospects.

Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition, and results of operations.

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to economic and political instability in several areas at the world. These ongoing global economic conditions have led to significant volatility in capital markets around the world, including Asia, and further volatility could significantly impact investor risk appetite and capital flows into emerging markets including the Philippines, as well as the price of the Bank's common shares.

For example, the exit of the UK from the European Union ("**Brexit**"), after certain challenges and negotiations on its exact terms, became effective on 1 February 2020. If certain other states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Bank's business, financial condition and results of operations.

The broad ramifications of Brexit to the UK, the EU and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. In addition, the uneven and divergent conditions across major economies and the resulting desynchronization in policy environment persist, with the US continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the "trade war" between the US and China, protracted economic slowdown in China, and other ongoing geopolitical crises that include among others, Syrian civil war and terrorist acts committed by ISIS. Moreover, the outbreak of the COVID-19 virus in 2020 has also contributed to market concerns and slowdowns in global airline, retail, tourism and other industries.

On 24 February 2022, Russia launched a full-scale invasion of Ukraine resulting in massive humanitarian casualties and destruction of infrastructure, roads, and physical. Russia's initiation of a full-blown war prompted European nations, the US, Australia and some Asian countries to impose major and significant economic and financial sanctions against Russia. These sanctions were aimed at disrupting inflow of funds to Russia and prevent further financing of the war. However, the trade and supply chain disruptions have caused political and economic tensions amongst member nations of the European Union, in the US and, to some extent, in some Asian and African countries. As Russia is a major oil and gas exporter to Europe, many European countries, being mainly dependent on Russian oil and gas, are now facing foreseeable economic consequences should gas and oil trade with Russia get halted either partially or completely. Presently, the war has already contributed to rising oil and gas prices globally. In addition, since Ukraine is a major exporter of wheat (along with Russia) and sunflower oil, disruption in global trade with Ukraine is causing hunger and famine amongst populations of some African and Middle Eastern nations and further exacerbates inflation concerns. Apart from trade disruptions, the banning of some Russian banks from the Society for Worldwide Interbank Financial Telecommunication (or "**SWIFT**") system, a global network for transferring payments, in March 2022 also had adverse impacts on the business of international companies who are owed money by Russian entities, as such companies had to find alternative and possibly costlier channels to receive payments. As the war continues, the long-term effects on the global economy remain uncertain.

On March 2023, UBS Group AG ("**UBS**") bought out Credit Suisse Group AG ("**Credit Suisse**") for 3 billion Swiss francs (or around U.S. $3.3 billion), to prevent the total collapse of Credit Suisse which had been the subject of a series of scandals, loss in key personnel, and losses in recent years. As a result of the buy-out, UBS now accounts for about 200% of the GDP of Switzerland, which imposes significant risk to the Swiss economy should UBS collapse in the future. As UBS and Credit Suisse are both Global Systemically Important Banks ("**G-SIB**"), their collapse may affect the global economy and trigger a global financial crisis.

More recently, on 7 October 2023, the militant group Hamas launched massive military operations into Israel territory resulting in human casualties and destruction of property. The Israeli government, in retaliation, launched a series of counter-attacks towards the Gaza territory with the intention of a complete siege of the area. Several foreign governments, including the United States of America, have expressed support and have pledged military aid in favor of Israel, while Arabic nations have condemned the attacks of Israel against Palestinians and continue to stage numerous anti-Israel protests.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. The success of the Bank's banking business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services. These developments may adversely affect trade volumes with potentially negative effects on the Philippines.

CONSIDERATIONS RELATING TO THE BONDS

The Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and

risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors may purchase Bonds as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Unaudited interim financial statements deemed incorporated by reference.

Any published unaudited interim financial statements of the Issuer (whether prepared on a consolidated or a non-consolidated basis) which are, from time to time, deemed to be incorporated by reference in this Offering Circular will not have been audited or subject to a review by the auditors of the Issuer. Accordingly, there can be no assurance that, had an audit or a review been conducted in respect of such financial statements, the information presented therein would not have been materially different, and investors should not place undue reliance on them.

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244 of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Bonds in the event of liquidation of the Bank.

The Bonds may have limited liquidity.

The Bonds constitute a new issue of securities for which there is no existing market. The Selling Agents are not obligated to make a market in any Bonds. While a market maker has been appointed for the Bonds, any market-making activity with respect to such Bonds, if commenced, may be discontinued at any time without notice in its sole discretion.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for the Bonds. If an active trading market for any Bonds does not develop or is not maintained, the market price and liquidity of such Bonds may be adversely affected. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the price at which the Bonds are issued depending on many factors, including:

- prevailing interest rates;
- the Bank's results of operations and financial condition;
- political and economic developments in and affecting the Philippines;
- the market conditions for similar securities; and
- the financial condition and stability of the Philippine financial sector.

The Bank intends to list the Bonds on PDEx. However, there can be no assurance that the Bank will obtain or be able to maintain such a listing or that, if listed, a trading market will develop for the Bonds on the PDEx. The Bank does not intend to apply for listing of the Bonds on any securities exchange other than the PDEx. Lack of a liquid, active trading market for the Bonds may adversely affect the price of the Bonds or may otherwise impede a holder's ability to dispose of the Bonds.

The Bank may be unable to redeem the Bonds.

At maturity, the Bank will be required to redeem all of the Bonds. The Bank may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem the Bonds by the Bank would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Bank.

Transfers only through PDEx

While the Bonds are listed on PDEx, all transfers of the Bonds must be made through the facilities of PDEx. Consequently, the parties to a transfer may be subject to the guidelines of the relevant PDEx trading participant and the payment to such trading participant and the Registrar of any reasonable fees. There is no assurance that the secondary trading of the Bonds may not be affected given these restrictions.

The Bonds are required to be listed on an established exchange. Investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment ("**DvP**") basis in accordance with PDEx Settlement Rules and Guidelines.

These rules and guidelines cover minimum trading lots and record dates. The secondary trading of Bonds in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. The PDEx rules and conventions are available in the PDEx website (www.pds.com.ph). An investor Frequently Asked Questions ("**FAQ**") discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

As with other fixed income securities, the Bonds trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Bank's operations, and the overall market for debt securities, among others. It is possible that a selling Bondholder would receive sales proceeds lower than his initial investment should a Bondholder decide to sell his Bonds prior to maturity.

Issuance and Transfer Restrictions

The Bonds may not be issued or transferred to Prohibited Bondholders as defined in the Terms and Conditions.

The Registrar is authorized to refuse any transfer or transaction in the Registry which may be in violation of these restrictions. There is no assurance that the secondary trading of the Bonds may not be affected given these restrictions.

Pursuant to Circular Letter ("**CL**") Nos. 2022-23 and 2022-37, certain investments of Insurance, Mutual Benefit Associations ("**MBA**") and Pre-need Companies including the offer of Bonds will not require prior approval from the Insurance Commission provided they are in accordance with the conditions and limitations set forth therein.

The credit ratings assigned to the Bank or the Bonds may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to the Bank, or Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Taxation of the Bonds

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 25% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

U.S. Foreign Account Tax Compliance Act withholding may affect payments on the Bonds.

The U.S. Foreign Account Tax Compliance Act (or "**FATCA**") imposes a new reporting regime and, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. On 13 July 2015, the Intergovernmental Agreement ("**IGA**") Model 1 was signed and executed by the Philippines and the United States. As a Reporting Model 1 participating foreign financial institution ("**PFFI**") within Philippine jurisdiction, Under the said aforementioned IGA Model 1, the obligation to withhold tax under section 1471 or 1472 of the U.S. Internal Revenue Code with respect to an account held by a recalcitrant account holder is suspended subject to compliance by the Bank and the BIR thereunder. This suspension, however, may possibly be lifted either by the U.S. IRS or the Philippine Competent Authority, specifically by the BIR.

Whilst the Bonds are maintained in scripless form through the Registrar, and persons classified as U.S. persons under FATCA are considered Prohibited Bondholders, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the Registrar. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary is generally unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or such other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or such other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Bonds are discharged once it has paid the Paying Agent and the Issuer has therefore no responsibility for any amount thereafter transmitted through such custodians or intermediaries. There is no assurance that the secondary trading of the Bonds may not be affected by FATCA.

CONSIDERATIONS RELATING TO THE BONDS ISSUED AS SUSTAINABILITY BONDS

The Bonds issued as sustainability bonds may not be a suitable investment for all investors seeking exposure to green, social or sustainable assets.

The Bank may issue the Bonds, the use of proceeds of which shall be specifically and exclusively used for the financing and/or refinancing of specified "green", "social", or "sustainability" projects of the Bank or any of its subsidiaries, in accordance with certain prescribed eligibility criteria ("**Sustainability Bonds**"). In connection with an issue of Sustainability Bonds, the Bank may request a sustainability rating agency or sustainability consulting firm to issue an independent opinion (a "**Second Party Opinion**") confirming that such Sustainability Bonds are in compliance with the Sustainable Bond Principles prepared and published by the International Capital Market Association (the "**ICMA Sustainability Bond Guidelines 2021**") and the ASEAN Capital Markets Forum (the

"**ASEAN Sustainability Bond Standards 2018**").

There is currently no market consensus on what precise attributes are required for a particular project to be defined as "green" "social" or "sustainable", and therefore no assurance can be provided to potential investors that the projects to be undertaken in the use of proceeds qualify as "green", "social", or "sustainability" projects, nor they will meet all investors' expectations regarding sustainability performance or continue to meet the relevant eligibility criteria. Although applicable sustainable projects are expected to be selected in accordance with the categories recognized by the ICMA Sustainability Bond Guidelines 2021 and ASEAN Sustainability Bond Standards 2018, and are expected to be developed in accordance with applicable legislation and standards, there can be no guarantee that adverse environmental and/or social impacts will not occur during the design, construction, commissioning and/or operation of any such green or sustainable projects. In addition, where any negative impacts insufficiently mitigated, the projects may become controversial, and/or may be criticized by activist groups or other stakeholders.

Accordingly, no assurance is or can be given by the Bank, any other member of the Bank, the Sole Arranger, any Selling Agent or any other person to investors that any projects or uses the subject of, or related to, any Eligible Green and/or Social Projects (as defined in BDO's Sustainable Finance Framework) will satisfy whether in whole or in part, any present or future investor expectations regarding such "green", "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Green and/or Social Projects. In addition, no assurance can be given by the Bank, any other member of the Bank, the Sole Arranger, any Selling Agent or any other person to investors that any Bonds will comply with any future standards or requirements regarding any "green", "social" or "sustainable" or other equivalently-labelled performance objectives and, accordingly, the status of any Bonds as being "green", "social" or "sustainable" (or equivalent) could be withdrawn at any time.

Potential investors should be aware that neither the SFF nor any Second Party Opinion will not be incorporated into, and will not form part of, this Offering Circular. Any such Second Party Opinion may not reflect the potential impact of all risks related to the structure of the relevant Sustainability Bonds, their marketability, trading price or liquidity or any other factors that may affect the price of value of the Sustainability Bonds. Any such Second Party Opinion is not a recommendation to buy, sell or hold securities and is only current as of its date of issue. Prospective investors must determine for themselves the relevance of any such Second Party Opinion and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in the Sustainability Bonds. Any such Second Party Opinion is a statement of opinion, not a statement of fact. To the fullest extent permitted by law, the Sole Arranger and the Selling Agents do not accept any responsibility for the contents, accuracy, completeness or sufficiency of any such information in such Second Party Opinion or in the SFF. Currently, the providers of such Second Party Opinions and certifications are not subject to any specific regulatory or other regime or oversight. Further, although the Bank may agree at the Issue Date of any Sustainability Bonds to certain allocation and/or impact reporting and to use the proceeds for financing and/or refinancing of green or sustainable projects (as specified in the Use of Proceeds), it would not be an event of default under the Sustainability Bonds if (i) the Bank were to fail to comply with such obligations or were to fail to use the proceeds in the manner specified in the applicable Terms and Conditions, (ii) the Bank were to fail to comply with the provisions of its Sustainable Finance Framework or the SEC Memorandum Circulars No.12 (2018), No. 8 (2019), No. 9 (2019), and No. 15 (2023) and/or (iii) the Second Party Opinion were to be withdrawn. Any failure to use the net proceeds of any Sustainability Bonds in connection with green or sustainable projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally focused investors with respect to such Sustainability Bonds may affect the value and/or trading price of the Sustainability Bonds, and/or may have consequences for certain investors with portfolio mandates to invest in green or sustainable assets which may cause one or more of such investors to dispose of the Sustainability Bonds held by them which may affect the value, trading price and/or liquidity of the relevant Sustainability Bonds.

Neither the Bank nor the Sole Arranger and Selling Agents make any representation as to the suitability or reliability for any purpose whatsoever of the SFF or any Second Party Opinion or whether any Sustainability Bonds fulfil the relevant environmental and sustainability criteria. Any such Second Party Opinion is for information purposes only and neither the sole Arranger nor the Selling Agents accept any form of liability for the substance of the Second Party Opinion and/or any liability for loss arising from the use of such Second Party Opinion and/or the information provided in it. Prospective investors should have regard to the eligible sustainable bond projects and eligibility criteria described in the applicable Use of Proceeds. Each potential investor of the

Sustainability Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of any Sustainability Bonds should be based upon such investigation as it deems necessary. As of the date of this Offering Circular, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Sustainability Bonds are listed or admitted to trading on any dedicated "green", "environmental", "sustainable", or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Bank, the Sole Arranger and Selling Agents or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green and/or Social Projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer, the Sole Arranger and Selling Agents or any other person that any such listing or admission to trading will be obtained in respect of any such Instruments or, if obtained, that any such listing or admission to trading will be maintained during the life of the Sustainability Bonds.

While it is the intention of the Issuer to apply the net proceeds of any Sustainability Bonds and obtain and publish the relevant reports, assessments, opinions and certifications in, or substantially in, the manner described in “Use of Proceeds,” there can be no assurance that the Issuer will be able to do so. In addition, there can be no assurance that any Eligible Green and/or Social Projects will be completed within any specified period or at all or with respect to the results or outcome (whether or not related to the environment, social goals, sustainability goals or similar) as originally expected or anticipated by the Issuer. The Sole Arranger and Selling Agents have not undertaken, nor are responsible for, any assessment of the eligibility of any Eligible Green and/or Social Projects or the monitoring of the use of proceeds from any issue of Sustainability Bonds. In addition, none of the Sole Arranger or Selling Agents makes any representation as to the compliance of the Bank with the SFF.

Any such event or failure to apply the net proceeds of any issue of Sustainability Bonds for any Eligible Green and/or Social Projects or to obtain and publish any such reports, assessments, opinions and certifications will neither constitute an “Event of Default” under the relevant Sustainability Bonds nor give rise to any other claim of an investor in such Sustainability Bonds against the Issuer. The withdrawal of any report, assessment, opinion or certification as described above, or any such report, assessment, opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such report, assessment, opinion or certification is reporting, assessing, opining or certifying on, and/or any such Sustainability Bonds no longer being listed or admitted to trading on any securities exchange or market, as aforesaid, might have a material adverse effect on the value of an investment in such Sustainability Bonds and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

USE OF PROCEEDS

The net proceeds from the issuances under the Programme will be used to to support the Bank's lending activities and diversify funding sources. A more definite use of proceeds from a Series or Tranche of Bonds will be included in the applicable Pricing Supplement for such Series or Tranche of Bonds.

GENERAL TERMS AND CONDITIONS

TERMS AND CONDITIONS OF THE BDO BONDS

*These Peso-Denominated Bonds to be issued under the Bank's ₱365 Billion Bond Programme are being issued by BDO Unibank, Inc (the "**Bank**") in favor of the Bondholders (as defined below) in accordance with the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks ("**MORB**"), BSP Circular 1010 series of 2018, and such other circulars and regulations as may be relevant for the transaction, as these may be amended from time to time, and shall at all times be subject to and governed by these Terms and Conditions.*

1	**DEFINITIONS**	In these Terms and Conditions and the Contracts (as hereinafter defined):
	"ADVERSE EFFECT"	means any material and adverse effect on: (a) the ability of the Bank to duly perform and observe its obligations and duties under the Bonds and the Contracts; (b) the condition (financial or otherwise), prospects, results of operations or general affairs of the Bank or the Group; or (c) the legality, validity and enforceability of the Contracts;
	"AGREEMENT DATE"	means, in respect of a Series or Tranche of Bonds, the date on which the agreement is reached for the issue of such Series or Tranche of Bonds as contemplated in the Programme Agreement which will be the date on when the Arranger(s) or Selling Agent(s) agree with the Bank on the pricing details for such Series or Tranche of Bonds, such date being the execution date of the relevant Placement Agreement (or any other document evidencing the issue details of such Series or Tranche of Bonds;
	"AMLC"	means the Anti-Money Laundering Council created to implement the Anti-Money Laundering Laws of the Philippines;
	"ANTI-MONEY LAUNDERING LAWS OF THE PHILIPPINES"	means Republic Act No. 9160, as amended by Republic Act No. 9194 and 10167, 10365, and 10927, Republic Act No. 10168, otherwise known as The Terrorism Financing Prevention and Suppression Act of 2012, and BSP Circular Nos. 251, 253, 279, 302, 495, 564, 608, 612, 706, 765, 794, 950, and 1022, and all other amendatory and implementing laws, regulations, jurisprudence, notices or orders of any Philippine governmental body relating thereto;
	"ARRANGER"	means the Standard Chartered Bank as Arranger for the Programme, and/or such other entities appointed or as may be appointed by the Bank as an arranger in respect of each Series or Tranche of Bonds, and excludes any entity whose appointment has been terminated pursuant to the Programme Agreement;
	"AUDITORS"	means Punongbayan & Araullo;
	"BANK"	means BDO Unibank, Inc., the issuer of the Bonds;
	"BIR"	means the Philippine Bureau of Internal Revenue;
	"BOND CERTIFICATE"	means the form representing the Bonds setting forth the Terms and Conditions;

"BONDHOLDER(S)"	means a person who, at any relevant time, appears in the Registry as the registered owner of the Bonds;
"BONDS"	means the bonds (whether the same be fixed rate, floating rate and/or zero-coupon bonds) to be issued by the Bank under the Programme, represented by a Bond Certificate or Bond Certificates, and subject to the Governing Regulations and these Terms and Conditions;
"BSP"	means the Bangko Sentral ng Pilipinas;
"BUSINESS DAY"	means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Metro Manila and Makati City are required or authorized to be open for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days;
"CONTRACTS"	means: (a) the Programme Agreement between the Bank, the Arranger and the Initial Selling Agents dated on or about November 15, 2019; (b) the Registry and Paying Agency Agreement between the Bank and the Registrar and Paying Agent dated on or about November 15, 2019, as may be supplemented, amended and/or restated from time to time; (c) the Trust Agreement between the Bank and the Trustee dated on or about November 15, 2019; (d) in respect of a Series or Tranche of Bonds, the relevant Bond Certificate; (e) these Terms and Conditions; (f) the Placement Agreement to be executed for each Series or Tranche of Bonds; (g) the Pricing Supplement for each Series or Tranche of Bonds; and (h) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto;
"ELECTRONIC SECURITIES ISSUE PORTAL"	means the e-Securities Issue Portal ("**e-SIP**") established and maintained by the Philippine Dealing System Holdings Corp. e-SIP will serve as an electronic channel for submission of documents for listing, enrollment, and registration of bondholders, available to identified stakeholders such as issuers, underwriters or arrangers, selling agents and client investor applicants;
"EVENT OF DEFAULT"	means an event specified as such under Condition 22 hereof;
"GOVERNING REGULATIONS"	means all the necessary rules and guidelines for the issuance of the Bonds, including, the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks, BSP Circular 1010, series of 2018, and any other circulars and regulations as may be relevant for the transaction, as these may be amended from time to time;
"GROUP"	means the Bank, its subsidiaries, affiliates and entities controlled by the Bank, taken as a whole, and each of them being a member of the Group;
"INTEREST"	means the interest payable on the relevant Series or Tranche of the Bonds at the Interest Rate set out in the applicable Pricing Supplement;
"INTEREST PAYMENT DATE"	means the dates specified in the applicable Pricing Supplement on which the Interest on the Bonds are payable. Interest shall be computed based on the outstanding balance of the relevant Series or Tranche of Bonds.

If any Interest Payment Date would otherwise fall on a day that is not a Business Day, payments will be made on the subsequent Business Day without adjustment of the amount due.

"INTEREST RATE" means, in respect of any Series or Tranche of Bonds, the interest rate indicated in the Pricing Supplement, payable in arrears on each Interest Payment Date.

"ISSUE DATE" means in respect of any Series or Tranche of Bonds, the date of issue and purchase of such Series or Tranche of Bonds, as indicated in the applicable Pricing Supplement;

"ISSUE PRICE" at par or 100% of face value or, in the case of a zero-coupon Bond, at a discount to the face value thereof, as specified in the applicable Pricing Supplement;

"MAJORITY BONDHOLDER" means the holders of more than fifty percent (50%) of the principal amount of the Bonds then outstanding at the relevant time under the Programme, provided, that in respect of any matter pertaining to matters relating to the relevant Series or Tranche of Bonds, only the concerned Bondholders of a particular Series or Tranche will be considered for quorum and approval purposes in any meeting in which any such matter is presented for resolution.

For purposes hereof, "***outstanding***" means, at any time in relation to a Bondholder and when used as of any particular time with reference to the Bonds, the aggregate outstanding principal amount owed to a Bondholder in respect of the face value of the Bonds purchased by such Bondholder from the Bank which has not been fully redeemed by Bank;

"MATURITY DATE" means, in respect of any Series or Tranche of Bonds, the maturity date indicated in the applicable Pricing Supplement;

"MATURITY VALUE" means the Issue Price plus unpaid and accrued Interest; up to but excluding the Maturity Date;

"OFFERING CIRCULAR" means the Offering Circular (including, for the avoidance of doubt, the consolidated financial statements of the Bank included therein) prepared in respect of the Programme, as revised, supplemented and/or amended from time to time by the Bank in accordance with the Programme Agreement, including any documents which are from time to time incorporated in the Offering Circular by reference, provided that:

(a) In relation to each Series or Tranche of Bonds only, the applicable Pricing Supplement shall be deemed included in the Offering Circular; and

(b) In respect of the Agreement Date and the Issue Date, the Offering Circular means the Offering Circular as at the Agreement Date, but without prejudice to (a) above, not including any subsequent revisions, supplement or amendment to it or incorporation of information in it subsequent to the relevant Agreement Date;

"PDEx" means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with and licensed by the SEC to operate an exchange and trading market for fixed income securities and a member of the Philippine Dealing System Group of Companies;

"PDEX RULES" means the PDEx Rules for the Fixed Income Securities Market and all its amendments, effective at the relevant time;

"PDEX TRADING PARTICIPANT"	means any person or legal entity qualified to trade on the PDEx Trading System pursuant to the PDEx Rules;
"PLACEMENT AGREEMENT"	means the Issue Management and Placement Agreement in respect of a Series or Tranche of Bonds in the agreed form among the Bank, Arranger, and Selling Agents, as may be amended or supplemented from time to time;
"PROGRAMME"	means the bond programme in the amount of up to ₱365.0 billion. The increased amount of ₱365.0 billion was approved by the Bank's Board of Directors on 1 February 2020 and became effective on 16 March 2020;
"PROHIBITED BONDHOLDER"	means: (1) the Bank or any related party over which the Bank exercises control or significant influence including subsidiaries and affiliates of the Bank, as well as the subsidiaries and affiliates of the Bank's subsidiaries and affiliates, and the wholly- or majority-owned or -controlled entities of such subsidiaries and affiliates except for its trust departments or related trust entities, pursuant to BSP Circular No. 1010, except where the Bank purchases and cancels the Bonds in the open market in accordance with Condition 14; or (2) such persons who are otherwise not qualified under the Governing Regulations including any other person whose acquisition, holding or Transfer of the Bonds would violate any applicable law or regulation, including but not limited to the rules of the PDEx, BSP, AMLC, or other government regulation in any relevant jurisdiction; or (3) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time ("FATCA"), which include: (a) a U.S. citizen (including a dual citizen who may have another citizenship besides having a U.S citizenship); (b) a U.S. resident alien for tax purposes, which includes a person who has substantial presence in the U.S. ("substantial presence" is defined as more than 31 days in the current calendar year or a total of 183 days over the previous three years from the current tax year); (c) a U.S. partnership, U.S. corporation, or U.S. entity; (d) a U.S. estate; (e) a U.S. trust if a court within the United States is able to exercise primary supervision over the administration of the trust, or one or more U.S. persons have the authority to control all substantial decisions of the trust; or (f) any other person that is not a non-US person under the FATCA; or (4) persons classified as a Restricted Party;
"PSE"	means The Philippine Stock Exchange, Inc.;
"REGISTRAR" OR ***"PAYING AGENT"***	means the Philippine Depository & Trust Corp. ("**PDTC**"), a domestic corporation duly registered and licensed as a registrar and paying agent;
"REGISTRY"	means the electronic registry book of the Registrar containing the official information on the Bondholders and the amount of Bonds they respectively hold, including all Transfers thereof or any liens or encumbrances thereon;
"REGISTRY CONFIRMATION"	means the written advice sent by the Registrar to the Bondholders, confirming the registration in the name of such Bondholder of the specified amount of Bonds issued to or purchased by a Bondholder, in the Registry, and setting forth the declarations required by the BSP;

"RESTRICTED PARTY"	means a person that is: (i) listed on, or owned or controlled by a person listed on, or acting on behalf of a person listed on, any Sanctions List; (ii) located in, incorporated under the laws of, or owned or (directly or indirectly) controlled by, or acting on behalf of, a person located in or organized under the laws of a country or territory that is the target of country-wide or territory-wide Sanctions; or (iii) otherwise a target of Sanctions (target of Sanctions signifying a person with whom a US person or other national of a Sanctions Authority would be prohibited or restricted by law from engaging in trade, business or other activities);
"SANCTIONS"	means the economic sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by: (i) the Philippines; (ii) the United States government; (iii) the United Nations; (iv) the European Union (v) the United Kingdom; or (vi) the respective governmental institutions and agencies of any of the foregoing, including, without limitation, the Office of Foreign Assets Control of the US Department of Treasury (OFAC), the United States Department of State, and Her Majesty's Treasury (HMT) (together the "**Sanctions Authorities**");
"SANCTIONS LIST"	means the "Specially Designated Nationals and Blocked Persons", "Consolidated Sanctions" and "Sanctions Programs and Country Information" lists maintained by OFAC, the Consolidated List of Financial Sanctions Targets and the Investment Ban List maintained by HMT, or any similar list maintained by, or public announcement of Sanctions designation made by, any of the Sanctions Authorities;
"SEC"	means the Philippine Securities and Exchange Commission, including all its offices and departments, and its successor agency/ies;
***"SELLING AGENTS*"**	means the selling agents appointed under the Programme Agreement (and their respective successor entities) and excludes any entity whose appointment has been terminated pursuant to the Programme Agreement, or the relevant selling agent(s) in respect of a Series or Tranche the Bonds appointed from time to time under the Placement Agreement;
"SERIES"	means a Tranche of Bonds, together with any further Tranche or Tranches of Bonds, as the case may be, which are (a) expressed to be consolidated and form a single series, and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates, and/or Issue Process (and the expressions "**Bonds of the relevant Series", "Bondholders of the relevant series",** and related expressions shall (where appropriate) be construed accordingly);
***"TERMS AND CONDITIONS*"**	mean these terms and conditions pertaining to the Bonds as may be amended from time to time;
"TRANCHE"	means one of a number of issuances of Bonds under a specified Series which are identical in all respects, including specific terms and conditions, Issue Date, Interest Commencement Date, Issue Process, listing and admission to trading.
"TRANSFER"	means the transfer, assignment, or any transaction resulting in change in ownership of, or title to, the Bonds; and
"*TRUSTEE*"	means the Development Bank of the Philippines – Trust Banking Group, a government financial institution organized and existing pursuant to Executive Order No. 81 dated 3 December 1986, otherwise known as the 1986 Revised Charter of the Development Bank of the Philippines, as amended by Republic Act No. 8523 dated 14 February 1998, duly authorized to perform trust and other

		fiduciary businesses, with principal office address at 3/F DBP Building, Sen Gil J. Puyat Avenue, Makati City.
2	**PURPOSE OF ISSUANCE/USE OF PROCEEDS**	The net proceeds of the issue are intended to be used to support the Bank's lending activities and diversify funding sources or as may be provided under the applicable Pricing Supplement.
3	**FORM**	The Bonds shall be issued in scripless form. A Bond Certificate representing the relevant Series or Tranche of Bonds shall be issued to, deposited with, and registered in the name of the Trustee, on behalf of and in trust for the relevant Bondholders, with a copy to be lodged with the Registrar.
4	**DENOMINATION**	The Bonds will be offered, sold and traded in the secondary market in such denominations to be indicated in the applicable Pricing Supplement.
5	**TITLE**	Title to the Bonds shall be indicated in the Registry to be maintained by the Registrar for the Bonds. Initial placement of the Bonds and subsequent Transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing at such time.
6	**SEC REGISTRATION AND LISTING**	The Bonds have not been and will not be registered with the SEC. Since the Bonds qualify as exempt securities under Section 9.1 (e) of the Philippine Securities Regulation Code, the Bonds may be sold and offered for sale or distribution in the Philippines without registration. The Bonds are intended to be listed for electronic trading and settlement on the PDEx on or about the Issue Date. Trading, Transfer, and/or settlement of the Bonds shall be performed in accordance with the PDEx Rules and the rules and procedures of the Registrar.
7	**ELIGIBLE BONDHOLDERS**	In general, the Bonds may be issued or transferred to any person of legal age, regardless of nationality or residency, any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, except, in each case, to Prohibited Bondholders.
8	**QUALIFICATION DETERMINATION**	Each Selling Agent (in the case of initial issuances of the Bonds) or PDEx Trading Participant (in the case of Transfers of the Bonds) shall verify the identity and relevant details of each proposed Bondholder and ascertain that said prospective Bondholder is an Eligible Bondholder and is not a Prohibited Bondholder. For this purpose, prospective Bondholders shall be required to submit any and all information reasonably required by the Selling Agents or the PDEx Trading Participant, as the case may be. Any unresolved question on a prospective Bondholder's eligibility shall be referred to the Bank for its final determination.
9	**INTEREST ACCRUAL AND PAYMENT**	The Bonds will bear Interest on its principal from and including the Issue Date at the rate indicated in the applicable Pricing Supplement for each Series or Tranche of Bonds. Interest shall be payable on each Interest Payment Date as specified in the applicable Pricing Supplement for such Series or Tranche of Bonds. The determination by the Paying Agent of the amount of Interest payable (in the absence of manifest error) is final and binding upon all parties.

10	**MANNER OF PAYMENT OF INTEREST AND PRINCIPAL**	On each Interest Payment Date and Maturity Date (as applicable), the Bank shall make available good and cleared funds to the Bank's designated Payment Account (as defined in the Registry and Paying Agency Agreement) for disbursement to the Bondholders as shown in the Registry to be maintained by the Registrar.
11	**PRINCIPAL REPAYMENT**	The Bonds shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall be on the immediately succeeding Business Day, without adjustment to interest payable in respect of the Bonds.
12	**FINAL REDEMPTION**	All Bonds outstanding on Maturity Date will be redeemed at par or 100% face value.
13	**PRETERMINATION BY THE BONDHOLDER**	Presentation of the Bonds to the Bank for termination or redemption before the Maturity Date is not allowed, unless there occurs an event under "Events of Default" in these Terms and Conditions or as may be provided under the applicable Pricing Supplement for each Series or Tranche of Bonds. Bondholders may, however, transfer their Bonds to another holder who is not a Prohibited Bondholder. Such Transfer shall not be considered a pre-termination, subject to Condition 14.
14	**SECONDARY TRADING**	Unless otherwise prohibited under the PDEx Rules (and subject to Condition 15), the Bonds are freely transferable across tax categories. All Transfers of the Bonds shall be traded or coursed through a PDEx Trading Participant, in accordance with the PDEx rules. All trading in the secondary market should be in denominations indicated in the applicable Pricing Supplement. The denominations for trading the Bonds on PDEx will be subject to the PDEx Rules. As a condition precedent for any Transfer of the Bonds, the transferee Bondholder must present to the Registrar, and in such forms as prescribed by the Registrar: (i) the Registry Confirmations of both the transferor and the transferee (if any); (ii) the Trade-Related Transfer Form or Non-Trade Related Transfer Form; (iii) the Investor Registration Form; (iv) Tax Exempt/Treaty Documents, if applicable; (v) written consent of the transferee Bondholder to be bound by the terms of the Bonds and the Registry Rules, in the form agreed upon between the Bank and the Registrar; and (vi) such other documents as may be reasonably required by the Registrar. A service charge shall be imposed for any registration of Transfer of the Bonds, and the Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any Transfer of the Bonds, each for the account of the Bondholder requesting the registration of Transfer of the Bonds. Subject to Conditions 15 and 17 and payment by the relevant Bondholder of the proper fees, if any, to PDEx and/or the Registrar, a Transfer of Bonds may generally be done at any time. The Bank may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders, and the Bondholders shall not be obligated to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. For the avoidance of doubt, the Bank may not directly

		or indirectly purchase the Bonds in any instance for the purpose of trading or market making.
15	**TRANSFERABILITY**	All Transfers of the Bonds shall be recorded in the Registry. Settlement in respect of such Transfer, including settlement of applicable taxes (subject to Condition 25), if any, arising from such Transfers, assignments or change in title, shall be for the account of the transferee and/or transferor Bondholder. Transfers of the Bonds made in violation of the restrictions on Transfer under these Terms and Conditions, shall be null and void and shall not be registered by the Registrar. Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a Business Day, provided however that Transfers from a Tax-Exempt Category to a Taxable Tax Category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name on PDEx, ensuring that the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of the same tax category as its taxable counterpart for the interest period during which such Transfer occurred. For purposes hereof, "tax categories" refer to the three (3) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities and 25% tax-withheld entities. This restriction shall be in force until a Non-Restricted Trading & Settlement Environment for Corporate Securities (as defined or specified under PDEx Rules) is implemented.
16	**PLACE OF REGISTRY AND COMPLIANCE WITH REGISTRY RULES**	The Registry shall be kept at the specified office of the Registrar. To the extent not inconsistent with or contrary to these Terms and Conditions, the registry rules of the Registrar (a copy of which shall be separately provided by the Registrar to the Bank and the Bondholders) shall be observed and complied in the implementation of the functions of the Registrar, including, without limit, Transfers of the Bonds.
17	**CLOSING OF REGISTRY**	The Registrar shall not register any Transfer of the Bonds for a period of two (2) Business Days preceding the due date for any payment of Interest on the Bonds, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Bonds, or register the Transfer of any Bonds previously called for redemption or pre-termination (“**Closed Period**”). The Registrar will treat the person in whose name the Bonds is registered at the start of the Closed Period as the Bondholder for the purpose of receiving distributions pursuant to these Terms and Conditions and for all other purposes whatsoever, and the Registrar shall not be affected by any notice to the contrary.
18	**STATUS/RANKING**	The Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Bank and will at all times rank *pari passu* and ratably without any preference or priority among themselves and with all other present and future unsecured and unsubordinated obligations of the Bank, other than obligations preferred by the law.
19	**MANNER OF DISTRIBUTION**	The Bonds shall be offered in a manner as provided in the applicable Pricing Supplement.
20	**REPRESENTATIONS AND WARRANTIES**	The Bank hereby represents and warrants to the Bondholders, as follows:

(a) each of the members of the Group is duly incorporated, validly existing and in good standing under the laws of its place of incorporation with full power and authority to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it;

(b) except as may be disclosed in the Offering Circular, each of the members of the Group has legal title to all its property in each case free and clear of all liens, encumbrances and defects; and any real property and buildings held under lease by the Group are held by them under valid, subsisting and enforceable leases, except where such a failure would not result in an Adverse Effect;

(c) the Bank has the corporate power under the laws of the Republic of the Philippines and its constitutive documents: (i) to issue the Bonds and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the Contracts and these Terms and Conditions; (ii) to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business; and (iii) to incur the indebtedness and other obligations provided for in the Bonds;

(d) the Bank (and, if applicable, any person on whose behalf it may act as agent or in a representative capacity) has and will continue to have full capacity and authority to enter into the Contracts and to carry out the transactions contemplated in the Contracts and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery and performance of the Contracts and the issue, offering and distribution of the Bonds;

(e) the Contracts have been duly authorized, executed and delivered by the Bank and constitute valid and legally binding obligations of the Bank;

(f) the Bonds have been duly authorized by the Bank and, when duly executed, authenticated, issued and delivered in accordance with the Contracts, will constitute valid and legally binding obligations of the Bank, enforceable in accordance with its terms;

(g) the Bonds constitute the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions, and will at all times rank *pari passu* and ratably without any preference among themselves and at least *pari passu* with all other direct, unconditional, unsecured and unsubordinated obligations of the Bank, present and future, other than obligations mandatorily preferred by law;

(h) all necessary actions and things required to be taken, fulfilled or done (including without limitation the obtaining of any consent, authorization, order or license or the making of any filing or registration) for the issue, offering and distribution of the Bonds, the carrying out of the other transactions contemplated by the Bonds and the Contracts or the compliance by the Bank with the terms of the Bonds and the Contracts, as the case may be, have been taken, fulfilled or done;

(i) the Bank shall comply with all other terms and conditions imposed by the BSP regarding the issuance of the Bonds while any portion of the Bonds remain outstanding;

(j) the Bank has complied with all qualifications and conditions of the Governing Regulations to issue, maintain, service, pay out, redeem, and cancel the Bonds, which qualifications and conditions continue to be complied with;

(k) the execution and delivery of the Contracts, the issue, offering and distribution of the Bonds, the carrying out of the other transactions contemplated by the Contracts and these Terms and Conditions and compliance with their terms do not and will not: (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the documents constituting the Bank, or any indenture, trust deed, mortgage or other agreement or instrument to which the Bank or any of the Bank's subsidiaries is a party or by which it or any of its properties is bound; or (ii) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over the Bank, any such subsidiary or any of their properties;

(l) the (i) Offering Circular, the Pricing Supplement and other materials used in the offer approved by the Bank contain all information with respect to the Group and to the Bonds which is material in the context of the issue, offering and distribution of the Bonds (including, without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Bank and of the Bonds, is necessary to enable potential Bondholders and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank and of the rights attaching to the Bonds); (ii) the statements contained in the Offering Circular and the relevant Pricing Supplement relating to the Bank and the Group are in every material respect true, accurate and not misleading; (iii) the opinions and intentions expressed in the Offering Circular with regard to the Bank and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Group or the Bonds the omission of which would, in the context of the issue, offering and distribution of the Bonds, make any statement in the Offering Circular misleading in any material respect; and (v) all reasonable inquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements;

(m) the Offering Circular accurately describes: (i) accounting policies which the Bank believes to be the most important in the portrayal of the Group's financial condition and results of operations (the "**Critical Accounting Policies**"); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Bank have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their independent accountants with regards to such disclosure;

(n) each member of the Group maintains systems of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with financial reporting standards in the Philippines for banks and to maintain asset accountability;

(iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) each member of the Group has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Bank's consolidated financial statements in accordance with financial reporting standards in the Philippines for banks; and the Bank's current management information and accounting control system has been in operation for at least twelve (12) months during which none of the Bank nor any other member of the Group has experienced any material difficulties with regard to (i) through (v) above;

(o) there are no outstanding guarantees or contingent payment obligations of the Bank in respect of indebtedness of third parties, except as may be described in the Offering Circular; the Bank is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular;

(p) the Offering Circular accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that the Bank believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Bank nor any other member of the Group has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Bank or any other member of the Group, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Bank or any other member of the Group or the availability thereof or the requirements of the Bank or any other member of the Group for capital resources;

(q) all information provided by the Bank to its Auditors required for the purposes of their comfort letters in connection with the offering and sale of the Bonds has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect;

(r) the Auditors are independent public accountants with respect to the Group, as required by the Philippine Institute of Certified Public Accountants and the applicable rules and regulations thereof;

(s) save as disclosed in the Offering Circular, all transactions by the Bank with its directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available from other parties on an arm's-length basis;

(t) each of the Bank and the other members of the Group: (i) has all licenses, franchises, permits, authorizations, approvals, registrations and orders and other concessions that are necessary to own or lease its other properties and conduct its businesses in those jurisdictions in which business is conducted by it; (ii) is conducting its business and operations in compliance with all applicable laws and regulations in each of the jurisdictions in which it conducts business and operations, including, without limitation, all regulations, guidelines and circulars of the BSP, the SEC, the PSE and the BIR; (iii) has complied with, corrected and successfully and effectively implemented, to the satisfaction of the BSP, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Bank; and (iv) is otherwise in compliance with all agreements and other instruments to which it is a party, except where any failure to be in compliance with any of which would not qualify as, or result in, an Adverse Effect;

(u) except as specifically described in the Offering Circular, the Bank and the other members of the Group own or possess (or can acquire on reasonable terms), all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, "**Intellectual Property**") necessary to carry on the business now operated by them; and neither the Bank nor any other member of the Group has received notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interests of the Bank or other members of the Group therein; and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect;

(v) except as specifically described in the Offering Circular, there are no pending actions, suits or proceedings against or affecting the Bank or any other member of the Group or any of their properties which, if determined adversely would individually or in the aggregate have an Adverse Effect, or affect the ability of the Bank to perform its obligations under the Contracts or the Bonds, or which are otherwise material in the context of the issue of the Bonds and, to the best of the Bank's knowledge, no such actions, suits or proceedings are threatened or contemplated;

(w) no event has occurred or circumstance arisen which (whether or not with the giving of notice and/or the passage of time and/or the fulfillment of any other requirement) constitutes an event described under "Events of Default" hereunder;

(x) The Bank and the other members of the Group are in compliance with the Anti-Money Laundering Laws of the Philippines in all material respects;

(y) The Bank is Solvent. As used in this paragraph, the term "**Solvent**" means, with respect to a particular date, that on such date: (i) the present fair market value (or present fair saleable value) of the assets of the Bank is not less than the total amount required to pay the liabilities of the Bank on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Bank is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Bank is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Bank is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Bank is engaged; (v) the Bank will be able to meet its obligations under all its outstanding indebtedness as they fall due; and (vi) the Bank is not a defendant in any civil action that would result in a judgment that the Bank is or would become unable to satisfy; and

(z) The approval of PDEx for the listing of the Bonds when issued will be in full force and effect unless applicable laws no longer require listing of the Bonds with an exchange.

These representations and warranties are true and correct as of the date of the Contracts, the Offering Circular, and each Pricing Supplement, and will be true and accurate for as long as the Bonds or any portion thereof remains outstanding, with reference to the facts and circumstances existing from time to time.

21 COVENANTS

The Bank hereby covenants and agrees that during the term of the Bonds and until payment in full and performance of all its obligations under the Bonds, it shall act as follows:

(a) The Bank shall pay all amounts due under the Bonds at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the Bonds;

(b) The Bank shall ensure that it will continue to have the legal and juridical personality to maintain the Bonds until Maturity Date or full payment of the claims under the Bonds, whichever is later;

(c) It shall, as soon as practicable, make available copies of its audited financial statements, consisting of the balance sheet of the Bank as of the end of its latest fiscal year and statements of income and retained earnings and of the source and application of funds of the Bank for such fiscal year, such audited financial statements being prepared in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and being certified by an independent certified public accountant of recognized standing in the Philippines; and shall, as soon as practicable, upon written request from a Bondholder, furnish such requesting Bondholder such updates and information as may be reasonably requested by a Bondholder pertaining to the business, assets, condition, or operations of the Bank, or affecting the Bank's ability to duly perform and observe its obligations and duties under the Bonds and the Contracts;

(d) It shall, when so requested in writing, provide any and all information reasonably requested by PDEx and Paying Agent and/or Registrar, as the case may be, to enable them to respectively comply with their respective responsibilities and duties under the Governing Regulations, and the Contracts; *Provided,* that, in the event that the Bank cannot, for any reason, provide the required information, the Bank shall immediately advise the party requesting the same and shall perform such acts as may be necessary to provide for alternative information gathering;

(e) The Bank shall promptly advise the Bondholders through the Trustee of: (i) any request by any government agency for any information related to the Bonds; and (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the Bonds or the initiation of any proceedings for any such purpose and shall use its best efforts to obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the Bonds at the earliest time possible;

(f) The Bank shall ensure that any documents related to the Bonds will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

(g) The Bank shall upon written request of a Bondholder execute and deliver to such Bondholders such reports, documents, and other information relating to the business, properties, condition, or operations, financial or otherwise, of the Bank as a Bondholder may from time to time reasonably require;

(h) The Bank shall, as soon as possible and in any event within five (5) Business Days after the occurrence of any default on any of the obligations of the Bank, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under the material agreements of the Bank with any party, including, without limitation the Contracts, serve a written notice to the Bondholders through the Trustee, of the occurrence of any such default, specifying the details and the steps which the Bank is taking or proposes to take for the purpose of curing such default, including the Bank's estimate of the length of time to correct the same;

(i) It will duly and punctually comply with all reporting, filing and similar requirements imposed by the BSP, the SEC and the PSE or in accordance with any applicable Philippine law and regulations from time to time relating to the Bonds and the Contracts;

(j) The Bank shall maintain the services of the Auditors and in any event where the Auditors shall cease to be the external auditor of the Bank for any reason, the Bank shall appoint another reputable, responsible and internationally accredited external auditor;

(k) It shall fully and promptly comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations and promptly and satisfactorily take all corrective measures that may be required under BSP audit reports;

(l) It shall use the net proceeds from the Bonds in accordance with the purpose of issuance provided in the relevant Pricing Supplement;

(m) It shall ensure that there shall at all times be a Registrar and Paying Agent for the purposes of the Bonds, as provided in the Registry and Paying Agency Agreement;

(n) It shall ensure that the Bonds are listed with PDEx unless applicable laws no longer require listing of Bonds with an exchange, and delisting is approved by the Bondholders through a meeting duly called for such purpose, in accordance with these Terms and Conditions.

These covenants of the Bank shall survive the issuance of the Bonds and shall be performed fully and faithfully by the Bank at all times while the Bonds or any portion thereof remain outstanding.

22 EVENTS OF DEFAULT

The Bank shall be considered in default under the Bonds in case any of the following events shall occur:

(a) The Bank fails to pay any principal and/or interest due on the Bonds issued under the Programme within ten (10) calendar days of the due date of payment; provided, that such non-payment shall not constitute an Event of Default if the Bank has confirmed the Payment Instruction Report (as defined in the Registry and Paying Agency Agreement) prepared by the Registrar and Paying Agent and there are sufficient funds standing in the Payment Account (as defined in the Registry and Paying Agency Agreement) on a relevant payment date (a "**Payment Default**").

(b) Any representation and warranty of the Bank or any certificate or opinion submitted by the Bank in connection with the issuance of the Bonds is untrue, incorrect, or misleading in any material respect.

(c) The Bank fails to perform or violates its covenants under these Terms and Conditions (other than the payment obligation under paragraph (a) above) or the Contracts, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of thirty (30) calendar days from notice to the Bank;

(d) The Bank (i) defaults in the repayment of any amount of principal and premium (if any) or interest, in respect of any contract (other than the Bonds) executed by the Bank with any bank, financial institution or other person, corporation or entity for the payment of borrowed money in an aggregate amount exceeding ₱500,000,000.00 or its equivalent which constitutes an event of default, or with the giving of notice or the passage of time would constitute an event of default, under said contract; or (ii) violates any other term or condition of a contract, law, or regulation, which is irremediable or, if remediable, (x) is not remedied by the Bank within 30 days or is otherwise not contested by the Bank, and (y) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity;

(e) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the Bonds expires or is terminated, revoked or modified and the result thereof is to make the Bank unable to discharge its obligations hereunder or thereunder.

(f) It becomes unlawful for the Bank to perform any of its material obligations under the Bonds;

(g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Bank or any material portion of its properties or assets.

(h) The Bank becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, including: (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) making of an assignment for the benefit of its creditors of all or substantially all of its properties; (iv) admission in writing of its inability to pay its debts; or (v) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its property or assets (each, an "**Insolvency Default**");

(i) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of ₱500,000,000.00 or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;

(j) Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Bank's assets, singly or in the aggregate, and such writ, warrant, execution or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy; and

(k) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days ("Closure Default"), except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or *force majeure*, and, provided that, in any such event, there is no Adverse Effect.

23 EFFECTS OF EVENTS OF DEFAULT

The Trustee shall, within thirty (30) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it unless the same shall have been cured before the giving of such notice; provided that, in the case of Payment Default, as defined under the Events of Default in the Terms and Conditions of the Bonds, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days (at the expense of the Bank), further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

If any one or more of the Events of Default shall have occurred and be continuing after any applicable cure period shall have lapsed without the Bank having cured the default, the Trustee, upon the written direction of the Majority Bondholders whose written instruction/consent/letter shall be verified by the Registrar and by written notice to the Bank, may declare the Bank in default in respect of the Bonds held by such Bondholders, stating the Event of Default relied upon, and require the principal amount of the Bonds held by such Bondholders, and all accrued interests (including default interest, if any) and other charges due thereon, to be immediately due and payable, and forthwith collect said outstanding principal, accrued interests (including default interest, if any) and other charges, without prejudice to any other remedies which such Bondholder or the other holders of the Bonds may be entitled.

In case of an Event of Default under Condition 22 (a), the Bank shall, in addition to the payment of the unpaid amount of principal and accrued interest, pay default interest at the rate of one percent (1%) per month, which shall accrue after the lapse of the curing period until the same is fully paid.

Any money delivered to the Paying Agent by the Bank pursuant to an Event of Default shall be applied by the Paying Agent in the order of preference as follows: *first,* to the pro-rata payment to the Registrar and Paying Agent and to the Trustee of the costs, expenses, fees, and other charges of collection incurred by them respectively without gross negligence or bad faith; to the payment to the Registrar and Paying Agent and to the Trustee of their respective fees, and other outstanding charges due to them; *second,* to the pro-rata payment of all outstanding Interest owing to the Bondholders, including default interest, if any, as specified in this Condition 23, in the order of maturity of such interest; and *third*, to the pro-rata payment of the whole amount then due and unpaid on the Bonds for principal owing to the Bondholders.

24 WAIVER OF DEFAULT BY THE BONDHOLDERS

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of the Bondholders waive any past default, except the events of default defined as a Payment Default, Insolvency Default, or Closure Default, and its consequences. In case of any such waiver, the Bank, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

25 TAXATION

INTEREST ON THE BONDS IS SUBJECT TO FINAL WITHHOLDING TAX AT A RATE BETWEEN 20% TO 25%, AS MAY BE SUBSEQUENTLY AMENDED BY APPLICABLE LAWS.

PAYMENTS OF PRINCIPAL AND INTEREST WILL BE MADE FREE AND CLEAR OF ANY DEDUCTIONS OR WITHHOLDING FOR OR ON ACCOUNT OF ANY PRESENT OR FUTURE TAXES, DUTIES OR CHARGES IMPOSED BY OR ON BEHALF OF REPUBLIC OF THE PHILIPPINES. IF SUCH TAXES, DUTIES OR CHARGES ARE IMPOSED, THE SAME SHALL BE FOR THE ACCOUNT OF THE BANK. *PROVIDED, HOWEVER*, THAT THE BANK SHALL NOT BE LIABLE FOR:

(a) any withholding tax on Interest earned on the Bonds as prescribed under Tax Code. A corporate and institutional investor who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit a tax exemption certificate and other applicable documents;
(b) Gross Receipts Tax under Section 121 and 122 of the Tax Code;
(c) taxes on the overall income of the relevant Arranger, Selling Agent or Bondholder, whether or not subject to withholding; and
(d) Value Added Tax (“VAT”) under Sections 106 to 108 of the Tax Code.

DOCUMENTARY STAMP TAX FOR THE PRIMARY ISSUE OF THE BONDS AND THE EXECUTION OF THE CONTRACTS, IF ANY, SHALL BE FOR THE BANK’S ACCOUNT.

26	**CLAIM OF TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE**	Bondholders who are exempt from or not subject to final withholding tax, or who are entitled to preferential tax rate may avail of such exemption or preferential tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in form and substance prescribed by the Bank, to the Registrar through the Selling Agent (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (a) Proof of Tax Exemption or Entitlement to Preferential Tax Rates • For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR; • For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator; • For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; • For entities claiming tax treaty relief – (a) prior to the first Interest Payment Date: (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder, or if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR; (2) one (1) original of the apostilled/consularized Tax Residency Certificate ("TRC") duly issued by the foreign tax authority of the country of the residence of the Bondholder, or if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws; (3) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer; and (4) three (3) originals of the duly notarized, or apostilled/consularized if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of its authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due: (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder, or if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR; and (2) one (1) original of the apostilled/consularized TRC duly issued by the foreign tax authority of the country of the residence of the Bondholder, or if the Bondholder is a fiscally transparent entity, the country of residence of

each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued TRC has already lapsed; and

- Any other document that the Bank or PDTC may require from time to time.

Only the originals should be submitted to the relevant Arranger, Selling Agent, the Bank or the Registrar.

(b) A duly notarized declaration (in the prescribed form) warranting that the Bondholder's tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder's entitlement to preferential treaty rates, and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

(c) Such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Transfers taking place in the Register of Bondholders after the Bonds are listed on the PDEx may be allowed between taxable and tax-exempt entities and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC.

A SELLING OR PURCHASING BONDHOLDER CLAIMING TAX-EXEMPT STATUS IS REQUIRED TO SUBMIT TO THE REGISTRAR THE TAX STATUS OF THE TRANSFEROR OR TRANSFEREE, AS APPROPRIATE, TOGETHER WITH THE SUPPORTING DOCUMENTS SPECIFIED UNDER REGISTRY AND PAYING AGENCY AGREEMENT UPON SUBMISSION OF ACCOUNT OPENING DOCUMENTS TO THE REGISTRAR.

INCOME ARISING FROM GAINS ON THE SALE OR DISPOSITION OF THE BONDS WILL FORM PART OF THE RELEVANT BONDHOLDERS' INCOME AND MAY BE SUBJECT TO TAX. BONDHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISERS ON THE OWNERSHIP AND DISPOSITION OF THE BONDS, INCLUDING THE APPLICABILITY OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

The BIR's tax treatment of the fixed rate bonds may vary from the tax treatment described herein. Any adverse tax consequences upon the Bondholder arising from any variance in tax treatment shall be for such Bondholder's sole risk and account.

Moreover, the tax treatment of a Bondholder may vary depending upon such person's particular situation and certain Bondholders may be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important and/or relevant to a Bondholder. Bondholders are advised to consult their own tax advisers on the ownership and disposition of the Bonds, including the applicability and effect of any state, local or foreign tax laws.

27	**REDEMPTION FOR CHANGES IN TAX**	If after the Issue Date, (a) payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date, as a result of changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank, the Bank may redeem the Bonds in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days' prior written notice to the Trustee) at par or 100% face value plus accrued Interest.
28	**REDEMPTION FOR CHANGES IN LAW OR CIRCUMSTANCE**	If any provision of the Trust Agreement or any of the related documents is or shall become for any reason, invalid, illegal or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Agreement or any other related documents, such event shall be considered as change in law or circumstance ("**Change in Law**") in reference to the obligations of the Bank and to the rights and interests of the Bondholders under the Trust Agreement and the Bonds. In the event that the Bank shall invoke the foregoing as a Change in Law, the Bank shall provide the Trustee an opinion of legal counsel confirming the foregoing, such legal counsel being reasonably acceptable to the Trustee. Thereupon, the Trustee, upon notice to the Bank, shall declare the principal amount of the Bonds, including all accrued interest and other chargers thereon, if any, to be immediately due and payable, and upon such declaration, the same shall be immediately due and payable without any pre-payment penalty, notwithstanding anything in the Trust Agreement and other related documents to the contrary.
29	**REPLACEMENT REGISTRY CONFIRMATIONS**	In case any Registry Confirmation shall be mutilated, destroyed, lost or stolen, the Registrar upon receipt of a written request in the form specified by the Registrar, shall cause the reprinting and delivery of the Registry Confirmation to the relevant Bondholder, subject to applicable fees.
30	**CHANGE OF TRUSTEE BY THE BONDHOLDERS**	(a) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Bank of the required evidence under the provisions on Evidence Supporting the Action of the Bondholders in the Terms and Conditions of the Bonds. (b) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any provisions of the Trust Agreement shall become effective upon the earlier of: (i) acceptance of appointment by the successor Trustee as provided in the Trust Agreement; or (ii) effectivity of the resignation notice sent by the Trustee under the Trust Agreement; provided however that, until such successor trustee is qualified and appointed, the resigning Trustee shall continue to discharge its duties and responsibilities solely as custodian of records for turnover to the successor trustee promptly upon the appointment thereof by the Bank; provided finally that, such successor trustee possesses all the qualifications as required by pertinent laws.
31	**REPORTS TO THE BONDHOLDERS**	(a) The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date until full payment of the Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:

1. the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and

2. any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

(b) The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10.00%) of the aggregate outstanding principal amount of the Bonds at such time.

(c) The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

1. Trust Agreement
2. Programme Agreement
3. Registry and Paying Agency Agreement
4. Articles of Incorporation and By-Laws of the Bank
5. Copies of the Bank's most recent audited financial statements; and
6. A copy of the Offering Circular together with any supplement to the Offering Circular.

32 MEETINGS OF THE BONDHOLDERS

A meeting of the Bondholders (or Bondholders in respect of a particular Series or Tranche only) may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds. All meetings shall be held in Makati City.

(a) Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Bank and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses, supported by proper documentation, incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Bank within ten (10) days from receipt of the duly supported billing statement.

(b) Failure of the Trustee to Call a Meeting

In case at any time, the Bank, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Bank or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof, and, should the failure be attributable to the neglect or fault of the Trustee, the costs thereof shall be chargeable to the Trustee.

(c) Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

(d) Procedure for Meetings

1. The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Bank or by the Bondholders, in which case the Bank or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

2. Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) Voting Right

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one (1) vote for every One Hundred Thousand Pesos (₱100,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Bank and its legal counsel.

(f) Voting Requirement

Except as provided in Condition 34 (Amendments), all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreement. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Bank as if the votes were unanimous.

(g) Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

33	**EVIDENCE SUPPORTING THE ACTION OF THE BONDHOLDERS**	Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.
34	**AMENDMENTS**	The Bank and the Trustee may amend the Terms and Conditions of the Bonds with notice to every Bondholder following the written consent of the Majority Bondholders or a vote of the Majority Bondholders at a meeting called for the purpose. However, without the consent of each Bondholder affected thereby, an amendment may not: (a) reduce the percentage of principal amount of Bonds outstanding that must consent to an amendment or waiver; (b) reduce the rate of or extend the time for payment of interest on the Bonds; (c) reduce the principal of or extend the Maturity Date; (d) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders; (e) reduce the amount payable upon the redemption or repurchase of the Bonds under the Terms and Conditions or change the time at which the Bonds may be redeemed; (f) make the Bonds payable in money other than that stated in the Bonds; (g) subordinate the Bonds to any other obligation of the Bank; (h) amend or modify the Payment, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or (i) make any change or waiver of this Condition. Moreover, the Bank and the Trustee may amend or waive any provisions of the Contracts if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency, without prior notice to or the consent of the Bondholders or other parties, provided in all cases that such amendment or waiver does not adversely affect the interests of the Bondholders and provided further that all Bondholders are notified after such amendment or waiver. It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Bank shall send a notice briefly describing such amendment to the Bondholders. Any amendment of these Terms and Conditions is subject to the Governing Regulations.

35 NOTICES

Any communication shall be given by letter, fax, electronic mail (e-mail) or telephone, and shall be given, in the case of notices to the Bank, to it at:

BDO UNIBANK, INC.
BDO Towers Valero
8741 Paseo de Roxas, Salcedo Village
Makati City, Metro Manila
Philippines

Telephone no.:	(63) 2 8840-7142
Fax no.:	(63) 2 8840-7362
E-mail:	reyes.luis@bdo.com.ph
Attention:	Luis S. Reyes, Jr. Executive Vice-President

And in the case of notices to the Registrar and Paying Agent to it at:

PHILIPPINE DEPOSITORY & TRUST CORP.
29/F BDO Equitable Tower
8751 Paseo de Roxas
Makati City, Metro Manila
Philippines

Telephone no.:	(632) 8884-4425
E-mail:	baby_delacruz@pds.com.ph
Attention:	Josephine Dela Cruz Director – Securities Services

Telephone no.:	(632) 8884-4413
E-mail:	peachy.garcia@pds.com.ph
Attention:	Patricia Camille Garcia Registry Officer

in the case of notices to the Trustee, to it at:

DEVELOPMENT BANK OF THE PHILIPPINES
- TRUST BANKING GROUP
3/F DBP Building, Sen Gil J. Puyat Avenue, Makati City

Telephone no.:	(632) 8818-9511 local 3400
Fax no.:	(632) 8893-0942
E-mail:	cgsanchez@dbp.ph
Attention:	VP Camilo G. Sanchez

And in the case of notices to the Bondholders, through publication in two (2) newspapers of general circulation in Metro Manila (one of which shall be the Philippine Daily Inquirer) once a week for two (2) consecutive weeks; or any other address to or mode of service by which written notice has been given to the parties in accordance with this Condition.

		Such communications will take effect, in the case of a letter, when delivered or, in the case of fax, when dispatched, provided that any communication by fax shall not take effect until 10:00 a.m. on the immediately succeeding Business Day in the place of the recipient, if such communication is received after 5:00 p.m. on a Business Day or is otherwise received on a day which is not a Business Day. Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.
36	**GOVERNING LAW**	These Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.
37	**JURISDICTION**	The courts of Makati City are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and these Terms and Conditions and accordingly, any legal action or proceedings arising out of or in connection with the Bonds or these Terms and Conditions ("**Proceedings**") may be brought only in such courts. The Bank irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
38	**NON-WAIVER**	The failure of any party at any time or times to require the performance by the other of any provision of the Bonds or these Terms and Conditions shall not affect the right of such party to require the performance of that or any other provisions and the waiver by any party of a breach under these Terms and Conditions shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself or a waiver of any right under these Terms and Conditions. The remedies herein provided are cumulative in nature and not exclusive of any remedies provided by law.
39	**ABILITY TO FILE SUIT**	Nothing herein shall be deemed to create a partnership or collective venture between the Bondholders. Each Bondholder shall be entitled, at its option, to take independent measures with respect to its obligations and rights and privileges under these Terms and Conditions, and it shall not be necessary for the other Bondholders to be joined as a party in any judicial or other proceeding for such purpose.
40	**SEVERABILITY**	If any provision hereunder becomes invalid, illegal or unenforceable under any law, the validity, legality and enforceability of the remaining provisions of these Terms and Conditions shall not be affected or impaired. The parties agree to replace any invalid provision which most closely approximate the intent and effect of the illegal, invalid or enforceable provision.
41	**PRESCRIPTION**	Any action upon the Bonds shall prescribe in ten (10) years from the time the right of action accrues.
42	**WAIVER OF PREFERENCE OR PRIORITY**	In the event that a primary obligation for payment shall arise out of the Contracts, such as to constitute any of the Contracts as a contract for the payment of an indebtedness or a loan, then it is understood and expressly agreed by the parties hereto that the obligation created under such Agreement shall not enjoy any priority, preference or special privileges whatsoever over any indebtedness or obligations of the Bank. Accordingly, whatever priorities or preferences that such Agreement may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced.

DESCRIPTION OF THE BANK

OVERVIEW

BDO Unibank, Inc. (the "**Bank**") is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust and investments, investment banking, private banking, cash management, leasing and finance, remittance, insurance, rural banking, stock brokerage, retail cash cards and credit card services. The Bank is the product of a merger between Banco de Oro Universal Bank, Inc. ("**BDO**") and Equitable PCI Bank, Inc. ("**EPCIB**"), which took effect on 31 May 2007. As at 30 June 2023, according to the statements of condition submitted by banks to the BSP, the Bank ranked as the number one bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital, and total trust funds under management. The Bank's consolidated total resources were ₱3.4 trillion, ₱3.6 trillion, ₱4.1 trillion and ₱4.2 trillion, as at 31 December 2020, 2021, 2022 and 30 June 2023, respectively, while total capital funds stood at ₱393.0 billion, ₱424.5 billion, ₱461.5 billion, and ₱489.7 billion, respectively.

The Bank's strategic focus is to enhance its position as a leading full-service bank in the Philippines and to continue its focus on growing its business and improving operational efficiency. The Bank's principal markets are currently the top-tier corporate market, the middle-market banking segment (consisting of medium-sized corporations and small- and medium-sized enterprises ("**SMEs**") and the retail/consumer market. The Bank's customers are based primarily in the Philippines, and include large multinational corporations with local operations. The Bank has experienced significant growth over the last few years arising from offering new products and services and as a result of recent mergers and acquisitions.

As at 30 September 2023, the Bank had a network of 1,705 operating domestic branches (including 505 BDO Network Bank, Inc. ("**BDONB**") (formerly One Network Bank, Inc. branches) and two full-service branches in Hong Kong and Singapore. As at 30 September 2023, its network includes 14 overseas remittance and representative offices across Asia, North America, Europe and the Middle East, and 4,755 ATMs, 607 CDMs, 4 STMs and 50 UTMs. As at 30 September 2023, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 55.0% of the Bank's issued common share capital.

As at 30 September 2023, the Bank had a market capitalization on the PSE of approximately ₱747.5 billion. The Bank's consolidated common equity tier 1 ("**CET1**") ratio, tier 1 capital adequacy ratio, and total capital adequacy ratio were 14.5%, 14.7% and 15.6%, respectively, as at 30 September 2023.

HISTORY

The Bank, formerly known as Acme Savings Bank, was acquired by the SM Group in August 1976. The SM Group is one of the largest conglomerates in the Philippines, with substantial interests in financial services, real estate development, and tourism and entertainment, founded around its core business in commercial centers and retailing.

Until it was granted full universal bank status on 5 August 1996, the Bank's main business was providing traditional loan and deposit banking services to the middle-market segment, including corporate suppliers of ShoeMart, Inc., a large department store chain operated by the SM Group. Since then, the Bank has shifted its focus from servicing the suppliers, tenants and other merchants that do business with the SM Group (generally referred to as the "**SM Network**"), to expanding and diversifying its client base by offering a full range of commercial banking products and services. At the same time, the Bank believes that its relationship with the SM Group has been, and will continue to be, a valuable resource in expanding its customer base to large corporate clients and retail customers.

Mergers and Acquisitions

The Bank has grown through a series of mergers and acquisitions as follows:

- On 15 June 2001, the Bank merged with Dao Heng Bank Philippines, Inc. ("**DHBI**") and acquired DHBI's existing customers and 15 branch licenses.
- In October 2002, the Bank assumed 1st e-Bank Corporation's ("**1st e-Bank**") ₱10 billion of deposits and other liabilities in exchange for certain assets including 60 branch licenses.
- On 29 August 2003, the Bank acquired Banco Santander Philippines, Inc. ("**BSPI**") while BDO Capital acquired Santander Investment Securities Philippines, Inc. from Santander Central Hispano, S.A. BSPI was renamed BDO Private Bank, Inc. ("**BDO Private Bank**") and provided the Bank with an immediate presence in the private banking sector.
- On 19 December 2005, the Bank acquired United Overseas Bank Philippines' ("**UOBP**") branch banking business and obtained 66 branch licenses.
- On 31 May 2007, the Bank merged with Equitable PCI Bank, Inc. with the Bank as the surviving entity. The merged bank was renamed Banco de Oro – EPCI, Inc. and on 6 February 2008, the Philippine SEC approved the change of name to Banco de Oro Unibank, Inc.
- On 30 October 2007, the Bank acquired American Express Bank Philippines, Inc. ("**AEBP**"), gaining access to American Express Philippines' U.S. dollar and Peso credit card portfolios as well as the consumer banking services of American Express.
- On 24 August 2009, the Bank purchased 98.81% of the issued and outstanding common shares and 100% of the preferred capital stock of GE Money Bank ("**GEMB**"), thereby consolidating GEMB's business including 31 branch licenses into the Bank. GEMB was retained as a separate legal entity and adopted the name BDO Elite Savings Bank, Inc. when it amended its Articles of Incorporation with the Philippine SEC on 12 August 2010.
- In July 2012, the Bank completed its acquisition of the banking business of the Rural Bank of San Juan, a rural bank with 30 additional branch licenses.
- On 25 March 2014, BDO completed the acquisition of Citibank Savings, Inc., a savings bank with ten active branches and whose branches were converted on 24 August 2014.
- On 2 June 2014, BDO acquired the trust business of Deutsche Bank AG's Manila branch comprising trust, fiduciary and investment management activities.
- On 8 August 2014, the Bank acquired the banking business of The Real Bank (A Thrift Bank), Inc., a thrift bank with a deposit base of ₱6.9 billion and 24 branches operating in Metro Manila and Luzon, to transfer the latter's assets and liabilities to the Bank.
- On 16 March 2015, the BSP approved the Bank's acquisition of BDONB (formerly One Network Bank, Inc.), a leading rural bank with 105 branches and micro-banking offices in the Mindanao and Panay areas. On 20 July 2015, the Bank successfully completed its acquisition of BDONB. On 31 July 2019, the Philippine SEC approved the resolution changing the corporate name to BDO Network Bank, Inc.
- On 9 June 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle Generali Pilipinas Holdings Company Inc. ("**GPHC**"), the parent firm of life insurer Generali Pilipinas Life Assurance Company ("**GPLAC**") and non-life insurer Generali Pilipinas Insurance Company ("**GPIC**"). On 30 June 2016, the Bank secured final regulatory approval to acquire full interest in GPHC. Effective as at 1 July 2016, the operations of GPLAC were reorganized, and GPHC and GPLAC were renamed BDO Life Assurance Holdings Corp. ("**BDO Life**"), and BDO Life Assurance Company Inc., respectively.
- On 31 October 2019, the Bank's rural bank subsidiary, BDONB, completed its purchase of the recorded gross loan receivables and assumption of the recorded deposit liabilities of the Rural Bank of Pandi Inc.

Recent Offers and Capital Raising Transactions

On 24 October 2016, the Bank issued Senior Notes under its U.S. $2 billion Medium Term Note Program with a face value of U.S. $300 million at a price of 99.977%. The Senior Notes matured on 24 October 2021 and bear a fixed interest rate of 2.625% per annum. The net proceeds from the issuance were allocated for the Bank's general corporate purposes.

On 31 January 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The net proceeds were allocated to support the Bank's medium-term growth objectives and will support the Bank's higher capital requirements as a result of the phase-in of a capital surcharge on D-SIBs by the BSP.

On 18 August 2017, the Bank issued ₱11.8 billion of long-term negotiable certificates of deposit ("**LTNCDs**") with a rate of 3.625% per annum which matured on 18 February 2023. On 7 May 2018, the Bank issued ₱8.2 billion of LTNCDs with a rate of 4.375% per annum which matured on 7 November 2023. On 12 April 2019, the Bank issued ₱7.3 billion of LTNCDs with a rate of 5.375% per annum and a maturity date of 12 October 2024. On 27 September 2019, the Bank issued ₱6.5 billion of LTNCDs with a rate of 4.000% per annum and a maturity date of 27 March 2025.

On 31 August 2017, the Bank issued Senior Notes under its MTN Program with a face value of U.S. $700 million at a price of 99.909%. The Senior Notes matured on 6 March 2023 and bore a fixed interest rate of 2.950% per annum. The issue was part of the Bank's liability management initiatives to tap longer-term funding sources to support the Bank's lending operations and for general corporate purposes.

On 8 December 2017, the Bank announced that it signed an agreement to issue its first green bond, raising U.S. $150 million to expand financing for private sector investments that help to address climate change. The issuance was the first green bond issued by a commercial bank in the Philippines, and the IFC was the sole investor in the bond.

On 11 February 2019, the Bank issued ₱35.0 billion of senior fixed rate bonds with a rate of 6.42% per annum which matured on 11 August 2020. The bond issuance was part of the Bank's efforts to diversify its funding sources and support its business expansion.

On 3 February 2020, the Bank issued ₱40.1 billion of senior fixed rate bonds with a rate of 4.408% per annum which matured on 3 August 2022.

On 3 July 2020, the Bank issued another ₱36.0 billion of senior fixed rate bonds with a rate of 3.125% per annum which matured on 3 April 2022.

On 13 July 2020, the Bank issued Senior Notes with a face value of U.S. $600 million at a price of 99.562%. The Senior Notes will mature on 13 January 2026 and bear a fixed interest rate of 2.125% per annum. The issuance was part of the Bank's U.S. $5.0 billion Medium Term Note Program.

On 28 January 2022, the Bank issued ₱52.7 billion of senior fixed rate ASEAN Sustainability bonds with a rate of 2.90% per annum which will mature on 29 January 2024. The bond issuance was part of the Bank's efforts to support lending activities and diversify funding sources in line with the Bank's Sustainable Finance Framework.

On 16 May 2022, the Bank disclosed that it has issued its U.S. $100 million maiden Blue Bond, through an investment from the IFC. The issuance will expand financing for projects that help prevent marine pollution and preserve clean water resources, while supporting the country's climate goals.

Other Recent Developments

In March 2017, the Bank signed a Memorandum of Understanding with Shinkin Central Bank ("**Shinkin**") to develop a business cooperation envisioned to benefit the Japanese bank's existing SME clients operating in the Philippines and potential investors. The Bank may provide banking services including financial facilities, cash management and payment services, foreign exchange and other treasury products to Shinkin's SME clients.

In June 2018, the Bank announced that it had entered into a Memorandum of Understanding with Bank of Fukuoka, Ltd. ("**BoF**"), Japan's third largest regional bank, under which the Bank was chosen by BoF as its partner-bank in the Philippines to serve BoF's clients who wish to invest or expand into the Philippines.

In October 2018, the Bank entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore) ("**Osmanthus**") for the latter's acquisition of a 15% stake in BDONB, the Bank's rural bank subsidiary, which was completed on 16 May 2019. The Bank's partnership with Osmanthus will further strengthen BDONB's strategic foothold in the microfinance business and contribute to the government's efforts at improving financial inclusion.

On 28 January 2020, the Bank announced that it had entered into an agreement to sell a controlling stake in its publicly listed subsidiary, BDOLF to a third party as part of the Bank's restructuring of its leasing business, with the completion of the transaction subject to closing conditions. On October 21, 2020, BDOLF reported that it transferred 27.02% of its assets to BDOFC. The transfer of assets is part of the restructuring of the Bank's leasing business in order to optimize the financial needs of clients in light of new accounting regulations covering lease transactions. IFRS 16, which took effect on January 2019, requires leases to be recognized on-balance sheet, similar to a loan facility, which makes lease transactions a less attractive option to corporate borrowers compared to the previous arrangement. Under the restructuring, BDO incorporated a new, privately-held company BDOFC to provide customers continuing access to lease products and services. However, on 24 January 2021, the Bank's agreement for the sale of controlling stake in BDOLF lapsed due to the non-completion of certain closing conditions that were a pre-requisite to the sale transaction. The parties thereafter agreed to terminate the agreement. BDOLF remains a listed holding company of the Bank. On 7 March 2022, BDO further disclosed that BDO is now contemplating keeping BDOLF, repurposed as a holding company, for its own investment purpose or, depending on the terms of outstanding offers, pursue the sale of its shares with other prospective buyers.

On 26 November 2020, the Bank announced the completion of the buyout of Nomura's ownership in BDO Nomura following an announcement last 23 June 2020 terminating their joint venture arrangement. BDO Capital acquired Nomura's 49% stake in BDO Nomura. BDO Nomura was merged with BDO Securities with the latter as the surviving entity. BDO Securities was reorganized into a full-service brokerage firm with an expanded product offering to include non-equity securities.

On 11 January 2021, the Bank announced that its Sustainable Finance Framework ("**SFF"**) had recently been given the endorsement by Sustainalytics, a leading independent Environmental, Social and Governance ("**ESG**") research and ratings provider based in New York. Sustainalytics expressed that in their opinion "BDO's Sustainable Finance Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines in 2018, Green Loan Principles 2020, and the ASEAN Sustainability Bond Standards 2018." On 28 June 2022, the Bank received an updated accreditation on its SFF from Sustainalytics relative to the expansion of SFF eligible categories to include blue projects aligned with current market standards. The expanded SFF includes eligible blue categories such as sustainable water and wastewater management, and offshore renewable energy. These are in addition to green categories that include among others, renewable energy, green buildings, clean transportation, as well as social categories that include employment generation and food security.

On 11 December 2021, there were reports of unauthorized transactions in certain BDO accounts. The Bank immediately responded to the fraud incident by implementing additional security controls to block further attempts from fraudsters and protect clients' bank credentials. At the same time, the Bank began processing the reimbursement of affected clients. On 20 May 2022, the Bank disclosed that the related examination by the BSP has been completed and that there are no monetary sanctions imposed by the BSP on this matter.

On 26 March 2022 and 24 September 2022, the Bank's Board of Directors approved the additional equity investment in BDO Network Bank ("**BDONB**") via the subscription of common shares of up to Php1.7 billion and Php 4.25 billion, respectively, with the latter to be infused in tranches depending on the business need of BDONB. The subscriptions amounting to Php 1.7 billion and Php 2.55 billion were paid in August 2022 and October 2022, respectively. The capital infusion was made to support BDONB's business expansion.

On 25 March 2023, the BDO Board of Directors approved the purchase of the entire equity interest of Keppel Philippines Properties, Inc.'s and Opon-KE Properties, Inc. ("**Keppel**") in SM Keppel Land, Inc.("**SMKL**"). In view of Keppel's decision to divest its investment in SMKL, the Bank, as Keppel's joint venture partner in SMKL, agreed to buy out Keppel's 50% direct equity ownership in SMKL.

On 3 April 2023, the Bank signed a business alliance agreement through a memorandum of understanding ("**MOU**") with The Hyakujushi Bank Ltd. ("**HBL**") to provide banking support services to Japanese business entities who are HBL customers and have existing operations or plan to build or expand their businesses in the country.

COMPETITIVE STRENGTHS

The Bank believes it has the following competitive advantages in relation to its competitors:

Leading brand name and banking franchise in the Philippines

The Bank believes that its combination of scale, reach, business mix, product offerings and brand recognition has made it a leading financial institution in the Philippines. According to statements of condition submitted by banks to the BSP, as at 30 June 2023, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank has one of the widest domestic branch networks in the Philippines, with 1,705 domestic branches (including 505 BDONB branches) spanning all major cities across the country as at 30 September 2023. The Bank believes that all of these factors have helped to develop the BDO brand, which covers the Bank's entire range of banking products and financial services under a single brand name, as one of the most well-known in the domestic market. The Bank's premier branding and market dominance are also reflected in leading market shares across most business segments including corporate banking, retail banking, private banking, investment banking, rural banking, remittances and credit cards. The Bank believes that its scale of operations and brand recognition support the continued growth and diversification of its business, network and product mix.

Diversified business model providing full-service operations

The Bank is a full-service universal bank offering a host of industry-leading banking products and services to serve the retail and corporate markets, including lending products (such as loan products tailored to corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, bancassurance, insurance brokerage and stock brokerage services. See "– *Subsidiaries and Affiliates*". The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products. The Bank has implemented plans and strategies, such as the consolidation of BDO Life in 2016, increasing capabilities in wealth management, and leveraging its distribution network to cross-sell fee income generating products, which the Bank believes will increase the contribution of recurring fee income to its overall operating income. While for the year ended 31 December 2020, the Bank's other operating income, mainly comprising non-interest income, decreased by 8.2% to ₱55.2 billion from ₱60.1 billion for the year ended 31 December 2019 due to the pandemic, there was subsequent growth thereafter. Other operating income grew by 11.1% to ₱61.4 billion in the year ended 31 December 2021 and by 16.6% to P71.5 billion in the year ended 31 December 2022. For the nine months ended 30 September 2023, the Bank's other operating income, mainly comprising non-interest income, increased by 8.8% to ₱57.9 billion from ₱53.2 billion in the nine months ended 30 September 2022. Moreover, the Bank believes that it has built a stable earnings base, wherein approximately 95.5% of its income is from recurring sources for the nine months ended 30 September 2023, rendering it less susceptible to market and industry volatility.

Customer-centric culture complemented by strategic distribution platform

The Bank believes it has instilled a "customer-centric culture" across its branches and personnel, embodied in its "We Find Ways" philosophy which it believes has elevated the customer convenience it offers to a higher level. For example, the Bank is the first Philippine bank to offer weekend operating schedules and all of its branches operate on extended banking hours.

To efficiently serve its customers, the Bank's branch network stretches to cover all major cities in the Philippines, with the Bank often establishing multiple branches in general areas it has identified to have greater potential for business. The Bank believes that this extensive domestic distribution network, including strategic locations within SM malls and other high-customer traffic areas, allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As at 30 September 2023, the Bank's network consists of 1,705 domestic branches (including 505 BDONB branches), 4,755 ATMs, 607 CDMs, 4 STMs and 50 UTMs and two full-service branches in Hong Kong and Singapore. As at 30 September 2023, the Bank also had 14 remittance and representative offices across Asia, North America, Europe and the Middle East. The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low-cost deposit base. As at 31 December 2020, its low-cost deposit base (comprising demand and savings ("**CASA**") deposits) grew to ₱2.1 trillion, or an increase of 16.6%, year-on-year. As at 31 December 2021, its CASA deposit base further grew to ₱2.4 trillion, or an increase of 13.2%, year-on-year. CASA deposits reached ₱2.5 trillion as of 31 December 2022 for a 5.5% growth year-on-year. As at 30 September 2023, the CASA deposit base was stable at ₱2.5 trillion. As at 30 September 2023, 31 December 2022, 2021, and 2020, 72.3%, 78.8%, 85.2% and 81.4%, respectively, of the Bank's total deposit base comprised CASA deposits, among the highest CASA ratios in the industry. In addition, the Bank also believes that its branch network and premier customer service have allowed it to actively utilize its branches to expand its loan portfolio and transform its non-interest income franchise, mainly through aggressive cross-selling of loan and other fee income-related products and customer referrals across branches. The Bank believes that these endeavors will increase the ratio of recurring fee income to the Bank's overall operating income and reduce the Bank's reliance on trading and foreign exchange-related gains.

Scalable infrastructure platform for sustained growth

The Bank believes it has established a solid and scalable operating platform that allows it to implement its growth and expansion objectives. The Bank has achieved this mainly by making key investments in bank premises to support its expanding branch network, enhancing its business development capability, as well as upgrading its operations, processes, and information technology ("**IT**") applications to accommodate growing business volumes and changing market demands. In addition, the Bank has pursued a digital banking (online and mobile) strategy and offerings to create new digital revenue opportunities to improve the Bank's operating performance and enhance user experience. The Bank believes that these initiatives make it well-placed to efficiently implement its continued goals of further large-scale expansion, business diversification and efficiency of service delivery.

Strong and experienced management team

The Bank believes it has assembled a strong management team, with significant experience and proven track records in Philippine banking. The Bank's senior executive officers (comprising officers from the senior vice-president level and above who head business or support groups) have an average of over 20 years of experience in the banking and financial services sectors, primarily with certain of the Philippines' largest and most well-known banks. In addition, the Bank's executives and officers have a broad range of experience in their respective areas at banking and finance, with certain executives and officers gaining international banking experience with some of the leading global financial institutions. The Bank believes that its management team has successfully and continually improved the Bank's operating and business fundamentals, contributing substantially to the Bank's organic and acquisitive growth and expansion, and provides the Bank with a significant competitive advantage.

Synergies with controlling shareholder group

The Bank believes it has and continues to leverage its position as the main banking arm of the SM Group, which is the Philippines' largest retail conglomerate and mall operator. As a result of this relationship, the Bank enjoys synergies with the SM network of companies, such as new business opportunities for joint project development, origination of mortgage products through referrals from residential real estate projects, cross-selling of products to customers and shared marketing networks, knowledge and expertise with respect to key economic sectors and business industries such as retail, middle market and real estate, and strategic locations of the Bank's branches and ATMs in SM Group malls located across the Philippines. The Bank also believes that its business segments and product lines effectively support the business objectives of other SM Group companies in the areas at loans, other types of financing and portfolio investments.

Business Strategies

The Bank continues to build on its strong business franchise to maintain leadership positions across most business lines, as well as further strengthen its capabilities to support future growth and actively respond to strategic opportunities and market challenges. Over the long-term, the Bank aims to be the preferred bank in every market it serves and create shareholder value through superior returns. The key elements of the Bank's strategy are as follows:

Diversified and sustainable earnings stream

The Bank seeks to continue to grow its diversified and sustainable earnings stream generated from its core lending and deposit-generating activities, accrual and trading income from its investment portfolio and fee income from service-based businesses.

The Bank intends to continue to pursue focused loan growth to achieve a more balanced loan portfolio and more effectively manage its concentration risk. While the Bank believes it already maintains a diversified loan portfolio across various market segments, it intends to increase lending to the more profitable and growing consumer and middle-market segments. The Bank also expects to continue to leverage operating synergies with the SM Group to further diversify its earnings stream through product origination capabilities and fee-generating sources. In addition, to minimize the volatility of the Bank's income sources, the Bank has gradually built its non-interest earnings by generating increased income from its fee-generating services including, among others, asset/wealth management, electronic banking, insurance, credit cards and investment banking. The Bank also seeks to more efficiently manage its resources, such as its securities portfolio, to maximize both accrual and trading income.

Continue to expand distribution network to improve access to customers and reduce funding costs

The Bank plans to continue to build its branch network across the Philippines, to further improve access to its customers and more efficiently serve their needs. Through its expanding branch network, the Bank intends to drive lending and deposit taking initiatives, particularly in provincial areas, through its offerings of one-stop banking services where customers can avail of a host of lending, deposit, investment products, and other financial services including access to a wide range of loan products, foreign exchange, insurance and trust services, in addition to more traditional deposit services. The Bank believes that its continuous expansion, acquisitions, and integration of newly acquired entities have and will continue to develop into operating leverage that will help the Bank grow faster, while keeping the growth of its operating expenses at a slower pace.

Prudent balance sheet management

The Bank intends to continue to implement a prudent and effective risk management culture while also seeking to maintain a strong capital position, high asset quality and a healthy balance sheet. The Bank has adopted and continues to adopt a conservative provisioning strategy even as its asset quality has remained stable despite steady loan growth. The Bank believes this approach will insulate the Bank against any downturns in the financial sector or in the domestic or global economies, and will maintain the Bank's robust asset quality metrics compared to the wider Philippine banking sector. In addition, the Bank intends to actively reduce its non-performing assets through various methods that include retail sales and joint property development, strengthening of its broker / employee network, and attractive payment and pricing terms.

Further develop operating systems, branch infrastructure and advertising efforts

The Bank has made, and intends to continue to make, strategic investments in increasing productive capacity to maintain its strong and modern operating infrastructure, allowing the Bank to accommodate future growth, ensure business continuity and enhance efficiency. The Bank expects these investments to generally be in the areas at office and network expansion, IT, operations and risk management. In addition, the Bank intends to continue improving its digital strategy and enhance its digital, online and mobile banking capabilities and digital offering to customers, in response to the growing impact of independent financial technology firms globally. The Bank also expects to continue to invest in analytics and big data to further enhance its cross-selling efforts.

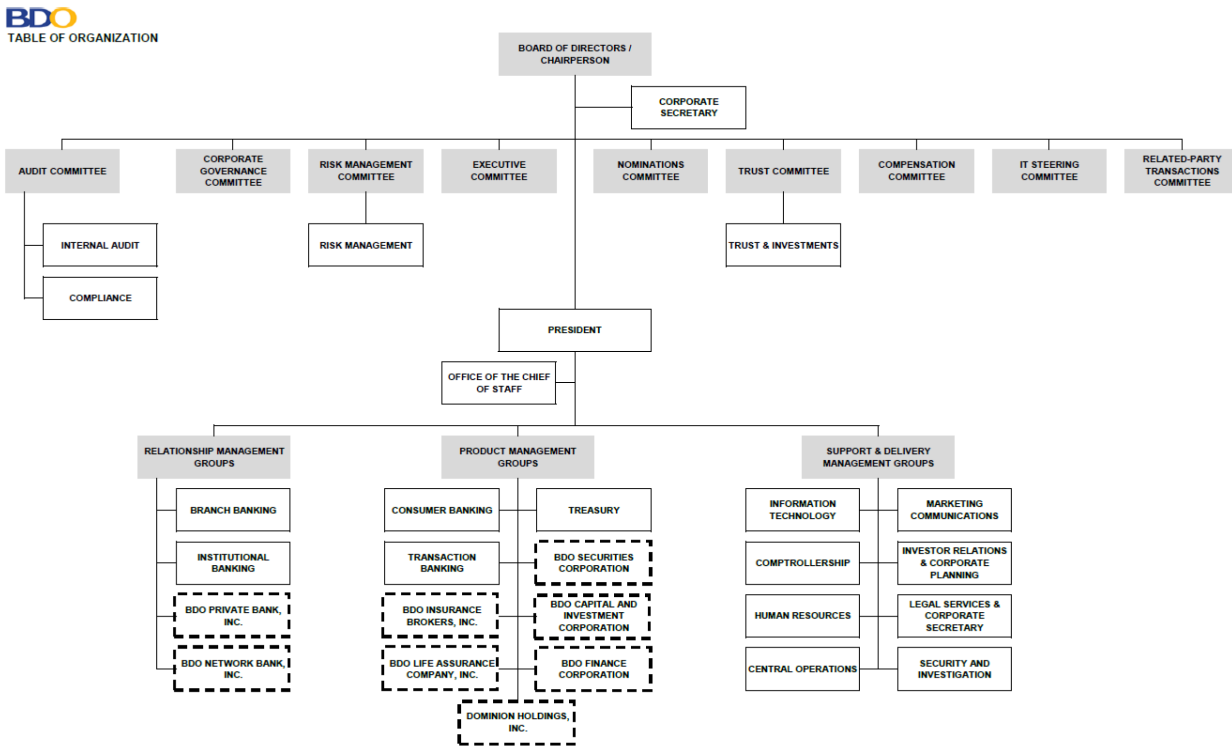
The Bank also intends to maintain its extensive branding campaign to further create customer awareness and market visibility, thus enhancing the potential of its extensive distribution platform across varying media outlets. Accordingly, the Bank intends to implement continuing branch renovations and modernization upgrades to corporate offices consistent with the Bank's enhanced image and branding.

Complement organic growth with mergers/acquisitions

To complement its organic growth and branch expansion, the Bank intends to consider opportunities for strategic mergers and acquisitions as they arise to further expand its market coverage and tap emerging and potential businesses. The Bank will evaluate potential acquisitions on an opportunistic basis as an alternative means of expanding its coverage and product offering.

ORGANIZATIONAL STRUCTURE

The following chart sets forth the Bank's simplified corporate structure, organized by its principal activities as at 30 September 2023.



BUSINESS OF THE BANK

The Bank is organized into three main groups: relationship management ("**Relationship Management**"), product management ("**Product Management**"), and support and delivery management ("**Support and Delivery Management**"). Members of each business group work together to provide the Bank's customers with a full suite of services. The Bank believes that giving its larger customers multiple points of contact within the Bank enhances its ability to respond promptly and appropriately to its customer demands and also allows the Bank to institutionalize its more important customer relationships. The following is a description of each of the Bank's business groups and their respective services.

Relationship Management

Relationship Management is responsible for managing client relationships and expanding clients' businesses with the Bank. Included in this group are institutional banking, covering large corporations, financial institutions, middle-market, small business accounts and structured trade finance ("**Institutional Banking**"), branch banking, covering the domestic branch network as well as overseas branch operations ("**Branch Banking**"), private banking through BDO Private Bank ("**Private Banking**"), and rural banking through BDONB ("**Rural Banking"**).

Institutional Banking

The Bank's principal lending business activities are undertaken by the Institutional Banking group ("**Institutional Banking Group**"), which is responsible for managing relationships with clients and servicing their loans and other banking requirements. The Institutional Banking Group has the primary responsibility of managing the corporate loan portfolio of the Bank, which accounts for approximately 76% the total loan book as at 30 September 2023, amounting to ₱1.88 trillion, ₱2.01 trillion and ₱2.07 trillion, as at 31 December 2021, 2022, and 30 September 2023, respectively.

A table of the Institutional Banking Group's loans by customer type appears below.

	As at 31 December		As at 30 September
	2021	2022	2023
	Audited		Unaudited
		(in ₱ millions)	
Institutional Banking Loans by Customer Type			
Corporate	**1,247,077**	**1,341,391**	**1,410,184**
Corporate	1,204,086	1,295,186	1,347,355
Financial Institutions	11,525	13,183	27,589
Wholesale/International Desks	31,467	33,023	35,240
Commercial	**628,390**	**673,491**	**661,356**
Total	**1,875,468**	**2,014,882**	**2,071,540**

The Institutional Banking Group provides a wide range of products and services to its customers, including term loans, revolving credit lines, foreign currency loans, infrastructure loans, and trade finance.

The Group is composed of Corporate Banking which manages relationships with large corporates, financial institutions and foreign companies, and Commercial Banking which is focused on the middle-market segment.

Corporate Banking

Corporate Banking ("**Corbank**") services approximately 1,500 of the largest corporate and financial institutions in the Philippines. Most of Corbank's corporate clients are based in the Philippines and are engaged in the manufacturing, financial services, wholesale and retail trade or real estate sectors, including several large multinational corporate clients.

Corbank provides a wide range of products and services to its customers, including term loans, revolving credit lines, foreign currency loans, infrastructure loans, trade finance, and other cash management products and services. Corbank also offers omnibus credit lines for its large corporate customers, allowing customers to draw on such credit lines in the form of a short-term loan or to utilize for trade financing or other forms of credit.

As at 31 December 2021, 2022, and 30 September 2023, accounts of large corporate customers represented approximately 52.0%, 51.3%, and 51.8%, respectively, of the Bank's total loan portfolio. Corporate lending are mostly for project finance, acquisition-financing, corporate finance and working capital.

Commercial Banking

Commercial Banking ("**Combank**") primarily serves the middle-market companies which are among the next 5,000 largest in the Philippines in terms of revenues, as well as SMEs. Most of the Bank's commercial customers are engaged in the manufacturing, retail and trade sectors.

As at 31 December 2021, 2022, and 30 September 2023, Commercial Banking lending to the middle-market segment accounted for approximately 26.2%, 25.8% and 24.3%, respectively, of the Bank's total loan portfolio.

Financial Institutions

Through Financial Institutions, the Bank offers correspondent banking services to its financial institutions clients through a network of over 500 international correspondent banks. These correspondent banking functions include facilitating documentary credits, offering inter-bank credit facilities and managing Philippine fund transfers processes. Corbank's correspondent banking unit is also able to undertake credit evaluation of proposed counterparties, market the Bank's products to financial institution clients and assess the benefits of various product proposals from correspondent providers.

Wholesale Lending and International Desks

The Bank's Wholesale Lending and International Desks ("**WLID**") business was organized to capitalize on opportunities present in the growing regional and global financing arena. It develops relationships with Japanese, Mainland Chinese, Taiwanese, Singaporean, Korean and other Asian companies, as well as North American and European commercial interests in the Philippines. Services include project and trade finance, factoring, leasing, cash management, trust, investment advisory, foreign exchange, insurance, and other ancillary services.

WLID provides cross-border finance supported by export credit agencies, rated export-import banks and other foreign banks from member countries of the Organization for Economic Development and Cooperation, and multilateral organizations. WLID provides its eligible clientele wholesale funds available from Government Financial Institutions for specialized financing purposes.

<u>Branch Banking</u>

The Bank's branch network is the primary means of offering deposit services to customers, including CASA and time deposits in Pesos, U.S. dollars and other foreign currencies. The Bank's principal depositors are individuals in the Philippines. As at 31 December 2020, 2021, 2022 and 30 September 2023, total deposits were ₱2.6 trillion, ₱2.8 trillion, ₱3.2 trillion and ₱3.4 trillion, respectively, with Peso deposits representing approximately 84.0%, 83.6%, 84.3% and 86.0%, respectively, of the Bank's deposits and the remainder denominated in foreign currencies, principally U.S. dollars. As at 31 December 2022, the Bank had approximately 18.8 million customers. As at 30 September 2023, the Bank's branch network comprised of 1,705 domestic branches (including 505 BDONB branches) and two overseas branches, with 6 domestic branch licenses available for deployment. Each of the Bank's branches is connected and networked to the Bank's IT systems and infrastructure and offers full banking services. The Bank is the first bank in the Philippines to offer extended hours of operations at all of its branches, including weekend hours. The Bank believes its longer banking hours allow it to meet the banking needs of its customers more efficiently.

The Bank provides 24-hour banking services through its 4,755 ATM facilities which are located in branches and at off-site locations, such as shopping malls, 607 cash deposit machines ("**CDMs**"), four self-service teller machines ("**STMs**") and 50 universal machined ("**UTMs**"). Customers are given access to the ATM facilities. Customers are given access to the ATM facilities through BDO International ATM cards, which are issued to check and savings account holders. The Bank is a member of the Expressnet and Megalink ATM consortia, allowing customers to use ATM terminals operated by other banks in the consortia. Clients can also use ATM terminals worldwide that are part of the Cirrus-Maestro network. Branch Banking manages the entire branch network of the Bank. Branch Banking monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Each branch is subject to monthly spot audits, as well as a more comprehensive annual audit. Each of the Bank's branches has electronic security systems and armed guards. All of these services are provided by independent contractors. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorized limits. The Bank continues to maintain adequate insurance coverage for loss and theft.

In 2016 and 2017, the Bank was recognized by The Asian Banker as the Best Retail Bank in the Philippines during its International Excellence in Retail Financial Services Awards. Most recently, the Bank was also recognized as the Best Bank in the Philippines for 2020-2022 by the Alpha Southeast Asia, Best Bank in the Philippines for 2019-2022 by the Global Finance, Most Selected Retail Bank in the Philippines and 3rd in Asia for 2022 by The Asian Banker and Best Managed Bank in the Philippines for 2022 by The Asian Banker.

Foreign Branch Operations

The Bank has a full-service branch in Hong Kong that caters to the needs of the overseas Filipinos and the local community. It currently offers trade-related services for Philippine companies doing business with Hong Kong- and mainland China-based companies. The branch plans to expand its services by providing private banking services to Filipino high net worth individuals, cross-border retail services to Philippine executives in Hong Kong and servicing the deposit needs of the Fujian community. In early 2008, the branch was moved to a street-level location along Connaught Road in Central, Hong Kong to enhance visibility and improve accessibility.

The Bank also has a full-service branch in Singapore that connects business and retail communities based in Singapore to the Bank's extensive network and banking expertise in the Philippines, thus allowing fast and easy cross-border transactions for target clients as well as Singapore and Philippine corporates. The branch accepts Singapore Dollar- and US Dollar-denominated deposits, and also offers commercial loans and revolving credit lines. The branch allows customers to manage their accounts, remotely and at all times, through its online banking and mobile banking services.

Private Banking

The Bank provides investment, financial, and estate advisory services to a niche market of high net worth individuals, as well as corporate and institutional clients through its wholly-owned subsidiary, BDO Private Bank. BDO Private Bank's open architecture platform allows it to provide bespoke or custom-made structures to address clients' specific financial needs.

As at 31 December 2020, 2021, 2022 and 30 September 2023, BDO Private Bank had ₱41.4 billion, ₱38.0 billion, ₱37.2 billion and ₱33.9 billion in total resources, respectively. BDO Private Bank's total assets under management as at 31 December 2020, 2021, 2022 and 30 September 2023 were at ₱504.7 billion, ₱547.8 billion, ₱569.3 billion and ₱568.5 billion, respectively.

As a testament to its pioneering spirit and strength in the domestic private banking market in terms of market share, performance and recognition, BDO Private Bank's recent awards include Best Private Wealth Management Bank in the Philippines 2022 (Alpha Southeast Asia; awardee since 2008); Best Digital Private Bank in the Philippines 2022 (Asiamoney Private Banking Awards), Wealth Management Platform of the Year, Philippines 2022 (Asian Banking & Finance Retail Banking Awards; awardee since 2020), Best Private Bank (The Asset Triple A Private Capital Awards for Private Banks, Wealth & Investment Bank Advisers, Solutions and Index providers 2022; awardee since 2010) and Best Private Bank in the Philippines (Global Finance Best Initiative 2022; awardee since 2015).

Rural Banking

Through its rural bank subsidiary, BDONB, the Bank offers financial products and services including salary loans, deposits, cash management, remittances and bills payments to the unbanked and underserved segments in provincial areas. In 2018, BDONB successfully implemented its micro, small and medium roll-out of over 100 sites throughout the Philippines to increase coverage of its target market. As at 30 September 2023, BDONB had a network of 505 branches and banking offices across the Philippines. BDONB's total assets were ₱40.8 billion, ₱54.7 billion, ₱87.2 billion and ₱102.9 billion as at 31 December 2020, 2021, 2022 and 30 September 2023, respectively, while total capital funds stood at ₱6.1 billion, ₱6.2 billion, ₱11.5 billion and ₱12.2 billion, respectively.

In October 2018, the Bank announced that it entered into an agreement with Osmanthus in relation to Osmanthus's acquisition of a 15% stake in BDONB, which was completed on 16 May 2019. The Bank believes that its partnership with Osmanthus will further strengthen BDONB's strategic foothold in the microfinance business and contribute to the government's efforts at improving financial inclusion. In 2022, both parties infused additional capital into BDONB in August and October respectively, to support BDONB's business initiatives as it increases coverage of the un-banked, to improve financial inclusion and also provide additional headroom for business expansion.

On 11 February 2019, the Bank disclosed BDONB signed an agreement with Rural Bank of Pandi Inc. ("**RBPI**") for the acquisition of RBPI's banking business in Bulacan. On 31 October 2019, BDONB completed its purchase of the recorded gross loan receivables and assumption of the recorded deposit liabilities of RBPI**.**

Product Management

Product Management is responsible for managing the different product businesses offered to clients. Product Management is composed of consumer lending, which is responsible for consumer products and services including the Bank's credit card business; treasury; transaction banking, covering cash management, electronic payments and settlements, and remittances; investment banking; trusts and investments; leasing and finance; life insurance; insurance brokerage; securities brokerage; and online brokerage.

Consumer Lending

The Bank offers an expanded range of consumer finance products, including residential mortgages, auto loans, personal loans and credit card services. As at 31 December 2021, 2022, and 30 September 2023, consumer-related loans comprised approximately 21.9%, 22.9%, and 23.9%, respectively, of the Bank's total loans.
A table showing the Bank's consumer loans by main type is found below.

	As at 31 December		**As at 30 September**
	2021	**2022**	**2023**
	Audited		**Unaudited**
		(in ₱ millions)	
Consumer Loans by Type			
Credit Cards	106,789	127,922	147,187
Real Estate	276,187	298,737	304,084
Auto Loans	83,975	80,953	90,405
Personal Loans	32,876	61,717	75,601
Business Loans	21,576	25,886	27,592
Employee Loans	3,323	3,714	4,033
Total	**524,726**	**598,929**	**648,902**

Credit Cards

The Bank initially operated its credit card business through a subsidiary, BDO Card Corporation. During the merger with EPCIB in 2007, BDO also acquired Equitable Card Network ("**ECN**"), which was EPCIB's vehicle for its card business. The acquisition of the ECN portfolio added strategic value to the Bank's existing credit card business. Aside from its significant number of cardholders, the ECN portfolio provided an extensive merchant base, the largest credit card merchant acquirer in the Philippines. The acquisition of the American Express Bank Philippines, Inc.'s U.S. dollar and Peso card portfolios in 2007 further strengthened its position in the credit card market. The consolidation of these businesses has led to enhanced efficiency, substantial synergies and cost savings and has contributed significantly to the Bank's strategic goal of expanding its share of the consumer lending market.

The Bank's credit card business remains the industry's leading card issuer and largest merchant acquirer. As at 31 December 2021, 2022, and 30 September 2023, the Bank had combined cards-in-force of 2,322,484, 2,687,158, and 3,391,319, respectively, and had a receivable portfolio of ₱106.8 billion, ₱127.9 billion, and ₱147.2 billion, respectively.

The Bank currently offers American Express Centurion cards, American Express International Dollar cards and Corporate cards, American Express Cathay Pacific cards, American Express Peso Platinum, Platinum Mastercard, Platinum Visa, Titanium Mastercard, Union Pay Diamond and Gold cards, BDO Shopmore, Diners Club International and Gold cards under the brands Mastercard, VISA and JCB. Interest charged on outstanding balances ranges between 3.0% and 3.5% per month. Due to increased competition in the market, annual fees are often waived for the first year for new credit cardholders.

Real Estate

The Bank offers home mortgage loans to individuals for home acquisition, construction, improvement and refinancing of their property. Consumer lending tailors loan terms, which offer customers competitive rates and more flexibility regarding their repayments. Home mortgage loans are typically for amounts between ₱1.0 million and ₱5.0 million, with maturities of up to 25 years. These are typically payable in monthly amortizations with interest rates that are repriced periodically based on prevailing market rates, although borrowers also have fixed rate options.

End-buyer tie-ups with reputable real estate developers largely contributed to the Bank's total home mortgage loan portfolio of ₱275.2 billion, ₱280.0 billion, and ₱303.5 billion, respectively, as at 31 December 2021, 2022, and 30 September 2023. Through these tie-ups, the Bank also purchases home loan receivables and wholesale real estate portfolios via its Contract to Sell ("**CTS**") Receivables Financing Program from developers that indirectly finance sales to their buyers. These loans usually provide full recourse to the developer. These CTS transactions may be converted into regular end-buyer financing by the Bank upon loan application approval by the Bank. All of the Bank's home mortgage loans are secured by a first ranking legal charge over the property. In the case of loans to certain corporate borrowers, the Bank often requires personal guarantees to be given by appropriate officers of the borrower as additional security. Traditionally, the Bank, as well as other lenders, have required home mortgage borrowers to have an equity interest equal to at least 30.0% of the value of the property. Due to an increase in competition in the mortgage industry, however, many borrowers are now able to secure mortgages for certain types of residential property from lenders, including the Bank, with a 20.0% down payment.

When a borrower falls in arrears with its mortgage payments, it can either agree to a voluntary disposition of the property to the Bank or the Bank may commence foreclosure proceedings. It generally takes between six and 12 months to foreclose mortgaged collateral, which is then typically sold by public auction or through brokers on behalf of the Bank. However, the individual mortgagor or any of its creditors having a lien over the collateral continues to have the right to repurchase such collateral within one year of completing foreclosure in return for payment of principal and interest owed plus the Bank's out-of-pocket expenses.

Auto Loans

The Bank provides auto financing to individuals for the acquisition of mainly new cars, buses and other types of vehicles. The Bank's retail auto loans are typically between ₱0.7 million and ₱1.0 million and for 12- to 60-month terms, with the average tenor being three years. The applicable interest rate is generally fixed with amortizing repayment schedules over the term of the loan.

Continued strategic partnerships with auto dealers remain a competitive advantage of the Bank. As at 31 December 2021, 2022, and 30 September 2023, the Bank's auto loan portfolio stood at ₱84.0 billion, ₱81.0 billion, and ₱90.4 billion, respectively.

The Bank aims to deliver to prospective auto and home buyers fast processing times, competitive rates, flexible payment terms and innovative loan products. The Bank's nationwide branch footprint enables it to efficiently serve its customers.

Personal Loans

The Bank offers personal loans in amounts from ₱10,000 to ₱1,000,000. Payment is made through salary deduction for loans to employees of certain corporate customers, and through post-dated checks, over the counter payments, through electronic channels or automatic debit arrangements for all other customers.

The Bank offers two products: "SuperLite" instalment and salary loans. Introduced in April 2005, the SuperLite instalment is offered to prospective customers who apply on an individual basis, while the Bank offers salary loans through the employees' respective companies. As at 31 December 2021, 2022, and 30 September 2023, the personal loan portfolio stood at ₱32.9 billion, ₱61.7 billion, and ₱75.6 billion, respectively.

Employee Loans

As at 31 December 2021, 2022, and 30 September 2023, the employee loan portfolio stood at ₱3.3 billion, ₱3.7 billion, and ₱4.0 billion, respectively.

<u>Treasury</u>

Treasury has the primary responsibility of managing the Bank's sources of funding, and is tasked with ensuring that the Bank has adequate liquidity at all times. As part of this function, Treasury manages the Bank's domestic and foreign currency denominated investment instruments. Treasury actively engages in securities dealership, foreign exchange trading and derivatives transactions for its own account, as well as for the accounts of individual and institutional investors. Client requirements are serviced through the Treasury Marketing unit and the Bank's branch network. The customers of the Bank's Treasury Group include domestic and offshore banks, insurance companies, financial institutions, corporations, SMEs, high net worth individuals and retail companies.

The Bank believes it is among the top interbank dealers in foreign exchange and government securities in the Philippine financial markets. The Bank has received numerous awards and recognition for its treasury activities, among these are the Best Foreign Exchange Provider in the Philippines for 2017-2019 as awarded by Global Finance, Best FX Bank for Structured Hedging Solutions and Proprietary Trading Ideas in Alpha Southeast Asia's FX and Treasury Awards 2019. Alpha Southeast Asia also recognized the Bank as the Best Corporate Treasury Sales and Structuring Team for 2019-2022 and Best FX Bank for CCS, IRS, Forward & Options Hedging (Corporates, FIs & SMEs) for 2021-2022.

Trading and Investment Securities

Treasury manages the securities trading and investment portfolios of the Bank. As an Accredited Government Securities Dealer, the Bank has been an active participant in the primary and secondary trading of Government securities. The Bank, as one of the largest participants in the Philippine foreign exchange market, is a fixing bank in the Philippine Dealing System.

As at 31 December 2020, 2021, 2022 and 30 September 2023, the Bank's net trading and investment securities stood at ₱508.8 billion, ₱616.3 billion, ₱722.8 billion and ₱914.2 billion, respectively, and accounted for 15.1%, 17.0%, 17.7% and 21.3%, respectively, of the Bank's total resources. For the years ended 31 December 2020, 2021, 2022 and for the nine months ended 30 September 2023, gross revenues from investment securities stood at ₱16.1 billion, ₱18.7 billion, ₱24.9 billion and ₱26.9 billion, respectively, which represented 8.5%, 9.7%, 11.3% and 13.8%, respectively, of the Bank's total operating income for such periods. As at 31 December 2020, 2021, 2022 and as at 30 September 2023, approximately 69.0%, 73.1%, 77.5% and 81.0%, respectively, of the Bank's trading and investment securities portfolio were in government securities while the balance was in corporate issue bonds, derivative financial assets and equity securities.

The following table sets out, as at the dates indicated, information relating to the Bank's total investment portfolio:

	As at 31 December			As at 30 September
	2020	2021	2022	2023
		Audited		Unaudited
		(in ₱ millions)		
Investment Portfolio				
Government bonds	351,198	450,544	559,887	740,250
Other debt securities (1)	119,360	122,557	123,634	135,765
Total debt securities	470,558	573,101	683,521	876,015
Non-debt securities (2)	33,784	36,928	30,696	31,353
Derivative financial assets (3)	4,468	6,232	8,613	6,844
Total(4)	508,810	616,261	722,830	914,212

Notes:
(1) Other debt securities consist mostly of debt securities issued by corporates in the Philippines.
(2) Non-debt securities include shares of stocks and preferred shares.
(3) Derivative financial assets include forwards and swaps.
(4) Net of allowance.

Derivatives

The Bank's derivatives license allows it to act as an end-user and as a dealer/broker of specific derivative instruments such as swaps, forwards and options.

Transaction Banking

The Bank provides a wide range of transaction-based services for both corporate and retail customers through its transaction banking group ("**Transaction Banking**").

The Bank's goal is for Transaction Banking to build long-term value and consistent earnings growth through multi-product relationships with customers. The Bank expects this will translate into a low-cost and stable source of funds for the Bank that will improve the overall risk-revenue ratio of the Bank's portfolio.
Transaction Banking is divided into corporate and retail market teams to provide a focused market approach in terms of coverage, customized product offerings and service delivery.

Cash Management Services

The Bank offers high value-added cash management solutions to large corporations, financial and foreign institutions (including Government financial institutions and Government-owned and controlled corporations). The cash management services offered by the Bank to these institutions include collections, disbursements, liquidity management, account services, payments, electronic banking services and retail payment services.

The Bank's corporate transactional banking customer base has grown to over 124,000 corporate customers as at 30 September 2023. The Bank believes this growth in customers was the result of the Bank's innovative product offerings including modern payment services as well as solutions that cater to the customers' specific requirements, such as services for receiving payments from retails and wholesalers through online banking channels, facilitating cashless transactions at the point-of-sale ("**POS**") terminals and providing safe and efficient services to monitor payments to the customer's suppliers and employees.

In recent years, the Banks' cash management department has been recognized with various awards including:

- The Asian Banker (Best Cash Management Bank for 2011, 2014 - 2018; The Leading Counterparty Bank for 2013; The Best Transaction Bank for 2015-2016)
- Asian Banking and Finance Wholesale Banking Awards (Philippine Domestic Cash Management Bank of the Year for 2012, 2015, 2017-2018, 2020; Online Banking Initiative of the Year for 2016; Mobile Banking Initiative of the Year for 2016; Social Media Initiative of the Year for 2016)
- Asiamoney (Best Bank in the Philippines for 2017, Best Local Cash Management Bank in the Philippines as voted by Small-sized Corporates for 2012, 2014; Best Overall Domestic Cash Management Services in the Philippines as voted by Large-sized Corporates for 2014; Best Overall Cross-Border Cash Management Services in the Philippines as voted by Small-sized Corporates for 2014; Best Local Currency Cash Management Services in the Philippines for 2008; Best Bank in the Philippines for the Cash Management Satisfaction Award for 2017)
- Euromoney (Cash Management – Market Leader in the Philippines for 2020)
- The Asset (The Best Transaction Bank in the Philippines for 2012; Rising Star Cash Management Bank for 2009 - 2011; Best Service Provider – Cash Management for 2016; Editors' Triple Star for E-Cash Agad for 2016; Best in Treasury and Working Capital – SMEs, Philippines 2017; Best Service Provider – Cash Management, Philippines for 2017, 2018, 2020-2022; Best Cash Management House in Philippines for 2018); Best Payment and Collection Solution, Philippines for 2021)
- Alpha Southeast Asia (Best Cash Management Bank in the Philippines for 2008-2009, 2016-2022; Best Cash Management Solution in the Philippines 2022)

Electronic Banking

The Bank provides secure electronic banking channels which allow and make it more convenient for its customers to access their deposit, credit card and other BDO accounts through a complete array of online, mobile banking and phone banking facilities. These channels allow customers to check account balances, monitor and place funds in trust investments, pay bills, transfer funds to other BDO accounts, send money to anyone, buy prepaid mobile reload, reload BDO cash cards, reorder checkbooks, view account transaction history, access and download credit card and checking account electronic statements with images of issued checks for checking accounts anytime from anywhere in the world. The Bank was recognized by Asian Banking and Finance for Best Online Banking Initiative in 2014 and 2015.

Internet Banking

Transaction Banking offers internet banking to both individual and corporate clients. Using industry-standard security measures, the Bank's internet banking platform allows clients to perform their banking transactions at their own convenience by allowing access to their accounts.

Retail customers can view their account balance, credit card statements, and other accounts such as trust investments online. They can also pay bills, transfer funds to their own or other enrolled accounts, reload a BDO Cash Card, buy load for their prepaid mobile phone account, order checkbooks, execute wire transfers and issue stop payment orders. With mobile internet banking, customers can also access the Bank's internet banking platform from their mobile phone's web browser for more banking convenience.

Corporate customers can transfer funds and make bulk payments, as well as retail payments through cash card and corporate checks via the Bank's corporate internet banking platform. It also provides consolidated information to facilitate liquidation management. An internet facility is also available to process warehouse payable and credit suppliers' accounts on due dates.

Phone Banking

The Bank utilizes interactive voice response service technology to provide retail customers access to their accounts, and make banking transactions such as balance inquiry, bills payment, fund transfers, BDO Cash Card reload, prepaid mobile phone reload and checkbook reorder via a touchtone phone.

Mobile Banking

The Bank, via its mobile banking ("**MB**") app, enables customers to manage their accounts remotely at all times. The Bank's MB app features a full suite of banking services, which allows customers to conduct account balance/s and transaction history inquiry; send money; pay bills; reload prepaid mobile number; reload cash card; request checkbook; stop payment (check); enroll additional accounts, billers, and pre-paid mobile number; change password and update customer information. Customers are also able to lock enrolled debit cards and change passwords through the MB app.

*Automated Teller Machines ("**ATM**")*

The Bank's ATMs allow customers to withdraw cash, avail of credit card cash advances, check account balances, transfer money, pay bills, top up prepaid phones, reload cash cards, reorder checkbooks, change PINs and activate personal online banking enrollment at any of the ATM terminals nationwide which, as at 30 September 2023, numbered 4,755 domestic ATMs.

*Cash Deposit Machine ("**CAM**")*

The Bank's CDMs allow customers to deposit cash to their account and other BDO accounts through any of the in-branch and offsite locations in key cities and business districts nationwide. CDMs, which can accept up to 200 notes per transaction, allow real-time crediting of deposits. Other card-based transactions include balance inquiry, fund transfer to own and other BDO accounts, bills payment, prepaid mobile reload, PIN change, and personal online banking activation. Cash deposit and payment of bills not requiring enrolment may also be performed without a card. As at 30 September 2023, the Bank had 607 CDMs.

*Self-service Teller Machine ("**STMs**")*

The STM is the Bank's initial effort to provide customers with an all-in-one self-service machine. It is the Bank's first terminal that accepts cash deposits and cash withdrawal and offers cardless transactions using biometrics authentication and QR Codes generated by the Bank's mobile banking application. As at 30 September 2023, the Bank had 4 STMs.

*Universal Teller Machine ("**UTMs**")*

The UTM is a combination of services of the Bank's ATMs, CDMs and STMs with added services. It allows clients to deposit checks and update passbooks easily, even without the assistance of a branch personnel. As at 30 September 2023, the Bank had 50 UTMs.

Retail Cards

The Bank offers a variety of prepaid and debit card solutions to enable cashless purchases at POS terminals, cash withdrawals worldwide and online shopping.

BDO Cash Card (Corporate)

BDO cash card ("**BDO Cash Card**") is a reloadable, PIN-based, electronic value card that allows cardholders to withdraw cash and make payments without opening a BDO deposit account. This card is mainly used by companies for their payroll and by remittance partners for their payouts. Retail customers use it as a family card for household expenses, cash allotment, and everyday micro payment needs. The Bank charges fees for issuing the BDO Cash Card and may also require corporate clients to place amounts on deposit.

As at 30 September 2023, the Bank has over 634,000 active BDO Cash Cards comprising 3,597 payroll companies, 21 remittance partners and from retail clients, generating ₱46.3 billion worth of financial transactions.

BDO ATM Debit Card

The BDO ATM Debit Card is a Peso-, US Dollar- or HK Dollar-denominated card linked to a BDO current or savings account. It carries the MasterCard and Visa brands that allow access to cash in over two million Mastercard/Cirrus/Visa/Plus ATMs, cashless shopping in over 40 million establishments worldwide, and e-commerce. It allows balance inquiry, cash withdrawal, bills payment, cash card reload, and checkbook reorder. As at 30 September 2023, the Bank has over 8.2 million active debit cards generating a total of around 289 million transactions amounting to ₱1.21 trillion worth of financial transactions.

BDO Pay

BDO Pay is the first and only bank-backed mobile wallet in the country which differentiates itself from other conventional mobile wallets by having customers easily link their CASA account, debit, or credit cards as sources of payment within their wallet, allowing them to perform a full range of Peer-to-Peer ("**P2P"**) and Pay-to-Market ("**P2M"**) transactions straight from their accounts. BDO Pay also pioneers in allowing customers to Scan-to-Pay using their debit or credit cards, thus letting customers take full advantage of BDO's wide array of deals and promos across the Bank's different card brands in a safe and contactless way.

Remittances

The remittance function involves purchasing foreign exchange for remittance transactions and delivering remittance payments through the Bank's branch network, "BDO Remit" counters inside SM malls, partner rural banks, pawnshops, and courier services. As at 30 September 2023, the Bank's remittance network comprised 16 remittance and representative offices worldwide (inclusive of two full-service branches in Hong Kong and Singapore).

For the years ended 31 December 2020, 2021, 2022 and the nine months ended 30 September 2023, the Bank's volume of OFW remittances amounted to U.S.$13.3 billion, U.S.$15.7 billion, U.S.$17.7 billion and U.S.$13.3 billion, respectively.

The Bank was recognized by the BSP as the Top Commercial Bank in Generating Remittance from Overseas Filipinos for 2008 to 2010, and was given the 2010 Hall of Fame Award for 2013 to 2015. The BSP also named the Bank as Best Performing PhilPaSS Remit Participant for five straight years since 2011. The Bank also received an award as the Best Bank for Brand Building from MoneyGram in 2011.

As at 30 June 2023, the Bank had an approximately 51.1% market share of total remittance volume in the Philippines, based on BSP data on "Overseas Filipinos' Personal Remittances" information.

The Bank intends to (i) expand its existing international presence by establishing more partnerships and tie-ups with local and international correspondent banks and agents in Europe, the United States, Australia and the Middle East, (ii) rationalize its correspondent banking relationships and (iii) enhance its technology in electronic remittance processing to enable more efficient delivery of remittance services in the industry.

Investment Banking

The Bank provides investment banking services to its corporate clients through its wholly-owned subsidiary BDO Capital. BDO Capital was established to address the capital raising needs of the Bank's larger corporate and institutional accounts, as well as the Government and its related institutions and match these with the investment requirements of the more sophisticated investors including high net worth individuals, fund managers, and other institutions. BDO Capital services include:

- Equity and quasi-equity underwriting and management — BDO Capital underwrites and manages public and private equity and quasi-equity transactions, including initial public offerings, follow-on offerings, rights issues, warrants issuances, and tender offers. BDO Capital is also involved in quasi-equity transactions such as hybrid securities issuances and preferred shares issuances;
- Fixed income underwriting, packaging, and syndication — BDO Capital offers clients arrangement and underwriting services in relation to corporate and government bonds, corporate notes, and commercial papers. BDO Capital also offers term loan packaging and syndication services;
- Financial advisory — BDO Capital provides financial advisory services to companies to support their short-, medium-, and long-term objectives. Advisory services comprise, among others, corporate and debt restructuring advice, as well as merger and acquisition advisory services;
- Direct equity investment — BDO Capital invests directly in existing and start-up enterprises or offers such investment opportunities to other clients; and
- Securitization — BDO Capital acts as underwriter and selling agent for various asset-backed securities issued by special purpose entities.

BDO Capital was involved in major equity and debt fundraising exercises for the Government via Retail Treasury Bonds, Retail Dollar Bonds, and Premyo Bond Issues and private issuers such as Converge ICT Solutions, Monde Nissin Corporation, MREIT, Inc., CEMEX Holdings Corp., Valorous Asia Holding Pte Ltd., SMC Group (San Miguel Corp. and Petron Corp.), Ayala Group (Ayala Corp., AC Energy, and Ayala Land, Inc.), Bloomberry Resorts and Hotels Inc., SM Group (SM Investments Corp. and SM Prime Holdings Inc.), Aboitiz Group (SN Aboitiz Power – Benguet Inc., Aboitiz Equity Ventures Inc., and Aboitiz Power Corp.), Del Monte Philippines, Inc., 8990 Holdings, Inc., 168 Gas Corporation, Filinvest Land Inc., City Savings Bank Inc., Wawa JVCo, Inc., VLL International Inc., and Energy Development Corp.

BDO Capital has received several awards from prestigious international publications and is recognized for its position as one of the leading investment banks in the Philippine equity and debt capital markets. These awards include, among others, Best Investment Bank in the Philippines from 2006 to 2014 and again in 2017, and from 2007 to 2016, 2018, 2020 and 2023 as awarded by FinanceAsia and Alpha Southeast Asia, respectively; and Best Domestic Investment Bank from 2006 to 2014, Best Corporate and Institutional Bank in the Philippines for 2015 to 2020 and Project Finance Bank of the Year in the Philippines for 2015, 2017 and 2019 to 2021 as awarded by The Asset. BDO Capital also received the Best Corporate and Investment Bank in the Philippines award for 2020 to 2021 from Asiamoney. For 2016, BDO Capital received Finance Asia's Platinum Awards (past 20 years) for Best Domestic Investment Bank and Best Domestic Equity House in the Philippines, and Alpha Southeast Asia's 10th Anniversary Awards for the Past 10 Years for Best Investment Bank and M&A House, Best ECM House and Best DCM House in the Philippines. BDO Capital also won numerous awards for Best Equity House and Best Bond House from these various publications from 2006 to 2021. BDO Capital also received the Best Investment Bank in the Philippines award for 2013, 2014, 2017-2020 from Global Finance, Best Corporate and Investment Bank in the Philippines from 2018 to 2023 from Asian Banking & Finance, and Top Investment House in the Philippines award for 2016 from Acquisition International. BDO Capital also garnered awards as Best Investment House (2016-2019), Best Equity House (2016-2017 and 2019), Best Fixed Income House (2015-2019), Best Project Finance House (2016-2017 and 2019) and Best Advisory House (2019) from the Investment House Association of the Philippines. BDO Capital was also conferred the Top Corporate Issue Manager/Arranger Award from 2011 to 2020 by the Philippine Dealing and Exchange Corporation. The Asia Pacific Loan Market Association also awarded BDO Capital as Syndicated Loan House of the Year (Philippines) for 2013 and 2014. BDO Capital won the Best Local Currency Green Bond Awards 2022 from The Asset Triple A Sustainable Capital Markets Awards. In 2023, BDO Capital won the Project Finance House of the Year, Green Project of the Year and Telecom Acquisition of the year from The Asset Triple A Sustainable Infrastructure Awards.

Trust and Investments Group

The Bank provides trust and investment management services through its trust and investments group ("**BDO Trust**"). For corporate accounts, BDO Trust offers a wide range of products, including employee benefit plans, investment management and advisory services, escrow arrangements, registry/transfer agency services, paying/collection and other collateral agency services. For high net worth clients, BDO Trust provides access to customized portfolios via living trust and investment management accounts.

BDO Trust offers investment opportunities to its retail clients through a selection of Peso- and U.S. Dollar-denominated Unit Investment Trust Funds ("**UITFs**"). UITFs are collective investment schemes that seek to offer returns comparable to those of larger investors. They are professionally managed according to specific investment objectives and invested accordingly in diversified portfolios. A client has the choice of investing directly in the UITFs or through the BDO Easy Investment Plan ("**EIP**"), a program that facilitates regular investing in selected BDO UITFs. The EIP is an investment scheme that assists individuals in attaining their financial goals and financial wellness through saving and investing.

In accordance with Philippine banking regulations, the Bank's Trust Committee oversees its trust business and approves all of its investment decisions.

Based on the latest published BSP trust industry data as of 30 June 2023, BDO Trust remains to be the undisputed leader in the local trust and investments industry with over 23% market share, still the only trust entity with a market share above 20%. BDO Trust's assets under management ("**AUM**") stood at ₱1,344.656 billion as of 30 September 2023, growing by ₱157.304 billion year-on-year. Total AUM of BDO UITFs stand at ₱243.581 billion as of end-September 2023.

BDO Trust's expertise, product offering and competitive investment performance were recently recognized by various international institutions:

- The Asset Magazine
    - 2015 Rising Star Retail Fund Administrator – Philippines
    - 2016, 2017 Impact Investor of the Year – Philippines
    - 2016, 2018-2023 Asset Management Company of the Year – Philippines
    - 2016 Impact Investor of the Year – Philippines
    - 2020, 2021 Best Wealth Manager – Philippines
    - 2023 Digital Fund Manager of the Year – The Asset Triple A Digital Awards 2023
    - Asset Management Company of the Year – The Asset Triple A Sustainable Investing Awards for Institutional Investor, ETF and Asset Servicing Providers
- Alpha Southeast Asia
    - 2019 Best Overall Asset and Fund Manager – Philippines
    - 2019, 2023 Best Asset Manager (Equity Funds) – Philippines
    - 2019, 2020 Best Asset Manager (Fixed Income Funds) – Philippines
    - 2021 Best Asset Manager (Money Market Funds)
    - 2020-2023 Best Online & Mobile Platform (Asset Manager)
    - 2020, 2022-2023 Best Fund Manager for Pension Mandates & Private Retirement Schemes
- World Finance Magazine (London)
    - 2016-2022 Best Investment Management Company
- Asian Banking & Finance
    - 2021 Marketing and Brand Initiative of the Year- Philippines
    - 2022 Investment Product Innovation of the Year- Philippines
    - 2022 Financial Inclusion Initiative- Philippines

- Others
    - 2016-2019, 2022 Fund House of the Year for the Philippine Market by Asian Investor Magazine
    - 2021 Asset Manager of the Year- Philippines by Fund Selector Asia
    - 2019-2022 Best Wealth Manager- The Asset Triple A Private Capital Awards for Private Banks, Wealth & Investment Bank Advisers, Solutions and Index Providers
    - 2022 Best Wealth Management Bank in the Philippines- The Asian Banker Philippines
    - 2015-2018, 2020-2022 Gold Trusted Brand (Investment Fund category) – Reader's Digest
    - 2023 Best Investment and Fund Advisory - Philippines by Citywire Asia

In September 2016, BDO Trust also became the first institution in the Philippines to be accredited as Personal Equity and Retirement Account ("**PERA**") Administrator. In December 2017, BDO rolled out the first PERA Online facility in the country. PERA, is the Philippine version of similar laws covering retirement savings vehicles prevalent and long standing in more developed countries such as IRA and 401K in the United States. PERA establishes the legal and regulatory framework for voluntary personal retirement plans as a means to promote savings mobilization, capital market development and long-term fiscal sustainability. It provides employers with the opportunity to become agents in furthering these objectives and it provides Filipinos a means to supplement their future pension benefits from the Philippine Social Security System and Philippine Government Service Insurance System. BDO Trust also offers the following PERA investment funds: BDO PERA Short Term Fund, BDO PERA Bond Index Fund and BDO PERA Equity Index Fund.

The Bank continues to work to make PERA a viable retirement program for Filipinos by closely working with BSP, BIR and other stakeholders. The Bank continues to actively participate in BSP organized PERA Roadshows in educating and promoting PERA to the public. To date, around 10 PERA webinars have been conducted and participated by BDO Trust.

Leasing and Financing

On 25 May 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 BDOFC was incorporated on 9 December 2019 to carry on the leasing business of the BDO Unibank Group. Dominion Holdings, on the other hand, has sold substantially all of its assets to BDO Unibank, BDOFC and other subsidiaries.

On 9 October 2020, the BOD of BDOFC approved the purchase of the BDO Rental shares owned by Dominion Holdings. The sale was consummated through a Deed of Absolute Sale of Shares with BDO Rental becoming a wholly-owned subsidiary of BDOFC. BDOFC started its commercial operations on 19 October 2020.

On 18 July 2022, the SEC approved the change in name and purpose of BDO Leasing into Dominion Holdings, Inc, a holding company and remains listed in the PSE.

Life Insurance

Through its wholly-owned subsidiary, BDO Life, the Bank offers life protection plans (whole life insurance and term life insurance); fund accumulation plans specifically designed to provide for children's education; savings and retirement plans (endowment and variable life insurance); and group insurance. To support premium growth, BDO Life has maintained an almost full coverage of the Bank's branches with financial advisers covering 98% of Bank branches as at 30 September 2023. BDO Life ranks 6th in terms of total premium income and 2nd in terms of traditional life protection premium income as of 30 June 2023.

Insurance Brokerage

The Bank's wholly owned insurance broker, BDO Insurance Brokers, Inc. ("**BDOI**"), offers a diverse portfolio of reputable insurance partners, which provide customers with the flexibility to choose providers and products who match their needs and financial capabilities. For the years ended 31 December 2020, 31 December 2021, 31 December 2022 and nine months ended 30 September 2023, ₱9.3 billion, ₱8.8 billion, ₱7.9 billion and ₱5.3 billion, respectively, of gross insurance premiums were arranged by BDOI.

While BDOI has the technical capability to evaluate insurance risks, it does not underwrite or absorb insurance risks. The Bank has a bancassurance license from the BSP which permits the Bank to market and sell both life and non-life insurance products through its branch network. In 2018, BDOI was the industry leader in terms of commissions earned and premiums produced, based on rankings provided by the Philippine Insurance Commission.

Securities and Online Brokerage

Through its subsidiary, BDO Securities, the Bank engages in the stock brokerage business and deals in securities and related activities. BDO Securities is a trading participant of the PSE.

The Bank also offers online trading services for local stocks to individual investors through BDO Securities through a platform, certified by the PSE, that connects seamlessly with client accounts, offering real time deposit and withdrawal facilities, which allow clients to quickly respond to market movements. The business also aims to provide stock brokerage services to institutional clients overseas and eventually provide a platform to connect Filipino investors to the international stock markets.

BDO Securities was recognized as the Best Retail Broker in the Philippines for 2021-2022 by the Alpha Southeast Asia.

Support and Delivery Management

Support and Delivery Management ensures that the Bank's operational needs are efficiently met, the Bank's processes aligned with its business objectives and its vision and corporate strategies realized. It is composed of the following: information technology, comptrollership, human resources, marketing communications, investor relations and corporate planning, digital infrastructure services, and central operations. Also functionally grouped under Support and Delivery Management are the Bank's Risk Management Group as well as Internal Audit and Compliance, both of which report to their respective Board-level committees, namely, the Risk Management Committee and the Audit Committee.

Information Technology Group

The Bank's information technology group ("**IT Group**") is responsible for the proper and efficient functioning of the Bank's IT systems and infrastructure. It is organized into two separate but interdependent groups:

- IT Development ("**ITD**") which is responsible for providing and maintaining the application systems used by the Bank to support its operations and business plans using its resources and specialized knowledge on business-functional requirements, and
- IT Infrastructure and Operations ("**ITIO**") which handles the Bank's network, data center, and other parts of the IT infrastructure and provides technical support and applications support.

Comptrollership Group

The Bank's comptrollership group is primarily responsible for developing and maintaining an integrated financial information and control system within the framework of generally accepted accounting principles and applicable regulatory policies, managing all accounting operations of the Bank and its subsidiaries, and providing senior management with information necessary for planning, directing and controlling group operations.

Human Resources Group

The Bank's human resources group is responsible for the formulation, development and implementation of corporate-wide human resources strategies, policies, procedures and programs covering recruitment and selection, talent management, manpower planning, training, performance management, organization development, compensation and employee benefits and services.

Marketing Communications Group

The Bank's marketing communications group is responsible for the oversight of the Bank's corporate affairs and public relations functions, as well as the development & implementation of institutional advertising campaigns. It is also responsible for managing the bank's enterprise-wide loyalty program ("**BDO Rewards**") campaigns, while providing marketing services support to the various business groups and subsidiaries. The marketing communications group likewise serves as gatekeepers of the BDO branding standards, and provides a similar governance function for the emerging digital marketing area.

Investor Relations and Corporate Planning Group

The Bank's Investor Relations Office aims to provide the investor community with continuing access to information relating to the Bank's financial performance. It also provides the Bank's management critical information on relevant developments in the financial markets that may be utilized by the Bank in formulating its long- and short-term plans. It also oversees all corporate communication with analysts, investors and stockholders.

Digital Infrastructure Services Group

The Bank's digital infrastructure services group is responsible for the creation, management and governance of a strategic and enterprise-wide infrastructure underlying a customer data consolidation platform aligned with the Bank's digital strategies. The unit maintains enterprise solutions revolving around the consolidated customer data for bank wide consumption, including big data management, biometrics and customer information file systems.

Central Operations Group

The Bank's Central Operations Group is responsible for providing backroom support functions to various business groups in the areas at cash and check clearing operations, commercial and consumer loans account services, trade finance transaction processing services, corporate cash management services, electronic channels' transaction reconciliation and settlement, call center services, card production and checking account statement rendition, and inter-bank funds transfer transactions. It also provides procurement and logistics supply management, premises management, physical security, safety and investigation, physical and digital document storage and retrieval and general services. As a major service delivery group, the Bank's Central Operations Group ensures that backroom processes are responsive to the customer commitments of the customer-facing business units and that transaction processing systems and other support services are efficiently administered and continuously improved.

Further, it is responsible for ensuring that operational risks in its various areas at coverage are properly managed.

Customer Contact Center

BDO Customer Contact Center was established in June 2001 to provide customer service assistance to the Bank's retail customers, specializing in deposits, consumer loans, credit cards, remittance and other retail products. The Center also supports the Bank's acquiring business and its electronic banking services.

The BDO Customer Contact Center operates 24 hours a day, seven days a week, with 823 personnel as of September 2023 who are equipped with a customer relationship management system which allows them to deliver personalized customer service and conduct precise cross-selling initiatives. It also enables customer service officers to build customer contact data, which helps them manage and respond to customers' needs more effectively and efficiently.

The BDO Customer Contact Center has four disaster recovery sites located in following cities: San Juan, Pasay, Quezon City and Davao.

BDO Customer Contact Center's average monthly volume for 2022 was 435,524 per month for customer calls and 54,606 per month for e-mails, comprising correspondences from BDO customers and the general public.

CORPORATE SOCIAL RESPONSIBILITY

The Bank manifests and demonstrates its responsibility to society in various ways. In aspiring to be a world-class company, impact to society and the environment is an important element in the way the Bank conducts its business. The Bank puts great importance in instilling the core value of community involvement among its employees through its employee volunteerism program. Going beyond local host communities, the Bank has taken on its role of contributing to national development by pursuing certain social initiatives with partner development institutions, including Gawad Kalinga, the International Federation of Red Cross and Red Crescent Societies, Philippine National Red Cross, UN Habitat, CFC ANKOP-Tekton Foundation, National Housing Authority, Habitat for Humanity (which provides housing and resettlement projects for typhoon victims and informal settlers); the Center for Agriculture and Rural Development-Mutually Reinforcing Institutions, Development Institute (which provides education, livelihood and capacity-building activities for micro-finance practitioners); Worldwide Fund for Nature and Philippine Business for Social Progress (which promotes environmental awareness).

BDO Foundation

BDO Foundation was founded in 2008 as the corporate social responsibility arm of the Bank and serves as the channel for BDO's outreach and giving back initiatives. The foundation is duly accredited by the Department of Social Welfare and Development ("**DSWD"**), Bureau of Internal Revenue ("**BIR"**) and Philippine Council for NGO Certification ("**PCNC"**).

BDO Foundation's initiatives fall under two program pillars: (1) disaster response, rehabilitation and rebuilding; and (2) financial inclusion. As part of its rehabilitation and rebuilding work, the BDO Foundation gives priority to health centers or rural health units, and depending on the need and the presence of partners, the foundation also builds classrooms for public schools and housing units for affected families. In the past, the foundation was able to mobilize employee donations that were used to fund the construction of community centers and multi-purpose halls, and support livelihood projects. Meanwhile, through its financial inclusion pillar, BDO Foundation hopes to make financial education and financial services more accessible to people, especially the underserved. Its flagship program for financial education, the Financial Literacy Program for Schools, supports DepEd's efforts to strengthen financial literacy in its K-12 curriculum and provide financial literacy education for its teaching and non-teaching personnel. Part of the program is the deployment of financial literacy videos produced by BDO Foundation in collaboration with DepEd and BSP.

SUSTAINABILITY

BDO's commitment to Sustainability is fostered at the Board level, role modeled by senior executive leaders, executed by the business units and subsidiaries, and brought to life by BDO employees. BDO's sustainable development strategies are anchored on the United Nations Sustainable Development Goals. The Bank's philosophy is to "achieve strategic resilience by incorporating sustainability in the way we do business" and aims to embed sustainability principles when making decisions, assessing relationships, and creating products.

BDO has long recognized and practiced sustainability in its business operations to achieve stability and resilience in the financial value chain. The Bank issued its fifth Sustainability Report outlining the Bank's economic, environmental, social, and governance covering the period January to December 2022.

Sustainable Finance

BDO's sustainable finance initiatives began in 2010, with the establishment of the Social and Environmental Management Systems ("**SEMS**") policy that was created with the assistance of the IFC. The SEMS evolved into what is now the BDO Sustainable Finance Framework that covers social and environmental impact assessment and risk assessment, aligned with the Bank's Sustainability Philosophy and Strategies, as well as the UN Sustainable Development Goals.

BDO also set up the Sustainable Finance Desk in 2010, initially focused on financing renewable energy projects and later expanded the scope to include all forms of sustainable practices including energy efficiency, climate-smart agriculture, green infrastructure, and clean transportation.

In December 2017, the Bank announced that it signed an agreement to issue its first green bond, raising U.S. $150 million to expand financing for private sector investments that help to address climate change. The issuance was the first green bond issued by a commercial bank in the Philippines, and the IFC was the sole investor in the bond. In May 2022, the Bank issued its maiden blue bond amounting to U.S.$100 million with IFC as sole investor in the bond.

Continuous Improvement in Sustainable Finance

BDO stays true to its commitment to sustainable finance as it aligns with the Bangko Sentral ng Pilipinas Circular 1085 issued in April 2020, which mandates all banks to transition to a Sustainable Finance Framework. The Bank supports the BSP's initiative to integrate sustainability not just in the banks' governance framework and risk management system, but more importantly, in its overall business strategy and operations.

BDO is currently going through an organization-wide gap assessment that will identify its priority activities to transition into a Sustainable Finance Framework as defined by the BSP. Part of this exercise is to review and align the current SEMS Policy, the SFF, and the Bank's Enterprise Risk Management System ("**ERMS**") to create the BSP-mandated Environmental and Social Risk Management System ("**ESRMS**").

LEGAL PROCEEDINGS

Details of material proceedings involving the Bank are set out in Note 34.1 of the notes to the audited financial statements included in this Offering Circular. In addition, the Bank may be subject to various legal proceedings and claims that arise in the ordinary course of its operations.

PEACe Bonds

On 18 October 2001, the Bureau of Treasury ("**BTr**"), through an auction, offered ten-year zero coupon treasury bonds, called the Poverty Eradication and Alleviation Certificates Bonds ("**PEACe Bonds**"), to Government securities eligible dealers. Rizal Commercial Banking Corporation ("**RCBC**") won the bid in the same year and was awarded approximately ₱35 billion worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including the Parent Bank, who relied in good faith on representations that the same are not subject to 20% final withholding tax ("**20% FWT**").

On 16 July 2004, the Commissioner of Internal Revenue ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On 7 October 2011, or nearly ten years after the auction, the Commissioner of Internal Revenue, upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT.

On 16 October 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and Bureau of Internal Revenue ("**BIR**") from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling. On 17 October 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

On 18 October 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order ("**TRO**") which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

The Supreme Court, sitting en banc, rendered a Decision on 13 January 2015 granting the Petition and nullifying BIR Rulings No. 370-2011 and 378-2011 insofar as these declared the PEACe Bonds to be deposit substitutes and subject to 20% FWT. The Supreme Court likewise reprimanded the BTr for its continued retention of the amount corresponding to the 20% final withholding tax despite the Court's TRO, and ordering the Bureau of Treasury to immediately release and pay to the Bank and other petitioning banks the amount corresponding to the 20% FWT that was withheld on 18 October 2011.

On 16 August 2016, the Supreme Court ordered the BTr to immediately release and pay each of the bondholders the amount of ₱4.966 billion, representing the 20% FWT on the PEACe bonds, with legal interest of 6% per annum from 19 October 2011 until full payment.

On 19 October 2016, BIR and BTr filed motions, requesting the Supreme Court to grant them leave to file and admit their Motion for Partial Reconsideration. The BIR and BTr also petitioned the Supreme Court to partially reconsider its 16 August 2016 resolution, and for judgment to be rendered stating that (1) jurisdiction to hear actions assailing the validity of the exercise of quasi-legislative powers of the Commissioner of Internal Revenue pertains to the regular courts after review by the Secretary of Finance; and, (2) the 6% interest on the withheld amount of ₱4.966 billion be deleted or in the alternative, and only when BIR and BTr are held liable for interest, computation thereof shall be reckoned from the date of finality of the Supreme Court's Decision dated 13 January 2015 at the prevailing market rate of comparable short term government debt securities at the time of payment.

On 22 November 2016, the Supreme Court denied, for lack of merit, the respondents' Motion for Leave to File Motion for Partial Reconsideration, as well as their Motion to Admit Motion for Partial Reconsideration, considering that a second motion for reconsideration ins a prohibited pleading. The Supreme Court stated that no further pleadings or motions will be entertained and ordered the entry of judgment.

On 11 April 2017, the Bank entered into a settlement agreement ("**Settlement Agreement**") with the Republic of the Philippines, (acting through the BTr) to settle all claims and put closure to the PEACe Bonds case. Under the terms of the Settlement Agreement:

- The BTr paid the Bank the 20% FWT withheld on the PEACe bonds (amounting to ₱690 million), plus interest of 4% per annum from 19 October 2011 to 10 April 2017 (₱151 million).
- The payment was made in the form of 3-year Retail Treasury Bonds, with interest of 4.25 % per annum.

The 3-year Retail Treasury Bonds settlement was recognized by the Parent Bank as part of financial assets at FVTPL. The interest was recognized as part of "Others" under the Parent Bank's "Interest Income" account in its 2017 statement of income.

Applicability of RR 4-2011

On 15 March 2011, the BIR issued Revenue Regulations No. 4-2011 ("**RR 4-2011**") regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 essentially prescribed the method of allocation of cost and expenses 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 / expanded foreign currency deposit unit or offshore banking unit.

On 6 April 2015, 19 banks ("**Petitioners**") filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction (the "**Petition**"), with the Regional Trial Court ("**RTC**") of Makati. The Parent Bank and BDO Private Bank are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR 4-2011 and that the scope of RR 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR No. 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR No. 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 25 May 2018, the RTC declared RR 4-2011 null and void. The writs of preliminary injunction issued by the RTC on 25 April 2015 and 28 February 2018 were also made permanent, enjoining the 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 10 July 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari ("**Motion for Extension**"). The Supreme Court granted the Motion for Extension.

On 9 August 2018, Petitioners filed a Petition for Review on Certiorari dated 1 August 2018 (the "**2018 Petition**") to assail the RTC decision based on the following grounds: (i) the RTC had no jurisdiction over petitions assailing the constitutionality and validity of tax laws, rules and regulation, and other administrative issuance of the BIR, and that it is the Court of Tax Appeals that has exclusive jurisdiction to determine the constitutionality or validity of tax laws, rules and regulations issued by the Commissioner of Internal Revenue; and (ii) RR 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

In a Resolution dated 27 March 2019, the Supreme Court ordered the respondents to file their Comment on the 2018 Petition. On 5 August 2019, the respondents filed its comment on/Opposition to the Petition for Review on Certiorari. All other respondents have their respective Comments and/or Oppositions to the 2018 Petition.

In a Decision dated December 1, 2021, the Supreme Court denied the Petition filed by DOF and BIR. No Motion for Reconsideration was filed by DOF and BIR. Supreme Court Decision became final and executory on June 07, 2022 and recorded in the Book of Entries of Judgments.

First e-Bank

In 2002, First e-Bank ("**FeB**") experienced liquidity problems prompting the Philippine Deposit Insurance Corporation ("**PDIC**") to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with the Parent Bank wherein consideration of the assumption by the Parent Bank of FeB's liabilities in the maximum amount of ₱10.0 billion. As part of the contract, PDIC will provide the Parent Bank ₱10.0 billion of financial assistance and PDIC will receive FeB's assets to recover said financial assistance.

About ₱5.0 billion of the financial assistance was released to the Parent Bank and the remaining ₱5.0 billion was deposited in escrow with BDO Trust and Investments Group ("**BDO-TIG**") in accordance with the escrow agreement dated 23 October 2002 entered into by the Parent Bank, PDIC, and BDO-TIG. In August 2016, PDIC authorized the release of a total amount of ₱4.650 million from escrow inclusive of proportional interest. However, as at 26 August 2016, the amount of ₱1.224 billion remains in escrow, which includes: (i) ₱602 million, which covers assets the Parent Bank still considers capable of delivery worth ₱214 million 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 20 September 2016, PDIC filed a Complaint for Specific Performance and Damages against BDO, which case was raffled to RTC Makati City Branch 60. On 14 October 2016, the Bank filed its Answer to the Complaint affirming that it has assumed ₱10.0 billion in liabilities of FeB and is thus entitled to release of the remaining escrow of ₱1.224 billion.

In a judgment dated 31 May 2018, the Regional Trial Court of Makati dismissed the complaint, granted the Bank's counterclaim and ordered BDO-TIG to immediately release the remaining escrow amount plus interests, to the Bank. PDIC filed a Motion for Reconsideration but the same was denied by the same court. PDIC then filed a Notice of Appeal. In the decision dated 15 June 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 25 January 2021. PDIC filed Petition for Review with the Supreme Court.

On 18 June 2018, the Bank received an amount of ₱1.243 billion for the full termination of escrow. As at 31 December 2021, the difference between the amount received and the balance of the amount in escrow is presented as part of "Others" under the Bank's "Other Liabilities" account and is not yet recognized as income due to the pending resolution of the Petition for Review filed by PDIC.

In the Judgment dated May 31, 2018, the RTC dismissed the complaint, granted BDO's counterclaim, and ordered BDO-TIG to immediately release the remaining escrow amount, plus interests, to BDO. 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. BDO filed Comment. In a Resolution dated July 05, 2023, the Supreme Court denied PDIC's Petition.

Subsidiaries and Affiliates

BDO's diverse subsidiaries and investments in allied undertakings provide an extensive range of banking and other financial services. As at 30 September 2023, the Bank's subsidiaries and associates are as follows:

Philippine Subsidiaries	Per cent. Interest Held
BDO Capital & Investment Corporation	99.88%
BDO Insurance Brokers, Inc.	100%
BDO Private Bank, Inc.	100%
BDO Strategic Holdings, Inc.	100%
Dominion Holdings, Inc. ("**DHI**", formerly BDO Leasing and Finance, Inc.)	88.54% [6]
Averon Holdings Corporation	99.88% [1]
BDO Finance Corporation ("**BDOFC**")	100% [2]
BDO Rental, Inc.	100% [3]
Equimark-NFC Development Corporation [9]	60%
BDO Network Bank, Inc.	87.37%
BDO Life Assurance Company, Inc.	100% [5]
BDO Securities Corporation	99.88% [4]

Foreign Subsidiaries	Per cent. Interest Held
BDO Remit (USA), Inc.	100%
BDO Remit Limited.	100% [2]
BDO Remit (Macau) Ltd..	100% [7]
BDO Remit International Holdings B.V. ("**BDO RIH**") [9]	96.20% [1]
BDO Remit (Canada) Ltd.	100%
BDO Remit (Japan) Ltd.	100%
BDO Remit (UK) Ltd.	99.88%[1]
BDORO Europe Ltd.	100%
CBN Greece S.A.[9]	96.13% [8]

Associates	Per cent. Interest Held
SM Keppel Land, Inc.	50%
Taal Land, Inc.	33.33%
Northpine Land, Inc.[9]	20%
NLEX Corporation (formerly Manila North Tollways Corporation)	11.70%

Notes:

[1] Effective ownership of BDO through BDO Capital

[2] Effective ownership of BDO through BDOSHI

[3] Effective ownership of BDO through BDOSHI and BDOFC

[4] Effective ownership of BDO through BDO Capital, and 1.32% direct ownership of BDO

[5] 97% direct ownership of BDO and 3% indirect ownership of BDO through BDO Capital

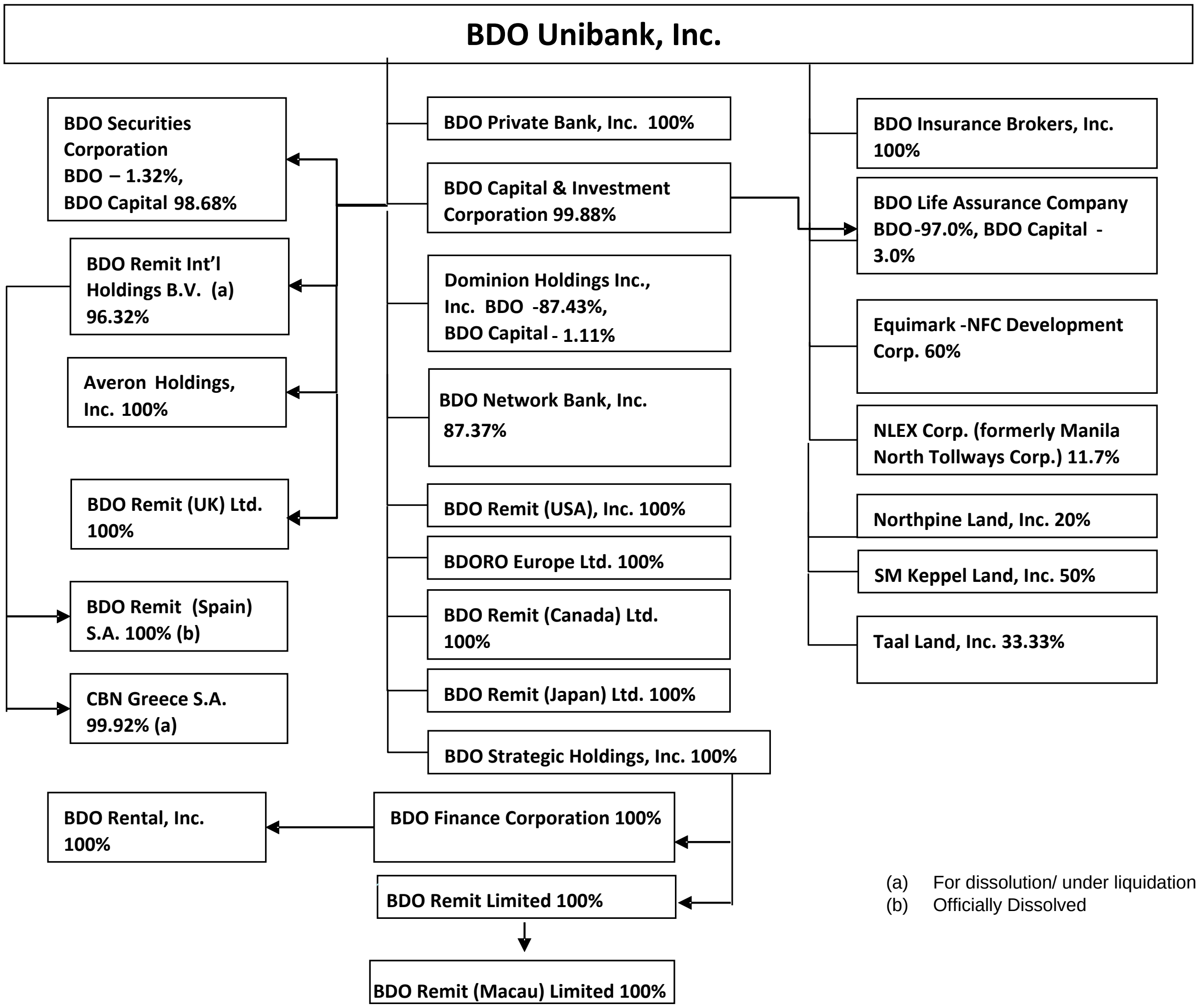
[6] 87.43% direct ownership of BDO and 1.11% indirect ownership of BDO through BDO Capital

[7] Effective ownership of BDO through BDOSHI and BDO Remit Limited

[8] Effective ownership of BDO through BDO Capital and BDO RIH (96.13% effectively owned by BDO)

[9] Under liquidation

An organizational chart of the Bank's subsidiaries and associates as at 30 September 2023 appears below.



Subsidiaries

BDO Capital & Investment Corporation

BDO Capital & Investment Corporation is the investment banking arm of the Bank that started operations in March 1999. BDO Capital was established to address the capital raising needs of the Bank's larger corporate and institutional accounts, as well as Government-owned and controlled corporations and match these with the investment requirements of the more sophisticated investors including high net worth individuals, fund managers and other institutions. See "*— Product Management — Investment Banking*".

BDO Insurance Brokers, Inc.

BDO Insurance Brokers, Inc. is a wholly owned insurance broker of the Bank. It began commercial operations in September 1997 as an insurance intermediary for the Bank, its customers, and the Bank's affiliates, including the SM Group. See "*— Product Management — Insurance Brokerage*".

BDO Private Bank, Inc.

BDO Private Bank, Inc., a wholly owned commercial bank subsidiary of the Bank, was acquired on 29 August 2003. See "*— Relationship Management — Private Banking*".

BDO Strategic Holdings, Inc.

BDO Strategic Holdings, Inc. ("**BDOSHI**"), formerly, EBC Investments, Inc. is a domestic corporation licensed to operate as a holding company. BDOSHI, which is wholly owned by the Bank, owns three offshore remittance companies and BDO Finance Corporation.

BDO Securities Corporation

BDO Securities Corporation was incorporated in the Philippines on 25 September 1995 to engage primarily in the stock brokerage business and to deal in securities and all activities directly connected therewith or incidental thereto. See "*— Product Management — Stock Brokerage*".

Dominion Holdings Inc. (formerly BDO Leasing and Finance, Inc.)

Dominion Holdings Inc. ("**DHI**" formerly BDO Leasing and Finance, Inc.) was incorporated in 1981 under the name BDO Leasing and Finance, Inc. and was listed in the PSE on 6 January 1997. In July 2022, the company was renamed Dominion Holdings, Inc. and converted to a holding company. See *"— Product Management — Leasing and Financing"*.

Equimark-NFC Development Corporation

Equimark-NFC Development Corp. is 60% owned by the Bank and 40% owned by China Non-ferrous Metals Industry. The company has a joint venture project with Avida Land, an Ayala subsidiary, involving two residential condominium towers in Makati City.

*BDO Network Bank, Inc. ("**BDONB**")*

BDONB is 87.37% owned by the Bank. See "*— Relationship Management — Rural Banking*".

BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company)

In March 1999, the Bank established Generali Holding, a joint venture holding company with Generali, Jerneh Asia Berhad ("**Jerneh Asia**") and Vantage Equities, Inc., to enter into life and general insurance businesses. Generali is one of the largest insurance groups in the world, while Jerneh Asia is a member of the Kuok Group of Companies, one of the largest corporate conglomerates in Malaysia, providing a wide range of general, marine and medical insurance products. Subsequently, BDO Capital acquired the 10% holdings of Vantage Equities, Inc. in Generali Holding. Generali Holding is effectively 40% owned by the Bank and 60% by Generali Asia, which, in turn, is 60% owned by Generali and 40% owned by Jerneh Asia.

Generali Pilipinas Life Assurance Company, Inc. ("**Generali Assurance**") and Generali Pilipinas Insurance Company, Inc. ("**Generali Insurance**") were both incorporated in July 1999 as wholly-owned subsidiaries of Generali Holding and were subsequently launched in March 2000 to serve as the operating companies for life and general insurance, respectively. Generali Assurance and Generali Insurance are among the largest capitalized insurers in the Philippine insurance industry and are positioned to provide the Bank with an opportunity to become a one-stop financial shop, providing a wide range of insurance products and services through its branches.

On 9 June 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle Generali Pilipinas Holdings Company Inc. ("**GPHC**"), the parent firm of life insurer Generali Pilipinas Life Assurance Company ("**GPLAC**") and non-life insurer Generali Pilipinas Insurance Company ("**GPIC**"). The Bank took full control of GPHC and GPLAC, which were subsequently renamed BDO Life Assurance Holdings Corp. and BDO Life Assurance Company Inc., respectively. On 30 September 2016, the Bank acquired full interest in GPHC.

By assuming full control of the GPHC insurance operations, the Bank is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market and allow it to adapt more readily to the demands of its target markets. GPLAC was renamed BDO Life Assurance Company, Inc. *See "— Product Management — Life Insurance"*.

BDO Remit (USA), Inc.

BDO Remit (USA), Inc., a wholly-owned subsidiary, was incorporated in California on 15 February 1991. It offers a full range of remittance services to the Philippines through its head office in Daly City and its agents in California and other states. It also holds state licenses in States of Alaska, Hawaii, New Jersey and US Virgin Island.

BDORO Europe Ltd.

BDORO Europe Ltd., a wholly owned subsidiary, was originally intended to be a banking subsidiary in the United Kingdom ("**UK**") and was registered with the Companies House on 30 May 2012. With the pandemic and unfavorable business and political conditions in the UK, the Bank has temporarily put on hold its application for a banking license until conditions improve. BDORO Europe Ltd. Is currently leasing out the real estate property it acquired in 2013.

BDO Remit (Canada) Ltd.

BDO Remit (Canada) Ltd., a wholly-owned subsidiary, was incorporated on 23 June 2014 with licenses in British Columbia and Ontario. The company, which is registered as a money service business, will primarily provide remittance services to individual and corporate clients in Canada for credit/payment to their beneficiaries in the Philippines.

BDO Remit (Japan) Ltd.

BDO Remit (Japan) Ltd., a wholly-owned subsidiary, was incorporated in Tokyo, Japan on 18 August 2014. The license to operate as a fund transfer business company was granted by Kanto Financial Bureau (FSA) on 2 December 2015. Its remittance office, located at Zenken Plaza II, 1F & 2F, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo, Japan, started operations on 1 April 2016 and offers a full range of remittance services to Overseas Filipino Workers in Japan.

Associates

SM Keppel Land, Inc.

SM Keppel Land, Inc. is 50% owned by the Bank, 40% owned by Keppel Philippines Properties, Inc. and 10% owned by Opon-KE Properties, Inc. It is a private corporation involved in a mixed-use development comprising of retail spaces in the Podium Mall and office spaces in the Podium West Tower.

NLEX Corporation

NLEX Corporation (formerly Manila North Tollways Corporation), where the Bank has a 11.70% ownership, is the builder and concessionaire of the North Luzon Expressway, and is involved in all aspects of tollway operations – from toll collection to traffic management and from motorists' assistance to roadway maintenance. The other shareholders of NLEX Corporation are Metro Pacific Tollways North Corporation, Egis Investment Partners Philippines, Inc.; GlobalFund Holdings Corporation; and the Government of the Philippines.

Taal Land, Inc.

Taal Land, Inc. is 33.33% owned by the Bank. It owns 25% of Jaka Tagaytay, developer of the Splendido resort.

NorthPine Land, Inc.

NorthPine Land Incorporated, where the Bank holds a 20% interest, is a real estate company involved in horizontal development targeting the middle-income to high-end housing market. Current projects are located in Cavite, Laguna and Rizal. The other shareholders of the company are Hong Kong Land, Inc., San Miguel Properties, Inc. and Metrobank.

Other companies in the BDO Group

BDO Remit Limited

BDO Remit Limited ("**BDO Remit**"), a wholly-owned subsidiary of BDOSHI, was incorporated on 7 February 2001 initially under the name of Hatid Yaman Remittance Company Limited. On 15 September 2004, it was renamed as BDO Remittance until it changed to its current legal name on 3 August 2009. It offers specialized remittance services to cater to the needs of Filipino workers and migrants in Hong Kong who regularly send money to the Philippines. BDO Remit offers secure, fast, reliable and convenient remittance service to the Philippines through its office in Worldwide Plaza.

BDO Remit (Macau) Limited

BDO Remit (Macau) Ltd., a wholly-owned subsidiary of BDO Remit, was incorporated on 18 December 1997 initially under the name of PCI Express Padala. On 6 May 2010, it was incorporated under its current legal name, BDO Remit (Macau) Ltd. The subsidiary office extended its presence by opening its second and third branches in 2010 and 2014, respectively. To date, there are three offices located in China Plaza, Circle Square and Taipa offering a full range of remittance services to Overseas Filipino Workers in Macau.

BDO Rental, Inc.

BDO Rental, Inc., a wholly-owned subsidiary of BDOFC, was incorporated on 10 March 2005. Licensed to engage in renting and leasing equipment (except finance lease), it started commercial operations on 30 June 2005.

Averon Holdings Corporation

Averon Holdings Corporation, a wholly-owned subsidiary of BDO Capital, is a holding company engaged primarily in the leasing business. Its building located in 6780 Ayala Avenue, Makati City, whose accreditation from the Philippine Economic Zone Authority ("**PEZA**") allows locators to enjoy certain incentives, currently counts some business process outsourcing ("**BPO**") companies among its tenants.

BDO Finance Corporation

BDO Finance Corporation is a wholly owned financing company of BDOSHI incorporated on 9 December 2019. It is a privately-held company which provides customers with continued access to lease products and services. It assumed lease transactions booked in BDOLF to provide continuity to existing clients.

RISK MANAGEMENT

The Bank is exposed to risks that are particular to its lending and trading businesses and the environment within which it operates. The Bank's goal with respect to risk management is to ensure that it identifies, measures, controls and monitors the various risks that arise from its business activities, and that it strictly adheres to the policies and procedures which are established to address these risks.

Risk Management

The Bank's risk management begins at the highest level of the organization. At the helm of the risk management infrastructure is the Board of Directors (the "**BOD**") which 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 Bank's tolerance for risks, as well as, its business strategy and risk philosophy. The BOD has constituted the Risk Management Committee (the "**RMC**") as the board-level committee responsible for the development and oversight of the risk management program. Recognizing the importance of appropriately addressing credit risk, the BOD has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits. Within the Bank's overall risk management system is the Assets and Liabilities Committee ("**ALCO**"), which is responsible for managing the Bank's statement of financial position, including the Bank'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.

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 consideration of their potential effects on the Bank's business. The goal of the risk management process is to ensure rigorous adherence to the Bank'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 Bank's shareholders.

The Bank operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market (foreign exchange, interest rate, and price risks), liquidity, and operational risks. The Risk Management Group ("**RMG**") is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the Bank's activities across the different risk areas (i.e., credit, market, liquidity and operational risks) 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 Bank is exposed. RMG functionally reports to the RMC.

In the performance of its function, the RMG observes the following framework:

- It is responsible for policy formulation in coordination with the relevant businesses/functions and ensures that proper approval for the manuals/policies is obtained from the appropriate body.
- It then disseminates the approved policies to the relevant businesses/functions after which, pertinent authorities are delegated down to the businesses/functions to guide them in the conduct of their businesses/functions. The RMG then performs compliance monitoring and review to ensure approved policies are adhered to.
- It is responsible for clarifying interpretations of risk policies/guidelines raised by business heads/units.
- When adverse trends are observed in the account/portfolio, the RMG is responsible for flagging these trends and ensuring relevant policies for problem accounts/portfolio management are properly applied.
- The RMG is responsible for the direct management of accounts in the Bank's non-performing loans/property-related items in litigations portfolio and ensures that appropriate strategies are formulated to maximize collection and/or recovery of these assets.
- It is also responsible for regular review and monitoring of accounts under its supervision and ensuring that the account's loan classification is assessed timely and accurately.

Liquidity Risk Management

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. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to meet funding requirements, managing and controlling liquidity gaps through Maximum Cumulative Outflow ("**MCO**") limits, conducting liquidity stress testing on a regular basis, and establishing a liquidity contingency plan to ensure adequate liquidity under both ordinary and under-stress conditions.

The Bank's principal source of liquidity is comprised of ₱82.9 billion of cash and ₱1,080.2 billion of short-term deposits with maturities of less than one year as at 31 December 2022. In addition to regulatory reserves, the Bank maintains what it believes to be a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that can be converted to cash quickly. Of a net portfolio of trading and investment securities of ₱508.8 billion, ₱616.3 billion, and ₱722.8 billion and ₱914.2 billion, respectively, as at 31 December 2020, 2021, 2022 and 30 September 2023, ₱99.1 billion, ₱54.6 billion, ₱ 44.7 billion and ₱ 205.1 billion, respectively, comprised trading and investment securities with remaining maturities of one year or less. The Bank also uses the interbank market as a means of maintaining a sufficient level of liquid assets. It had interbank loan receivables of ₱66.6 billion, ₱90.7 billion, ₱115.7 billion and ₱60.1 billion, as at 31 December 2020, 2021, 2022 and 30 September 2023, respectively. In addition, the Bank manages liquidity by maintaining a loan portfolio with a sufficient proportion of short-term loans. As at 31 December 2022, ₱854.2 billion, or 31.7%, of the Bank's loans and other receivables comprised loans with remaining maturities of one year or less, including past-due loans.

Interest Rate Risk Management

A critical element of the Bank's risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Bank's net interest income. The Bank prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. 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 maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities or anticipated repricing dates, and other applicable behavioral assumptions. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The following table sets forth the interest rate gap position for the Bank's operations as at 30 September 2023:

	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
			(in ₱ millions)			
Resources:						
Cash and other cash items	-	-	-	-	57,812	57,812
Due from BSP/other banks	76,330	2,344	6,027	0	367,224	451,926
Trading and investment securities	111,285	85,155	358,258	314,887	44,628	914,212
Loans and other receivables	1,285,365	379,076	979,119	94,717	0	2,738,277
Other resources	0	0	0	0	126,110	126,110
Total Resources	1,472,979	466,575	1,343,404	409,604	595,775	4,288,337
Liabilities and Equity:						
Deposit liabilities	1,283,449	214,630	37,159	464	1,872,386	3,408,088
Bills payable and subordinated debt	80,120	62,880	33,676	5,658	0	182,333
Insurance contract liabilities	-859	-3,105	-295	45,627	30,792	72,160
Other liabilities	-2,447	222	896	24	124,360	123,055

Total Liabilities	1,360,262	274,628	71,435	51,773	2,027,538	3,785,636
Equity	0	0	0	0	502,701	502,701
Total Liabilities and Equity	1,360,262	274,628	71,435	51,773	2,530,239	4,288,337
On-book gap	112,717	191,947	1,271,968	357,831	-1,934,464	0
Cumulative on-book gap	112,717	304,664	1,576,633	1,934,464	-1,934,464	0

Note: (1) Customer deposits maturing in one month reflect Philippine market characteristic of large numbers of short-term deposits that are generally re-deposited.

Credit Risk Management

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 Bank. The Bank manages its credit risk and loan portfolio through the RMG. The RMG undertakes several functions with respect to credit risk management, including credit analysis, risk ratings for corporate accounts, and performance monitoring of credit risk rating and scoring models for both corporate and consumer loans. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business.

The RMG also subjects the Bank's 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.

The Bank 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, and to industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review. Approvals for credit limits are secured from the Bank's Credit Committee.

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 and corporate and personal guarantees.

The RMG reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

Market Risk Management

The Bank'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 and derivatives. The Bank manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by the Bank's RMC and Board of Directors.

The Bank's market risk management limits are generally categorized as limits on:

- Value-at-risk — The RMG computes the value-at-risk benchmarked at a level which is a percentage of projected earnings. The Bank uses the value at risk ("**VaR**") model to estimate the daily potential loss that the 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 dealing 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 already 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 — The RMG computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

The Bank uses the VaR model to estimate the daily potential loss that the Bank can incur from its trading book. VaR is one of the key measures in the 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 Bank uses a 99% confidence level and a 260-day observation period in VaR calculation. The 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 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.
- The VaR measure is dependent upon the 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 Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the 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.

Foreign Exchange Risk Management

The Bank manages its exposure to foreign exchange risk by maintaining foreign currency exposure within existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital, or U.S.$50 million, whichever is lower, on the consolidated excess foreign exchange holding of banks in the Philippines. In the case of the Bank, its foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in the Bank's branches as well as foreign exchange trading with corporate accounts and other financial institutions. As a major market participant in the Philippine Dealing System, the Bank may engage in proprietary trading to take advantage of foreign exchange fluctuations.

The Bank's foreign exchange exposure at end-of-day is guided by the limits set forth in the Bank's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the Bank 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.

As at 30 September 2023, the Bank's net foreign exchange exposure was U.S. $17.3 million inclusive of the foreign exchange position of the Bank's subsidiaries, reflecting an oversold foreign exchange position.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

Funding

Sources of Funding

Deposits, bills payable and capital are the main fund sources of the Bank. The following table sets forth an analysis of the Bank's principal funding sources and the average cost of each funding source.

	Audited				**Unaudited**	
	As at 31 December				**As at 30 September**	
	2021		**2022**		**2023**	
	Amount	**Ave. cost(1)**	**Amount**	**Ave. cost(1)**	**Amount**	**Ave. cost(1)**
	(in ₱ millions, except Average Cost, which is in percentage terms)					
Deposits By type						
Demand	404,568	0.1	459,511	0.1	476,783	0.1
Savings	2,000,245	0.1	2,077,360	0.1	1,987,101	0.1
Time	416,083	1.0	684,012	2.2	944,204	4.3
	2,820,896	**0.3**	**3,220,883**	**0.4**	**3,408,088**	**1.3**
By currency						
Philippine Peso	2,357,528	0.2	2,715,833	0.4	2,931,888	1.3
Foreign currency	469,368	0.4	505,050	0.5	476,200	1.3
Total deposits	**2,826,896**	**0.3**	**3,220,883**	**0.4**	**3,408,088**	**1.3**
Borrowings(2)						
Philippine Peso	83,511	3.7	62,614	3.3	68,568	3.9
Foreign currency	120,920	2.1	136,276	2.7	113,765	4.1
Total borrowings	**204,431**	**2.7**	**198,891**	**2.9**	**182,333**	**4.0**
Total	**3,025,327**	**0.4**	**3,419,773**	**0.6**	**3,590,421**	**1.4**

Notes:

(1) Average cost of funding represents total interest expense for the period, divided by the average daily liability for the respective period, expressed as a percentage.

(2) For the purposes of this table, "borrowings" consists of bills payable and subordinated notes payable.

Deposits continue to be the Bank's main funding source, accounting for 92.6%, 93.2%, 94.2% and 94.9% of total funding sources as at 31 December 2020, 2021, 2022 and 30 September 2023, respectively. The Bank's deposits grew at an annual compounded average rate of 8.7% from 31 December 2017 to 31 December 2022, reaching ₱2.6 trillion as at 31 December 2020, ₱2.8 trillion as at 31 December 2021, ₱3.2 trillion as at 31 December 2022 and ₱3.4 trillion as at 30 September 2023. This historical growth was driven by increased marketing efforts by the Bank's branches and the Bank's mergers and acquisitions. As at 30 September 2023, total deposits increased to ₱3.4 trillion, approximately 86.0% of which were denominated in Pesos and mostly in tenors of less than one year, while approximately 14.0% were denominated in foreign currencies, predominantly U.S. dollars. The Bank's foreign currency deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As at 31 December 2020, 2021, 2022 and 30 September 2023, the Bank's foreign currency deposits made up 16.0%, 16.4%, 15.7% and 14.0%, respectively, of its total deposits.

As at 31 December 2020, 2021, 2022 and 30 September 2023, approximately 81.4%, 85.2%, 78.8% and 72.3%, respectively, of the Bank's outstanding deposits were in the form of demand and savings deposits.

The Bank also sources funds through borrowings from local and foreign banks, deposit substitutes and rediscounting facilities booked under bills payable. Bills payable also includes funding from specialized lending programs amounting to ₱0.0 billion, ₱0.0 billion, ₱0.0 billion and ₱0.0 billion, respectively, as at 31 December2020, 2021, 2022 and 30 September 2023.

As at 31 December 2021, 2022, and 30 September 2023, the Bank's total bills payable amounted to ₱204.4 billion, ₱198.9 billion and ₱182.3 billion, respectively. Approximately 40.9%, 31.5%, and 37.6%, respectively, of bills payable were denominated in Pesos as at 31 December 2021, 2022, and 30 September 2023.

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for liquidity management purposes. Interbank borrowings are typically of short-term duration of between one day and a few weeks and have historically accounted for a relatively minor portion of the Bank's total funding requirements. The Bank is generally a net lender in the interbank call loan market and funds sourced from net interbank borrowings are minimal and generally of short duration.

The Bank's subordinated notes payable amounted to ₱0.0 billion, ₱0.0 billion, ₱0.0 billion and ₱0.0 billion, as at 31 December 2020, 2021, 2022 and 30 September 2023, respectively. The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity by participation in the interbank market in the Philippines. The Bank is a member of the PDIC, which insures all deposit accounts by a depositor maintained in the same right and capacity for up to a maximum of ₱500,000 per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

Capital Raising Transactions

Long Term Negotiable Certificates of Deposit

On 16 October 2012, the Bank issued ₱5 billion worth of fixed rate long-term negotiable certificates of deposit ("**LTNCDs**") which matured in October 2019.

On 25 March 2013, the Bank issued ₱5 billion worth of LTNCDs which matured on 25 September 2018. On 12 September 2013, the Bank issued another ₱5 billion worth of LTNCDs which matured on 12 September 2020. On 4 November 2013, the BSP approved the Bank's issuance of ₱5 billion LTNCDs. The LTNCDs, which matured on 11 June 2019, were issued on 11 December 2013 at an effective rate of 3.13% per annum.

On 6 April 2015, the Bank issued ₱7.5 billion worth of LTNCDs with a rate of 3.75% per annum which matured on 6 October 2020.

On 18 August 2017, the Bank issued ₱11.8 billion worth of LTNCDs with a rate of 3.625% per annum which matured on 18 February 2023. On 7 May 2018, the Bank issued ₱8.2 billion worth of LTNCDs with a rate of 4.375% per annum which matured on 7 November 2023. On 12 April 2019, the Bank issued ₱7.3 billion worth of LTNCDs with a rate of 5.375% per annum and a maturity date of 12 October 2024. On 27 September 2019, the Bank issued ₱6.5 billion worth of LTNCDs with a rate of 4.000% per annum and a maturity date of 27 March 2025.

Unsecured Subordinated Notes Eligible as Lower Tier 2 capital

On 10 December 2014, the Bank issued ₱10.0 billion of unsecured subordinated notes qualifying as Tier 2 capital due in 2025, callable in 2020 pursuant to the authority granted by the BSP to the Bank on 2 October 2014. The Tier 2 notes were priced at 5.1875% per annum and were set to mature on 10 March 2025. On 10 March 2020, the Bank exercised its right of early redemption and the Tier 2 notes were redeemed for cash at a redemption price equal to the face value of the Tier 2 notes plus accrued and unpaid interest as at but excluding 10 March 2020.

Peso-Denominated Senior Fixed Rate Bonds

On 11 February 2019, the Bank issued ₱35.0 billion of senior fixed rate bonds with a rate of 6.42% per annum which matured on 11 August 2020. The bond issuance was part of the Bank's efforts to diversify its funding sources and support its business expansion.

On 3 February 2020, the Bank issued ₱40.1 billion of senior fixed rate bonds with a rate of 4.408% per annum which matured on 3 August 2022.

On 3 July 2020, the Bank issued another ₱36.0 billion of senior fixed rate bonds with a rate of 3.125% per annum which matured on 3 April 2022.

Dollar-Denominated Senior Note Issuance

On 24 October 2016, the Bank issued Senior Notes under its U.S.$2 billion Medium Term Note Program with a face value of U.S.$300 million at a price of 99.977%. The Senior Notes matured on 24 October 2021 and bear a fixed interest rate of 2.625% per annum. The net proceeds from the issuance were allocated for the Bank's general corporate purposes.

On 31 August 2017, the Bank issued Senior Notes under its MTN Program with a face value of U.S.$700 million at a price of 99.909%. The Senior Notes matured on 6 March 2023 and bore a fixed interest rate of 2.950% per annum. The issue was part of the Bank's liability management initiatives to tap longer-term funding sources to support the Bank's lending operations and for general corporate purposes.

On 8 December 2017, the Bank announced that it signed an agreement to issue its first green bond, raising U.S.$150 million to expand financing for private sector investments that help to address climate change. The issuance was the first green bond issued by a commercial bank in the Philippines, and IFC was the sole investor in the bond.

On 13 July 2020, the Bank issued Senior Notes with a face value of U.S.$600 million at a price of 99.562%. The Senior Notes will mature on 13 January 2026 and bear a fixed interest rate of 2.125% per annum. The issuance was part of the Bank's U.S. $5.0 billion Medium Term Note Program.

On 28 January 2022, the Bank issued ₱52.7 billion of senior fixed rate Sustainability Bonds with a rate of 2.900% per annum and maturity date of 28 January 2024.

On 16 May 2022, the Bank issued its maiden blue bond amounting to U.S. $100 million through an investment from the IFC. The bond, which has a tenor of seven years, expanded financing for projects that help prevent marine pollution and preserve clean water resources. The issuance marked a milestone for BDO for being the first private sector issuance for a blue bond in Southeast Asia.

Stock Rights Offering

On 31 January 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The net proceeds were used to support the Bank's medium-term growth objectives and supported the Bank's higher capital requirements as a result of the phase-in of a capital surcharge on D-SIBs by the BSP.

Liquidity

Pursuant to regulations of the BSP, universal and commercial banks are required to maintain a reserve of 14% of Peso demand deposits and deposit substitutes. The required reserves shall be kept in the form of deposits placed in the Bank's demand deposit accounts with the BSP. With the implementation of the Liquidity Coverage Ratio ("**LCR**") framework, banks are also required to hold sufficient High Quality Liquid Assets ("**HQLAs**") that can be easily converted into cash to cover their net cash outflow over a 30-day period. Starting 1 January 2019, banks were required to maintain 100% minimum daily LCR and to report their LCR position monthly, on a solo basis, and quarterly, on a consolidated basis. The Bank has complied with the reserve and liquidity requirements for both the Peso and FCDU books.

As at 31 December 2020, 2021, 2022 and 30 September 2023, the Bank's liquid assets amounted to ₱1,040.9 billion, ₱1,168.2 billion, ₱1,392.3 billion, and ₱ 1,150.2 billion, equal to 30.8%, 32.2%, 34.2% and 35.2%, respectively, of the Bank's total assets. Liquid assets include cash and other cash items, due from BSP, due from other banks, interbank loan receivables and investment securities.

The following table sets forth information with respect to the Bank's liquidity position as at the dates indicated:

	As at 31 December		As at 30 September
	2021	2022	2023
	Audited		Unaudited
Liquidity Position			
Liquid Assets (in ₱ millions)	1,168,180	1,392,276	1,150,242
Financial Ratios (%)			
Liquid Assets-to-Total Assets	32.2	34.2	35.2
Liquid Assets-to-Total Deposits	41.4	43.2	44.3
Net Loans-to-Total Deposits	86.9	83.7	80.4

Lending

As at 31 December 2020, 2021, 2022 and 30 September 2023, the Bank's total loan portfolio (net of unearned interest or discount) on a consolidated basis amounted to ₱2.3 trillion, ₱2.4 trillion and ₱2.6 trillion and ₱2.7 trillion, respectively, representing approximately 67.1%, 66.2%, 64.1% and 63.4%, respectively, of its total assets as at those dates. The Bank's gross loan portfolio grew at a compounded annual growth rate of 9.2% from 31 December 2017 to 31 December 2022, primarily as a result of acquisitions and mergers and the Bank's efforts to expand its client base and encourage loan utilization of existing clients while managing credit quality, minimizing funding risk and maintaining an appropriate asset mix.

	As at 31 December		As at 30 September
	2021	2022	2023
	Audited		Unaudited
Loans by Major Customer Type	(in ₱ millions)		
Large Corporates	1,247,077	1,341,391	1,410,184
Mid-Market	628,390	673,491	661,356
Consumer	524,725	598,929	648,902
	2,400,193	**2,613,811**	**2,720,442**

Industry Concentration

Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use, Financial and insurance activities and Wholesale and retrial trade represent the largest sectors of the Bank's loan portfolio, representing 15.7%, 13.4% and 12.5%, respectively, of the Bank's loan portfolio as at 30 September 2023. These sectors represented 15.3%, 15.4% and 11.5%, respectively, of the Bank's loan portfolio as at 31 December 2022.

Under guidelines established by the BSP, the BSP considers that concentration of credit exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. The Bank, as a matter of policy, limits its concentration to a particular industry in relation to capital.

BSP regulations require banks to allocate 25% of their loanable funds for agricultural credit in general, of which at least 10% shall be made available for agrarian reform credit. In the absence of qualified borrowers, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. As with most banks in the Philippines, the Bank is not in strict compliance with this standard.

The following table sets forth an analysis of the Bank's loan portfolio (net of unearned interest or discount) by economic activity, as defined and categorized by the BSP:

	As at 31 December				**As at 30 September**	
	2021		**2022**		**2023**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
	(in ₱ millions, except percentages)					
Agriculture, forestry and fishing	15,266	0.6	15,642	0.6	33,839	1.2
Mining and quarrying	10,175	0.4	10,578	0.4	14,940	0.5
Manufacturing	206,445	8.6	232,488	8.9	237,124	8.7
Electricity, gas, steam and air-conditioning supply	282,036	11.8	281,036	10.8	331,782	12.2
Water supply, sewerage, waste management and remediation activities	26,912	1.1	38,760	1.5	42,095	1.5
Construction	68,951	2.9	90,712	3.5	91,328	3.4
Wholesale and retail trade, repair of motor vehicles and motorcycle	282,446	11.8	299,896	11.5	338,723	12.5
Transportation and storage	88,043	3.7	87,256	3.3	102,370	3.8
Accommodation and food services activities	39,937	1.7	36,529	1.4	36,769	1.4
Information and communication	42,845	1.8	90,342	3.5	98,102	3.6
Financial and insurance activities	397,823	16.6	402,156	15.4	365,419	13.4
Real estate activities	307,048	12.8	324,074	12.4	314,579	11.6
Professional, scientific and technical services	9,642	0.4	9,912	0.4	8,304	0.3
Administrative and support services	7,592	0.3	9,581	0.4	9,833	0.4
Public administrative and defense; compulsory social security	693	0	1,030	0	1,212	0
Education	37,199	1.5	71,731	2.7	70,597	2.6
Human health and social work activities	30,653	1.3	31,875	1.2	32,695	1.2
Arts, entertainment and recreation	77,010	3.2	83,076	3.2	74,885	2.8
Other service activities	113,348	4.7	98,036	3.8	89,455	3.3
Activities of private household as employers and undifferentiated	356,129	14.8	399,101	15.3	426,391	15.7

	As at 31 December				As at 30 September	
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)					
goods and services and producing activities of households for own use						
Activities of extraterritorial organizations and bodies	-	-	-	-	-	-
Total	**2,400,193**	**100**	**2,613,811**	**100**	**2,720,442**	**100**

The Bank maintains a flexible policy towards its exposure to various industries, in principle avoiding exposure of more than 20% to a particular industrial sub-sector of the economy, and 30% in the case of the manufacturing sub-sector. The distribution of the Bank's loan portfolio by industry is also subject to seasonal fluctuations.

Maturity

The following table sets forth an analysis of the Bank's loans by maturity:

	As at 31 December				As at 30 September	
	2021		2022		2023	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
	(in ₱ millions, except percentages)					
Due within one year	606,360	25.3	663,319	25.4	687,389	25.3
Due within one to five years	286,210	11.9	391,253	15.0	401,251	14.7
Due beyond five years	1,507,623	62.8	1,559,239	59.6	1,631,801	60.0
Total	**2,400,193**	**100.0**	**2,613,811**	**100.0**	**2,720,442**	**100.0**

Loan Currencies

As at 31 December 2020, 2021, 2022 and 30 September 2023, 89.4%, 89.2%, 89.1% and 89.6%, respectively, of the Bank's loan portfolio were denominated in Pesos and 10.6%, 10.8% 10.9% and 10.4%, respectively, were denominated in foreign currency, a substantial proportion of which was denominated in U.S. dollars.

	As at 31 December				As at 30 September	
	2021		2022		2023	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
	(in ₱ millions, except Percentages)					
Peso	2,140,923	89.2	2,329,102	89.1	2,438,096	89.6
Foreign						
USD	248,899	10.4	276,699	10.6	274,609	10.1
Yen	563	0.0	414	0.0	462	0.0

Other Foreign Currency	9,808	0.4	7,596	0.3	7,273	0.3
Total	**2,400,193**	**100.0**	**2,613,811**	**100.0**	**2,720,442**	**100.0**

Interest Rates

As at 30 September 2023, a substantial portion of the Bank's total loan portfolio was on a floating interest basis. Loan pricing is set by the Bank's asset and liability committee on a weekly basis, and is driven by market factors, the Bank's funding position and the credit risk associated with the relevant borrower. The Bank sets interest rates for Peso-denominated loans based on the Bloomberg Valuation ("**BVAL**") rate, and for U.S. dollar-denominated loans based on the U.S. dollar Secured Overnight Financing Rate. The margins on these interest rates, which range from 1% to 5%, are determined by reference to the credit risk of the relevant borrower.

The Bank's pricing policy with respect to its interest-bearing liabilities is also handled by the Assets and Liabilities Committee ("**ALCO**") during its weekly meetings. CASA deposits typically pay no interest for deposits falling below a minimum maintaining balance. The basic rate of regular Peso savings account deposits that are above the minimum threshold is 0.0625% per annum.

The Bank actively manages interest rate risk by monitoring current market interest rates and assessing the impact of changes in interest rates on the Bank's net interest income. See *"— Risk Management — Interest rate risk management*".

Size and Concentration of Loans

The BSP imposes a limit on the size of a bank's financial exposure to any single person or group of connected persons to 25% of the bank's net worth (the "**Single Borrower's Limit**" or "**SBL**"). This limit does not apply to the following loans: (a) those secured by obligations of the BSP or of the Government; (b) those fully guaranteed by the Government as to the payment of principal and interest; (c) those secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted credit rating agencies; (d) those to the extent covered by the hold-out or assignment of deposits maintained in the lending bank and held in the Philippines; (e) those under letters of credit to the extent covered by margin deposits; and (f) those which the Monetary Board may, from time to time, specify as non-risk items. As at 30 September 2023, the Bank's single borrower limit was ₱129.9 billion. The Bank has complied with this SBL for all of its loans.

As at 31 December 2020, 2021, 2022 and 30 September 2023, the Bank's ten largest borrowers accounted for ₱299.5 billion, ₱329.8 billion, ₱ 331.5 billion and ₱383.0 billion, respectively, or 13.2%, 13.7%, 12.7% and 14.1%, of the Bank's outstanding loan portfolio (excluding interbank loans) of ₱2,263.7 billion, ₱2,400.2 billion, ₱2,613.8 billion and ₱2,720.4 billion.

The following sets forth a breakdown of total loans by principal amount as at 30 September 2023:

Principal amount of loans (in ₱)	**Percentage (per cent.)**
Less than 5,000,000	21.9
5,000,001 to 10,000,000	3.5
10,000,001 to 15,000,000	1.7
More than 15,000,000	72.9
Total	**100.0**

Secured and Unsecured Loans

The Bank principally focuses on cash flows in assessing the creditworthiness of borrowers. However, it will secondarily seek to minimize credit risk with respect to a loan by requiring borrowers to pledge or mortgage collateral to secure the payment of loans. Where it has determined that collateralization of a loan is desirable, the Bank's policy is to secure the full amount of the loan. As at 31 December 2020, 2021, 2022 and 30 September

2023, approximately 23.1%, 21.1%, 19.9% and 18.7%, respectively, of total loans were extended on a secured basis. Approximately 62.7%, 64.7%, 65.9% and 68.9%, respectively, of these secured loans are backed by real estate mortgages for each period.

The Bank's general policy with respect to securing loans is to over secure. With respect to loans secured by real estate mortgages, in accordance with BSP guidelines, the Bank's policy is that the maximum value of such loans should not be in excess of 80% of the assessed value of the property provided as security for such loans. The Bank appraises real estate collateral using internal appraisers, but utilizes external appraisers for loans that are syndicated or involve sharing of collateral among lenders.

Credit Rating/Scoring System

The Bank has credit rating/scoring systems in place to assess the credit risk associated with a prospective or existing loan account for both the corporate and consumer lending business. The Bank's credit rating system uses a combination of quantitative and qualitative factors, which generally assess the financial position of the borrower.

For corporate or commercial borrowers with asset size in excess of ₱15.0 million, an internal credit risk rating system is used to evaluate creditworthiness by assessing the financial position of the borrower, its overall management, quality of operations, borrower condition (e.g., payment history and borrower behavior), and considers the facility structure and collateral/security arrangements.

For SME borrowers with asset size of up to ₱15.0 million, a credit scoring system is used to evaluate creditworthiness. It consists of factors related to both customer and collateral.

The Risk Management Group ("**RMG**") conducts the credit risk rating review for borrowing accounts with facilities of ₱20.0 million and over (within a defined set of criteria). For those not within their coverage, the credit rating review is conducted by the relationship manager in the Institutional Banking Group. The Bank updates the rating of an existing loan account regularly upon renewal of credit facilities, stand-alone term loan reviews, increases in credit exposures or when there are changes in the collateral structure of the facilities. However, the Bank may adjust the credit rating within a shorter period if there are identified factors which could affect the borrower's credit quality, or the Bank becomes aware of any adverse development with respect to the borrower or secured collateral.

On the other hand, application and behavior scorecards are adopted for the consumer loans portfolio. The scorecards are used for adjudication of new loan applications as well as in account management such as credit line increases and renewal.

Credit Approval Process

Before the Bank approves any extension of credit, the Bank first identifies the needs of the prospective borrower, analyzes the appropriateness of the exposure and evaluates any inherent risks. The Bank assigns an account officer to every prospective borrower to start the credit approval process. The account officer identifies the borrowing requirements of the client and assists in the preparation of the loan application together with the required documentary support. The account officer further determines whether a property appraisal is warranted and, if so, is involved in overseeing the appraisal process. The account officer also conducts bank checking and credit reviews of the prospective borrower with the assistance of the credit support units. For borrowers from the middle-market segments, the account officer will pay particular attention to validating the borrower's financial position from different information sources. For transactional lending, the account officer may focus more on the size and quality of cash flows from the transaction, and less on the financial position of the borrower itself.

The Executive Committee, which includes the Bank's Chairperson, the President, Bank Directors and Senior Credit Executives, undertakes the analysis and evaluation of the credit proposal based on the recommendations of the senior credit officers. The Executive Committee deliberates on the viability of the credit proposal in general, but, more particularly, on the appropriateness of the credit extension and risks involved.

Credit Monitoring and Review Process

Pursuant to the BSP's Manual of Regulations for Banks (the "**Manual**"), the Bank is required to establish a system of identifying and monitoring existing or potential problem loans and other risk assets and of evaluating credit policies with regard to prevailing circumstances and emerging portfolio trends. In compliance with this requirement, the Bank has established credit support units under the RMG to review and monitor individual accounts within a particular portfolio to identify existing and potential areas at deterioration and assess the risks involved. In addition, the credit support units evaluate the degree to which a particular lending unit is complying with existing credit management policies.

The evaluation of the individual loan accounts culminates in the classification of the account. The classification indicates the degree or gravity of the perceived problems of the account reviewed. The reviewed loan accounts are classified in accordance with the standard classifications set forth in the Manual.

The review and recommended classification of a loan account are sent for comments to the assigned account officer and thereafter forwarded to the applicable unit head and respective heads of Corbank and Combank for further review. Either the Bank's President, Vice Chairman or RMG head may give final approval of a loan account's classification.

The Bank and its subsidiaries will, from time to time and in the ordinary course of business, enter into loans with directors, officers, stockholders and their related interests ("**DOSRI**"). All such loans are on commercial, arm's length terms. The General Banking Law (Republic Act No. 8791) and BSP regulations require that the total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed 100% of the Bank's net worth or 15% of the Bank's total loan portfolio, whichever is lower. The amount of any loan to a DOSRI of the Bank, of which 70% must be secured, may not exceed the aggregate amount of their unencumbered deposits with the Bank and the book value of their paid-in capital investments in the Bank. The Bank is required to report the level of DOSRI loans to the BSP on a weekly basis.

As at 31 December 2020, 2021, 2022 and 30 September 2023, DOSRI loans accounted for₱25.4 billion, ₱36.3, ₱23.4 billion and ₱28.4 billion, respectively, or approximately 1.1%, 1.5%, 0.9% and 1.0%, respectively, of the Bank's total loans. Of those amounts, ₱9.3 billion, ₱27.7 billion, ₱21.1 billion and ₱26.1 billion (which includes secured non-risk loans not subject to SBL ceiling), respectively, were accounted for by the SM Group as at 31 December 2020, 2021, 2022 and 30 September 2023 respectively.

Loan Loss Provisioning

The Bank classifies loans as non-performing in accordance with the guidelines of the BSP, which require banks to classify their loan portfolios based on perceived levels of risk to encourage timely and adequate management action to maintain the quality of their loan portfolios. These classifications are then used to determine the minimum levels of allowances for loan losses which banks are required to maintain.

For corporate and commercial loans, the Bank classifies non-performing loans based on four different categories established by the BSP, which correspond to levels of risk:

- "Loans especially mentioned" are loans which the Bank believes have potential weaknesses that deserve management's close attention, and which deficiencies, if left uncorrected, could affect repayment;
- "Substandard" loans are those which the Bank believes involve a substantial and unreasonable degree of risk to the Bank;
- "Doubtful" loans are those for which the Bank believes collection in full, either according to their terms or through liquidation, is highly improbable, and substantial loss is probable; and
- "Loss" loans are those which the Bank believes are impossible to collect or are worthless

The appropriate classification is generally made once payments on a loan are in arrears for more than 90 days, but may be made earlier when the loan is not yet past due under certain circumstances, including where there is defective documentation with respect to the loan. Once interest on a loan is past due for 90 days, the Bank will create a provision in respect of the interest accrued during the 90-day period and classify the entire principal outstanding under such loan as past due, and it may initiate calling on all loans outstanding to that borrower as due and demandable.

The RMG monitors compliance with BSP regulations with regard to loan loss provisioning. The Bank reviews its risk assets on a portfolio basis at least annually and, since June 2004, by account on a monthly basis in accordance with prescribed policy guidelines and the relevant BSP categorization.

The following is a summary of the risk classification of the Parent Bank's aggregate loan portfolio (as a percentage of total outstanding loans):

	As at 31 December				As at 30 September	
	2021		2022		2023	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
	Audited				Unaudited	
	(in ₱ millions, except Percentages)					
Classified						
Loans especially mentioned	83,512	3.6	51,424	2.0	44,098	1.7
Sub-standard	21,303	0.9	17,072	0.7	24,826	0.9
Doubtful	17,000	0.7	6,581	0.3	12,112	0.5
Loss	31,330	1.3	27,181	1.1	28,805	1.1
Total classified	153,145	6.5	102,258	4.1	109,841	4.2
Unclassified	2,185,279	93.5	2,421,237	95.9	2,515,475	95.8
Total	**2,338,424**	**100.0**	**2,523,495**	**100.0**	**2,625,316**	**100.0**

The Bank's allowance for loan impairments is made up of a specific component and a general unallocated component. For corporate loans, the specific component is based on the Bank's classification of individual loans as described above. The general component represents a blanket reserve required by the BSP, equivalent to 1% of the outstanding balance of unclassified loans other than restructured loans less non-risk loans, and 5% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured non-risk loans.

The Board has discretion as to how frequently it writes off its classified loans, provided that these are made against provisions for probable losses or against current operations. Prior BSP approval is required to write off a DOSRI loan account.

Past-due accounts of both Corporate Banking and Commercial Banking are initially placed on a "watch list" for closer monitoring and supervision. Past-due loans are then referred to the Bank's Remedial Management Unit if the Bank has determined (i) such loans to be uncollectible, (ii) to terminate its relationship with the borrower or (iii) recovery of such loans will require special management.

Expected Credit Loss (ECL)

The Bank measures loss allowances based on ECL. At the end of the reporting period, the Bank assesses its ECL on a forward-looking basis by considering a broad 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 key elements used in the calculation of ECL are as follows:

- Probability of Default (PD) – 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) – 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 the Bank 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) – represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the Bank 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 Bank 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 Bank.

Remedial Management

The Remedial Management Unit directly supervises the management of past due loans that are referred to it. For problem loans management, the Bank has two specialized remedial management units to handle corporate/commercial loans and consumer loans. A problem account is assigned to an account officer who evaluates, determines and proposes the appropriate remedial recourse available to the Bank. Commercial solutions instituted include restructuring, payment arrangements, reduction of loan to serviceable level via sale of collateral and/or unencumbered assets or *dacion en pago* (payment in kind). In case a commercial solution ceases to be feasible, the Bank undertakes legal action, through its legal department, for either foreclosure of loan collateral or criminal/civil collection suits.

Foreclosed assets and assets conveyed to the Bank via *dacion en pago* goes to Bank's ROPA Management Team which monitors redemption, possession and consolidation of acquired properties. From past due loans, acquired assets are classified as ROPA. Eventually, an acquired property goes up for sale signaling end of the remedial process.

Taking into account cash or non-cash payments that can be derived from the borrower, account officers review and continually assess impaired values of each problem account. Furthermore, they compute for the present value of an account's expected/potential collection to determine any impairment in value. The impaired value is then compared with the credit classification and booked provision. Any adjustment, if necessary, is made accordingly.

All remedial actions require approval of the Bank's Management Credit Committee or Executive Committee depending on the amount of obligation and/or complexity of remedial action. Disposition of the Bank's acquired assets, likewise requires approval of the Executive Committee.

Non-Performing Loans ("NPL") and ROPA

The table below sets forth details of the Bank's NPLs, non-accruing loans, ROPA, non-performing assets (as described below), restructured loans and write-offs for loan losses for the specified periods:

	As at 31 December		**As at 30 September**
	2021	**2022**	**2023**
	(in ₱ millions, except ratios, which are in percentages)		
Gross non-performing loans(1)	69,821	53,314	55,454
Net non-performing loans(1)	36,323	21,547	21, 861
Total loans(1)	2,495,002	2,739,938	2,790,519
Gross non-performing loans to total loans (%)(1)	2.80	1.95	1.99
Net non-performing loans to total loans (%)(1)	1.46	0.79	0.78
ROPA — net	11,845	15,198	13,824
Non-performing assets(2)	83,585	70,422	71,185
Non-performing assets as percentage of total resources (%)	2.31	1.73	1.66
Allowance for impairment of assets	79,589	90,778	99,403

Allowance for loan impairments[3]	77,670	88,868	97,496
Allowance for ROPA impairments	1,919	1,911	1,906
Allowances for loan impairments as a percentage of total non-performing loans (%)	111.24	166.69	175.81
Allowances for impairment of assets as a percentage of non-performing assets (%)	95.22	128.91	139.6
Total restructured loans	143,337	102,415	86,185
Current	133,567	91,793	74,260
Past due	9,718	10,571	11,873
In litigation	52	52	52
Restructured loans as percentage of total loans (%)	6.4	3.7	2.2
Write-offs	8,832	8,443	2,392

Notes:
(1) Per BSP Circular 941. Excludes accrued interest receivables, unearned interests or discounts and capitalized interest
(2) Non-performing assets comprise ROPA (gross) and non-performing loans.
(3) Starting 31 December 2018, includes amount of appropriation to surplus reserves for general loan loss portfolio.

The Bank classifies loans as past due upon the occurrence of certain non-payment events, and then reclassifies such loans as "non-accruing" or "non-performing" upon continuing non-payment or payment default, in accordance with BSP guidelines. In the case of loans requiring repayment of principal at maturity or scheduled payment of principal or interest due quarterly (or longer), failure to make such payment on the due date triggers non-performing classification. In the case of loans requiring payment of principal or interest on a monthly basis, continued failure to make payment for three months from the due date triggers non-performing classification.

As at 30 September 2023, the Bank's ten largest NPLs amounted to ₱9.6 billion or approximately 0.3% of the Bank's total loans.

Sectorial analysis of non-performing loans

The following table sets forth, as at the dates indicated, the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs:

	As at 31 December				**As at 30 September**	
	2021		**2022**		**2023**	
	amount	**per cent.**	**amount**	**per cent.**	**amount**	**per cent.**
	(in ₱ millions, except percentages)					
Agriculture, forestry and fishing	1,277	1.8	1,061	2.0	1,184	2.1
Mining and quarrying	55	0.1	40	0.1	64	0.1
Manufacturing	6,777	9.5	5,209	9.6	5,456	9.7
Electricity, gas, steam and air-conditioning supply	23	0.0	22	0.0	22	0.0
Water supply, sewerage, waste management and remediation activities	9	0.0	6	0.0	5	0.0
Construction	5,636	7.9	5,734	10.6	6,231	11.1
Wholesale and retail trade	5,949	8.4	6,170	11.4	6,073	10.8
Transportation and storage	2,150	3.0	1,342	2.5	1,240	2.2

Accommodation and food services activities	491	0.7	369	0.7	266	0.5
Information and communication	655	0.9	868	1.6	875	1.6
Financial and insurance activities	149	0.2	52	0.1	51	0.1
Real estate activities	264	0.4	206	0.4	273	0.5
Professional, scientific and technical services	604	0.8	462	0.9	452	0.8
Administrative and support services	929	1.3	723	1.3	718	1.3
Public administrative and defense; compulsory social security	31	0.0	25	0.0	31	0.1
Education	0	0.0	0	0.0	0	0.0
Human health and social work activities	947	1.3	725	1.3	838	1.5
Arts, entertainment and recreation	280	0.4	128	0.2	158	0.3
Other service activities	43	0.1	36	0.1	40	0.1
Activities of private household as employers and undifferentiated goods and services	13,986	19.7	8,614	15.9	7,663	13.6
Activities of Households for Own Use	30,860	43.4	22,443	41.4	24,668	43.8
Activities of extraterritorial organizations and bodies	0	0.0	0	0.0	0	0.0
Total	**71,115**	**100.0**	**54,235**	**100.0**	**56,308**	**100.0**

Loans that are subsequently foreclosed or transferred to the Bank's ROPA account are removed from the non-performing category. Accrued interest arising from a loan account is classified according to the classification of the corresponding loan account. In accordance with BSP guidelines, loans and other assets in litigation are classified as non-performing assets. The Bank's non-performing assets principally comprise ROPA and NPLs.

Foreclosure and Disposal of Assets

The Bank's preferred strategy for managing its exposure to NPLs that are secured is to restructure the payment terms of such loans. The Bank will only foreclose on an NPL if restructuring is not feasible or practical, or if the borrower cannot or will not repay the loan on acceptable terms. In the case of larger loans, the Bank may also consider accepting a *dacion en pago* arrangement.

In the nine months ended 30 September 2023, the Bank sold ₱3.5 billion of acquired assets in ROPA. The Bank had a net ROPA of ₱9.7 billion, ₱11.8 billion, ₱ 15.2 billion and ₱ 13.8 billion, as at 31 December 2020, 2021, 2022 and 30 September 2023, consisting of various real estate properties and shares of stock in several companies.

Under the current regulations, the Bank is required to conduct impairment testing on its acquired assets, which becomes the basis for the provisioning levels. The Bank's valuation reserves on ROPA amounted to ₱1.9 billion, ₱1.9 billion, ₱1.9 billion and ₱1.9 billion, as at 31 December 2020, 2021, 2022 and 30 September 2023, respectively.

MANAGEMENT, EMPLOYEES AND SHAREHOLDERS

EMPLOYEES

Employees

As at 30 September 2023, the Bank employed a total of 40,799 people, 21,167 of whom were engaged in a professional managerial capacity and classified as Bank officers.

Bank staff employees, other than those expressly excluded in the Collective Bargaining Agreement ("CBA"), are represented by the Banco De Oro Employees Association (the "Union"), an affiliate of the Associated Labor Unions. The Bank's CBA is in effect for a period of five years from 1 November 2020 to 31 October 2025 in so far as the representation aspect is concerned. Ratification by covered employees in the National Capital Region and provincial areas was conducted on 13 December 2020 with overwhelming acceptance from the Union members. Discussion on the renewal of economic provisions for the covered period 1 November 2023 to 31 October 2025 is ongoing

The Bank has not suffered any strikes since it started operations, and the management of the Bank considers its relations with its employees and the Union to be good.

The average age of the Bank's officers and employees is 34 years, and the average Bank-wide tenure is nine years. The mandatory retirement age for the Bank is 60 years.

The aggregate compensation paid to employees by the Bank for the years ended 31 December 2020, 2021, 2022 and the nine months ended 30 September 2023 were ₱37.4 billion, ₱41.7 billion, ₱44.4 billion and ₱37.3 billion, respectively.

The Bank maintains a tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As at 31 December 2022, the fair value of the retirement plan assets of the Bank was ₱43.4 billion and the present value of the obligation was at ₱43.1 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized retirement benefit assets of ₱ 215 million for 2022.

Employee Insurance

The Bank provides its employees with group life insurance coverage from BDO Life, and group personal accident insurance which covers accidental death and dismemberment from CHUBB Insurance (formerly ACE Insurance), in line with good business practice and in accordance with Philippine standards. Insurance premium payments for these policies are paid entirely by the Bank.

MANAGEMENT

Board of Directors

The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Bank. It is also responsible for the proper administration and management of the Bank's trust business.

The following table sets forth the persons who served as a Director of the Bank as at 30 September 2023:

Name	Position	No. of Years as Director
Teresita T. Sy	Chairperson	first term: 28; second term: 16

Name	Position	No. of Years as Director
Jones M. Castro, Jr.	Director	11
Dioscoro I. Ramos	Lead Independent Director	7
George T. Barcelon	Independent Director	4
Josefina N. Tan	Director	first term: 4; second term: 16
Nestor V. Tan	Director/President and CEO	25
Vicente S. Pérez, Jr.	Independent Director	4
Vipul Bhagat	Independent Director	1
Walter C. Wassmer	Director	1
Estela P. Bernabe	Independent Director	1

Teresita T. Sy, Filipino has been a member of the Board of Directors of the Bank since 1977, and currently serves as the Chairperson of the Board. Concurrently, she serves as Chairperson and/or Director of various subsidiaries and affiliates of the Bank: BDO Private Bank, Inc., , BDO Finance Corporation, BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. Ms. Sy also serves as Advisor to the Board of Directors of BDO Network Bank, Inc. Ms. Sy is the Vice Chairperson of SM Investments Corporation and Advisor to the Board of SM Prime Holdings, Inc. She also sits as Chairperson of the Board of SM Retail, Inc. A graduate of Assumption College with a degree of Bachelor of Arts and Science in Commerce major in Management, she brings to the board her diverse expertise in banking and finance, retail merchandising, mall and real estate development.

Nestor V. Tan, Filipino, is the President and CEO of the Bank. He was elected to the Board of Directors on 27 June 1998. He concurrently holds the chairmanship of the following Bank subsidiaries: BDO Strategic Holdings, Inc. and BDO Network Bank, Inc. He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Finance Corporation, BDO Capital & Investment Corporation, BDO Life Assurance Company, Inc., BDO Private Bank, Inc., and SM Keppel Land, Inc. He is a Trustee of BDO Foundation, Inc., and Chairman of the Board of Trustees of the De La Salle University. He is also the Chairman of Bancnet, the operator of the electronic payment system, InstaPay, and the ATM switching utility for Philippine banks. He is the past President and Chairman and current Director of the Bankers Association of the Philippines. Previously, he wa Chairman and director of Philippine Dealing System Holding Corporation. Prior to joining BDO Unibank, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them Mellon Bank (now BNY Mellon) in Pittsburgh, PA; Bankers Trust Company (now Deutsche Bank) in New York; and the Barclays Group in New York and London. He holds a bachelor's degree in Commerce from De La Salle University and an MBA from the Wharton School, University of Pennsylvania.

Jones M. Castro, Jr., Filipino and American, first became an Independent Director of the Bank on 20 April 2012. He was Lead Independent Director of BDO Unibank from 7 December 2013 to 23 April 2021. Mr. Castro has 49 years of banking expertise, with 42 years of international banking experience. From 2009 to 2011, Mr. Castro was the Area Head for South and Southeast Asia of the Wells Fargo Bank, San Francisco. As Area Head, Mr. Castro had responsibility for 12 countries and managed 11 overseas offices with a total of 102 team members and U.S.$3 billion in loans. From 2006 to 2009, Mr. Castro was Regional Head for Latin America, including the Caribbean, of Wachovia Bank, Miami, and likewise had responsibility for 25 countries, three overseas offices, 30 team members and a U.S.$1.8 billion loan portfolio. From 2005 to 2006, he was Executive Vice President and International Banking Group Head of the Union Bank of California, San Francisco. From 1990 to 1994, he was Senior Vice President – Controller of Bank of California, San Francisco, and from 1994 to 1997, he was its Senior Vice President of Strategic Planning. Mr. Castro is currently Trustee of PhilDev USA and PhilDev S & Tand is a Fellow at the Institute of Corporate Directors. Mr. Castro obtained his bachelor's degree in Applied Mathematics in Economics and graduated cum laude from Harvard University. He received his Master's in Business Administration, Accounting and Finance from Stanford University.

Dioscoro I. Ramos, Filipino, was elected to the Board of Directors of the Bank in January 2016 and was appointed Lead Independent Director on 23 April 2021. Mr. Ramos concurrently holds Independent Director positions in BDO Private Bank, Inc. and BDO Securities Corporation. Since 2013, Mr. Ramos has been the Chief Executive Officer and Chief Investment Officer of RY&S Investments Ltd., Hong Kong. A CPA, he was Head of Asia Financials Investment Research of Goldman Sachs Asia, LLC, Hong Kong from 1994 to 2011 and appointed Managing Director in 1998 and Partner in 2006. Prior to this, he was with Mellon Bank, N.A. with postings in Pittsburgh, Philadelphia, New York, and Hong Kong. He holds a Bachelor of Science degree in Business Administration and Accountancy, cum laude, from the University of the Philippines and a Master's in Business degree from Wharton School, University of Pennsylvania.

Josefina N. Tan, Filipino, was Director of Banco de Oro Universal Bank (now BDO Unibank, Inc.) from 3 February 2001 to August 2005. She then became a Director of Equitable PCI Bank, Inc. from September 2005 until its merger with BDO Unibank in May 2007. Ms. Tan was re-elected to the Board of Directors of the Bank on 27 July 2007. Concurrently, she is Board Advisor of BDO Private Bank, Inc. She is also the Chairperson of the Board of Miriam College and a Trustee and Corporate Secretary of the Development Center for Finance and Trustee of the Laura Vicuña Foundation. She is also a Treasurer of the Equestrian Order of the Holy Sepulchre of Jerusalem. She served as President and Director of BDO Private Bank, Inc. from 29 August 2003 to 17 April 2017. She was also Executive Vice President of the former Far East Bank & Trust Co.; Director and President of FEB Leasing & Finance Corp.; Executive Director and Trustee of FEB Foundation, Inc.; and Executive Vice President of FEB Investments, Inc. until 2000. Ms. Tan holds a Bachelor of Arts degree with a major in Communication Arts from Maryknoll College, and a Masters in Business Administration from Ateneo Graduate School of Business.

George T. Barcelon, Filipino, was elected Independent Director of the Bank on 22 April 2019. He is currently the President of the Philippine Chamber of Commerce and Industry (PCCI). He is the visionary behind Integrated Computer Systems, Inc. (ICS), one of the Top 1000 companies based in the Philippines, dedicated to providing effective IT Solutions for small- to large-scale businesses and institutions. For 45 years, ICS has provided its customers with technological expertise and quality services. As the president of a company with 400 employees whose success depends on uncompromising leadership, imagination and careful quality control. Mr. Barcelon seeks to promote the values of integrity, commitment and service quality, the cornerstones upon which ICS was built. Mr. Barcelon is currently the Chairman of the Philippine Chamber of Commerce and Industry (PCCI). He is also a member of the Rotary Club of Makati and a board member of the Cardinal Medical Charities Foundation, Inc. Mr. Barcelon graduated cum laude from De La Salle University Manila where he obtained a Bachelor's Degree in Chemical Engineering.

Vicente S. Perez, Jr., Filipino, was elected Independent Director of the Bank on 22 April 2019. He is currently Chairman of Alternergy, a wind, solar and run-of-river power developer and an Independent Director of DoubleDragon Properties Corp. He is also a Non-Executive Director of Singapore Technologies Telemedia Pte, Ltd. He is a member of the Advisory Boards of Bhutan Foundation, New Zealand Trade and Enterprise, Geneva-based Pictet Clean Energy Funds, and the Yale Center for Business and the Environment. In 2020, he was appointed Honorary Consul of the Kingdom of Bhutan in the Philippines. He was Philippine Energy Secretary from 2001 to 2005. Mr. Perez briefly served in early 2001 as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments. Prior to his government service, Mr. Perez had 17 years of banking experience, first in Latin American debt restructuring at Mellon Bank in Pittsburgh, and later in debt capital markets in emerging countries at Lazard in London, New York and Singapore. At 35, he became General Partner at New York Investment Bank Lazard Freres as head of its Emerging Markets Group. He was Managing Director of Lazard Asia in Singapore from 1995 to 1997 when he co-founded Next Century Partners. a private equity firm based in Singapore. In 2005, he was briefly a government-appointed director of Philippine National Bank until its privatization. Mr. Perez obtained his Master's in Business Administration from the Wharton Business School of the University of Pennsylvania in 1983 and his bachelor's degree in Business Economics from the University of the Philippines in 1979. He was a 2005 World Fellow at Yale University where he lectured an MBA class on renewable power at the Yale School of Management.

Walter C. Wassmer, Filipino**,** was elected to the Board of Directors of BDO on 22 April 2022. Prior to his election as Director of BDO, Mr. Wassmer was Senior Executive Vice President and Head of the Institutional Banking Group of BDO. He was previously Chairman and Officer-in-Charge of BDO Elite Savings Bank, Inc., formerly GE Money Bank, Inc. (A Savings Bank), and held directorships in BDO Leasing and Finance, Inc., BDO Finance Corporation, BDO Capital & Investment Corporation, MMPC Auto Financial Services Corporation, MDB Land, Inc., Mabuhay Vinyl Corporation, and Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.). He was also appointed as Senior Board Adviser of First Philippine Holdings Corporation on 10 November 2022. He holds a Bachelor of Science degree in Commerce from De La Salle University.

Estela P. Bernabe Filipino**,** was appointed as Independent Director of BDO Unibank, Inc. effective July 31, 2022. She was Senior Associate Justice of the Supreme Court of the Philippines. She served the Judiciary as Justice of the Court of Appeals, Regional Trial Court Judge of Makati City, Metropolitan Trial Court Judge of the same city, and as Technical Assistant in the Office of the Court Administrator, Supreme Court of the Philippines. She also worked in various private and government offices, namely, China Banking Corporation, Paramount Finance Corp., National Home Mortgage and Finance Corp. and Bernabe Perlas Morte and Associates. She has over 40 years of experience in public and private legal practice. She earned her Bachelor of Science degree in Commerce (Banking and Finance) and graduated *magna cum laude* from St. Paul College of Manila, and obtained her law degree from the Ateneo de Manila University College of Law, graduating as class salutatorian. She is also an Independent Director of San Miguel Food and Beverage, Inc. effective 3 August 2022, and was elected member of the Board of Trustees of the Foundation for Liberty and Prosperity last 6 December 2022.

Vipul Bhagat, American, was appointed as Independent Director of BDO Unibank, Inc. on January 8, 2022. Prior to this, he was an Independent Board Advisor of BDO. He was formerly the Deputy Head in the Public-Private Partnership ("**PPP**") Advisory Services Department at the International Finance Corporation in Washington, D.C., and was responsible for strategic sectors, including climate-friendly projects. Previous to this, Mr. Bhagat was stationed in Asia for over eleven (11) years, most recently as Regional Head for PPP Advisory Services in South Asia (based in India), where he successfully launched and significantly grew the business advising Governments in the region on PPPs in infrastructure and social sectors and facilitating investment flows for projects. Mr. Bhagat has deep knowledge of the Philippines having been previously the Country Manager of IFC for the Philippines. He has been engaged in extensive operational work in infrastructure portfolio, advisory activities, financial sector investments, private sector investment banking, consulting and finance operations. Mr. Bhagat holds a master's degree in Business Administration from The Wharton School of the University of Pennsylvania and a bachelor's degree from the American University, Washington, D.C. He is also a designated Chartered Financial Analyst and a Certified Public Accountant.

The following table shows the shareholdings of each current Director in the Bank as at 30 September 2023:

Name	No. of Shares	% of Total Shares
Teresita T. Sy	640,233	0.01%
Nestor V. Tan	23,822,792	0.45%
Estela P. Bernabe (Independent Director)	10,001	0.00%
Jones M. Castro, Jr.	35,151	0.00%
Vipul Bhagat (Independent Director)	1	0.00%
Josefina N. Tan	1,063,605	0.02%
Walter C. Wassmer	1,580,338	0.03%
Vicente S. Perez, Jr. (Independent Director)	36,000	0.00%
Dioscoro I. Ramos (Lead Independent Director)	277,880	0.00%
George T. Barcelon (Independent Director)	241,201	0.00%

The aggregate compensation paid by the Bank to its Directors for the years ended 31 December 2020, 2021, 2022 and 30 September 2023 was ₱87.2 million, ₱98.6 million, ₱95.1 million and ₱54.1 million, respectively.

As at 31 December 2020, 2021, 2022 and 30 September 2023, loans from the Bank to Directors totaled, ₱3.1 million, ₱2.8 million, 0 and 0, respectively. All loans to Directors are made on arm's length commercial terms.

Senior Management

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Bank. They are responsible for the implementation of the policies set by the Board of Directors. The following is a list of the Bank's key officers:

Name	**Position**
Nestor V. Tan	President, CEO and Director
Joseph Albert L. Gotuaco	Head, Central Operations Group
Rolando C. Tanchanco	Head, Consumer Lending Group
Ma. Corazon A. Mallillin	Head, Branch Banking Group
Gerard Lee B. Co	Co-Head, Business Lending
Jeanette S. Javellana	Co-Head, Business Lending
Charles M. Rodriguez	Head, Institutional Banking Group
Dalmacio D. Martin	Treasurer
Eduardo V. Francisco	President, BDO Capital & Investment Corporation
Rafael G. Ayuste	Head, Trust and Investments Group
Albert S. Yeo	President, BDO Private Bank, Inc.
L. Jerome C. Guevarra	Chief of Staff; Head, Governance Group
Carlo B. Nazareno	Head, Transaction Banking Group – Cash Management Services
Geneva T. Gloria	Head, Transaction Banking Group – Remittance
Maria Theresa L. Tan	General Manager, BDO Insurance Brokers, Inc.
Renato A. Vergel de Dios	President and CEO, BDO Life Assurance Company, Inc.
Jesus Antonio S. Itchon	President, BDO Network Bank, Inc.
Frederic Mark S. Gomez	Head, Information Technology Group
Evelyn L. Villanueva	Head, Risk Management Group
Luis S. Reyes, Jr.	Head, Investor Relations and Corporate Planning
Estrellita V. Ong	Head, Internal Audit Group
Federico P. Tancongco	Chief Compliance Officer
Alvin C. Go	Head, Legal Service Group & Asst. Corporate Secretary
Lucy Co Dy	Comptroller
Evelyn C. Salagubang	Head, Human Resources Group

Joseph Albert Lim Gotuaco, Filipino, is Senior Executive Vice President and Head of the Bank's Central Operations Group. He has served at BDO since February 2019 and helps manage the Bank's primary infrastructure relevant to transactions and payments processing, logistics, and customer fulfillment. Mr. Gotuaco started his banking career in New York in 1986, as a trader, structurer, and risk manager for fixed income derivatives and securities. He was then based in Hong Kong between 1994 and 2009, where he was responsible for credit and fixed income origination for corporate, financial institution, and sovereign clients in the Philippines and in Southeast Asia. In Hong Kong, Mr. Gotuaco was employed at J.P. Morgan, Credit Suisse First Boston, and finally at Merrill Lynch where he was a Managing Director and served on its Asia Pacific Operating Committee. Following this, Mr. Gotuaco moved to Singapore, where he worked for an investment vehicle of the Brunei government, helping manage investments in general aviation (Piper Aircraft) and related inhouse financing programs (Piper Capital). Mr. Gotuaco returned to the Philippines in 2013, joining Bank of the Philippine Islands ("BPI"). Until 2016, he served as CFO; from 2016 to 2018, he headed Retail Banking. Mr. Gotuaco obtained his B.S. Economics degree, summa cum laude, in finance and marketing in 1986, from the Wharton School at the University of Pennsylvania. He obtained his MBA from Harvard Business School in 1994. He also currently serves on the Board of Directors of the Philippine Clearing House Corporation ("**PHCH**").

Rolando C. Tanchanco, Filipino, is Senior Executive Vice President and Head of its Consumer Lending Group. His responsibilities cover all retail lending businesses (Home Mortgages, Auto Financing, Small Business Loans, Credit Cards and Personal Loans), Payment Channels, and Digital Banking. He currently sits on the board of BDO Network Bank Inc., BDO Insurance Brokers Inc. and TransUnion Phils Inc. Mr. Tanchanco is a member of Visa Asia Pacific Client and Risk Councils, American Express Partner Advisory Council, and UnionPay SEA Regional Council. Prior to joining BDO, Mr. Tanchanco was president of AIG Savings Bank and Managing

Director of AIG Credit Card Company. He holds a Bachelor's degree in Business Economics, cum laude from the University of the Philippines and a Master's degree from the Asian Institute of Management

Gerard Lee B. Co, Filipino, is Executive Vice President and Co-Head of Business Lending. He is a Director of Markham One Development Corp. He graduated from the University of San Carlos with a Degree in Bachelor of Science in Commerce Major in Banking and Finance. He attended the Advanced Management Program for International Bankers at the Wharton School of the University of Pennsylvania, U.S.A. He likewise completed the Program for Executive Development at IMD in Laussane, Switzerland. He joined the Bank in October 1993 as Vice President for Visayas Division.

Lucy Co Dy, Filipino**, is** Executive Vice President and Comptroller. She currently holds the position of Director of BDO Life Assurance Company, Inc., BDO Remit Limited and BDORO Europe, Ltd. She is also Director and Treasurer of BDO Strategic Holdings, Inc.; Trustee and Treasurer of BDO Foundation, Inc. She holds a bachelor's degree in Accounting from the University of Santo Tomas.

Eduardo V. Francisco, Filipino, is Executive Vice President and President/Director of BDO Capital & Investment Corporation, the investment banking arm of BDO Unibank, Inc. and Chairman of Averon Holdings Corp. He sits on several boards such as the Development Center for Finance, CIBI Foundation, Shareholders Association of the Philippines ("**SharePhil**"), International School of Manila, UP College of Business Alumni Association, Financial Executives Institute of the Philippines ("**FINEX**") Foundation and Valle Verde Country Club, Inc. He is also a member of Makati Business Club ("**SSS**"), and the POLO Triathlon Team. He is on the Capital Markets committees of the Bankers Association of the Philippines and Philippine Stock Exchange. He is also in the Listings committee of the Philippine Dealing and Exchange Corporation. He is the former Chairman of BDO Nomura Securities, Inc. and Chairman for the International Association of Financial Executives Institutes ("**IAFEI**"). He was the CoChairman of the Capital Market Development Council ("**CMDC**") of the Philippines, Vice Chairman of the Integrity Initiative, and has been the President of the Management Association of the Philippines ("**MAP**"), FINEX, Wharton-Penn Club, Federation of Valle Verde Associations, First Valle Verde Association Inc. and BDO Securities Corporation. Mr. Francisco has worked with other financial institutions in New York and Hong Kong such as Bank of America and Barclays Bank. He holds a MBA from the Wharton School of the University of Pennsylvania and Bachelor's degree in Business Administration from the University of the Philippines. He is a recipient of Financial Management Excellence from the University of the Philippines and the Distinguished Alumnus Award from the U.P. College of Business Administration. He was honored by BizNewsAsia as one of the Nation Builders and was an Asia Leaders Award's Mentor of the Year finalist.

Lazaro Jerome C. Guevarra, Filipino, is Executive Vice President and Chief of Staff for the Office of the President and concurrently is the Head of the Governance Group, administratively overseeing the Legal Services & Corporate Secretary, Compliance, Internal Audit, and Information & Cyber Security Office. He also holds the following positions in the BDO Group: Chairman of BDO Insurance Brokers, Inc., BDO Remit (Japan) Ltd., BDO Remit (USA), Inc. and BDO Remit (Canada) Ltd.,; Director of Dominion Holdings, Inc., BDO Strategic Holdings, BDORO Europe Ltd. Inc., Averon Holdings Corp., SM Keppel Land, Inc., Nashville Holdings, Inc. and NorthPine Land Inc.; Trustee of BDO Foundation, Inc.; and Advisor to the Board of BDO Securities Corporation. He was previously the Head of Advisory and Mergers & Acquisitions Team of BDO Capital & Investment Corporation and President of BDO Securities Corporation. Mr. Guevarra is a graduate of the University of the Philippines – School of Economics and has had more than 30 years of experience in banking, financial analysis, and mergers & acquisition.

Jesus Antonio S. Itchon, Filipino, is Executive Vice President of BDO Unibank, Inc. since 15 September 2017. He is seconded to BDO Network Bank, Inc. and serves as President of BDO Network Bank, Inc. He has more than 35 years' experience in the banking industry. Prior to joining the Bank, he was an Executive Vice President of Property Company of Friends, Inc. since 2016 and Williamton Financing Corporation since 2017, and Independent Director of Paymaya Phils. Inc. since 2015. Mr. Itchon also worked with Citibank N.A. Philippines as Managing Director and City Country Compliance Officer and Citibank Savings holding various positions within the years 1986 to 2015, including being its President. He graduated from the De La Salle University with a degree in Bachelor of Arts in Economics and from Johnson Graduate School of Management, Cornell University with master's degree in Business Administration.

Jeanette S. Javellana, Filipino, is Executive Vice President and Co-Head of Business Lending. She joined the Bank in October 2001.

Ma. Corazon A. Mallillin, Filipino, is Executive Vice President of BDO Unibank, Inc and Head of Branch Banking Group. She is currently the Deputy Group Head of Branch Banking Group and has been with BDO Unibank for more than seventeen (17) years. She joined BDO Unibank in March 2005 as Region Head of Branch Banking. Prior to that, she was Senior Vice President for Branch Banking of both Maybank, Phils. (2002 to 2005) and Asiatrust Bank (1998 to 2002). She started her career as a Management Trainee of PCIBank in 1982 and was an Assistant Vice President of PCIBank in 1998. Atty. Mallillin holds a Bachelor of Arts degree in Economics and a Bachelor of Laws degree from the University of the Philippines.

Dalmacio D. Martin, Filipino, is Executive Vice President of BDO Unibank, Inc. He has been with the Bank for more than ten (10) years. He is currently the Bank's Treasurer of the Bank's Treasury Group. He holds a bachelor's degree in B.A Political Science from the University of California, Berkeley and a master's in management from the Arthur D. Little MEI.

Luis S. Reyes, Jr., Filipino, is Executive Vice President for Investor Relations and Corporate Planning. He is concurrently a Director of BDO Strategic Holdings, Inc. and BDORO Europe Ltd., and Chairman of Nashville Holdings, Inc. He is also a Director and Treasurer of Dominion Holdings, Inc. and BDO Rental, Inc., and Treasurer of BDO Finance Corporation. He holds a Bachelor of Science degree in Business Economics from the University of the Philippines. He was First Vice President of Far East Bank & Trust Company, Trust Banking Group before joining BDO.

Charles M. Rodriguez, Filipino, is Executive Vice President and Head of the Institutional Banking Group. He. graduated with a degree of Bachelor of Science in Management Engineering at the Ateneo de Manila University. He holds a Master's Degree in Business Administration major in Finance at the University of Cincinnati, USA. He has more than 38 years of experience in banking industry. From formerly being a Senior Vice President under IBG-Corbank of BDO Unibank, he became the Executive Vice President and Head of Wholesale Banking segment of Security Bank Corporation since 2018. He has an extensive experience in corporate and investment banking having worked at ANZ Banking Group Limited, ABN AMRO Bank, FEB Investments, Inc., and Far Eastern Bank and Trust Company.

Evelyn L. Villanueva, Filipino, is Executive Vice President of BDO's Risk Management Group, and is BDO's Chief Risk Officer. She holds a bachelor's degree in Statistics from the University of the Philippines. She obtained her master's in business management degree from the Asian Institute of Management. She has over 30 years of banking experience in corporate banking and enterprise-wide risk management covering credit, market, liquidity, interest rate and operational risk management. She started out as a management trainee in Citytrust Banking Corporation and was connected with HSBC as Senior Vice President for Credit Risk Management before joining BDO.

Albert S. Yeo, Filipino, is an Executive Vice President at BDO Unibank, Inc, since 3 January 2017. Mr. Yeo, prior to joining the Bank, had been with Merrill Lynch & Co. for 17 years, last as a Senior Financial Advisor at their Manhattan Beach Office in Los Angeles, California. He was also connected with UBS Securities and Prudential Securities, Inc. (now Wells Fargo Advisors) in various capacities in the financial services industry. Prior to that, he was connected with IBJ Schroder Bank and Trust (now Mizuho Bank) in their Capital Markets Group in New York City for five years. Before his MBA, he spent two years at Rizal Commercial Banking Corporation as a Corporate Banking officer at their Binondo area headquarter. Mr. Yeo earned his MBA in Finance from the Wharton School at the University of Pennsylvania. He finished his undergraduate degree at the Ateneo de Manila University, BS Management Engineering with *Magna Cum Laude* distinction and was the Departmental awardee of his class.

Rafael G. Ayuste, Jr., Filipino, is Senior Vice President of BDO Unibank, Inc. He has been with BDO Unibank for more than eight (8) years. He is currently the Trust Officer and Head of BDO Trust and Investments Group and was the Trust Officer and Head of Wealth Advisory and Trust Group of BDO Private Bank, Inc. He has more than 36 years banking experience, with 28 years in trust banking. He holds a bachelor's degree in Business Administration from University of Sto. Tomas, a Master's degree in Business Administration (Nominee) from De La Salle University and an Executive Master's Degree (Nominee) in Business Economics from University of Asia and the Pacific.

Geneva T. Gloria, Filipino, is Senior Vice President and the Head of BDO Remittance – Transaction Banking Group. She was also elected as a Director of BDO Network Bank, Inc. on January 4, 2020. She has been with BDO Unibank for more than twenty (20) years and has over thirty (30) years experience in the banking industry.

She is also the concurrent director of BDO Remit offices located in Hong Kong, Macau, Japan, USA, Canada and the UK. Having acquired more than twenty-five (25) years in the remittance industry, her expertise spans from business development, local and foreign remittance operations, project management to marketing. Ms. Gloria has earned the reputation of having a very deep understanding of the overseas Filipino market for she was once an overseas worker herself. BDO Unibank has been a consistent recipient of the BSP's Top Commercial Bank in Generating Remittances from overseas Filipinos' award beginning 2008 to 2010 and again, from 2013 to 2019. BDO Unibank, through Ms. Gloria, has been supporting the projects of the government for the overseas Filipino market particularly - financial inclusion. In 2014, Ms. Gloria and her team launched a grassroots marketing campaign in various provinces across the country. The campaign has evolved and went on to dig deeper into the overseas Filipino market and the underserved clients. Ms. Gloria holds a Bachelor of Science degree in Business Administration from the University of the Philippines.

Alvin C. Go, Filipino, is Senior Vice President and Head of the Legal Services Group. He was also appointed as Assistant Corporate Secretary and Alternate Corporate Information Officer on October 1, 2015. Prior to joining BDO, he was the Chief Legal Counsel of Philippine National Bank from 2003 to 2012. He was an Associate Attorney of Salonga, Ordonez, Yap, Corpuz Padlan & Associates Law Offices from 1985 to 1989. He served as Prosecution Attorney from 1989 to 1990 and State Prosecutor of the Department of Justice from 1990 to 1993. He was a Senior Partner at Go, Cojuangco, Mendoza, Ligon and Castro Law Offices from 1994 to 1999, and Senior Partner at Go and Castro Law Offices from 1999 to 2003. He obtained his Bachelor of Arts, Major in Political Science, from the Immaculate Concepcion College, Ozamiz City and his Bachelor of Laws from Misamis University.

Frederic Mark S. Gomez, Filipino, is the Senior Vice President of BDO Unibank, Inc. He joined the Bank on 15 November 2017 and was appointed as Head of Information Technology Group and Member of the IT Steering Committee, effective 1 March 2018. Prior to joining the Bank, Mr. Gomez was Vice President and Chief Information/Technology Officer for Information Technology, Asia Pacific of S&P Global, Inc. from January 2011 to January 2017. He held various positions at Standard & Poor's (New York, USA) since 1996 before becoming its Vice President and Global IT Head for Sales and Marketing Systems in February 2008 up to January 2011. He graduated from the University of Santo Tomas with a degree in Bachelor of Science in Business Administration.

Carlo B. Nazareno, Filipino, is the Senior Vice President and Head of Cash Management Services - Transaction Banking Group. He has more than twenty-five (25) years of experience in the banking industry. He worked with HSBC Bank, Plc (London) from March 2013 until June 2020, occupying various positions, from Regional Head of Product Management, Europe, Payments and Cash Management; Global Standards Lead of Payment Services; and Global Lead of GLCM Strategic Business Initiatives until he became the Global Liquidity Cash Management COO. Prior to joining HSBC, Mr. Nazareno worked with Bank of America Merrill Lynch N.A. (London) from 2011 to 2013 as Director of Global Treasury Services, Global Head of Managed Treasury and Liquidity Services of Global Treasury Services, and Director and Programme Lead of EMEA Global Banking Systems Transformation. He was also previously connected with JP Morgan Chase Bank, N.A. (London), Citibank, NA. (London), Citibank, N.A. (Philippines) and Andersen Consulting. Mr. Nazareno obtained his Bachelor of Science degree in Management Engineering from the Ateneo de Manila University, and Master's Degree in Business Management from the Asian Institute of Management.

Estrellita V. Ong, Filipino, joined BDO in 2012 as Senior Vice President for the Internal Audit Division heading Branches Audit. In 2013 April, the Board approved and confirmed her designation as the Unibank Group's Chief Internal Auditor (**CIA**). She was formerly connected with Security Bank Corporation retiring as its CIA. Prior to being a CIA, she held, in Security Bank, the position of Assistant Controller and Executive Assistant to the Chairman handling the Centro Escolar University Finance portfolio. She was also formerly a Director of the 6776 Ayala Condo Corp. and Corporate Secretary of the Eastman Enterprises Corp. Prior to joining the bank mainstream, she had held Controllership position in Evergreen Shipping Corp.'s General Agent's office and Pioneer Intercontinental Insurance. She had varied experience also in manufacturing being General Manager and Treasurer of several Import/Export businesses subcontracting for branded US luggage and apparels. She is a Certified Public Accountant graduating from the University of the East – Recto with a Bachelor of Science degree in Business Administration.

Evelyn C. Salagubang, Filipino, is Senior Vice President. She assumed the position of Group Head for Human Resources ("**HR**") of the Bank in July 2011. She was formerly the Head of Human Resources of American Express Savings Bank, with oversight HR role over the American Express International, Inc., and American

Express Bank Philippines. Prior to joining BDO, she was the HR Manager for Kraft Foods Philippines, Inc. She holds a degree in Psychology from Assumption College and completed a Diploma Program in Human Resource Management from the same institution.

Maria Theresa L. Tan, Filipino, is Senior Vice President. She is General Manager of BDO Insurance Brokers, Inc. (BDOI). She has had more than two decades of experience in sales, marketing/product management, and general management in the consumer, services, and insurance industries. She graduated from the Ateneo de Manila University with a degree in Business Management, Minor in Marketing. Prior to joining BDO, she was the General Manager of International SOS, Philippines, Inc. She joined the Bank in July 2009.

Federico P. Tancongco, Filipino, is Senior Vice President. He joined BDO Unibank in October 2005 and was then seconded to BDO Private Bank, Inc. as Head of the Compliance and Legal Department. His secondment was recalled and since 1 July 2017 serves as Chief Compliance Officer of BDO Unibank. Prior to this, he served as trial lawyer and solicitor with the Office of the Solicitor General for six years before joining the Rizal Commercial Banking Corporation where he was Trust Legal Counsel for the Trust and Investments Division for twelve (12) years. He also serves as trustee in religious non-profit corporations, namely: WorldTeach Ministries Philippines, Inc. and Far East Broadcasting Corporation. He holds a Bachelor’s Degree in Philosophy and Letters from De La Salle University and a Law degree from the University of the Philippines College of Law.

Renato A. Vergel de Dios, Filipino, is the President and CEO of BDO Life Assurance Company, Inc. (BDO Life) and a Director of BDO Life Board since October 2009. He also serves as a member of the Board of Directors of the Philippine Life Insurance Association (PLIA) and of the Board of Trustees of the Insurance Institute for Asia and the Pacific. Mr. Vergel de Dios has been in life insurance business for over 45 years. Prior to joining BDO Life, he served as CEO for Manulife Philippines Inc. and Executive Vice President, Sales and Operations, for the Philippine American Life Insurance Company, Inc. He holds a bachelor’s degree in Mathematics from Ateneo de Manila University and an MS Management (Sloan) degree from Stanford Graduate School of Business.

Involvement in Legal Proceedings

The Bank is not aware of any of the following events having occurred during the past five years up to the date of this Offering Circular that are material to an evaluation of the ability or integrity of any Director, nominee for election as Director, Senior Management, underwriter or controlling person of the Bank:

i. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
ii. any conviction by final judgment, including the nature of the offence, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
iii. being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
iv. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated; and
v. a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Stock Option Plan

The Bank has established a stock option plan applicable to its senior officers (from vice-president level onwards). The amount of stock options allocated to the qualified officers is based on the performance of the individual officers as determined by the management. The amount of benefits is determined based on the Bank’s performance in the preceding year and amortized over five years starting from the date of the approval of the Board.

Corporate Governance

As part of its increasing focus on corporate governance, the Bank established a number of Board committees.

The Executive Committee. The Executive Committee exercises the power of the Board in the management and direction of the affairs of the Bank. It acts as the main approving body for loans, credits, advances or commitments and property-related proposals. It reviews and recommends for Board approval major credit policies including delegation of credit approval limits. The committee is chaired by Teresita T. Sy. Its other members are Nestor V. Tan, Josefina N. Tan, Walter C. Wassmer, Mario B. Palou, Edmundo S. Soriano, and Cecilia Luz L. Tan.

Board Audit Committee. The Audit Committee is empowered by the Board to oversee the financial reporting process, system of internal control and risk management systems, internal and external audit functions and compliance with governance policies, applicable laws and regulations. Their oversight function covers the following areas: On financial reporting, the committee reviews the integrity of the reporting process to ensure the accuracy and reliability of financial statements and compliance with financial reporting standards and disclosure requirements set for listed companies. On internal control and risk management, it monitors and evaluates the adequacy, soundness and effectiveness of the Bank's established internal control and risk management systems, policies and procedures including implementation across all units of the Bank to provide reasonable assurance against fraud or other irregularities and material misstatement or loss. On internal and external audit, it recommends the appointment, reappointment and removal of the internal and external auditors, remuneration, approval of terms of audit engagement and payment of fees. It reviews non-audit work, if any, ensuring that it would not conflict with their duties as external auditors or may pose a threat to their independence. It approves the annual audit plan and reviews audit results including the BSP Report of Examination focusing on significant findings with financial impact and its resolution. It reviews the implementation of corrective actions to ensure that these are done in a timely manner to address deficiencies, non-compliance with policies, laws and regulations. On compliance, it recommends the approval of the Compliance Charter and reviews the performance of the Chief Compliance Officer. It also reviews the annual plans of the Compliance Office including the Anti-Money Laundering Unit ("**AMLU**") and evaluates the effectiveness of the regulatory compliance framework and governance policies and practices of the Bank to ensure that these are consistently applied and observed throughout the institution.

The committee is chaired by Vicente S. Perez, Jr. Its other members are Jones M. Castro, Jr. and Vipul Bhagat with Estela P. Bernabe, Corazon S. de la Paz-Bernardo, Christopher A. Bell-Knight and Jose F. Buenaventura as advisors.

Compensation Committee. The Compensation Committee provides oversight on directors' compensation and remuneration of senior management and other key personnel, ensuring that the compensation scheme is consistent with the Bank's culture and strategy, effectively aligned with prudent risk taking and commensurate with corporate and individual performance. It also ensures consistency of the compensation policies and practices across the Bank. It meets at least once annually. The committee's chairman is George T. Barcelon. Its other members are Dioscoro I. Ramos and Teresita T. Sy.

Corporate Governance Committee. The Corporate Governance Committee is primarily tasked to assist the Board in formulating the policies and overseeing the implementation of the corporate governance practices of the Bank and its subsidiaries and affiliates. Annually, it conducts the performance self-evaluation of the Board of Directors, its committees, executive management and peer evaluation of directors using the revised board of directors and peer evaluation survey forms. It also oversees the continuing education program for directors and key officers and proposes relevant training for them. The committee's chairperson is Estela P. Bernabe. Its other members are Vipul Bhagat, George T. Barcelon and Vicente S. Perez, Jr with Jones M. Castro, Jr. as advisor.

Nominations Committee. The Nominations Committee leads the process for identifying candidates for election and appointment as Directors and all other positions requiring appointment of the Board of Directors, giving full consideration to succession planning and the leadership needs of the Bank. In particular, this process includes the profiling of the skills and competencies of the currently serving directors, the gaps in skills and competencies identified and the search for candidates who are aligned with the Bank's directions to fill the gaps. It also makes recommendations to the Board on the composition of the Board and chairmanship of the various committees. It keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and makes recommendations to the Board with regard to any changes. The committee is chaired by Estela P. Bernabe. Its other members are George T. Barcelon and Vicente S. Perez, Jr.

Risk Management Committee. The Risk Management Committee is responsible for the development and oversight of the risk management program of the Bank and for approving risk appetite levels, policies, risk tolerance limits. It defines the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses when they occur. It oversees the implementation and review of the risk management plan on an enterprise-wide basis, including the system of limits of discretionary authority delegated by the Board of Directors to management and ensures immediate corrective actions when limits are breached. It is also responsible for evaluating the continued relevance, comprehensiveness and effectiveness of the risk management framework. The Risk Management Committee also works with the Audit Committee in certifying the adequacy of the Bank's internal control and risk management systems in the Bank's annual report. The committee is chaired by Vipul Bhagat, with Walter C. Wassmer and Dioscoro I. Ramos as members, and Nestor V. Tan, Christopher A. Bell-Knight and Jones M. Castro, Jr. as advisors.

Trust Committee. The Trust Committee reviews and approves transactions between trust and/or fiduciary accounts, accepts and closes trust and other fiduciary accounts, and approves the investment, reinvestment and disposition of funds or property. It evaluates trust and other fiduciary accounts at least once a year. In addition, it also reviews the Trust and Investment Group's overall performance, profile of funds and accountabilities under its management, industry position, and the risk management reports. It also approves offering of new products and services, establishment and renewal of lines and limits with financial institutions, and investment outlets and counterparties. Annually, the Committee evaluates the performance of the Trust Officer. The committee is chaired by Dioscoro I. Ramos. Its other members are Walter C. Wassmer, Josefina N. Tan, Nestor V. Tan and Rafael G. Ayuste, Jr. with Christopher A. Bell-Knight and Noel L. Andrada as advisors.

Information Technology (IT) Steering Committee. The IT Steering Committee provides oversight and governance over the Bank's IT functions including approvals of information technology-related policies and practices of the Bank and applicable guidelines. It informs the Board of both internal and external IT-related developments and activities, potential challenges and risks, and progress versus strategic objectives. It approves and endorses to the Board IT-related best practices, strategic plans, policies and procedures. The Committee is also responsible for understanding, managing and mitigating technology risks that confront the Bank and its subsidiaries, ensuring that the risks are properly managed and mitigated and IT performance, including status of major IT projects and issues are properly monitored. The committee is chaired by George T. Barcelon. Its other members are Dioscoro I. Ramos, Nestor V. Tan and Frederic Mark S. Gomez.

Related Party Transactions Committee. The Related Party Transactions Committee assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Bank and its stakeholders. It ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote at the Annual Stockholders' meeting the Bank's significant transactions with related parties. The committee's chairman is Dioscoro I. Ramos. Its other members are Jones M. Castro, Jr. and Vipul Bhagat, with Walter C. Wassmer. as advisor.

In 2015, the Bank was among the recipients of the inaugural ASEAN Corporate Governance Awards Top 50 ASEAN Publicly Listed Companies, a recognition given to companies that seriously upholds good corporate governance. *Corporate Governance Asia* also included the Bank in its list of Asia's Best CSR (2020-2022), Best Investor Relations Company (2011-2022) and Best Environmental Responsibility in its 6th Asian Excellence Awards held in June 2016. *Asia Corporate Excellence & Sustainability Awards* also recognized the Bank as Top Sustainability Advocates in Asia (2021-2022) and Industry Champions of the Year (2019, 2022). The Bank was also named Asian Excellence Awardee (2011-2022).

PRINCIPAL SHAREHOLDERS

There has been no material change regarding control of the Bank and its relationship with the SM Group since 31 December 2022, the date of its last audited financial statements. The following table shows the principal shareholders of the Bank, holding at least 5% of the outstanding common shares, as shown in the Bank's share register as at 30 September 2023:

Name of Shareholder	No. of Common Shares	% of Common Shares
SM Investments Corporation	2,144,616,778	40.71%
Multi-Realty Development Corporation	349,815,643	6.64%
Sybase Equity Investments Corporation	282,712,350	5.37%
TOTAL PRINCIPAL SHAREHOLDERS	**2,777,144,771**	**52.72%**

Other than as specified above, the Bank is not aware of any other person or group of persons, directly or indirectly, with interests of 5% or more of the issued common capital stock of the Bank.

The following table contains a summary of the effective common share holdings of the SM Group as at 30 September 2023:

Name of Shareholder	No. of Common Shares	% of Common Shares
SM Investments Corporation	2,144,616,778	40.71%
Multi-Realty Development Corporation	349,815,643	6.64%
Sybase Equity Investments Corporation	282,712,350	5.37%
SM Prime Holdings, Inc. (formerly SM Land)	108,029,274	2.05%
Sub-total SM Group corporations	**2,885,174,045**	**54.77%**
Sub-total Sy family members	**2,842,181**	**0.05%**
Other Affiliated Entities	**11,795,405**	**0.22%**
TOTAL SM GROUP	**2,899,811,631**	**55.04%**

PHILIPPINE TAXATION

*Following is a general description of certain Philippine tax aspects of investment by prospective Bondholders. This discussion is based upon Philippine tax laws, in particular the Tax Code, as amended by Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("**TRAIN**") and Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Law ("**CREATE**"), its implementing regulations and rulings in effect at the date of this Offering Circular. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to the prospective Bondholders.*

The tax treatment of a prospective Bondholder may vary depending on such Bondholder's particular situation and certain prospective Bondholders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a prospective Bondholder.

This general description does not purport to be a comprehensive description of the Philippine tax aspects of investment in the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing the Bonds under applicable tax laws of other jurisdictions and the specific tax consequence in light of particular situations of acquiring, owning, holding and disposing the Bonds in such other jurisdictions.

EACH PROSPECTIVE BONDHOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH BONDHOLDER OF PURCHASING, OWNING AND DISPOSING OF THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic while the term "domestic" when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

TAXATION OF INTEREST INCOME

The Philippine National Internal Revenue Code, as amended by Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion or **TRAIN**, and Republic Act No. 11534 or the CREATE Law (the "**Tax Code**") provides that interest income on interest-bearing obligations of Philippine residents, such as the Bonds, are Philippine-sourced income subject to Philippine income tax.

The Tax Code defines "deposit substitutes" as an alternative form of obtaining funds from the public, other deposits, through the issuance endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. Obtaining funds from the "public" in this instance means borrowing from twenty (20) or more individual or corporate lenders at any one time. The meaning of "at any one time" with respect to borrowings from twenty (20) or more lenders, would mean every transaction executed in the primary or secondary market in connection with the purchase or sale of securities.

The Bonds may be considered as deposit substitutes Issued by Philippine residents with a maturity period of less than five (5) years. As such, interest income arising from the Bonds are considered as Philippine sourced income subject to final withholding tax at the following rates:

Philippine citizens and resident alien individuals –	20%

Non-Resident aliens doing business in the Philippines –	20%
Non-resident aliens not doing business in the Philippines –	25%
Domestic corporations –	20%
Resident foreign corporations –	20%
Non-resident foreign corporation –	25%

The aforementioned final withholding tax rates may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Bondholder. Many tax treaties to which the Philippines is a party provide for a preferential reduced rate of 15% where Philippine sourced interest income is paid to a resident of the other contracting state. However, tax treaties generally provide that the preferential rate will not apply if the recipient carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected to such permanent establishment.

TAX EXEMPT STATUS

Bondholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income may avail themselves of such exemption or preferential withholding tax rate by submitting the necessary documents. Said Bondholder shall submit:

(i) the following tax documents, in form and substance prescribed by the Issuer, to the Registrar or Selling Agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

(a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR;

(b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;

(c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;

(d) With respect to tax treaty relief, (a) prior to the first Interest Payment Date: (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder, or if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR; (2) one (1) original of the apostilled/consularized Tax Residency Certificate ("**TRC**") duly issued by the foreign tax authority of the country of the residence of the Bondholder, or if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws; (3) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer; and (4) three (3) originals of the duly notarized, or apostilled/consularized if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of its authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due: (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder, or if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR; and (2) one (1) original of the apostilled/consularized TRC duly issued by the foreign tax authority of the country of the residence of the Bondholder, or if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued TRC has already lapsed; and (c) any other document that the Issuer or PDTC may require from time to time;

(ii) a duly notarized declaration and undertaking, in prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities, or any tax or charge arising from the non-withholding of the required tax; and

(iii) if applicable, such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent.

Transfers taking place in the Register of Bondholders after the Bonds are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Registrar, together with the supporting documents specified under Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar: (i) a written notification of the sale or purchase, including the tax status of the transferor or transferee, as appropriate; and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Issuer for any tax that may later on be assessed on the Issuer on account of such transfer.

DOCUMENTARY STAMP TAXES

The Tax Code imposes a documentary stamp tax on all bonds, loan agreements and promissory notes at the rate of ₱1.50 on every ₱200, or fractional part thereof, of the face value of such securities provided that, for debt instruments with terms of less than one year, the documentary stamp tax collected shall be proportionate to the ratio of the number of days of the term of the instrument to 365 days. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. The Bank has undertaken to pay the documentary stamp tax on the issuance of the Bonds.

There is currently no documentary stamp tax due on a subsequent sale or disposition of the Bonds.

TAXATION ON GAINS OR LOSSES UPON THE SALE OR OTHER DISPOSITION OF THE BONDS

If the Bonds are considered ordinary assets of individual Bondholders, gains from the sale or disposition of such Bonds are included in the computation of taxable income, which is subject to the following graduated tax rates for Philippine citizens (whether residents or non-residents), or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines effective 1 January 2023 and onwards:

Not over ₱250,000	0%
Over ₱250,000 but not over ₱400,000	15% of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱22,500 + 20% of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱102,500 + 25% of the excess over ₱800,000

Over ₱2,000,000 but not over ₱8,000,000	₱402,500 + 30% of the excess over ₱2,000,000
Over ₱8,000,000	₱2,202,500 + 35% of the excess over ₱8,000,000

For non-resident aliens not engaged in trade or business, the gain shall be subject to the 25% final withholding tax.

If the Bonds are considered as capital assets of individual Bondholders, gains from the sale or disposition of the Bonds shall be subject to the same rates of income tax as if the Bonds were held as ordinary assets, except that if the gain is realized by an individual who held the Bonds for a period of more than twelve (12) months prior to the sale, only 50% of the gain will be recognized and included in the computation of taxable income. If the Bonds were held by an individual for a period of twelve (12) months or less, 100% of the gain will be included in the computation of the taxable income.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the Bonds are included in the computation of taxable income which is subject to a 25% income tax and 20% for domestic SMEs. Gains derived by non-resident foreign corporations on the sale or other disposition of the Bonds shall form part of their gross income which is likewise subject to a 25% final withholding tax unless a preferential rate is allowed under a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax under an applicable tax treaty subject to such other documentary requirements as may be reasonably required under the rules and regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

VALUE-ADDED TAX AND GROSS RECEIPTS TAX

Gross receipts derived by dealers in securities from the sale of the Bonds in the Philippines shall be subject to value-added tax ("**VAT**") of 12%. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold. For purposes of this section, dealers in securities are merchants of stocks or securities, whether individual, partnership, or corporations, with an established place of business, regularly engaged in the purchase of securities and their resale to customers.

On the other hand, banks and non-bank financial intermediaries performing quasi-banking functions are subject to Gross Receipts Tax ("**GRT**") at the following rates:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less — 5%
Maturity period is more than 5 years — 1%

(b) On dividends and equity shares and net income of subsidiaries — 0%

(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7%

(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7%

Other non-bank financial intermediaries are subject to gross receipts tax at the following rates:

(a) On interest, commissions, discounts and all other items treated as gross income under the Tax Code — 5%

(b) On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less — 5%
Maturity period is more than 5 years — 1%.

In case the maturity period is shortened thru pre-termination, the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

THE PENDING LEGISLATION FOR THE ENACTMENT OF THE PIFITA ALSO SEEKS TO PROVIDE A SINGLE GROSS RECEIPT TAX RATE OF 5% TO BE IMPOSED ON BANKS, QUASI BANKS, AND CERTAIN NON-BANK FINANCIAL INTERMEDIARIES. THE DISTINCTION BETWEEN LENDING AND NON-LENDING INCOME, AS WELL AS THE MATURITY OF THE INSTRUMENT, WILL BE REMOVED. ALL TYPES OF INCOME WILL BE TAXED AT 5%, EXCEPT DIVIDENDS, EQUITY SHARES, AND NET INCOME OF SUBSIDIARIES, WHICH WILL REMAIN EXEMPT.

ESTATE AND DONOR'S TAX

Beginning 1 January 2018, the transfer of Bonds upon the death of an individual Bondholder to his or her heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine estate tax at the rate of 6% based on the value of the decedent's net estate.

Moreover, beginning 1 January 2018, individual and corporate Bondholders, whether or not citizens or residents of the Philippines, who transfer the Bonds by way of gift or donation are liable to pay Philippine donors' tax on such transfer at the rate of 6% computed on the basis of the total gifts in excess of ₱ 250,000.00 made during the calendar year.

The estate tax as well as the donor's tax in respect of the Bonds shall not be collected (a) if the deceased at the time of his death or the donor at the time of his donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may, unless made in the ordinary course of business (i.e., a transaction which is bona fide, at arms' length, and free from any donative intent), be deemed a gift and may be subject to donor's taxes.

TAXATION OUTSIDE THE PHILIPPINES

The tax treatment of non-resident Bondholders in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Offering Circular does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines. Each holder of any of the Bonds should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Bonds, including the applicability and effect of any state, local and national laws.

PHILIPPINE BANKING INDUSTRY

The following description is a summary of certain sector specific laws and regulations in the Philippines which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The cited regulations may not be exhaustive, and are intended to provide a general background and information to the investors, and are not intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

INTRODUCTION

The banking industry in the Philippines is composed of universal banks, commercial banks, rural banks, thrift banks (including savings and mortgage banks, private development banks and stock savings and loan associations), cooperative banks and Islamic banks.

According to BSP's report on the Physical Network of the Philippine Banking System, as at 30 June 2023, the commercial banking sector, comprising universal and commercial banks, consisted of 45 banks, of which 22 were universal banks and 23 were commercial banks. Of the 22 universal banks, 13 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 23 commercial banks, three were private domestic banks, two were subsidiaries of foreign banks and 18 were branches of foreign banks.

Commercial banks are organized primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, accept or create demand deposits, receive other types of deposits and deposit substitutes, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly-listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium-and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for SMEs and individuals. As at 30 June 2023, there were 43 thrift banks (including microfinance-oriented banks), based on BSP's report on the Physical Network of the Philippine Banking System.

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As at 30 June 2023, there were 396 rural and cooperative banks, based on BSP's report on the Physical Network of the Philippine Banking System.

Specialized government banks are organized to serve a particular purpose. The existing specialized banks are the Development Bank of the Philippines ("**DBP**"), Land Bank of the Philippines ("**LBP**"), and Al-Amanah Islamic Investment Bank of the Philippines ("**AAIIB**"). DBP was organized primarily to provide banking services catering to the medium-and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small-and medium-sized enterprises. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends — the liberalization of the industry, and mergers and consolidation.

Foreign bank entry was liberalized in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. Republic Act No. 8791 or the General Banking Law of 2000 (the "**General Banking Law**") further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100% of the voting stock of one domestic bank within seven years from the effectivity of said law on 13 June 2000 or until 13 June 2007. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. As at 30 June 2023, there were 24 foreign banks with branches and two foreign banks with subsidiaries in the Philippines, based on BSP's report on the Physical Network of the Philippine Banking System.

Under RA 10641 and BSP Circular No. 858, Series of 2014 dated November 21, 2014 which amended the relevant provisions of the Manual of Regulations for Banks (the "**Manual**") implementing RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The liberalization of foreign ownership regulations in banks has allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Commercial Bank, United Overseas Bank, Hua Nan Commercial Bank, Bank of Taiwan, and Land Bank of Taiwan being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. As of 30 June 2021, there were 20 offshore lenders operating in the Philippines, with 18 of them operating as foreign bank branches while the remaining two are foreign bank subsidiaries.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of all of the outstanding shares of stock of a bank. Based on BSP data, since the new package of incentives took effect in September 1998, there have been at least 102 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalization, and to the mergers and consolidation trend, the BSP issued BSP Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. As provided in the Circular, the suspension of the grant of new banking licenses or the establishment of new banks under the Manual is lifted under a two-phased approach. Under Phase 1 of the liberalization, the grant of new universal/commercial banking license shall be allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalized starting 1 January 2018.

The following table sets out a comparison, based on publicly available data, of the five largest Philippine private domestic commercial banks in terms of assets as at 30 September 2021:

Name	Market Capitalization[1]	Total Equity[2]	Total Assets	Loans and Receivables - net[2]	Total Deposits[2]	No. of Branches[3]
	(in ₱ millions, except number of branches)					
BDO Unibank, Inc.	747,540	489,514	4,083,066	2,696,760	3,293,146	1,707
Metropolitan Bank & Trust Co	242,860	328,592	2,934,898	1,414,783	2,254,538	947
Bank of the Philippine Islands	553,862	334,456	2,688,145	1,734,979	2,145,702	1,211
China Banking Corporation	81,682	136,154	1,539,108	744,924	1,121,647	642
Rizal Commercial Banking Corporation	56,738	118,188	1,224,389	604,265	899,833	459

Notes:

(1) Market Capitalization as at 30 September 2023.

(2) Financial data taken from each bank's respective financial statements as at 30 June 2023.

(3) Number of branches was provided by each of the respective banks as at 30 September 2023.

According to a quarterly Senior Bank Loan Officers' Survey conducted by BSP, local banks implemented stricter credit standards on commercial real estate loans in the third quarter of 2021. The net tightening of overall credit standards for commercial real estate loans was attributed by the banks to stricter oversight of banks' real estate exposure along with banks' reduced tolerance for risk. In particular, banks reported wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, shortened loan maturities, and increased use of interest rate floors.

The BSP issued BSP Circular No. 839, Series of 2014 dated 27 June 2014 which adopts a prudential real estate stress test limit ("**REST Limit**") for universal and commercial banks, thrift banks on a solo and consolidated basis on their aggregate real estate exposures. The REST Limit combines macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST Limits which shall be complied with at all times by universal and commercial banks are 6% of CET1 capital ratio and 10% of risk-based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For thrift banks, the prudential REST Limits which shall be complied with at all times are 6% of CET1 capital, for thrift banks that are subsidiaries of universal and commercial banks, 6% of Tier 1 capital, for stand-alone thrift banks, and 10% of risk-based capital adequacy ratio for all thrift banks.

On 29 October 2014, the BSP issued Circular No. 854, Series of 2014, which increased the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

Bank Category/Network Size	Existing Minimum Capitalization (₱)	Reviewed Minimum Capitalization (₱)
Universal Banks	4.95 billion**	
Head Office only		3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
Commercial Banks	2.40 billion**	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion
Thrift Banks		
Head Office in:		
Metro Manila	1.00 billion**	
Cebu and Davao cities	500 million**	
Other Areas	250 million**	
Head Office in the National Capital Region (NCR)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
Rural and Cooperative Banks		
Head Office in:		
Metro Manila	100 million**	
Cebu and Davao cities	50 million**	
Other cities	25 million**	
1st to 4th class municipalities	10 million**	
5th to 6th class municipalities	5 million**	
Head Office in NCR		
Head Office only		50 million
Up to 10 branches*		75 million
11 to 50 branches*		100 million
More than 50 branches*		200 million
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		
Head Office only		20 million
Up to 10 branches*		30 million

Bank Category/Network Size	Existing Minimum Capitalization (₱)	Reviewed Minimum Capitalization (₱)
11 to 50 branches*		40 million
More than 50 branches*		80 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		
Head Office only		10 million
Up to 10 branches*		15 million
11 to 50 branches*		20 million
More than 50 branches*		40 million

* Inclusive of Head Office

** With no distinction for network size

The amendment became effective in November 2014.

RESTRICTIONS ON BRANCH OPENING

Opening of branches by Philippine banks within or outside the Philippines requires BSP's prior approval, subject to certain conditions such as meeting the minimum capital requirements set by the BSP. Upon BSP's approval, these branches may be used by the banks as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. For more information, see "*Banking Supervision and Regulation—Regulation Relating to Capital Structure*" and "*Banking Supervision and Regulation—Regulations with Respect to Branches*."

COMPETITION

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalization of the banking industry by the Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets. On 21 January 2016, the Monetary Board approved the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. The moratorium on the establishment of new domestic banks and locational restrictions was lifted effective 1 January 2018.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Mergers and consolidation result in greater competition, as a smaller group of "top tier" banks compete for business.

As at 30 June 2023, the ten largest commercial banks (including unlisted banks such as LBP and DBP) account for approximately 87% of total assets and 88% of total deposits of the Philippine banking system based on published statements of condition.

Certain factors arising from the 1997 Asian crisis and the 2008 global financial crisis also resulted in greater competition and exert downward pressure on margins. Banks instituted more restrictive lending policies as they focused on asset quality and reduction of their NPLs, which resulted in increasing liquidity. As Philippine economic growth further accelerates and banks apply such liquidity in the lending market, greater competition for corporate, commercial and consumer loans is expected. As at 30 June 2023, the ten largest commercial banks (including unlisted banks such as LBP and DBP) account for approximately 86% of the net customer loan portfolio of the Philippine banking system, based on published statements of condition.

The Philippine Competition Act was signed into law in 2015 and establishes competition related rules and procedures in the Philippines in relation to mergers and acquisitions. See "*Banking Supervision and Regulation—Philippine Competition Act.*"

Banks also compete with traditional and digital enabled remittance businesses and face competition from the emergence of FinTech, including businesses such as an all-digital bank set up by CIMB, mobile payment tools or e-wallet applications such as GCash and PayMaya, and the growing popularity of peer-to-peer lending through digital platforms. As banks venture into micro-finance and other consumer financing products, they may also face competition from other consumer-focused players, including informal lenders.

On 2 December 2020, the BSP issued Circular No. 1105, Series of 2020, which approved the inclusion of digital banks as a distinct classification of banks and the corresponding guidelines for their establishment. Currently, the BSP has issued six digital banking licenses: Overseas Filipino Bank ("**OFBank"**), Tonik Bank, UnoBank, Union Digital, Maya Bank and GoTyme. As at 1 September 2021, the BSP has closed the application and limited the licensed digital banks at six, with a three-year moratorium on new applications in order to assess the impact of the nascent industry on the local financial system.

CERTAIN GOVERNMENT POLICIES AND REGULATIONS IN RELATION TO THE PHILIPPINE BANKING SYSTEM

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes requirements on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these requirements and can introduce new regulations to control any particular line of business. Please see "*Banking Supervision and Regulation*" for a more detailed discussion.

BANKING SUPERVISION AND REGULATION

The following description is a summary of certain sector specific laws and regulations in the Philippines which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations may not be exhaustive, and are intended to provide a general background and information to the investors, and are not intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

INTRODUCTION

RA No. 7653 (the New Central Bank Act of 1993) ("**New Central Bank Act**") and RA No. 8791 (the General Banking Law of 2000) ("**General Banking Law**") and RA No. 11211 (No. 11211) ("**An Act Amending the New Central Bank Act**") vest the BSP, which exercises its powers through the Monetary Board, with the authority to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or quasi-bank or which is related or linked to such institution or intermediary through common stockholders or such other factors as determined by the Monetary Board. In this regard, the Manual defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the Manual), or power to vote, of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the Manual), or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity; (c) common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa.

In the exercise of its power of supervision under the General Banking Law, the BSP may issue rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank. Section 28 of the New Central Bank Act provides that there shall be an interval of at least twelve (12) months between regular examinations. A vote of at least five members of the Monetary Board may authorize a special examination.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The BSP may compel any officer, owner, agent, manager or officer-in-charge of an institution subject to its supervision or examination to present books, documents, papers or records necessary in its judgment to ascertain the facts relative to the true condition of the institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, to the extent permitted by law. The refusal of any officer, owner, agent, manager, director or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or permit an examination is criminally punishable under Section 34 of the New Central Bank Act. In addition to the general laws such as the General Banking Law and Republic Act No. 9160 or the Anti- Money Laundering Act (the "**AMLA**"), as amended, among others, banks must likewise comply with letters, circulars and memoranda issued by the BSP some of which are contained in the Manual of Regulations of Banks (the "**Manual**").

The Manual is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The Manual contains regulations that include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant bank. Supplementing the Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.
The Manual and other regulations are principally implemented by the Financial Supervision Sector of the BSP (**FSS**). The FSS is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under RA No. 3779 or the Savings and Loan Association Act, and pawnshops under PD No. 114 or the Pawnshop Regulation Act).

PERMITTED ACTIVITIES

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorized by the General Banking Law and the Manual, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business. Financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings (applicable only to universal banks), or both.

Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage/securities dealership and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank. Net worth is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP.

REGULATION RELATING TO CAPITAL STRUCTURE

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The SEC will not register the incorporation documents of any bank or any amendments thereto without a Certificate of Authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorized by the Monetary Board. Any stock so purchased or acquired must be sold within six months from the time of its purchase or acquisition.

On 20 October 2014, the Monetary Board decided to increase the minimum capital requirement for all bank categories including universal, commercial, thrift, rural and cooperative banks. This is in line with the BSP's efforts of further strengthening the banking system. Under this regulation, the minimum capital for universal and commercial banks will be tiered based on network size as indicated by the number of branches. In accordance with BSP Circular No. 854, universal banks are required to have capital accounts of at least ₱3 billion for head office only, ₱6 billion for head office with up to 10 branches (inclusive of head office), ₱15 billion for head office with 11 to 100 branches (inclusive of head office), and ₱20 billion for head office with more than 100 branches (inclusive of head office). Commercial banks are required to have capital accounts of at least ₱2 billion for head office only, ₱4 billion for head office with up to 10 branches (inclusive of head office), ₱10 billion for head office with 11 to 100 branches (inclusive of head office), and ₱15 billion for head office with more than 100 branches (inclusive of head office). Thrift banks with head office in Metro Manila are required to have capital accounts of at least ₱500 million for head office only, ₱750 million for head office with up to 10 branches (inclusive of head office), ₱1 billion for head office with 11 to 50 branches (inclusive of head office), and ₱2 billion for head office with more than 50 branches (inclusive of head office). Banks that existed prior to 19 November 2014, which will not immediately meet the new minimum capital requirement, may avail themselves of a five-year transition period in order to fully comply with the minimum capitalization requirements. The same period, reckoned from the same date, is also given to banks granted with special banking authorities/licenses which require compliance with minimum capital requirements. Such banks will be required to submit an acceptable capital build-up program. Banks that fail to comply with the minimum capital requirements or fail to propose an acceptable capital build-up program face curtailment of future expansion plans. These minimum levels of capitalization may be changed by the Monetary Board from time-to-time.

For purposes of these requirements, the BSP issued BSP Circular No. 1027 on 28 December 2018 which states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- treasury stock;
- unbooked allowance for probable losses (including allowance for credit losses and impairment losses) and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties as defined under Subsection X141.1 of the Manual, that are not at an arm's length terms as determined by the appropriate supervising department of the BSP;
- deferred tax assets that rely on future profitability of the bank to be realized net of any (a) allowance for impairment and (b) associated deferred tax liability if the conditions cited in PAS 12 on income taxes are met; provided, that, if the resulting figure is a net deferred tax liability, such excess cannot be added to net worth
- reciprocal investment in equity of other banks or enterprises, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, the deduction shall be the (a) investment of the bank or (b) the reciprocal investment of the other bank or enterprises, whichever is lower; and
- in the case of rural/cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation program.

According to BSP Circular No. 1027 dated 28 December 2018, deposits for stock subscription recognized as equity pursuant to Section X128 of the Manual shall be added to capital.

On 15 July 2014, RA No. 10641 further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100% (previously 60%) of the voting stock of one domestic bank. Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system though any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must be established, reputable and financially sound. Additionally, such foreign bank must be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorized to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

Under RA 10641, the Monetary Board was authorized to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on 21 November 2014, the BSP issued BSP Circular No. 858, amending the relevant provisions of the Manual, accordingly. On 15 February 2016, BSP issued BSP Circular No. 902, Series of 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks pursuant to its policy to promote a competitive banking environment.

The individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends, unless at the time of declaration, it has complied with the following:

- clearing account with BSP is not overdrawn;
- liquidity floor requirement for government funds;
- minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- the CCB requirement as defined in Appendix 59, Part III of the Manual for universal and commercial banks and their subsidiary banks and quasi-banks;
- higher loss absorbency requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with the D-SIB Framework as provided under Section 128 of the Manual for universal and commercial banks and their subsidiary banks and quasi-banks; or
- has not committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by BSP to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor, of the appropriate section, as may be applicable, upon recommendation of the appropriate supervising department of the, BSP.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

REGULATIONS WITH RESPECT TO BRANCHES

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 Series of 2014 provides various minimum capitalization requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks to a maximum of ₱20 billion for more than 100 branches of universal banks). For a discussion on the breakdown of minimum capital requirements for banks, please see "—*Regulation Relating to Capital Structure.*"

Subject to compliance with the requirements provided in BSP Circular No. 624, issued on 13 October 2008, which provides for BSP's branching policy and guidelines, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Pursuant to BSP Circular No. 759, issued on 30 May 2012, which liberalized the policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank, once approved, a branch should be opened within three years from the date of approval. Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig and

Quezon and the municipality of San Juan, Metro Manila. However, this branching restriction was liberalized pursuant to BSP Circular No. 728, issued on 23 June 2011. Phase 1 of the liberalization allowed private domestically incorporated universal and commercial banks and thrift banks with limited branch networks in the eight cities or "restricted areas" in Metro Manila until 30 June 2014 to apply for and establish branches in said restricted areas. In Phase 2, branching in the "restricted" areas were opened to all banks except rural banks and cooperative banks. However, branches of microfinance-oriented banks and microfinance-oriented branches of regular banks' branches that will cater primarily to the credit needs of Barangay Micro Business Enterprises duly registered under the Barangay micro business enterprises Act of 2002 (Republic Act No. 9178) may be established anywhere upon the fulfillment of certain conditions. BSP Circular No. 759 further liberalized its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank.

In BSP Circular No. 987, Series of 2017, the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the Manual. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

REGULATIONS WITH RESPECT TO MANAGEMENT OF BANKS

The board of directors of a bank must have at least five and a maximum of 15 members. According to Republic Act No. 11232 or the Revised Corporation Code (the Revised Corporation Code), the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. The Revised Corporation Code also requires a compliance officer. Material contracts of a corporation vested with public interest with (1) one or more of its directors, trustees, officers or their spouses and relatives within the fourth civil degree of consanguinity or affinity must also be approved by at least 2/3 of the members of the board, with at least majority of the independent directors approving the same, in addition to common requirements for similar contracts for other companies pursuant to Section 31 of the Revised Corporation Code. Under the Manual, at least one-third but not less than two members of the board of directors of universal and commercial banks shall be independent directors. Further, SEC Memorandum Circular No. 24, Series of 2019, on the Code of Corporate Governance for Publicly-Listed Companies requires the board of directors of publicly -listed companies, such as the Bank, to have a Board composed of a majority of non-executive directors and at least two independent directors, or such number as to constitute at least one-third of the members of the Board, whichever is higher. In case of merged or consolidated banks, the number of directors shall not exceed 21. An independent director is a person who independent of management and the controlling shareholder and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director. Foreigners are allowed to have board seats to the extent of the foreign participation in the equity of the bank.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits act which renders him or her unfit for the position.

Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

On 22 August 2017, the BSP issued BSP Circular No. 971, prescribing the Guidelines on Risk Governance for *Bangko Sentral* Supervised Financial Institutions (BSFIs), and requiring the appointment of a Chief Risk Officer ("**CRO**") in universal and commercial banks to head the risk management function. In addition to overseeing the risk management function, the CRO shall also support the board of directors in the development of the risk appetite of the BSFI and for translating the risk appetite into a risk limits structure. The appointment, dismissal and other changes to the CRO requires the prior approval of the board of directors.

On the same date, the BSP also issued BSP Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer ("**CCO**"). The CCO is tasked to oversee the identification and management of the BSFI's compliance risk and shall supervise the compliance function staff. Additionally, the board of directors should ensure that a compliance program is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance program.
On 4 January 2018, BSP Circular No. 989 was issued providing the Guidelines on the Conduct of Stress Testing Exercises. Stress testing is a tool to evaluate the potential effects of specified changes in risk factors. The Board of Directors must consider the results in capital and liquidity planning and setting risk appetite, among others. Banks have a period of two years from effectivity date to gradually change their stress testing practices until it is in compliance with the circular's requirements.

On 4 January 2018, BSP Circular No. 989 was issued providing the Guidelines on the Conduct of Stress Testing Exercises. Stress testing is a tool to evaluate the potential effects of specified changes in risk factors. The Board of Directors must consider the results in capital and liquidity planning and setting risk appetite, among others. Banks have a period of two years from effectivity date to gradually change their stress testing practices until it is in compliance with the circular's requirements.

On 6 September 2019, the BSP issued Circular No. 1048, setting forth the Guidelines and Procedures Governing the Consumer Assistance and Management System of BSP-Supervised Financial Institutions and amending the MORB and MORNBFI. It states that the Board of Directors is primarily responsible for approving and overseeing the implementation of the institution's consumer protection risk management system. Senior management is responsible for ensuring that the institution's practices are aligned with approved consumer protection policies and risk management system. The Circular likewise amends the consumer protection standards of conduct.

On 18 February 2020, the BSP issued Circular No. 1076, which amends the enumeration of persons permanently and temporarily disqualified to become directors and officers. It further modifies the procedures applicable to those directors and officers who are considered disqualified.

On 8 April 2021, BSP issued Circular No. 1112, which provides the amendments to the Operational Risk Management of BSP-supervised financial institutions (BSFIs). The BSP recognizes that one of the major sources of operational risk is "people risk". The BSP mandates BSFIs to be stringent in its recruitment and selection process and in the performance management of its personnel. In connection with this circular, the Human Resource Department of BSFIs shall require all those who passed the initial stage of pre-employment screening to accomplish the Authorization Form for Querying (AFQ) the Bangko Sentral Records.

On August 23, 2022, the BSP issued Circular No. 1149 which provided for guidelines on prudent conduct of investment activities and the minimum practices that a bank should establish for the management and control of risks associated with its investments. The guidelines cover a bank's investments in the trading and banking books, excluding (a) investments that grant control over an enterprise and are accounted for using the equity method, (b) transactions in derivatives involving stand-alone contracts, and (c) receivables arising from repurchase agreements. Under the circular, a bank is mandated to institute a risk management system to manage the risks arising from its investment activities. This system includes having (1) board and senior management oversight; (2) policies, procedures, and limits that provide a framework for managing investment activities; (3) risk measurement, monitoring and management information systems; and (4) internal controls and audit.

On 28 November 2022, the BSP issued Circular No. 1160, series of 2022 which provides for a framework for BSIs to manage risks and potential harms to Financial Consumers and institutionalize consumer protection. This framework applies to all financial products created, developed, offered, or marketed by a BSI. Thus, BSIs must comply with the framework by (1) having a consumer protection risk management system (2) establishing board and senior management oversight; (3) maintaining consumer protection standards of conduct; and (4) providing appropriate design and delivery of financial products and services.

REGULATIONS WITH RESPECT TO BANK OPERATIONS

A universal bank, such as the Bank, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices shall be treated as one unit. A bank, with prior approval of BSP, may likewise use any of its branches as outlets for presentation and/sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise and prescribe the composition and the manner of determining the net worth and total risk assets of bank and their subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to: (i) perform activities allowed for commercial banks; (ii) exercise powers of an investment house; and (iii) invest in non-allied enterprise.

On 7 February 2019, the BSP issued Circular No. 1031, setting forth additional guidelines for the classification of licenses/authorities based on the types of licenses issued for permissible activities; and providing for corresponding amendments to the licensing requirements of the BSP. The Circular provides that a Type C license is required for the issuance of bonds and commercial paper.

On 22 February 2019, the BSP issued Circular No. 1033, which governs electronic payment and financial services ("**EPFS**") offered by BSFIs. EPFS are classified as basic EPFS, which are limited to services allowing only receipt of funds or access to information, and advanced EPFS, which enable customers to send funds and initiate other financial transactions. BSFIs intending to offer advanced EPFS must obtain a Type A/B license, while those intending to offer only basic EPFS must obtain a Type C license. Once granted a license, a BSFI must comply with the regulations set forth in the Circular.

On 25 July 2019, the BSP issued Circular No. 1042 regarding the Guidelines on Investment Activities of BSP-Supervised Financial Institutions. These cover all of a BSFI's investments in the trading and banking books. It provides the fundamental elements of a BSFI's risk management framework as well as the supervisory expectations on the management of major risks that are inherent in investment activities.

On 7 February 2023, the BSP issued Circular No. 1166, which amended the Manual of Regulations for Banks and Manual of Regulations for Non-Bank Financial Institutions. Particularly, it made changes to the rules on the issuance of e-money and operations of e-money issuers in the Philippines (including rules on liquidity, capitalization, load limit, and guidelines on reporting and sanctions). The new guidelines set forth in this BSP Circular covers BSFIs that issue E-money and engage in E-money business in the Philippines. E-money issued under closed-loop electronic wallet systems is not covered by the guidelines.

CAPITAL ADEQUACY REQUIREMENTS

The Philippines adopted capital requirements based on the Basel Capital Accord in July 2001.

On 1 July 2007, the BSP issued BSP Circular No. 538, which is the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. To align with the international standards, the BSP adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 effective January 1, 2011, as amended by BSP Circular No. 716.

In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel

III with effect from 1 January 2014. It aims to replace Basel II, to further strengthen the local bank's loss absorption capacity and encourage banks to rely more on core capital instruments like CET 1 and Tier 1 issues.

This thus allowed local banks one full year for a parallel run of the old and new guidelines prior to the effectiveness of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to January 2017. On 15 January 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under the Basel III accord for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the capital adequacy ratio. The BSP maintained the minimum capital adequacy ratio at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum Tier 1 capital ratio of 7.5%. The new guidelines also introduced a CCB of 2.5% which shall be made up of CET1 capital.

In addition, banks which issued capital instruments from 2011 will be allowed to count these instruments as Basel III-eligible until end-2015. However, capital instruments that are not eligible in any of the three components of capital were derecognized from the determination of the regulatory capital on 1 January 2014.

On 29 October 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on D-SIBs by the BSP under Basel IIII. Banks deemed as D-SIBs by the BSP are required to maintain capital surcharges to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their D-SIB status in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.0% to 2.5%. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to G-SIBs given that this framework was patterned for regional/global banks and thus may not be appropriate for local banks. The phased-in compliance started on 1 January 2017 and became fully effective on 1 January 2019.

On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by D-SIBs which shall form part of the D-SIBs' ICAAP submitted to the BSP every 31st of March of each year. The recovery plan identifies the course of action that a D-SIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the D-SIB breaches the total required CET1 capital, the higher loss absorbency (HLA) capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a preemptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document which includes the first recovery plan was submitted on 30 June 2016 and will be re submitted on the 31st of March of each year.

In addition, Basel III capital rules for banks include setting up a CCyB wherein banks may be required by the relevant regulator to build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. The CCyB will require banks to hold additional common equity or other fully loss absorbing capital in amounts ranging from 0% to 2.5% of the risk-weighted assets. On 6 December 2018, the BSP issued the guidelines on CCyB. BSP Circular No. 1024 imposes a CCB of 2.5% and a CCyB of 0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately. The circular further provides that the HLA requirement shall be on top of the combined requirement for CCB and CCyB. Under the Bank for International Settlements (BIS), the CCyB became fully effective on 1 January 2019.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure).

On 9 June 2015, the BSP issued BSP Circular No. 881 on the implementing guidelines and accordingly, amending the relevant provisions of the guidelines. Under the guidelines, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III by 1 January 2017 (which compliance period was extended to 1 January 2018 based on BSP Circular No. 943 issued in 2017). The guidelines also provide for a monitoring period up to the end of 2016 during which banks are required to submit periodic reports; however, sanctions will not be imposed on banks whose leverage ratios fall below the required 5% minimum during the period. However, sanctions were not imposed on banks whose leverage ratios fell below the required 5% minimum during the period. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to an increasing regulatory burden on banks.

On 26 January 2017, the BSP issued BSP Circular No. 943 which approved the one-year extension of the Basel III Leverage Ratio monitoring period from 31 December 2016 to 31 December 2017, and set new deadlines for the submission of the reporting and disclosure requirements. During the monitoring period, the BSP will continue to assess the calibration and treatment of the components of the leverage ratio. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to increasing regulatory burden on banks.

On 22 January 2018, the BSP issued BSP Circular No. 990 which approved the extension of the Basel III Leverage Ratio monitoring period from 31 December 2017 to 30 June 2018, and set new deadlines for the submission of the reporting and disclosure requirements. The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on 1 July 2018.

On 16 February 2021, Republic Act No., 11523 or the Financial Institutions Strategic Transfer ("**FIST**") Act, was signed into law. The FIST Act allows all financial institutions, including banks, to sell their non-performing assets and bad loans to asset management companies, referred to as FIST corporations ("**FISTCs**"). Transfers of the non-performing assets from the financial institution to the FISTC, and from the FISTC to a third party, are exempt from several types of taxes, including value-added tax, capital gains tax, documentary stamp tax, and creditable withholding taxes, as outlined under the FIST Act. The FIST Act is intended to free up the banking industry's capital, strengthen its risk-bearing capacity, and support investment and lending activities, and to ensure resources of financial institutions are not spent on management their non-performing assets; it is also intended to mitigate the impact of COVID-19 on the Philippine economy by freeing up banks from loans. Subsequently, the Implementing Rules and Regulations of FIST Act was published on 29 March 2021.

RESERVE REQUIREMENTS

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to BSP for the amount of any deficiency.

Under BSP Circular 732 issued on 3 August 2011, as further amended by BSP Circular 753 issued on 29 March 2012, BSP Circular 830 issued on 3 April 2014, BSP Circular 832 issued on 27 May 2014, BSP Circular 997 issued on 15 February 2018, BSP Circular 1004 issued on 24 May 2018, BSP Circular 1041 issued on 29 May 2019, BSP Circular 1054 issued 11 October 2019 and BSP Circular 1063 issued on 3 December 2019, BSP Circular 1082 issued 31 March 2020, BSP Circular 1092 issued 27 July 2020, BSP Circular 1175 issued 23 June 2023 and BSP Circular 1176 issued on 29 June 2023, universal and commercial banks are required to maintain regular reserves of: (a) 9.5% against demand deposits, NOW accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks, and Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 0% against deposit substitutes evidenced by repurchase agreements; (c) 4% against long-term negotiable certificates of time deposits; (d) 3% against bonds; and (e) 0% against basic deposit accounts as defined under Section X222 of the MORB and for interbank call loan transactions.

Liquidity requirements

Local banks face new liquidity requirements, namely, the LCR and the NFSR, under Basel III. The LCR requires banks to hold sufficient level of HQLAs to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimize negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs.

In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Starting 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which was increased to 100% commencing on 1 January 2019. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework and extended its coverage to subsidiaries of universal and commercial banks and quasi-banks on both solo (head office and branches/other offices) and consolidated (parent bank and subsidiary financial allied undertakings) bases.

On 15 March 2019, BSP issued BSP Circular No. 1035 which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework including the (i) extension of the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adoption of the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amendment of the formula for minimum liquidity ratio. The subsidiary banks and quasi-banks of universal and commercial banks are required to comply with the minimum LCR of 100% starting 1 January 2020.

On 6 June 2018, the BSP issued BSP Circular No. 1007 which sets out the guidelines on the adoption of the Basel III Framework on Liquidity Standards - NSFR. The guidelines require that covered entities maintain an NSFR of at least 100% at all times. The framework applies to all universal and commercial banks, their subsidiary banks, and quasi-banks. The Circular provides for an observation period until 31 December 2018, during which NSFR Reports must be submitted and should a covered entity be unable to meet the minimum NSFR for a period of two consecutive weeks, it must immediately adopt a board-approved stable funding build-up plan. On 15 March 2019, the Monetary Board approved the extension of the observation period for the NSFR of the subsidiary banks and quasi banks of universal and commercial banks until 31 December 2019, moving the effectivity dates of said ratios to 1 January 2010. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70% LCR and NSFR, which shall increase to 100% on 1 January 2020. The Monetary Board also approved enhancements to the LRC and minimum liquidity ratio guidelines, including netting of cash inflows and outflows to and from the same derivative counterparty for the LCR framework, and counting interbank placements as eligible liquid assets and adjusting qualifying liabilities through conversion factors to retail current and regular savings deposits worth ₱500,000 and below and certain liability accounts. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015.

On 13 February 2020, the BSP issued Memorandum No. M-2020-003 which provided guidelines on the electronic submission of the Basel III Net Stable Funding Ratio ("**NSFR**") Report and Liquidity Coverage Ratio Report ("**LCR**"). It states that all subsidiary banks and quasi-banks must observe the guidelines for the live implementation of the NSFR and LCR reports beginning reporting period ended 31 January 2020, in line with BSP Circular Nos. 1034 and 1035 both dated 15 March 2019 on the Amendments to the Basel III Framework on Liquidity Standards-Net Stable Funding Ratio and the Amendments to the Basel III Liquidity Coverage Ratio Framework and Minimum Liquidity Ratio Framework.

On 4 May 2020, the BSP issued BSP Memorandum Circular No. M-2020-039, which allows universal and commercial banks, and their subsidiary banks and quasi-banks, which have built up their CCB and LCR buffer, to utilize the same during this state of health emergency, subject to the following:

(a) the bank or quasi-bank which draws down its 2.5% minimum CCB will not be considered in breach of the Basel III risk-based capital adequacy framework but will be restricted from making distributions in the form of dividends (in the case of banks incorporated and established under Philippine laws) or, profit remittance (in the case of a foreign bank branch), share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff; and

(b) the bank or quasi-bank may draw on its stock of liquid assets to meet liquidity demands to respond to the current circumstances, even if this may cause its LCR to fall below the 100% minimum requirement. In the event the bank or quasi bank has recorded a shortfall in the stock of its HLA for three banking days within any two-week rolling calendar period, thereby causing the LCR to fall below the 100%, such bank or quasi bank must notify the BSP of such a breach on the banking day immediately following the occurrence of the third liquidity shortfall.

Banks and quasi-banks have been given a reasonable time period to restore their Basel III capital conservation and liquidity buffers after the COVID-19 pandemic. Meanwhile, non-compliance with the minimum CAR and NSFR requirements as a result of the COVID-19 pandemic will be handled on a case-by-case basis by the BSP.

Credit risk management

In October 2014, the BSP issued BSP Circular No. 855 which provides for new guidelines on sound credit risk management practices. BSP Circular No. 855 mandates banks to establish appropriate credit risk strategy and policies, processes and procedures including cash flow-based credit evaluation process, and tighter provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

Additionally, BSP Circular No. 855 sets the collateral value ("**CV**") for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value, which is the loan amount extended by banks to its borrowers. The current industry practice is an LTV ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures to include mortgages and loans extended to the following: individuals to finance the acquisition/construction of residential real estate for own occupancy as well as land developers and construction companies for the development of socialized and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks were required to submit the expanded report starting end-December 2012.

Further on 27 June 2014, the BSP issued BSP Circular No. 839 requiring banks to undergo real estate stress tests while setting prudential limits for banks' real estate exposures to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks as well as thrift banks must meet a capital adequacy ratio of 10% of qualifying capital after adjusting for the stress test results. Further, universal and commercial banks and their thrift bank subsidiaries are required to maintain a level of CET1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly report of their real estate exposures, in line with the new real estate stress test capital requirements.

On 10 October 2017, the BSP issued BSP Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 23 November 2017, the BSP issued BSP Circular No. 983 that prescribes the reduction in the reserve requirement rate on repurchase transactions, as well as sets forth the features of the repurchase program that shall be eligible for the zero-reserve rate requirement. Deposit substitutes evidenced by repurchase agreements covering government securities that are transacted in an organized market under the Government Securities Repo Program shall be subject to the reserve requirement of zero percent (0%) beginning the first week of December 2017.

On 23 April 2020, the BSP modified Section 252 (on composition of required reserves) of the MORB through Circular No. 1083. On 27 May 2020, Section 252 was further amended by Circular No. 1087. It provides allowable modes of alternative compliance with required reserves against deposit and deposit substitute liabilities, subject to certain conditions. These modes include certain peso-denominated loans that are granted to micro-, small- and medium enterprises as well as certain peso-denominated loans granted to large enterprises. The required reserves and the alternative modes of compliance in the current period (reference reserve week) shall be computed based on the corresponding levels of deposit and deposit substitute liabilities of the prior week. The use of the foregoing loans as allowable alternative compliance with the reserve requirements shall be available to banks until 31 December 2021.

Pursuant to BSP Memorandum No. M 2020-029, issued on 23 April 2020, MSME loans that are utilized as alternative compliance with reserve requirements shall be temporarily reported by Universal Banks under Investments in bonds and Other Debt Instruments.

On 28 April 2020, the BSP issued Memorandum No. M-2020-034 which relaxed the credit risk weight for loans to MSMEs under the BSP's risk-based capital adequacy frameworks. Banks' exposure to qualified MSMEs, those that meet the criteria and the current MSME exposures that do not qualify as a highly diversified MSME portfolio, will only be assigned a credit risk weight of 50%, down from 75% previously. The foregoing relaxation in the credit risk weight for loans to MSMEs under the BSP's risk-based capital adequacy frameworks was applied until 30 June 2023, pursuant to Memorandum No. M-2022-041 issued by the BSP on 23 September 2022.

Credit quotas for agriculture, fisheries and rural development financing

Republic Act No. 11901 or The Agriculture, Fisheries and Rural Development Financing Enhancement Act of 2022 ("**RA 11901**"), which lapsed into law on July 28, 2022, repealed Republic Act No. 10000 or The Agri-Agra Reform Credit Act of 2009 ("**Agri-Agra Law**").

RA 11901 provides that all banking institutions, whether government or private, except newly established banks for a period of five (5) years from the date of commencement of the banks' operations, shall set aside a credit quota, or a minimum mandatory agricultural and fisheries financing requirement of at least twenty-five percent (25%) of their total loanable funds. The law gives more flexibility to the banks in extending credit to the agriculture and agrarian reform sectors as the law removed the required allocation of credit between the agrarian reform beneficiaries (10%) and agricultural beneficiaries (15%) under the Agri-Agra Law.

The law also provides that banks which are unable to directly lend to rural community beneficiaries may invest in debt and equity securities, undertake agricultural value chain financing, and grant agri-business loans to fund agricultural and community-enhancing activities, among others.

LIMITATIONS ON OPERATIONS

The Single Borrower's Limit

Except as prescribed by Monetary Board for reasons of national interest, the total amount of loan, credit accommodations and guarantees (determined on the total credit commitment) that may be extended by a bank to any person or entity shall at no time exceed 20.0% of the net worth of the bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time. As of 31 December 2011, the ceiling applicable to the Bank was 25.0% (or 35.0% of the net worth of the bank in the event that certain types and levels of security are provided). The ceiling may be increased by the following percentages: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under the Public- Private Partnership Program of the government duly certified by the Secretary of Socio-Economic Planning; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from 6 December 2010; and (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation. To encourage BSFIs to engage in agricultural value chain financing, the total amount of loans, credit accommodations and guarantees may also be increased by an additional 25.0% granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain, which shall only be for a period of three years from 14 March 2016, subject to review after said period.

The limitations shall not apply to (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to the payment of principal and interest; (c) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items. On 5 July 2017, the BSP issued BSP Circular No. 965, approving the guidelines on the exclusion from the SBL of banks and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions.

On 30 April 2018, the BSP issued BSP Circular No. 1001 which provided for a separate individual limit of 25.0% of the net worth of the lending bank for loans, credit accommodations and guarantees granted by a bank to an entity for the purpose of project finance. The applicability of the separate individual limit shall be subject to the following conditions: (a) the unsecured portion shall not exceed 12.5% of the net worth of the lending bank when the project is already operational; (b) such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government; (c) the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project document; (d) the lending bank shall consider its total project finance exposures in complying with the guidelines in managing large exposures and credit risk concentrations; (e) the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending bank; and (f) the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions.

On 19 March 2020, BSP issued BSP Memorandum No. M-2020-011 which temporarily adjusted the SBL ceiling to 30% as a response to the COVID-19 situation. The adjusted ceiling was effective for a period of six (6) months from 19 March 2020.

On 22 July 2020, the BSP issued Memorandum Circular No. 1091, which excluded debt securities held by market makers from the SBL for a period of ninety (90) days from the date of acquisition, if acquired from 1 August 2020 to 31 July 2021, and not exceeding sixty (60) days, if acquired after 1 August 2021. On 5 January 2023, the BSP issued Circular No. 1164 which provided for minimum operational requirements for credit risk transfer agreements to be excluded from the total credit commitment of a bank to a borrower in reckoning compliance with the SBL.

Limitation on DOSRI Transactions

No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the board of directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act. The DOSRI account shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. The limitation excludes loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

On 2 June 2016, the Monetary Board approved the revisions to prudential policy on loans, other credit accommodations, and guarantees granted to DOSRIs. The Monetary Board approved the exclusion of loans, other credit accommodation and guarantees granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided, that the bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

On 23 June 2016, the BSP issued BSP Circular No. 914, Series of 2016 amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. BSP Circular No. 914 has raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programs particularly infrastructure projects under the Philippine Development Plan / Public Investment Program (PDP/PIP) needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and preempt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

Limitations on Loans and Credit Accommodations

As a general rule, loan and other credit accommodation against real estate shall not exceed 60% of the appraised value of the real estate security plus 60% of the appraised value of the insured improvements, and such loans may be made to the owner of the real estate or to his assignees, except for the following which shall be allowed a maximum value of 70% of the appraised value of the insured improvements: (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (b) housing loans extended by or guaranteed under the Government's "National Shelter Program", such as the Expanded Housing Loans Program of the Home Development Mutual Fund and the mortgage and guaranty and credit insurance program of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loans may be made to the title-holder of the unencumbered chattels and intangible properties or his assignee.

On 4 February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans and amending the inclusions and exclusions to be observed in the computation.

On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 27 October 2017, the BSP issued BSP Circular No. 978 which provided for exclusion of the portion of loans and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, from the ceilings on total outstanding loans, other credit accommodations and guarantees granted to banks' subsidiaries and affiliates. BSP Circular No. 978 excluded the following in determining compliance with the ceilings provided under BSP Circular No. 914: (1) Loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations; (2) IBCLs; and (3) The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of its net worth. Moreover, the equity investment in any one enterprise whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by BSP. The Monetary Board must approve such acquisition of equities. Further, the BSP may impose conditions on the any approval of a major investment and has the authority to seek corrective action.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvements including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate shall be considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed of by the bank within a period of five years or as may be prescribed by the Monetary Board.

Prohibition to act as Insurer

A bank is prohibited from directly engaging in insurance business as the insurer.

Permitted Services

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- receive in custody funds, documents and valuable objects;
- act as financial agent and buy and sell, by order of and for the account of their customers, shares evidences of indebtedness and all types of securities;
- upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- rent out safety deposit boxes.

BSP Circular No. 1003, issued on 16 May 2018, outlined the Guidelines on the Establishment and Operations of Bank and Non-Bank Credit Card Issuers to implement Republic Act No. 10870, also known as the Philippine Credit Card Industry Regulations Law.

The Framework for Basic Deposit Accounts, found in BSP Circular No. 992 dated 1 February 2018, was issued, with a view towards promoting account ownership among the unbanked by imposing no minimum maintaining balance and an opening amount of not more than ₱100.00. It also supports the National Retail Payments System, which aims to promote resort to digital payments in the country. On 5 October 2018, BSP issued Memorandum No. M2018-27, prescribing the guidelines on the electronic submission of the updated reports arising from Circular No. 992.

BSP Circular No. 1049, Series of 2019, implementing Republic Act No. 11127 or The National Payment Systems Act, allows banks to operate as an Operator of Payment Systems ("**OPS**"). It may register as an OPS by notifying the BSP of its activities as an OPS.

An OPS is a person that performs any of the following functions:

(a) Maintains the platform that enables payments or fund transfers, regardless of whether the source and destination accounts are maintained with the same or different institutions;
(b) Operates the system or network that enables payments or fund transfers to be made through the use of a payment instrument;
(c) Provides a system that processes payments on behalf of any person or the government; and
(d) Such other activities similar to the foregoing.

ANTI-MONEY LAUNDERING ACT OF 2001

The AMLA, as amended, requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, record keeping and reporting of covered and suspicious transactions.

On 15 February 2013, Republic Act No. 10365, which took effect on 7 March 2013, expanded the AMLA covered institutions and crimes. Additions to the enumeration of covered persons include jewelry selling agents for transactions in excess of ₱1 million; company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organize funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities. The 2016 Revised Implementing Rules and Regulations of the AMLA was approved by the AMLC on 21 December 2016. On 15 March 2017, the BSP issued BSP Circular No. 950 to amend the Manual in order to effectively implement the provisions of the AMLA, as amended, and the revised implementing rules and regulations of the AMLA, as amended. In July 2017, RA No. 10927 further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5 million or its equivalent in any other currency.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one Banking Day, and for covered persons under Section 3(a)(8), a single casino transaction involving an amount in excess of ₱5 million or its equivalent in any other currency.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- there is no underlying legal or trade obligation, purpose or economic justification;
- the customer or client is not properly identified;
- the amount involved is not commensurate with the business or financial capacity of the client;
- the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- there is a deviation from the client's profile or past transaction;
- the transaction is related to an unlawful activity or offence under the AMLA;
- similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one-year imprisonment and/or fine of ₱500,000.00.

Malicious reporting of completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years' imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

(a) transacts said monetary instrument or property;
(b) converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
(c) conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
(d) attempts or conspires to commit money laundering offenses referred to in paragraphs (a), (b) or (c);

(e) aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (a), (b) or (c) above;
(f) performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in paragraphs (a), (b) or (c) above; and
(g) knowingly fails to disclose and file with AMLC any monetary instrument or property required to be disclosed and filed.

Under AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within a period of five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Court of Appeals of the Philippines ("**Court of Appeals**"), upon verified ex-parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order which shall be effective immediately, and which shall not exceed six months depending upon the circumstances of the case. However, if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order shall be deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets. Further, a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

BSP Circular No. 495 issued on 20 September 2005, as amended by BSP Circular 527 issued on 28 April 2006, required all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under AMLA.

BSP Memorandum No. M2012-017 issued on 4 April 2012, as affirmed by BSP Circular No. 950 issued on 15 March 2017 likewise requires all covered banking institutions to comply with the anti-money laundering risk rating system ("**ARRS**"), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation. BSP Circular No. 950, further provides for specific requirements on having a risk-based approach to customer identification by covered institutions, an ongoing monitoring of customers, accounts, and transactions, and a policy of non-discrimination against certain types of customers.

Institutions that are subject to AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of five years from the date of a transaction, unless a case has been filed involving the account, then the records must be retained and safely kept beyond the five year period until it is officially confirmed by the AMCL Secretariat that the case has been resolved, decided or terminated with finality. Records of closed accounts must also be kept for five years after their closure.

On 20 April 2018, the AMLC issued AMLC Letter No. AMLET-18-03, providing for Operational Guidelines in the Conduct of the 2018 Third Round Mutual Evaluation of the Philippines (the "**Guidelines**"). The Guidelines aim to (a) create an inter-agency Mutual Evaluation Working Group and sub-working groups; (b) enumerate the functions and obligations of the member-agencies with respect to the Mutual Evaluation process; (c) outline the Mutual Evaluation process and provide guidance as to the different components of the process; (d) provide timelines for the Mutual Evaluation process and Mutual Evaluation-related activities; (e) enumerate effects of a "non-compliant" or "poor" Mutual Evaluation; and (f) lay down the framework towards the adoption of a national anti-money laundering/counter-financing of terrorism ("**AML/CFT**") Strategy. The Guidelines are addressed to all participating government agencies and other entities.

The Mutual Evaluation is a government-wide concern as what will be assessed is the compliance of the Philippines with the Financial Action Task Force Forty Recommendations and the effectiveness of its AML/CFT regime. The entire Mutual Evaluation process spans two (2) years, and will require the support and active participation of various government agencies, including supervisory authorities, law enforcement agencies, and public and private stakeholders. The Philippines will be evaluated by a pool of experts from Financial Intelligence

Units from other member-jurisdictions of the Asia-Pacific Group on Money Laundering (**APG**), pursuant to the APG's membership rules.

On 22 November 2018, the AMLC approved the 2018 Implementing Rules and Regulations of the AMLA prescribing, among others, the guidelines on identifying and recording beneficial ownership. In relation thereto, on 14 January 2019, BSP issued Circular Letter No. CL-2019-002, addressed to all BSFIs of the guidelines issued by the AMLC on digitization of customer records and identification of beneficial owners.

Moreover, the Implementing Rules and Regulations of the Anti-Money Laundering Act of 2001 requires compliance officers which will oversee the Anti-Money Laundering Program. This is also reflected in the amendments to the Revised Corporation Code mandating banks to elect a compliance officer.

On 23 November 2020, the BSP issued Memorandum No. M-2020-084, which refers to the money laundering/terrorist/proliferation financing risk assessment system (MRAS) applicable to BSP-supervised financial institutions. The MRAS uses a four-point rating scale to describe the net money laundering, terrorist financing, and proliferation financing risk, from low, to moderate, to above average, and then to high. The MRAS has replaced the existing anti-money laundering risk rating system (ARRS), which was the previous system applicable to BSP-supervised financial institutions.

FINANCIAL INSTITUTIONS STRATEGIC TRANSFER ACT

Republic Act No. 11523 or the financial institutions strategic transfer ("**FIST Act**") defines a financial institutions strategic corporation ("**FISTC**") as a corporation organized under the laws of the Philippines that is authorized to invest in non-performing assets ("**NPAs**") (i.e., non-performing loans and real and other properties acquired by financial institutions) of credit-granting institutions, such as banks, financing companies, investment houses, lending companies, insurance companies, accredited microfinance nongovernmental organizations, government financial institutions, government-owned or controlled corporations, other institutions licensed by the BSP to perform quasi-banking functions and credit- granting activities, and engage in other related activities. Pursuant to the FIST Act, NPAs of financial institutions may be transferred to a FISTC after notice to but without the consent of the borrower. Such transfers from financial institutions to FISTCs and those from a FISTC to a third party, dation in payment by a borrower, a third party in favor of a financial institution or in favor of a FISTC are exempt from the following taxes:

(a) Documentary stamp tax on such transfer of NPAs and dation in payment under the Tax Code;
(b) Capital gains tax imposed on the transfer of lands and/or other assets treated as capital assets as defined under Section 39(A)(1) of the Tax Code;
(c) Creditable withholding income taxes imposed on the transfer of land and/or buildings treated as ordinary assets pursuant to Revenue Regulations No. 2-98, as amended; and
(d) Value-added tax on the transfer of NPAs, or gross receipts tax, whichever is applicable.

All sales or transfers of NPAs from a financial institution to a FISTC or transfers by way of dation in payment by the borrower or by a third party to a financial institution shall be entitled to the privileges enumerated herein for a period of not more than two years from the effectivity of the FIST Act.

Transfers from a FISTC to a third party of NPAs acquired by the FISTC within such two-year period, or within such extended period, or transfers by way of dation in payment by a borrower to a FISTC shall enjoy the privileges enumerated above for a period of not more than five years from the date of acquisition by the FISTC. Properties acquired by a FISTC from government financial institution or government operated and controlled corporations which are devoted to socialized or low-cost housing shall not be converted to other uses.

The BSP issued Circular No. 1117 Series of 2021 implementing the FIST Act. It provides for the guidelines governing the sale/transfer and investment transactions of banks, and other institutions licensed by the BSP to perform quasi-banking functions and credit-granting activities pursuant to the FIST Act. The Circular sets out the provisions that the BSFIs must comply with in the sale/transfer transactions of non-performing assets for purposes of availing the tax exemptions and incentives/privileges under the FIST Act.

REVISED CORPORATION CODE

The Revised Corporation Code was signed into law on 20 February 2019 and became effective on 8 March 2019. Among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Securities and Exchange Commission (Commission) that it elects to retain its specific corporate term under its current Articles of Incorporation.

- A corporation vested with public interest must submit to its shareholders and to the Commission an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.

- Banks, quasi-banks, pawnshops, non-stock savings and loan associations (NSSLA), and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least twenty percent (20%) independent directors in the Board, in accordance with the Securities and Regulation Code. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Commission.

- The Code allows the creation of a “One Person Corporation”. However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly-listed companies, among others, from being incorporated as such. This restriction also applies with respect incorporations as Close Corporation.

- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.

- The right of stockholders to vote in the election of directors or trustees, or in shareholders’ meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.

- As to amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.

- A favorable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Commission approves any merger or consolidation; or any voluntary dissolution.

- In case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

THE PHILIPPINE COMPETITION ACT

RA No. 10667, or the Philippine Competition Act ("**PCA**") was signed into law on 21 July 2015 and took effect on 8 August 2015. This is the first anti-trust statute in the Philippines, and it provides the competition framework in the Philippines. The PCA was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the PCA provides for the creation of a Philippine Competition Commission (**PCC**), an independent quasi-judicial agency with five commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, however, the PCC must still apply for a warrant with the relevant court.

The PCA prohibits and imposes sanctions on: (a) anti-competitive agreements between or among competitions, (b) mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition, and (c) practices which are regarded as abuse of dominant position, by engaging in conduct that would substantially prevent, restrict or lessen competition, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to certain exceptions.

On 3 June 2016, the PCC issued the implementing rules and regulations of the PCA (IRR). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1 billion; and (b) the value of the transaction exceeds ₱1 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1 billion.

On 10 March 2018, the PCC issued Memorandum Circular No. 1-001 (MC No. 18-001) to amend Section 3,Rule 4 of the IRR to increase the initial thresholds. Under MC No. 18-001, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5 billion; and (b) the value of the transaction exceeds ₱2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2billion. As provided in MC No. 18-001, the thresholds shall be automatically adjusted commencing on 1 March 2019 and on March 1st of every succeeding year, using as index the Philippine Statistics Authority's official estimate of the nominal gross domestic product growth of the previous calendar year rounded up to the nearest hundred million. The revised thresholds, however, shall not apply to mergers or acquisitions pending review by the PCC; notifiable transactions consummated before the effectivity of the memorandum circular; and transactions already subject of a decision by the PCC.

PCC Advisory 2019-001 further adjusted the thresholds such that effective 1 March 2019, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5.6 billion; and (b) the value of the transaction exceeds ₱2.2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion.

Violations of the PCA and the IRR have severe consequences. Under the PCA and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (Rules of Procedure) which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules of Procedure also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On 23 November 2017, the PCC published the 2017 Rules on Merger Procedures (the Merger Rules) which provides the procedure for the review or investigation of mergers and acquisition pursuant to the IRR. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within thirty (30) days from the signing of definitive agreements relating to the notifiable merger.

On 28 May 2019, the PCC approved the Expedited Merger Rules which apply when: (1) there are no actual or potential horizontal or vertical (including complementary) relationship in the Philippines between the acquiring entity and the acquired entity and the entities it controls; (2) the merger is a global transaction where the acquiring and acquired entities identified in the definitive agreement are foreign entities (foreign parents), and their subsidiaries in the Philippines act merely as manufacturers or assemblers of products with at least 95% of such products exported to the foreign parents, subsidiaries, affiliates or third parties located outside the Philippines: Provided, That the remaining 5% product sales in a market in the Philippines is minimal in relation to the entirety of such Philippine product market; (3) the candidate relevant geographic market of the merger is global and the acquiring and acquired entities have negligible or limited presence in the Philippines; and (4) joint ventures, whether incorporated or not, formed purely for the construction and development of a residential and/or commercial real estate development project.

On 19 January 2021, the PCC issued Memorandum Circular No. 21-001 adjusting the schedule of fines for violations of the 2017 Rules of Procedure and the Rules of Merger Procedure. Administrative fines may amount to up to ₱275.0 million for successive violations of the PCA. Commitment of acts such as, failure to comply with a ruling, order, or decision of the PCCC or the disclosure, publication, transfer, copying or dissemination of confidential information may amount to a fine of ₱55,000 up to ₱2.2 million.

On 16 February 2023, the PCC issued Memorandum Circular No. 04-2023, setting the thresholds for the Size of Party Test and Size of Transaction Test at ₱7 billion and ₱2.9 billion respectively.

DATA PRIVACY ACT

RA No. 10173, otherwise known as the Data Privacy Act of 2012 ("**Data Privacy Act**"), was signed into law on 15 August 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System (ICT), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes. It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of "personal information", which is defined as "any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual." The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on "personal information controllers" and "personal information processors". It also provides for penal and monetary sanctions for violations of its provisions.

ELECTRONIC BANKING OPERATIONS

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of a bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

Under BSP Circular No. 542, dated 1 September 2006, the BSP released the new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank's board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness program for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and (e) the development of complaint resolution procedure for unauthorized transactions in electronic banking. Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa ("**EMV**") chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for 1 January 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSFIs are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offense and will subject these institutions to monetary sanctions provided under relevant provision of the Manual.

On 22 February 2019, the BSP issued BSP Circular No. 1033 introducing certain amendments to the regulations on electronic banking services and other electronic operations, particularly electronic payment and financial services ("**EPFS"**). EPFS are products and services that enable customers to receive payments or initiate financial transactions and other related services through an electronic device. BSP Circular No. 1033 requires the prior approval of the BSP to offer EPFS and certain reportorial requirements must be submitted to the BSP.

On 2 December 2020, the BSP issued BSP Circular No. 1105 which provides the guidelines on establishment of digital banks. While digital banks have no physical branch or sub-branch or branch-lite unit, digital banks are required to maintain a principal or head office in the Philippines to serve as the main point of contact for stakeholders, including the BSP and other regulators. Pursuant to the accelerated digitalization in the financial industry, the BSP issued Memorandum No. M-2022-016 on 22 March 2022, which provides the controls and processes supporting the operation, connectivity, and endpoint security of Application Programming Interface (API) and the good practices for API management.

On 21 January 2022, the BSP issued BSP Circular No. 1135, providing for the Guidelines on the Settlement of Electronic Payments Under the National Retail Payment System (NRPS) Framework. This is in line with the BSP's goal to ensure the efficiency of payment systems in the country. In line with this, the BSP requires BSP-Supervised Financial Institutions participating in an Automated Clearing House (ACH) for electronic payments to ensure that the ACH provides certainty of settlements of the multilateral clearing obligations of the clearing participants.

THE FINANCIAL PRODUCTS AND SERVICES CONSUMER PROTECTION ACT

Republic Act No. 11765 or the Financial Products and Services Consumer Protection Act ("**FCPA**") was signed into law on 6 May 2022. The FCPA expands the powers of financial regulators such as the BSP and imposes duties on financial service providers such as banks. Violation of the FCPA will result in the imposition of enforcement actions from the BSP, penalties and/or administrative sanctions. On 28 November 2022, the Monetary Board issued Circular No. 1160, Series of 2022, which provides for the implementing guidelines of FCPA. According to the Circular, banks must meet the following standards in dealing with financial consumers:

(a) Disclosure and Transparency;
(b) Protection of Client Information:
(c) Fair Treatment;
(d) Effective Recourse; and
(e) Protection of Consumer Assets against Fraud and Misuse.

Pursuant to the FCPA, the BSP may, in addition to the enforcement actions under the MORB, restriction the ability of banks to collect excessive or unreasonable interests, fees or charges, including other interests, fees and charges that are covered under Republic Act No. 10870, otherwise known as the Philippine Credit Card Industry Regulation Law, and order requiring accounting and disgorgement of profits obtained, or losses avoided, as a result of a violation of the FCPA, its IRR and other existing laws, rules, and regulations under its jurisdiction, including reasonable interest.

GUIDELINES FOR VIRTUAL ASSET SERVICE PROVIDERS (VASP) IN THE PHILIPPINES

On 26 January 2021, the BSP issued Circular No. 1108, relating to the Guidelines for Virtual Asset Service Providers ("**VASP**") in the Philippines, which amends in its entirety Section 902-N of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI). In particular, Section 902-N on Virtual Currency Exchanges shall be replaced by VASP, as the BSP recognizes that once fiat currency is exchange or converted into a virtual asset, the same becomes easily transferrable, facilitating expedient movement or transfer of funds and payment services, among others. As such, VASPs were considered as money service businesses which were subject to the regulatory authority and examination powers of the BSP. Under said guidelines, the covered entities are required to secure a Certificate of Authority to operate as a Money Service Business and are required to observe the capitalization requirements of either ₱50 Million or ₱10 Million, for VASPs with or without safekeeping and/or administration services aa define in said Circular, respectively.

RELATED PARTY TRANSACTIONS

BSP Circular No. 895, dated 14 December 2015, announced the approval of guidelines strengthening oversight and control standards for managing related party transactions of banks and their non-bank financial subsidiaries and affiliates. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher standards should be applied to protect the interests of all stakeholders. It is emphasized that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, the board, as an oversight body, shall have overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The board is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm's length terms, management of conflicts of interest, materiality thresholds and limits, whistle blowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further, banks that are part of conglomerates are required to create a related party transactions committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly require that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

BSP Circular No. 969, dated 22 August 2017, further codified the BSP's thrust to strengthen oversight over related party transactions by enhancing corporate governance guidelines which includes improvement of the duties and responsibilities of the related party transactions committee of BSP supervised financial institutions.

On 25 April 2019, the Philippine SEC issued Memorandum Circular No. 10, series of 2019 (Rules on Material Related Party Transactions for Publicly Listed Companies), mandating additional disclosure/reportorial requirements for material related party transactions ("**MRPTs"**) amounting to 10% or higher of a publicly listed company's total assets. The circular requires all publicly listed companies to submit to the Philippine SEC a policy on MRPTs. Advisement Reports on MRPTs shall also be filed with the SEC in accordance with the circular within three calendar days after the execution of a covered transaction. Finally, a summary of MRPTs entered into by the company during the reporting year shall be disclosed in the company's Integrated Annual Corporate Governance Report ("**I-ACGR**") submitted annually every May 30.

TAXATION FOR BANKS

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 25%, effective July 1, 2020.

Taxable net income refers to items of income specified under Section 32 (A) of the Tax Code (the National Internal Revenue Code of 1997, as amended by Republic Act No. 10963), less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A minimum corporate income tax equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the minimum corporate income tax is greater than the regular corporate income tax. Any excess minimum corporate income tax paid over the regular corporate income tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of minimum corporate income tax, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

Net operating loss carry-over ("**NOLCO**") can be claimed as deduction against taxable income within three years after NOLCO is incurred.

An improperly accumulated earning tax equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks from lending activities which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 25% corporate income tax. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue Regulations No. 13-00. The amount of interest expense which banks may claim as tax deduction shall be reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

The Tax Code does not allow banks to deduct interest expense or bad debts arising from transactions with the following:

- an individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank;
- a corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in sub-paragraph (a), either as a personal holding company or a foreign personal holding company.

Pursuant to Revenue Regulations No. 05-99 (as amended by Revenue Regulations No. 25-02), in order for banks to claim bad debts as tax deductions, they must submit a written approval from the BSP stating that the indebtedness can be written off from the banks' books of accounts at the end of the taxable year, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible. However, on 29 October 2014, the BSP issued Circular No. 855 which provides that notice of write-off of problem credits shall be submitted in the prescribed form to the BSP through the appropriate Central Point of Contact within thirty (30) business after every write-off with a sworn statement signed by the President of the financial institution or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board-approved internal credit policy. Based on the said circular, a notice to the BSP would suffice, and that BSP approval with respect to a write-off of a bad debt not related to a DOSRI transaction, is no longer required.

The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax.

Banks are subject to percentage tax or GRT, which is a tax levied on the gross receipts of banks and non-bank financial intermediaries. On 13 June 2016, the BIR issued Revenue Memorandum Circular No. 62-2016 ("**RMC 62-2016**") seeking to clarify the tax treatment of GRT, which is passed on by banks through contractual stipulations to their clients. RMC 62-2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income characterised as other fees and charges and should itself be subject to a 7% GRT.

ROPA of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, value in the tax declaration or selling price, which shall be withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realized.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five years as these are exempt from income tax.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranches.

IBCLs with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes and are not subject to documentary stamp tax except if they have a maturity of more than seven days.

FCDU transactions with non-residents of the Philippines, offshore banking units ("**OBUs**"), FCDUs of local banks and branches of foreign banks (i.e., offshore income) are tax-exempt, while interest income from foreign currency loans granted by FCDUs of depositary banks to residents other than OBUs or other depository banks under the expanded system is subject to 10% final tax. All other income of FCDUs is taxable at regular corporate income tax of 25%.

On 19 December 2017, the President of the Philippines signed into law the TRAIN Law which took effect on 1 January 2018. The TRAIN Law amends certain provisions of the Tax Code and is the first package of the Comprehensive Tax Reform Program ("**CTRP**") of the Duterte administration. The relevant changes of the TRAIN Law are incorporated in the section titled "*Philippine Taxation*" of this Offering Circular.

On 14 February 2019, the President signed into law the Tax Amnesty Act of 2019 or Republic Act No. 11213 ("**Tax Amnesty Law**"), which was intended to complement the provisions of the TRAIN Law. However, following the President's veto of the provisions granting general tax amnesty for all unpaid national internal revenue taxes for taxable year 2017 and prior years, the current Tax Amnesty Law only grants estate tax amnesty for estates of decedents who died on or before 31 December 2017 and whose estate taxes have remained unpaid or have accrued as of 31 December 2017 and tax amnesty on delinquencies covering all national internal revenue taxes for taxable year 2017 and prior years.

On 26 March 2021, the second package of the CTRP, Republic Act No. 11534, otherwise known as the CREATE Act, was signed into law, amending provisions of the Tax Code, as amended, relating to, among others, corporate income tax, lowering corporate income taxes and modernizing fiscal incentives in a bid to complement the expected incremental revenues from the first package.

The salient provisions of the CREATE Act include:

(a) reduction in corporate income tax (CIT) from the current 30% to 20% for MSMEs and to 25% for other corporate taxpayers by July 1, 2020;
(b) reduction in the minimum corporate income tax rate to 1% effective July 1, 2020 until June 30, 2023;
(c) effective July 1, 2020, a period of four to seven years during which export enterprises may enjoy the 5% special corporate income based on the gross income earned in lieu of all national and local taxes;
(d) extension of the applicability of the net operating loss carryover for losses incurred during the first three years from the start of commercial operation by registered projects or activities, from the current three to five consecutive taxable years immediately following the year of such loss;
(e) net capital gains derived by resident foreign corporations on the sale of shares of stock of domestic corporations not traded on the Philippine stock exchange will be subject to a final tax of 15%, increased from the current rate of 5% on the first ~US$2,000 and 10% on the excess thereof;
(f) Regional Operating Headquarters will be subject to regular CIT rates effective January 1, 2022, increased from the current 10% rate on taxable income;
(g) Qualified Registered Business Enterprises ("RBE") will be granted an income tax holiday for four to seven years, depending on the assigned RBE category level. After the income tax holiday period, a special corporate income tax rate of 5% beginning July 1, 2020 will be imposed on gross income earned in lieu of all national and local taxes. The duration of the special corporate income tax is five to ten years depending on the assigned Registered Business Enterprises tier level; and
(h) in lieu of the special corporate income tax, enhanced deductions may be granted for a period of five to ten years depending on the assigned Registered Business Enterprises category level.

See also *"Investment Considerations—Risks Relating to the Bank's Business—Changes to regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP, the Bureau of Internal Revenue (the BIR) and international bodies, including the Financial Action Task Force (the FATF) may have an adverse impact on the Bank."*

The other tax reform packages that the government hopes to implement include tax amnesty (estate, general), as well as "sin" (e.g., alcohol, gaming), property, passive income and financial intermediaries, and luxury taxes. The fourth package under the CTRP relating to passive income and financial intermediaries proposes to impose (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from DST.

BAYANIHAN TO HEAL AS ONE ACT AND COVID-19 RELATED ISSUANCES OF THE BSP

Republic Act No. 11469 or the Bayanihan to Heal As One Act provides that all BSP Supervised BSFIs are directed to implement a minimum of a 30-day grace period for the payment of all loans, including but not limited to salary, personal, housing, and motor vehicle loans, as well as credit card payments, falling due within the period of the ECQ without incurring interests, penalties, fees, or other chargers. Persons with multiple loans shall likewise be given the minimum 30-day grace period for every loan.

Pursuant to the said law, the BSP issued Memorandum No. M-2020-017 which contains the Implementing Rules and Regulations of Republic Act No. 11469. It provides, among others, that BSFIs shall not charge or apply interest on interest, fees and charges during the 30-day grace period to future payments/amortizations of the borrowers. They are likewise prohibited from requiring their clients to waive the application of the provisions of Republic Act No. 11469. No waiver previously executed by borrowers covering payments falling due during the ECQ period shall be valid.

Further, the accrued interest for the 30-day grace period may be paid by the borrower on staggered basis over the remaining life of the loan. Nonetheless, this shall not preclude the borrower from paying the accrued interest in full on the new due date. The initial 30-day grace period shall automatically be extended if the ECQ period is extended by the President of the Republic of the Philippines.

The grace period provided under the Bayanihan Act ceased to be effective on 1 June 2020, in accordance with BSP Memorandum No. M-2020-45.

On 11 September 2020, Bayanihan 2 was signed into law and directed banks and other covered institutions to implement a one-time 60-day grace period to be granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before 31 December 2020, including, but not limited to, salary, personal, housing, commercial, and motor vehicle loans, amortizations, financial lease payments and premium payments, as well as credit card payments, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. The said law also provides that all loans may be settled on staggered basis without interest on interests, penalties and other charges until 31 December 2020 or as may be agreed upon by the parties and that parties may mutually agree on a grace period longer than 60 days.

Further, pursuant to Bayanihan 2, banks and other non-bank financial institutions that agree to further loan term extensions or restructuring shall be entitled to regulatory relief, as may be determined by the BSP, which includes, but is not limited to, (i) staggered booking of allowances for credit losses, (ii) exemption from loan-loss provisioning, (iii) exemption from the limits on real estate loans, when applicable, (iv) exemption from related party transaction restrictions, and (v) non-inclusion in the bank's reporting on non-performing loans. The loan term extensions or restructuring under Bayanihan 2 shall be exempt from documentary stamp taxes.

However, the abovementioned provisions on Bayanihan 2 shall not apply to interbank loans and bank borrowings.

BSP Circulars and Memoranda

On 14 March 2020, the BSP issued BSP Memorandum No. M-2020-008. Recognizing the significant impact of the COVID-19 pandemic on the operations of BSFIs, the BSP offered a regulatory relief package which all BSFIs were eligible to avail of within one year from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922. The period of eligibility could be extended depending on the developments of the COVID-19 pandemic. The relief package includes exclusion from the past due loan ratio of loans to affected borrowers for a year and the staggered booking of provision for probable losses for five years for all types of credits extended to individuals and businesses directly affected by the COVID-19 pandemic as of 8 March 2020, subject to the prior approval of the BSP.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020, as amended by BSP Memorandum Circular No. M-2020-049 dated 9 June 2020 and Memorandum No. M-2020-057 dated 21 July 2020. BSP Memorandum No. M-2020-049 provides for the relaxation in the regulations governing the submission of reports and other documents to the BSP-Financial Supervision Sector ("**FSS**"). Thus, the submission of required reports to the BSP-FSS that fall due within the months of March to June 2020 is suspended until further notice, except for the submission of the Financial Reporting Package for Banks ("**FRP**"), the Consolidated Foreign Exchange ("**FX**") Position Report, event-driven report requirements and reserve requirement-related reports. Memorandum No. M-2020-057, on the other hand, increased the single borrower's limit from 25% to 30% until 19 March 2021.

BSP Memorandum No. M-2020-008 was further amended by Memorandum No. M-2020-032 issued on 27 April 2020. Memorandum No. M-2020-032 provides that the exclusion from the past due and non-performing classification shall be allowed from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922, until 31 December 2021. For this purpose, the BSP documentary requirements for restructuring of loans may be waived, provided that the BSFI will adopt appropriate and prudent operational control measures.

On 19 March 2020, in a bid to spur the economy amid the slowdown caused by COVID-19, the BSP announced it would be pulling down the interest rate on the BSP's overnight reverse repurchase ("**RRP**") facility by 50 basis points to 3.25%. Overnight deposit and lending rates were likewise trimmed to 2.75% and 3.75%, respectively, effective 20 March 2020.

On 20 March 2020, in response to the ECQ imposed by the Philippine government to prevent the spread of COVID-19, the BSP issued Memorandum No. M-2020-013, which amended standard operating procedures for Philippine holidays in view of the COVID-19 outbreak.

On 27 March 2020, the BSP issued Circular No. 1080, which granted some operational relief measures to BSP stakeholders for the duration of the community quarantine imposed to contain the spread of COVID-19 (including the general, modified, and enhanced versions thereof). The Circular allowed for, among others, the submission of documentary requirements for the sale of foreign exchange by authorized agent banks through electronic means; documents with e-signatures/digital signatures, soft copies of duly accomplished forms; and grace periods for the registration of unregistered foreign investments.

On 31 March 2020, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of 3 April 2020 for universal and commercial banks, to 12% against demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks and Peso deposits lodged under due to Head Office/Branches/Agencies Abroad of banks.

On 15 April 2020, the BSP issued Memorandum No. M-2020-031 which provides for the suspension of PESONet and InstaPay fees for the duration of the ECQ period. The same suspension was further strongly encouraged to be extended for the fees charged by BSFIs for other fund transfer services and interbank ATM transactions.

On 22 April 2020, as part of the Government's financial assistance program and in light of the effects of the COVID-19 pandemic on micro, small and medium-sized enterprises ("**MSMEs**"), the BSP issued Circular No. 1083, which provides that loans that are granted to MSMEs shall be allowed as alternative compliance with the required reserves against deposit and deposit substitute liabilities, subject to the following conditions: (1) that the MSME loan was granted after 15 March 2020; and (2) that the MSME loan is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose. Qualified MSME loans are to be valued at amortized cost, gross of allowance for credit losses. The use of MSME loans as allowable alternative compliance with the reserve requirement is available to banks from 24 April 2020 to 30 December 2021.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020, as amended by BSP Memorandum Circular No. M-2020-049 dated 9 June 2020 and Memorandum No. M-2020-057 dated 21 July 2020. BSP Memorandum No. M-2020-049 provides for the relaxation in the regulations governing the submission of reports and other documents to the BSP-Financial Supervision Sector ("**FSS**"). Thus, the submission of required reports to the BSP-FSS that fall due within the months of March to June 2020 is suspended until further notice, except for the submission of the Financial Reporting Package for Banks ("**FRP**"), the Consolidated Foreign Exchange ("**FX**") Position Report, event- driven report requirements and reserve requirement-related reports. Memorandum No. M-2020-057, on the other hand, increased the single borrower's limit from 25% to 30% until 19 March 2021.

On 3 August 2020, the BSP issued Memorandum No. M-2020-061 which provides for the supervisory expectations on the measurement of expected credit losses ("**ECL**") and the treatment of regulatory relief measures granted amid the COVID-19 pandemic. The supervisory expectations provide, among others, that BSFIs that will avail of the regulatory relief measures to exclude eligible loans from past due and non-performing classifications and to stagger the booking of allowance for credit losses shall continue to report actual past due and non-performing loans and allowance for credit losses in the Financial Reporting Package ("**FRP**") and the Capital Adequacy Ratio ("**CAR**") reports. This is to facilitate the generation of industry statistics and provide the BSP with information on the true health of the banking system.

BSP Memorandum No. M-2020-062 dated 5 August 2020 directs BSFIs to ensure continuous availability of financial services to the general public as well as to reinforce their operational capabilities to support the anticipated increase in account opening and basic financial and payment transactions through online financial platforms (i.e. internet and mobile banking). BSFIs should likewise ensure that basic cash services are always available through timely and adequate provisioning of cash in the ATM terminals and to closely monitor other operational issues that may have significant business impact.

On 24 September 2020, the BSP issued Circular No. 1098 which imposed a 24% annual interest rate ceiling on interest or finance charges for credit card receivables effective 3 November 2020, except credit card installment loans which shall be subject to a monthly add-on rate not exceeding 1%. Such rate shall be subject to review by the BSP every 6 months. In April 2021 and November 2021, the BSP announced that it is maintaining the 24% cap on credit card charges.

OTHER REGULATIONS

Set out below are other regulations applicable to banks operating in the Philippines:

- *Implementation of Basel III Framework on Liquidity Standards*. On 10 March 2016, the BSP issued BSP Circular No. 905 which provided guidelines for the implementation of Basel III framework on Liquidity Standards as it relates to LCR and Disclosure Standards. The Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Beginning on 1 January 2018, the LCR threshold that banks will be required to meet will be 90.0%, which was increased to 100.0% commencing on 1 January 2019. On 3 November 2017, the BSP issued BSP Circular No. 981 which amended the guidelines on liquidity risk management. The banks have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that banks complete a gap analysis of the requirements in BSP Circular No. 981 vis-à-vis their existing risk management systems by 31 March 2018, the result of such gap analysis shall be documented and made available for review of the BSP. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework and extended its coverage to subsidiaries of universal and commercial banks and quasi banks on both solo (head office and branches/other offices) and consolidated (parent bank and subsidiary financial allied undertakings) bases.

  On 15 March 2019, BSP issued Circular No. 1035 to introduce certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. Circular No. 1035: (i) extended the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adopted the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio.

- *Implementation of Basel III Framework for Dealing with D-SIBs*. On 29 October 2014, the BSP issued BSP Circular No. 856 which provided the guidelines for implementing the Framework for dealing with D-SIBs under Basel III. Banks deemed as D-SIBs by the BSP will be imposed with capital surcharge to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1% to 2.5%. Aside from the added capital pressure, D SIBs may be put at an undue disadvantage compared to G-SIBs given that this framework was patterned for regional/global banks and which may not thus be appropriate for local banks. The phased-in compliance started on 1 January 2017 and will become fully effective on 1 January 2019. On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by DSIBs which shall form part of the DSIBs' ICAAP submitted to the BSP every 31 March of each year. The recovery plan identifies the course of action that a DSIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the DSIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a preemptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document, which includes the first recovery plan, was submitted on 30 June 2016 and will be re-submitted on the 31st of March of each year.

- *Regulations Governing the Derivatives Activities of Banks*. In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, BSP Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks and trust entities. Furthermore, BSP Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk weighted assets for banks that will engage in derivatives activities as end-users for hedging purposes and/or under limited-use authority. The BSP also issued BSP Circular No. 891 on 9 November 2015 amending the sales and marketing guidelines for derivatives under the Manual. Banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitization structures and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank's standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees. In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives shall be subject to margin requirements pursuant to the policy framework adopted by the BCBS and the International Organization of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in time of stress. Variation margin requirements were phased in from 1 September 2016 to 1 March 2017 while initial margin requirements are being phased in from 1 September 2016 to 1 September 2020. As an initial step, banks and quasi-banks should make a determination of the transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements.

- *Amendments to unit investment trust fund ("**UITF**") Regulations*. In September 2004, the BSP issued BSP Circular No. 447 (as amended by BSP Circular No. 675 (2009), BSP Circular No. 676 (2009), Memorandum No. M-2010-033 (2010), BSP Circular No. 767 (2012), BSP Circular No. 852 (2014), BSP Circular No. 876 (2015) and BSP Circular No. 907 (2016)) which provided guidelines for the launching and offering of new products to be known as UITFs, and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organized exchange, loans traded in an organized market, loans arising from repo agreements which are transacted through an exchange recognized by the Philippine SEC and such other tradable investments outlets/categories as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued BSP Circular No. 593 to improve risk disclosure on investing in UITFs, by requiring banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in, and to update the client's profile at least every three years. In December 2009, the BSP issued BSP Circular No. 676 allowing cross-currency investment for Peso trust, other fiduciary and investment management accounts, including Peso UITFs. In September 2012, the BSP issued BSP Circular No. 767 to include investments by UITFs in units/ shares in collective investment schemes as an allowable investment and recognizing UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued BSP Circular No. 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the Key Information and Investment Disclosure Statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued BSP Circular No. 907 to amend certain exposure limits, and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds. UITF investments shall only be limited to bank deposits and collective investment schemes (e.g., target fund, exchange-traded funds), subject to such target fund not being structured or similarly structured as a feeder fund or a fund-of-funds. On 14 March 2018, BSP issued BSP Circular No. 999 which further amended the allowable investment and valuation of UITFs invested in feeder fund or fund-of-funds. Under the circular, offshore/global funds which use financial derivatives for efficient portfolio management ("**EPM**") may be allowed as target fund, provided that financial derivatives are not extensively or primarily used as an investment strategy of the target fund and that the risk level of the target fund remain consistent with the objective and risk profile of the investor fund. Alternatively, the target fund shall comply with the relevant regulatory requirements of its home jurisdiction as regards the use of financial derivatives for EPM. On 5 September 2022, the BSP issued BSP Circular No. 1152, further amending the UITF Regulations. Under said circular, the BSP provided the requirements and procedure for the creation of a UITF which may require either prior approval from, or notification with, the BSP, as well as the procedure for any subsequent amendment of key features of a fund. Further, the BSP also amended, among others, the operating and accounting methodology of a UITF, the manner by which the fund is operated, depending on the fund classification, and the minimum disclosure requirements to be contained in the KIIDS, the Participating Trust Agreement, and other marketing materials pertaining to a UITF.

- *Limit on Real Estate Loans of Universal Banks*. In February 2008, the BSP issued BSP Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans, and amending the inclusions and exclusions to be observed in the computation. On 10 October 2017, the BSP issued BSP Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20.0% limit on real estate loans. On 20 August 2020, the BSP issued Circular No. 1093, expanding the real estate loan limit for UKBs from 20% to 25%.

- *Exemption of Paired ROP Warrants from Capital Charge for Market Risk*. In connection with the Government's Paired Warrants Program, the BSP issued BSP Circular No. 605 in March 2008 exempting warrants paired with ROP Global Bonds from capital charge for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50.0% of total qualifying capital.

- *Guidelines on Securities Borrowing and Lending Transactions*. Guidelines by the PSE on SBL govern SBL transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008, provides guidelines on SBL transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors/lenders. In May 2008, the BSP Monetary Board authorized the issuance of BSP Registration Documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from the SBL transaction, such as rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso denominated government securities and PSE-listed shares used as collateral.

- *Reclassification of Financial Assets between Categories*. The BSP issued BSP Circular No. 628 dated 31 October 2008, amending BSP Circular No. 626 dated 23 October 2008 and the Resolution of the Monetary Board No. 1423 dated 30 October 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial Institutions shall be allowed to reclassify all or a portion of their financial assets from "held for trading" or "available for sale" categories to the "available for sale" or "held to maturity" or "unquoted debt securities classified as loans" categories effective 1 July 2008. Any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made. The BSP issued BSP Memorandum No. M-2020-022 dated 8 April 2020 which approved the guidelines governing the reclassification of debt securities that are measured at fair value to the amortized cost category as part of the relief measures extended by the BSP in light of the COVID-19 pandemic. A BSFI is allowed to reclassify its investments in debt securities that are booked under a fair value category to the amortized cost category, except for debt securities that are part of assets under management of a trust entity. The reclassification of debt securities shall be done all at the same time, and only from 1 March 2020 to 30 September 2020. BSFIs may retrospectively reclassify debt securities measured at fair value until 30 April 2020, and may value date the reclassification as of any day from 1 March 2020 to 30 April 2020. Reclassifications made after 30 April 2020 shall take effect only from the date such reclassification is made. BSFIs shall not restate any recognized gains, losses (including impairment gains or losses) or interest prior to the effective date of reclassification. Adoption of the foregoing alternative accounting treatment in the audited financial statements of a BSFI will warrant a qualified opinion from the external auditor, if deemed to have a material effect on the financial statements.

- *Rules and Regulations on the Mandatory Allocation for Agriculture and Agrarian Reform Credit*. In July 2011, the BSP issued BSP Circular No. 736 as a component of the Implementing Rules and Regulations of the Republic Act No. 10000 or the Agri-Agra Reform Credit Act. Aside from retaining the mandatory credit allocation, it also rationalizes the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided. On 20 July 2018, the BSP issued BSP Circular No. 1009, Series of 2018 further amending the Rules and Regulations on the Mandatory Credit Allocation for Agriculture and Agrarian Reform Credit.

- *Valuations of Government Securities Held by Banks*. In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates in accordance with BSP-approved guidelines shall be used.

- *Segregation of Customer Funds and Securities Received by Banks*. On 14 August 2015, the BSP issued BSP Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.

- *Creation of Personal Management Trust*. On 18 August 2016, the BSP issued BSP Circular No. 920 allowing for the creation of the personal management trust ("**PMT**"), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third-party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual's financial affairs. Upon the effectivity of the circular, all living trust accounts ("**LTAs**") were discontinued and all those that remained valid were automatically considered as PMT.

- *Clearing of Checks via Electronic Presentment*. On 7 September 2016, the BSP issued BSP Circular No. 924, amending the Manual in view of the clearing of checks via electronic presentment, which shall be implemented by **PCHC**. On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information shall be required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.

- *Effective Reporting System Generation and Timely Submission of Reports*. On 26 June 2017, the BSP amended the Manual through BSP Circular No. 963, Series of 2017, which issuance instituted governance processes in accordance with the BSP's expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must comply with the standards prescribed by the BSP, and the banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provided that banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision. Its full implementation started on 1 January 2018.

- *Additional Requirements for the Issuance of Bonds and Commercial Papers.* On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:

  (a) The bank must have a CAMELS composite rating of at least "3" and a "Management" rating of not lower than "3".
  (b) The bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
  (c) The bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
  (d) The bonds issued are enrolled and/or traded in a market which is organized in accordance with the SEC rules and regulations.

  Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or -controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank's listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, shall be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

- *Guidelines on the Adoption of PFRS 9.* On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option is allowed, or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provides that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:

  (a) in preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of PAS 28.
  (b) In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.
  (c) banks shall recognize adequate and timely allowance for credit losses at all times. In this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP Manual.

- *Mark to market of financial instruments*. BSP Circular No. 1021 dated 15 November 2018 provides that financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9 shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission.

- *Regulatory treatment of restructured loans for purposes of measuring expected credit losses.* On 21 October 2021, BSP issued Memorandum No. M-2021-056, providing guidelines on the regulatory treatment of restructured loans for purposes of measuring expected credit losses (ECL), effective until 31 December 2022. The classification of loans whose terms are modified due to the COVID-19 pandemic under Stage 1, 2, or 3, for purposes of determining ECL shall be based on the assessment of the extent of financial difficulty of the borrowers and their ability to fully pay the loan based on the revised terms. Loans that have been restructured to support borrowers that are experiencing financial difficulties due to the COVID-19 pandemic should not automatically be considered as credit-impaired that will warrant the classification of the accounts as non-performing.

- *Amendments to the Regulations on Investment Management Activities*. The BSP issued Circular No. 1109 Series of 2021, which reduced the minimum size of an account under investment management. It further allows the commingling of funds subject to certain conditions and expanded the securities eligible under an investment outlet for commingled funds. Previously, the minimum size of an investment management account was ₱1.0 million. Under the Circular, BSP -Supervised Financial Institutions (BSFIs) may determine the minimum amount that should be maintained by a client in an investment management account (IMA), which shall be at least ₱100,000.00. Moreover, prior to this Circular, commingling of IMAs was not allowed except for the purpose of investing in government securities or in duly registered commercial papers.

- *Amendments to the Rules on Cross-Border Transfer of Local and Foreign Currencies*. The BSP issued Circular No. 1146 Series of 2022 which allows a person to import or export, or bring into or take out of the Philippines, or electronically transfer legal tender Philippine notes and coins, checks, money order and other bills of exchange drawn in peso against banks operating in the Philippines in an amount not exceeding ₱50,000.00 without prior authorization by the BSP. In excess of such ₱50,000.00 limit, a prior written authorization from the BSP is required. In case of physical cross-border transfer of Philippine currency, there must be a declaration of the whole amount brought into or taken out of the Philippines. For foreign currency, a person who brings into or takes out of the Philippines foreign currency or other foreign-currency denominated bearer monetary instruments in excess of $10,000.00 or its equivalent must declare the whole amount brought into or taken out of the Philippines.

- *Amendments to the Ceiling on Interest or Finance Charges for Credit Card Receivables*. On January 19, 2023, the BSP issued Circular No. 1165 which provides that banks may now impose an interest or finance charge which shall not exceed an annual interest rate of thirty-six percent (36%) on all credit card transactions. This issuance supersedes BSP issued Circular No. 1098 issued on 24 September 2020, imposing a twenty-four (24%) interest per year cap on all credit card transactions.

- *Adoption of National Retail Payment System (“**NRPS**”) Framework*. On 6 November 2017, in line with BSP’s adoption of the NRPS framework consistent with its regulations on risk management, the BSP issued Circular No. 980, which requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management and effective and efficient interoperability. The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. Under this framework, sound governance shall be performed by a payment system management body (“**PSMB**”), which is duly recognized and overseen by BSP. In the absence of a PSMB, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by BSP.

- *Guidelines on Liquidity Risk Management*. On 3 November 2017, the BSP issued Circular No. 981, amending the guidelines on liquidity risk management and the related amendments to the Manual. Among the highlights of the said changes were the additional guidelines relative to Foreign Currency Management, Intraday Liquidity Management, Intragroup Liquidity Management, Collateral Management, Liquidity Stress Testing, Contingency Funding Plans, Factors to Consider in Developing a Funding Strategy, and Factors to Consider in Developing Cash Flow Projections. Banks shall have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that they complete a gap analysis of the requirements of the said BSP Circular vis-a-vis their existing risk management systems by 31 March 2018.

- *Enhanced Guidelines in Information Security Management*. On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management of BSFIs in view of the rapidly evolving technology and cyber-threat landscape in which they operate. The amendments highlight the role of the BSFIs’ board and senior management in spearheading sound information security governance and strong security culture within their respective networks. Likewise, BSFIs are mandated to manage information security risks and exposures within acceptable levels through a dynamic interplay of people, policies, processes, and technologies following a continuing cycle (i.e. identify, prevent, detect, respond, recover and test phases). The new guidelines also recognize that BSFIs are at varying levels of cyber-maturity and cyber-risk exposures which may render certain requirements restrictive and costly vis-à-vis expected benefits. Thus, the IT profile classification has been expanded from two to three, namely: “Complex,” “Moderate” and “Simple” to provide greater flexibility in complying with the requirements.

- *Guidelines on the Conduct of Stress Testing Exercises*. On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of DSIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.

- *Basic Deposit Accounts.* BSP Circular No. 992, issued on 1 February 2018, requires banks to establish a basic deposit account which refers to interest or non-interest-bearing account designed to promote financial inclusion. The basic deposit account shall have an opening amount of not more than ₱100.00 and no minimum maintaining balance but with a maximum balance of not more than ₱50,000.00. If the depositor exceeds the ₱50,000.00 maximum balance, the bank shall convert the basic deposit account to a regular deposit account. The basic deposit account shall have no dormancy charges and has no reserve requirement. On 1 March 2018, the BSP issued Circular No. 998, clarifying the guidelines on the basic security deposit requirements. The circular provides that, as security for the faithful performance of its trust and other fiduciary duties, the basic security deposit shall be at least one percent (1%) of the book value of the total trust, other fiduciary and investment management assets, and at no time shall be less than ₱500,000.00; further, as security for the faithful performance of its investment management activities, the basic security deposit shall be at least one percent of the book value of the total investment management assets, and at no time less than ₱500,000.00. The Circular also prescribes the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, and amends the compliance period to require banks, that are authorized to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis, as well as, at the time of withdrawal, replacement or redemption of the government securities deposited with the BSP within the quarter period. On 15 February 2019, the BSP issued Circular No. 1032 amending the guidelines on the basic security deposit requirement. The circular provided that the trustee or fiduciary/investment manager shall ensure compliance with the required basic security deposit. Any deficiency must be corrected through the immediate posting of additional securities. Trustees or fiduciary/investment managers shall submit quarterly reports on compliance with the basic security deposit requirement and report on the basic security deposit transactions.

- *Electronic Banking Services and Other Electronic Operations.* On 22 February 2019, the BSP issued BSP Circular No. 1033, which classifies electronic payments and financial services (**EPFS**) into basic and advanced and establishes guidelines for the licensing of EPFS. Further, BSFIs that are licensed to offer funds transfer services shall make these interoperable by participating in automated clearing houses.

- *Reserves against trust and other fiduciary accounts ("**TOFA**")*. BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorized to engage in trust and other fiduciary business shall maintain reserves on TOFA -others, except accounts held under (1) administratorship; (2) trust under indenture; (3) custodianship and safekeeping; (4) depository and reorganization; (5) employee benefit plans under trust; (6) escrow; (7) personal trust (testamentary trust); (8) executorship; (9) guardianship; (10) life insurance trust*;* (11) pre-need plans (institutional/individual); (12) Personal Equity And Retirement Account ("**PERA**"); (13) legislated and quasi-judicial trust; and (l4) specialize institutional accounts under trust.

- *Currency Rate Risk Protection program ("**CRPP Facility**") and the Implementing Guidelines*. On 24 September 2018, and 5 October 2018, the BSP issued Circular No. 1014 and 1015, respectively, revising the guidelines on the CRPP Facility. The CRPP Facility is a non-deliverable USD/PHP forward contract between BSP and a universal/commercial bank in response to the request of bank clients desiring to hedge their eligible foreign currency obligations. Transactions under the CRPP facility are considered part of banks' Generally Authorized Derivatives Activities. Under the CRPP Facility, only the net difference between the contracted forward rate and the prevailing spot rate shall be settled in pesos at maturity of the contract. Should the eligible obligation be denominated in a foreign currency other than the USD, the CRPP contract shall be denominated in USD equivalent using the exchange rate indicated in the BSP Reference Exchange Rate Bulletin on deal date. The BSP shall have supervisory enforcement actions or right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the guidelines. Any violation of the guidelines, including willful delay in the submission, non-submission and/or willful making of a false or misleading statement in the notarized certification required to be submitted therein to the BSP Sections shall constitute grounds for the imposition on the bank of penalties.

- *Adoption of Policy Framework on the Grant of Regulatory Relief to Banks/Quasi Banks Affected by Calamities*. On 10 October 2018, the BSP issued Circular No. 1017, which provides the policy framework on the grant of regulatory relief measures to banks/quasi-banks affected by calamities. Under the framework, banks/quasi-banks may avail of the regulatory relief packages, including the provision of financial assistance to officers who are affected by the calamity even in the absence of BSP approved purposes, for a period of one (1) year from the date of declaration of state of calamity.

- *Technology and Cyber-Risk Reporting and Notification Requirements*. On 31 October 2018, the BSP issued Circular No. 1019, which amended provisions relating to the technology and cyber-risk reporting and notification requirements for BSFIs. The amendments were made to enable the BSP to have ready access to accurate, timely, and actionable information regarding BSFI's technology risk profiles as well as the evolving cyber-threat environment for a more responsive, proactive and effective banking supervision.

- *Amendments to the FX Manual.* On 5 February 2019, the BSP issued Circular No. 1030, which amended provisions of the Manual of Regulations on Foreign Exchange Transactions in furtherance of the BSP's aim of liberalizing the regulations applicable to (among others) inward investments. The issuance expanded the scope of the categories of inward foreign investments such that the presence of control and significant degree of influence between the investor and the investee firm is considered for certain types of investments to be categorized as direct investment or portfolio investment. It also established a grace period to register existing investments that are unregistered as of the effectivity date of the issuance.

- *Revised Framework on the Selection of External Auditors.* On 20 May 2019, the BSP issued Circular No. 1040, which revised the framework on selection of external auditors for BSP Supervised Financial Institutions in accordance with the cooperative arrangement among the BSP, SEC, Insurance Commission and the PDIC.

- *Rules and Regulations on the Registration of Operators of Payment Systems.* On 9 September 2019, Circular No. 1049 was issued approving the rules and regulation on the registration of operators of payment systems to implement Republic Act No. 11127 or the National Payment Systems Act. These rules and regulations form part of the newly-created Manual of Regulations for Payment Systems.

- *Guidelines on Voluntary Surrender of a Banking License.* On 18 September 2019, Circular No. 1050 issued the guidelines on voluntary surrender of banking license in case of voluntary dissolution and liquidation, or to convert into a non-bank entity.

- *Amendments to the Prudential Requirements and Guidelines on the Public Offering and Listing of Bank Shares for Universal Banks.* On 15 November 2019, Circular No. 1060 was issued amending the prudential requirements on the public offering and listing of bank shares for universal banks. The amendments are aimed at supplementing the enhanced corporate governance frameworks of the BSP by encouraging dispersed shareholdings on banks.

- *Amendment of the Requirements on the Issuance of Long-Term Negotiable Certificates of Time Deposit (LTNCTDs), Bonds and Commercial Papers*. On 26 November 2019, Circular 1062 was issued amending the provisions of the Manual to relax certain requirements on the issuance of LTNCTDs, Bonds and Commercial Papers. Of note is the amendment expanding the entities that are now prohibited from holding the LTNCTDs, Bonds and Commercial Papers.

- *Report on Intraday Liquidity of Universal and Commercial Banks ("**UBs/KBs**") and their Subsidiary Banks/Quasi-Banks ("**QBs**").* On 3 December 2019, Circular No. 1064 was issued amending the Manual to implement and adopt the report on intraday liquidity for universal banks and their subsidiary thrift banks/quasi-banks. The report is aimed at appropriately monitoring the intraday liquidity position of BSP supervised financial institutions, their sources of intraday liquidity, and their ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. The reporting requirements are also intended to facilitate the sound management of intraday liquidity risk as well as provide sufficient understanding and allocation of resources to effectively manage the same.

- *Amendments to Regulations on Financial Audit of Banks*. On 7 February 2020, Circular No. 1074 was issued amending regulations on the financial audit of BSP supervised financial institutions which aim to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting. Amendments pertain to changes in prescribed formats of statements in the financial statements, changes in deadline of report submissions to the BSP, new and amended disclosure requirements to the financial statements, among others.

- *Amendments to the Regulations on the Disqualifications and Watchlisting of Directors/Officers*. On 18 February 2020, Circular No. 1076 was issued to strengthen the disqualification and watchlisting of directors and officers of banks and other financial institutions. The amendments aim to further promote the integrity of the financial system and better protect the interest of the public.

- *Sustainable Finance Framework*. On 29 April 2020, the BSP issued Circular No. 1085 which requires Philippine banks to integrate environmental, social and governance principles into their corporate strategy, risk management practices and bank operations. Banks have three years to fully comply with the provisions of the BSP's ESG requirements.

- *Guidelines on the Establishment of Digital Banks*. On 2 December 2020, the BSP issued Circular No. 1105 which approved the inclusion of digital banks as a distinct classification of banks and the corresponding guidelines for their establishment.

- *Guidelines on Reputational Risk Management.* On 16 April 2021, the BSP issued Circular No. 1114 which sets out the guidelines on the supervising expectations and minimum prudential requirements in managing reputational risk. BSFIs shall comply with the standards within a period of one year from the effectivity of this issuance.

- *Environmental and Social Risk Management Framework.* On 26 October 2021, the BSP issued Circular No. 1128 which approved the guidelines that shall govern the integration of environmental and social risks in the enterprise-wide risk management frameworks of banks.

- *Expansion of Eligible Participants for Monetary Operations and for BSP Securities in the Secondary Market.* On 23 November 2021, the BSP issued Circular No. 1130 to operationalize the inclusion of digital banks as eligible participants for the BSP's monetary operations and of trust entities as eligible participants of BSP Securities in the secondary market.

- *Conduct of Customer Due Diligence*. On 30 March 2023, the BSP issued Circular No. 1170 which provides for amendments to existing rules on the conduct of customer due diligence by banks and non-banks. This includes "Know Your Customer" or e-KYC guidelines on the use of digital IDs and other minimum information or documents required for customer identification. BSP defines "e-KYC" as the use of electronic or digital methods in customer identification and verification process. In conducting customer due diligence, a risk-based approach shall be undertaken depending on the type of customer, business relationship, nature of the product, or transaction/activity.

DISTRIBUTION AND SALE

METHODS OF DISTRIBUTION

The Bonds under the Programme will be issued pursuant to BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019), and other related circulars and issuances of the BSP (the "**BSP Rules**"). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The Sole Arranger, the Arranger and the Selling Agents for each issuance under the Programme are required to comply with all laws, regulations, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the Bonds and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Sole Arranger, the Arranger or the Selling Agents in connection therewith.

No action has been or will be taken by the Bank, the Sole Arranger, the Arranger or the Selling Agents in any jurisdiction (other than the Philippines), that would permit a public offering of any of the Bonds, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the Bonds, in any country or jurisdiction where action for that purpose is required.

Each of the Sole Arranger, the Arranger and the Selling Agents shall be a third-party in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine the objective conduct of due diligence on Bank. The Registrar and Paying Agent and Trustee are likewise third-parties in relation to Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; (ii) they are not related in any manner to Bank as would undermine their independence.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Selling Agents or any affiliate of the Selling Agents is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Selling Agent or its affiliate on behalf of the Bank in such jurisdiction

The Bonds are newly issued securities in scripless for which there currently is no market. A market maker shall be appointed to provide live bids good for the minimum denomination under the Terms and Conditions, and a cumulative trading commitment per trading day, as required under PDEx Trading Rules, Conventions, and Guidelines. The Sole Arranger, the Arranger and the Selling Agents are not obligated to make a market for the Bonds. Accordingly, no assurance can be given as to the development or liquidity of any market for the Bonds.

The Sole Arranger, the Arranger and Selling Agents and their respective affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of Sole Arranger, the Arranger and the Selling Agents may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Bank or its subsidiaries, jointly controlled entities or associated companies and may be paid fees in connection with such services from time to time. In the ordinary course of their various business activities, the Sole Arranger, the Arranger and the Selling Agents and their respective affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Bonds or its subsidiaries, jointly controlled entities or associated companies, including Bonds issued under the Bond Program, may be entered into at the same time or proximate to offers and sales of Bonds or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Bonds. Bonds issued under the Programme may be purchased by or be allocated to the Sole Arranger, the Arranger, Selling Agent or any of their respective affiliates for asset management and/or proprietary purposes whether or not with a view to later distribution. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

APPLICATIONS TO PURCHASE THE BONDS DURING THE OFFER PERIOD

Applicants may purchase the Bonds under the Programme during the relevant Offer Period for each Series or Tranche by submitting fully and duly accomplished Applications to Purchase ("**ATP**") the Bonds, whether originally signed in quadruplicate if manually processed/submitted or triplicate if electronically submitted through the electronic Securities Issue Portal together with all the required attachments and the corresponding payments to the Selling Agent from whom such application was obtained no later than 5:00 p.m. of the last day of the relevant Offer Period. ATPs received after said date or without the required attachments will be rejected. Only ATPs which are accompanied by payment in the form of cash, manager's checks, debit instructions or such other forms of instructions that are acceptable to the relevant Selling Agent and provided in the ATP, and which cover the entire purchase price shall be accepted. The Issuer and the Arranger reserve the right to adjust the Offer Period as needed.

If the Applicant is an individual, the following documents must also be submitted:

(a) A clear copy of at least one (1) valid photo-bearing identification document issued by an official authority in accordance with BSP Circular No. 608 (2008) as may be amended from time to time, and documents as may be required by to the Registrar and/or Selling Agent concerned;
(b) Two (2) fully executed signature cards in the form attached to the application;
(c) Valid tax identification number issued by the BIR;
(d) For aliens residing in the Philippines or non-residents engaged in trade or business in the Philippines, consularized proof of tax domicile issued by the relevant tax authority of the Applicant; and
(e) Such other documentary requirements as may be reasonably required by the Bank and Selling Agents in the implementation of its internal policies regarding "know your customer" and anti-money laundering.

If the Applicant is a corporation, partnership, trust, association or institution, the following documents must also be submitted:

(a) SEC-certified or Corporate Secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-Laws or such other relevant organizational or charter documents;
(b) Original or Corporate Secretary-certified true copy of the duly notarized certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the Bonds and specifying the authorized signatories;
(c) Two (2) fully executed signature cards duly authenticated by the Corporate Secretary, in the form attached to the application;
(d) Valid tax identification number issued by the BIR;
(e) Identification documents of the authorized signatories of the Applicant, as specified in item (a) of the immediately preceding paragraph; and
(f) Such other documentary requirements as may be reasonably required by the Bank and Selling Agents in the implementation of its internal policies regarding "know your customer" and anti-money laundering.

Corporate applicants who are claiming tax exemption must also submit the following:

(a) Proof of Tax Exemption or Entitlement to Preferential Tax Rates

- For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR;
- For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;
- For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;

- For entities claiming tax treaty relief – (a) prior to the first Interest Payment Date: (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder, or if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR; (2) one (1) original of the apostilled/consularized Tax Residency Certificate ("TRC") duly issued by the foreign tax authority of the country of the residence of the Bondholder, or if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws; (3) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer; and (4) three (3) originals of the duly notarized, or apostilled/consularized if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of its authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due: (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder, or if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR; and (2) one (1) original of the apostilled/consularized TRC duly issued by the foreign tax authority of the country of the residence of the Bondholder, or if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued TRC has already lapsed; and
- Any other document that the Bank or PDTC may require from time to time.

(b) Original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status, that the tax-exemption certificate, ruling or opinion providing for such tax-exempt status has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder's entitlement to preferential treaty rates, and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax-exempt status or treaty privileges and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and
(c) Such other documentary requirements as may be required by the Issuer or the Registrar and Paying Agent as proof of the Applicant's tax-exempt status.

ALLOCATION AND ISSUE OF THE BONDS

Applications to Purchase the Bonds shall be subject to the availability of the Bonds and acceptance by the Issuer. The Arranger, in consultation with the Issuer, reserves the right to accept, reject, scale down or reallocate any Application to purchase the Bonds applied for under the relevant Series or Tranche of Bonds.

In the event that payment supporting any Application is returned by the drawee bank for any reason whatsoever, the Application shall be automatically cancelled and any prior acceptance of the Application shall be deemed revoked. If any Application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent.

On the relevant Issue Date, the Selling Agents shall, on behalf of the Issuer, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall ipso facto convert such Application to Purchase into a purchase agreement between the Issuer and the relevant Bondholder.

Upon confirmation by the Issuer of acceptance of the relevant Applications and the respective amount of Bonds, the Registrar and Paying Agent shall release in accordance with the Registry and Paying Agency Agreement the relevant registry confirmation (the "**Registry Confirmation**") to successful applicants confirming the acceptance of their purchase of the Bonds and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies to the Issuer.

The Registrar shall be entitled to rely solely on the Final Sales Reports submitted by the Selling Agent to the Registrar. Where PDTC discovers, after Issue Date, any inconsistency between the Final Sales Report and the Application to Purchase submitted by the Bondholder, PDTC reserves the right to rely subsidiarily on the Applications to Purchase, to the extent that the information in the Final Sales Report is noted to be inconsistent with the Application to Purchase. Within seven (7) Banking Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the Bondholders in the mode elected by the Bondholder as indicated in the Application to Purchase.

TRANSACTIONS IN THE SECONDARY MARKET

All secondary trading of the Bonds shall be coursed the trading facilities of PDEx, as applicable, subject to the payment by the Bondholder of fees to the connection with trading on PDEx, and the Registrar. Transfers shall be subject to the procedures of the BSP, the Registrar and PDEx, including but not limited to the guidelines on minimum trading lots, minimum holding denominations, and record dates.

The Bank shall list the Bonds under the Programme in PDEx for secondary market trading. Upon listing of the Bonds with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of the Bonds in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. Transactions on the Bonds on PDEx will be subject to the duly approved and relevant rules of the exchange, including guidelines on minimum trading lots and other guidelines for holding and trading of the Bonds as may be prescribed by the BSP.

For the avoidance of doubt, the minimum denomination for the Bonds as prescribed by the BSP or as may be provided in the relevant Pricing Supplement must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining Bondholder of the Bonds will hold less than the minimum denomination as prescribed or approved by the BSP or as stated in the relevant Pricing Supplement.

No transfers will be effected for a period of two (2) Business Days preceding the due date for any payment of interest on the Bonds, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Bonds.

The Registrar shall register any transfer of the Bonds upon presentation to it of the following documents in form and substance acceptable to it:

- The relevant Trade- Related Transfer Form or Non-Trade Transfer Form as the case may be, duly accomplished by the transferor Bondholder and endorsed by the PDEx Trading Participant;
- duly accomplished Investor Registration Form of the buyer/transferee as prescribed by the Registrar as well as all supporting documents described for the original issuance of the Bonds as described above (in case of a new holder);
- proof of the qualified tax-exempt status of the transferee, if applicable, and the covering Affidavit of Undertaking;
- the original duly endorsed signature cards of the buyer/transferee and such other original or certified true copies of other documents submitted by the buyer/transferee in support of the transfer or assignment of the Bonds in its favor;
- the appropriate secretary's certificate attesting to the board resolutions authorizing the transfers and acceptances as well as designating the authorized signatories, together with specimen signature cards duly signed by the parties, and duly authenticated by each party's corporate secretary; and
- such other documents that may be required by the Registrar, including those for Non-Trade Transactions.

Transfers of the Bonds made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar.

INTEREST AND PRINCIPAL PAYMENT

On the relevant Payment Date, the Registrar shall, upon receipt of the corresponding funds from the Issuer, make available to the Bondholders the amounts due under the Bonds, net of taxes and fees (if any), by way of credits to the bank accounts identified by the Bondholders in the Applications to Purchase.

SCHEDULE OF REGISTRY FEES

The Registrar and Paying Agent shall be entitled to charge the Bondholders and/or their counterparties such reasonable fees as the Registrar and Paying Agent shall prescribe in connection with the services that the Registrar and Paying Agent shall perform, such as, but not limited to, the opening and maintaining of accounts in favor of the Bondholders, the maintenance of the records of the Bondholder in the Registry, the issuance, cancellation, and replacement, when proper, of the Registry Confirmations, and the transfers of the Bonds from a purchaser or seller/transferor of the Bonds.

Transfer Fees in the Secondary Trading

1. Transfer Fee of ₱100.00 to be paid each by the transferring Bondholder and the buyer/transferee prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer. For transfers from a registry account to the depository, the full charge of ₱200.00 per transfer shall be charged to the transferring bondholder.
2. Account Opening Fee of ₱100.00 to be paid upfront by a transferee who has no existing account in the Registry
3. Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDSClear System if so duly authorized by a bondholder

Transfer Fees due to Non-Trade Transactions

1. Transaction Fee of ₱100.00 to be paid each by the transferring bondholder and the requesting party prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer.
2. Transaction Fee of ₱500.00 per side plus legal cost, for non-intermediated transfers (e.g. inheritance, donation, pledge).

Other Fees charged to the Bondholder

These fees pertain to instances when PDTC is requested to undertake the printing of non-standard reports for the Bondholders for which appropriate fees are charged to cover the related overhead costs. The fee may vary depending on the type of report, as follows:

1. Fee of ₱200.00 to be paid upon each application for a certification request of holding.
2. Fee of ₱50.00 to be paid upon each application for a monthly statement of account (in addition to the quarterly statement of account to be issued by the Registrar to each Bondholder free of charge).
3. Fee of ₱50.00 to be paid upon application for the issuance of a replacement Registry Confirmation for reasons such as mutilated, destroyed, stolen or lost.
4. The fee for Special Reports varies depending on request.
   (a) Report without back-up file restoration is subject to a fee of ₱100.00 per request, plus ₱20.00 per page.
   (b) Report requiring back-up file restoration is subject to a fee of ₱300.00 per request, plus ₱20.00 per page.

INDEX TO GROUP FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 2022, 2021 AND 2020

UNAUDITED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

THE ISSUER

BDO Unibank, Inc.
BDO Towers Valero
8741 Paseo de Roxas, Salcedo Village
Makati City Philippines

SOLE ARRANGER AND SELLING AGENT

Standard Chartered Bank
20/F Ayala Triangle Gardens Tower Two
Paseo de Roxas corner Makati Avenue
Makati City Philippines

ADVISOR

BDO CAPITAL & INVESTMENT CORPORATION
BDO Equitable Tower
8751 Paseo de Roxas
Salcedo Village, Makati City

REGISTRAR AND PAYING AGENT

Philippine Depository & Trust Corp.
29/F BDO Equitable Tower
8751 Paseo de Roxas
Makati City Philippines

LEGAL ADVISERS

Picazo Buyco Tan Fider & Santos
Arranger Counsel
Penthouse, Liberty Center – Picazo Law
104 H.V. dela Costa St., Salcedo Village
Makati City

Serrano Law
Issuer Counsel
1105 Tower 2 High Street South Corporate Plaza
26th Street, Bonifacio Global City
Taguig City

INDEPENDENT AUDITORS

Punongbayan & Araullo
20/F The Enterprise Center Tower I
6766 Ayala Avenue
Makati City
Philippines

BDO

P&A Grant Thornton

FOR SEC FILING

Financial Statements and Independent Auditors' Report

BDO Unibank, Inc. and Subsidiaries

December 31, 2022, 2021 and 2020

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **BDO Unibank, Inc. and Subsidiaries (the BDO Unibank Group)** and of **BDO Unibank, Inc. (the Parent Bank)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2022, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the BDO Unibank Group 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.

The Board of Directors is responsible for overseeing the BDO Unibank Group and the Parent Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Punongbayan & Araullo, the independent auditor appointed by the stockholders, has audited the financial statements of the BDO Unibank Group and the Parent Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Teresita T. Sy
Chairperson of the Board

Nestor V. Tan
President & Chief Executive Officer

Dalmacio D. Martin
Treasurer

Signed this 24th day of February 2023

BDO Unibank, Inc.
BDO Towers Valero
8741 Paseo De Roxas
Salcedo Village
Makati City 1226
Philippines
Swift Code BNORPHMM
Tel +632 8840-7000

bdo.com.ph

We find ways®

SUBSCRIBED and SWORN to before me this 24th day of February, 2023 affiants exhibiting to me their Competent Evidence of Identity (CEI), as follows:

Name	CEI Number	Date Issued/Place Issued/Expiration Date
1. Teresita T. Sy	Passport No. – P6453728B SSS No. – 03-2832705-4	03.09.2021/DFA NCR East/03.08.2031
2. Nestor V. Tan	Passport No. – P5830111B CTC No. – 26721696	11.23.2020/ DFA NCR East/11.22.2030 01.30.2023/Makati City
3. Dalmacio D. Martin	Passport No. – P9695951B CTC No. – 26695793	04.21.2022/ DFA Manila/04.20.2032 01.16.2023/Makati City

WITNESS BY HAND AND SEAL on the day first above-mentioned at Makati City.

Doc. No. 56
Page No. 13
Book No. II
Series of 2023

Atty. MARIA FELICIA T. ZANTUA
Appointment No. M-214; Notary Public until 31 December 2023
Roll No. 58016; IBP Lifetime Member No. 12574, Laguna
PTR No. 9566766, 03 January 2023, Makati City
MCLE Compliance No. VII-0014924, 6 April 2022
21/F, BDO Towers Valero, 8741 Paseo de Roxas,
Salcedo Village, Makati City

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2022 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, 2022, the BDO Unibank Group and the Parent Bank had loans and other receivables amounting to P2,696,901 million and P2,621,221 million, respectively, net of allowance for impairment of P76,360 million and P74,000 million, respectively. Loans and other receivables are the most significant resources of the BDO Unibank Group and the Parent Bank which account for 66% and 67% of the BDO Unibank Group 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 estimations as to the likelihood of defaults occurring, the associated loss ratios and of default correlations of the related 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. 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 2022 impairment losses on loans and other receivables amounting to P16,414 million and P15,665 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.

INTERNAL REVENUE
PROCESSING
DIVISION
RECEIVED
APR 12 2023
ERWIN PACINIO

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 general and application 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's and the Parent Bank's credit policy and loan impairment process as approved by the Board of Directors;

- 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's 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 include gross domestic product growth, unemployment rates and core inflation 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 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, 2022, the derivative financial assets and derivatives with negative fair values of the BDO Unibank Group that are carried at fair value amounted to P8,613 million and P7,809 million, respectively, while that of the Parent Bank amounted to P3,468 million and P3,636 million, respectively. The debt and equity investments at Level 2 and Level 3 amounted to P6,224 million for the BDO Unibank Group and P482 million for the Parent Bank.

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 as assisted by our own Information and Technology specialists.

- 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 reported by the BDO Unibank Group and the Parent Bank; and,

- reviewing the appropriateness of the method used in fair market valuation.

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

Description of the Matter

The BDO Unibank Group has goodwill of P4,535 million, with allowance for impairment of P1,514 million, as of December 31, 2022, 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.

BUREAU OF INTERNAL REVENUE
DOCUMENT PROCESSING
& QUALITY ASSURANCE DIVISION
RECEIVED
APR 12 2023
ERWIN PACINIO

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 rates 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, we recalculated the value-in-use of the CGUs and compared it with the carrying amount. We also reviewed the BDO Unibank Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of goodwill and other intangible assets with indefinite useful lives. Furthermore, our audit of the financial statements of BDO Network as of and for the year ended December 31, 2022 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, 2022, 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, 2022 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.

RECEIVED
APR 12 2023
ERWIN PACINIO

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, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on 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 (BIR) 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, 2022 and 2021 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 35 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 neither 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. 9566639, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 95626-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-022-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

BUREAU OF INTERNAL REVENUE
DATA PROCESSING
COMPLIANCE DIVISION
RECEIVED
APR 12 2023
ERWIN PACINIO

February 24, 2023

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2022	BDO Unibank Group 2021	Parent Bank 2022	Parent Bank 2021
RESOURCES					
CASH AND OTHER CASH ITEMS	8	P 82,944	P 69,105	P 80,666	P 66,440
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	385,779	304,906	382,210	302,660
DUE FROM OTHER BANKS - Net	9	58,766	70,092	51,055	64,349
TRADING AND INVESTMENT SECURITIES - Net	10	722,830	616,261	606,789	497,963
LOANS AND OTHER RECEIVABLES - Net	11	2,696,901	2,450,903	2,621,221	2,399,983
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12, 13	46,471	44,807	42,394	41,586
INVESTMENT PROPERTIES - Net	14	21,158	18,795	13,173	11,263
OTHER RESOURCES - Net	15	59,859	48,880	102,815	81,762
TOTAL RESOURCES		P 4,074,708	P 3,623,749	P 3,900,323	P 3,466,006
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	17	P 3,220,883	P 2,820,896	P 3,141,016	P 2,751,715
BILLS PAYABLE	18	198,891	204,431	188,872	196,174
INSURANCE CONTRACT LIABILITIES	20	64,363	65,328	-	-
OTHER LIABILITIES	21	129,114	108,546	110,536	94,656
Total Liabilities		3,613,251	3,199,201	3,440,424	3,042,545
EQUITY	22				
Attributable to:					
Shareholders of the Parent Bank		459,332	422,934	459,899	423,461
Non-controlling Interests		2,125	1,614	-	-
		461,457	424,548	459,899	423,461
TOTAL LIABILITIES AND EQUITY		P 4,074,708	P 3,623,749	P 3,900,323	P 3,466,006

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos Except Per Share Data)

	Notes	BDO Unibank Group			Parent Bank		
		2022	2021	2020	**2022**	2021	2020
INTEREST INCOME	23	P **169,071**	P 144,879	P 157,031	P **158,632**	P 136,772	P 149,697
INTEREST EXPENSE	24	**19,839**	13,533	23,331	**18,728**	12,906	22,400
NET INTEREST INCOME		**149,232**	131,346	133,700	**139,904**	123,866	127,297
IMPAIRMENT LOSSES (RECOVERIES) - Net	16						
Financial Assets	10, 11	**16,564**	16,942	29,661	**15,815**	16,745	29,037
Non-financial Assets	14, 15	(**203**)	93	511	(**232**)	56	491
Others	21	**5**	28	68	**5**	28	68
		16,366	17,063	30,240	**15,588**	16,829	29,596
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**132,866**	114,283	103,460	**124,316**	107,037	97,701
OTHER OPERATING INCOME	25	**71,535**	61,354	55,210	**50,129**	40,635	37,254
OTHER OPERATING EXPENSES	25	**131,208**	119,875	112,640	**104,119**	93,613	90,067
PROFIT BEFORE TAX		**73,193**	55,762	46,030	**70,326**	54,059	44,888
TAX EXPENSE	31	**15,959**	12,907	17,776	**13,333**	11,378	16,282
NET PROFIT		P **57,234**	P 42,855	P 28,254	P **56,993**	P 42,681	P 28,606
Attributable to:							
Shareholders of the Parent Bank		P **57,054**	P 42,791	P 28,246			
Non-controlling Interests		**180**	64	8			
		P **57,234**	P 42,855	P 28,254			
Earnings Per Share:	32						
Basic		P **10.77**	P 8.07	P 5.30			
Diluted		P **10.72**	P 8.05	P 5.30			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2022	BDO Unibank Group 2021	BDO Unibank Group 2020	Parent Bank 2022	Parent Bank 2021	Parent Bank 2020
NET PROFIT		**P 57,234**	P 42,855	P 28,254	**P 56,993**	P 42,681	P 28,606
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	**(17,959)**	(5,394)	4,060	**(17,883)**	(5,365)	4,067
Transfer of realized losses (gains) on disposed debt investments at FVOCI to statements of income, net of tax		**11**	(275)	(43)	**11**	(275)	(52)
Impairment losses (recoveries) on debt investments at FVOCI	10	**67**	(87)	37	**67**	(87)	37
Net gains (losses) on FVOCI securities, net of tax		**(17,881)**	(5,756)	4,054	**(17,805)**	(5,727)	4,052
Translation adjustment related to foreign operations		**(5)**	92	(44)	**(10)**	100	(60)
		(17,886)	(5,664)	4,010	**(17,815)**	(5,627)	3,992
Items that will not be reclassified to profit or loss:							
Remeasurement on life insurance reserves	20	**9,620**	5,686	(6,070)	**9,620**	5,686	(6,070)
Actuarial gain (losses) on remeasurement of retirement benefit obligation, net of tax	26	**(1,097)**	(6,022)	756	**(1,101)**	(6,005)	752
Reversal of revaluation increment		**-**	55	-	**-**	55	-
Unrealized gains (losses) on equity investments at FVOCI, net of tax	10	**(498)**	135	579	**(498)**	135	579
		8,025	(146)	(4,735)	**8,021**	(129)	(4,739)
Other Comprehensive Income (Loss), net of tax		**(9,861)**	(5,810)	(725)	**(9,794)**	(5,756)	(747)
TOTAL COMPREHENSIVE INCOME		**P 47,373**	P 37,045	P 27,529	**P 47,199**	P 36,925	P 27,859
Attributable to:							
Shareholders of the Parent Bank		**P 47,265**	P 37,028	P 27,505			
Non-controlling Interests		**108**	17	24			
		P 47,373	P 37,045	P 27,529			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group															
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Shares at cost	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial 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
BALANCE AT JANUARY 1, 2022		P 43,855	P 5,150	P 124,447	P -	P 19,930	P 29	P 249,743	(P 1,630)	(P 16,454)	P 1,010	(P 3,173)	P 43	(P 16)	P 422,934	P 1,614	P 424,548
Transactions with owners	22																
Issuance of shares during the year		13	-	131	-	-	-	-	-	-	-	-	-	-	144	-	144
Options transferred during the year		-		-	-	(947)	-	-	-	-	-	-	-	-	(947)	-	(947)
Options expensed during the year	26.3	-	-	-	-	294	-	-	-	-	-	-	-	-	294	-	294
Stock dividends		8,773	1,030	105,368	(1)	-	-	(115,171)	-	-	-	-	-	-	(1)	-	(1)
Cash dividends		-	-	-	-	-	-	(10,252)	-	-	-	-	-	-	(10,252)	(2)	(10,254)
		8,786	1,030	105,499	(1)	(653)	-	(125,423)	-	-	-	-	-	-	(10,762)	(2)	(10,764)
Total comprehensive income (loss)		-	-	-	-	-	-	57,054	(18,303)	(1,112)	-	9,620	(5)	11	47,265	108	47,373
Transfer from Surplus Free																	
Trust reserve	22, 28	-	-	-	-	251	-	(251)	-	-	-	-	-	-	-	-	-
Reversal of appropriation	22	-	-	-	-	(14)	-	14	-	-	-	-	-	-	-	-	-
Appropriation of excess GLLP over ECL	22	-	-	-	-	2,475	-	(2,475)	-	-	-	-	-	-	-	-	-
Other reserves	22	-	-	-	-	142	-	(142)	-	-	-	-	-	-	-	-	-
		-	-	-	-	2,854	-	(2,854)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income (FVOCI)		-	-	-	-	-	-	17	(17)	-	-	-	-	-	-	-	-
Other adjustments																	
Additional capital contribution to a subsidiary	2.3	-	-	-	-	-	(105)	-	-	-	-	-	-	-	(105)	405	300
BALANCE AT DECEMBER 31, 2022		P 52,641	P 6,180	P 229,946	(P 1)	P 22,131	(P 76)	P 178,537	(P 19,950)	(P 17,566)	P 1,010	P 6,447	P 38	(P 5)	P 459,332	P 2,125	P 461,457
BALANCE AT JANUARY 1, 2021		P 43,842	P 5,150	P 124,327	P -	P 17,964	P 29	P 214,525	P 4,008	(P 10,459)	P 955	(P 8,859)	(P 49)	(P 10)	P 391,423	P 1,598	P 393,021
Transactions with owners	22																
Issuance of shares during the year		13	-	120	-	-	-	-	-	-	-	-	-	-	133	-	133
Options transferred during the year		-	-	-	-	44	-	-	-	-	-	-	-	-	44	-	44
Options expensed during the year	26.3	-	-	-	-	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)		-	-	-	-	-	-	42,791	(5,595)	(5,995)	55	5,686	92	(6)	37,028	17	37,045
Transfer from Surplus Free																	
Trust reserve	22, 28	-	-	-	-	263	-	(263)	-	-	-	-	-	-	-	-	-
Appropriation of excess GLLP over ECL	22	-	-	-	-	1,337	-	(1,337)	-	-	-	-	-	-	-	-	-
Other reserves	22	-	-	-	-	49	-	(49)	-	-	-	-	-	-	-	-	-
		-	-	-	-	1,649	-	(1,649)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as FVOCI		-	-	-	-	-	-	(322)	(43)	-	-	-	-	-	(365)	-	(365)
BALANCE AT DECEMBER 31, 2021		P 43,855	P 5,150	P 124,447	P -	P 19,930	P 29	P 249,743	(P 1,630)	(P 16,454)	P 1,010	(P 3,173)	P 43	(P 16)	P 422,934	P 1,614	P 424,548
BALANCE AT JANUARY 1, 2020		P 43,814	P 5,150	P 124,049	P -	P 18,362	P 12	P 192,333	(P 1,741)	(P 11,224)	P 955	(P 2,789)	P 11	-	P 368,932	P 1,655	P 370,587
Transactions with owners	22																
Issuance of shares during the year		28	-	278	-	-	-	-	-	-	-	-	-	-	306	-	306
Options transferred during the year		-	-	-	-	(92)	-	-	-	-	-	-	-	-	(92)	-	(92)
Options expensed during the year	26.3	-	-	-	-	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	765	-	(6,070)	(60)	(10)	27,505	24	27,529
Transfer from Surplus Free																	
Trust reserve	22, 28	-	-	-	-	272	-	(272)	-	-	-	-	-	-	-	-	-
Reversal of appropriation	22	-	-	-	-	(209)	-	209	-	-	-	-	-	-	-	-	-
Appropriation of excess GLLP over ECL	22	-	-	-	-	(830)	-	830	-	-	-	-	-	-	-	-	-
Other reserves	22	-	-	-	-	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	30	-	-	-	-	-	17	(5)	-	-	-	-	-	-	12	(81)	(69)
		-	-	-	-	-	17	(5)	-	-	-	-	-	-	12	(81)	(69)
BALANCE AT DECEMBER 31, 2020		P 43,842	P 5,150	P 124,327	P -	P 17,964	P 29	P 214,525	P 4,008	(P 10,459)	P 955	(P 8,859)	(P 49)	(P 10)	P 391,423	P 1,598	P 393,021

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos)

		Parent Bank											
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury shares at cost	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, 2022		P 43,855	P 5,150	P 124,428	P -	P 18,959	P 249,407	(P 348)	(P 15,675)	P 1,007	P 36	(P 3,358)	P 423,461
Transactions with owners	22												
Issuance of shares during the year		13	-	131	-	-	-	-	-	-	-	-	144
Options transferred during the year		-		-	-	(941)	-	-	-	-	-	-	(941)
Options expensed during the year	26.3	-	-	-	-	289	-	-	-	-	-	-	289
Stock dividends		8,773	1,030	105,368	(1)	-	(115,171)	-	-	-	-	-	(1)
Cash dividends		-	-	-	-	-	(10,252)	-	-	-	-	-	(10,252)
		8,786	1,030	105,499	(1)	(652)	(125,423)	-	-	-	-	-	(10,761)
Total comprehensive income (loss)		-	-	-	-	-	56,993	(11,873)	(1,227)	-	(61)	3,367	47,199
Transfer from Surplus Free													
Trust reserve	22, 28	-	-	-	-	251	(251)	-	-	-	-	-	-
Appropriation of excess GLLP over ECL	22	-	-	-	-	2,311	(2,311)	-	-	-	-	-	-
Other reserves	22	-	-	-	-	132	(132)	-	-	-	-	-	-
		-	-	-	-	2,694	(2,694)	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income (FVOCI)		-	-	-	-	-	17	(7)	-	-	-	(10)	-
BALANCE AT DECEMBER 31, 2022		**P 52,641**	**P 6,180**	**P 229,927**	**(P 1)**	**P 21,001**	**P 178,300**	**(P 12,228)**	**(P 16,902)**	**P 1,007**	**(P 25)**	**(P 1)**	**P 459,899**
BALANCE AT JANUARY 1, 2021		P 43,842	P 5,150	P 124,308	P -	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	22												
Issuance of shares during the year		13	-	120	-	-	-	-	-	-	-	-	133
Options transferred during the year		-	-	-	-	65	-	-	-	-	-	-	65
Options expensed during the year	26.3	-	-	-	-	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	36,925
Transfer from Surplus Free													
Trust reserve	22, 28	-	-	-	-	263	(263)	-	-	-	-	-	-
Appropriation of excess GLLP over ECL	22	-	-	-	-	1,250	(1,250)	-	-	-	-	-	-
Other reserves	22	-	-	-	-	44	(44)	-	-	-	-	-	-
		-	-	-	-	1,557	(1,557)	-	-	-	-	-	-
Disposals of equity securities classified as FVOCI		-	-	-	-	-	(322)	(22)	-	-	-	(22)	(366)
BALANCE AT DECEMBER 31, 2021		P 43,855	P 5,150	P 124,428	P -	P 18,959	P 249,407	(P 348)	(P 15,675)	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 -	P 17,387	P 191,735	(P 828)	(P 10,744)	P 952	(P 6)	(P 2,280)	P 369,210
Transactions with owners	22												
Issuance of shares during the year		28	-	278	-	-	-	-	-	-	-	-	306
Options transferred during the year		-	-	-	-	(54)	-	-	-	-	-	-	(54)
Options expensed during the year	26.3	-	-	-	-	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	22	-	-	-	-	(827)	827	-	-	-	-	-	-
Other reserves	22	-	-	-	-	40	(40)	-	-	-	-	-	-
		-	-	-	-	(564)	564	-	-	-	-	-	-
Disposals of equity securities classified as FVOCI		-	-	-	-	-	(1,109)	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 -	P 17,085	P 214,207	P 2,459	(P 10,012)	P 952	(P 14)	(P 5,923)	P 392,054

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2022	BDO Unibank Group 2021	BDO Unibank Group 2020	Parent Bank 2022	Parent Bank 2021	Parent Bank 2020
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 73,193	P 55,762	P 46,030	P 70,326	P 54,059	P 44,888
Adjustments for:							
Interest income	23	(169,071)	(144,879)	(157,031)	(158,632)	(136,772)	(149,697)
Interest received		166,954	147,093	153,049	156,703	140,391	146,917
Interest expense	24	19,839	13,533	23,331	18,728	12,906	22,400
Interest paid		(16,862)	(13,039)	(24,211)	(15,992)	(13,050)	(23,677)
Impairment losses	9, 10, 11, 14, 15, 16, 21	16,366	17,063	30,240	15,588	16,829	29,596
Foreign exchange loss (gain) unrealized		(15,457)	(7,614)	5,705	(13,859)	(6,714)	4,492
Depreciation and amortization	12, 14, 15	9,920	9,198	9,190	8,715	8,035	7,935
Share in net profit of subsidiaries and associates	15	(849)	(814)	(470)	(8,710)	(6,350)	(3,839)
Fair value losses (gains)		679	(293)	(68)	198	(221)	67
Gain from the disposal of investment securities at amortized cost	10	(18)	(156)	(3,586)	(18)	(108)	(3,586)
Gain from the disposal of securities at fair value through other comprehensive income (FVOCI)	10	(8)	(278)	(644)	(13)	(191)	(178)
Operating profit before changes in operating resources and liabilities		84,686	75,576	81,535	73,034	68,814	75,318
Decrease (increase) in financial assets at fair value through profit or loss		2,708	(10,287)	(9,976)	(1,431)	39	(1,222)
Increase in loans and other receivables		(233,423)	(145,077)	(59,366)	(203,542)	(135,533)	(70,019)
Increase in investment properties		(3,864)	(4,291)	(194)	(2,599)	(658)	(392)
Decrease (increase) in other resources		(19,653)	(13,928)	(16,213)	74,599	(9,535)	(14,039)
Increase in deposit liabilities		398,047	210,839	126,307	387,387	203,574	110,989
Increase in insurance contract liabilities		8,655	12,604	9,867	-	-	-
Increase in other liabilities		29,034	15,963	5,479	22,838	13,629	9,201
Cash generated from operations		266,190	141,399	137,439	350,286	140,330	109,836
Cash paid for income tax		(13,640)	(13,213)	(15,857)	(11,242)	(12,140)	(14,872)
Net Cash From Operating Activities		252,550	128,186	121,582	339,044	128,190	94,964
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of securities at FVOCI	10	(285,428)	(476,166)	(197,175)	(258,499)	(446,867)	(162,827)
Proceeds from disposals of securities at FVOCI	10	279,524	490,264	158,479	259,560	459,718	129,731
Acquisitions of investment securities at amortized cost	10	(161,048)	(169,502)	(116,777)	(155,379)	(161,191)	(111,208)
Maturities and disposals of investment securities at amortized cost	10	61,931	68,198	89,456	56,431	60,520	87,087
Acquisitions of premises, furniture, fixtures and equipment	12	(3,888)	(3,853)	(3,089)	(2,839)	(3,314)	(2,570)
Proceeds from disposals of premises, furniture, fixtures and equipment	12	285	158	131	168	65	22
Net Cash Used in Investing Activities		(108,624)	(90,901)	(68,975)	(100,558)	(91,069)	(59,765)
CASH FLOWS FROM FINANCING ACTIVITIES							
Payments of bills payable	18	(154,424)	(139,905)	(327,299)	(125,969)	(74,022)	(120,527)
Proceeds from bills payable	18	140,241	127,859	375,207	110,080	60,762	181,674
Dividends paid	22	(10,255)	(5,603)	(5,600)	(10,253)	(5,602)	(5,600)
Payments of lease liabilities	13	(4,192)	(3,238)	(2,940)	(4,032)	(3,100)	(2,828)
Proceeds from issuance of common stock	22	144	133	306	144	133	306
Redemption of subordinated notes payable	19	-	-	(10,000)	-	-	(10,000)
Net Cash From (Used in) Financing Activities		(28,486)	(20,754)	29,674	(30,030)	(21,829)	43,025
NET INCREASE IN CASH AND CASH EQUIVALENTS ***(Carried Forward)***		P 115,440	P 16,531	P 82,281	P 208,456	P 15,292	P 78,224

	Notes	BDO Unibank Group 2022	BDO Unibank Group 2021	BDO Unibank Group 2020	Parent Bank 2022	Parent Bank 2021	Parent Bank 2020
NET INCREASE IN CASH AND CASH EQUIVALENTS ***(Brought Forward)***		**P 115,440**	P 16,531	P 82,281	**P 208,456**	P 15,292	P 78,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	8	**69,105**	74,851	64,140	**66,440**	72,301	62,726
Due from Bangko Sentral ng Pilipinas (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
Foreign currency notes and coins (FCNC)	15	**5,597**	8,578	5,345	**5,597**	8,577	5,344
		547,878	531,347	449,066	**535,929**	520,637	442,413
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	8	**82,944**	69,105	74,851	**80,666**	66,440	72,301
Due from BSP	8	**385,779**	304,906	308,636	**382,210**	302,660	305,079
Due from other banks	9	**58,766**	70,092	65,289	**51,055**	64,349	63,281
Investment securities at amortized cost	10	**-**	-	164	**-**	-	164
Reverse repurchase agreements	11	**26,305**	17,095	16,729	**26,091**	15,800	14,135
Interbank loans receivables	11	**98,942**	81,083	57,100	**102,293**	81,083	57,100
FCNC	15	**10,582**	5,597	8,578	**102,070**	5,597	8,577
		P 663,318	P 547,878	P 531,347	**P 744,385**	P 535,929	P 520,637

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

a. The BDO Unibank Group and the Parent Bank foreclosed real and other properties totalling to P16,875 and P16,729, respectively, in 2022, P13,523 and P13,479, respectively, in 2021, and P13,757 and P13,743, respectively, in 2020 in settlement of certain loan accounts (see Note 14).

b. The BDO Unibank Group and the Parent Bank recognized additional right-of-use assets amounting to P4,683 and P4,414, respectively, in 2022, P3,216 and P2,951, respectively, in 2021, and P1,775 and P1,628, respectively, in 2020 which are presented as part of Premises, Furnitures, Fixtures and Equipment (see Notes 12 and 13).

Other Information

Certain investment securities at amortized cost, SPURRA, 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 2.6).

See Notes to Financial Statements.

(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, 2022 and 2021 follows:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Local branches	**1,650**	1,542	**1,197**	1,191
Foreign branches	**2**	2	**2**	2
Automated teller machines (ATMs):				
On-site	**2,385**	2,626	**2,385**	2,339
Off-site	**2,269**	1,857	**2,269**	1,812
Cash accept machines (CAMs)	**640**	624	**640**	624
Self-service teller machines	**8**	9	**8**	9
Mobile automated teller machines	**1**	1	**1**	1

BUREAU OF INTERNAL REVENUE
LT-DOCUMENT PROCESSING
& QUALITY ASSURANCE D. 'SION
RECEIVED
APR 12 2023
ERWIN PACINIO

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 1.4%, 1.2% and 1.0% of BDO Unibank Group's total revenues in 2022, 2021 and 2020, respectively, and 2.0% and 2.1% of BDO Unibank Group's total resources as of December 31, 2022 and 2021, 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 Impact of Russia - Ukraine Conflict on the BDO Unibank Group's Business

On February 24, 2022, Russia started its invasion of Ukraine which caused far-reaching impact for economies, markets, and businesses. The ongoing military conflict has introduced a wide range of sanctions against Russia, including certain Russian entities and individuals and led to significant casualties, dislocation of population, damage to infrastructure, slowdown of business operations in both countries, disruption of supply chains and commodity flows that impact prices of items such as petroleum products, cereals, iron, and steel.

In principle, it cannot be ruled out that a prolonged conflict between Russia and Ukraine may result in a significant slowdown in the global and Philippine economy and therefore a potential consequential deterioration in the business outlook for the Philippines. However, as of December 31, 2022, the BDO Unibank Group, whose business is primarily in the Philippines, has not been affected in a material way by the Russia-Ukraine conflict, despite its inflationary impact on commodity prices, disruption in supply chains, and volatility in interest rates and foreign exchange rates. The Philippines remains a domestically-focused, import-dependent consumption economy, and despite the higher inflation resulting from the conflict, Philippine Gross Domestic Product (GDP) numbers remained strong and resilient in 2022. The reopening of the economy, the relaxation of mobility restrictions and the resurgence in consumption spending all contributed to this strong GDP performance. This in turn has led to improved loan growth, better margins from the increase in policy rates and net income growth, not just for the BDO Unibank Group, but for the industry in general.

The BDO Unibank Group continues to closely monitor developments in both the global and domestic markets. While the impact of the conflict has not been material so far, the BDO Unibank Group recognizes that a prolonged situation of high inflation and interest rates could eventually affect economic activity, resulting in slower growth and consumption. The BDO Unibank Group believes that its established business franchise and strong financial condition will allow it to weather near-term risks arising from the conflict.

1.3 Continuing Impact of COVID-19 Pandemic on BDO Unibank Group's Business

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved with the reopening of local and international travel and the easing of health and safety protocols and restrictions. Demand and supply of products continued to slowly return to pre-pandemic levels. As a result, the overall continuing impact of the COVID-19 pandemic to the BDO Unibank Group has considerably diminished and the BDO Unibank Group's operations have gone back to pre-pandemic levels.

With the reduced impact of pandemic-related issues in 2022, the BDO Unibank Group saw more normalized operations and increasingly positive results as the economy continued with its recovery. Overall net impact is an increase in net profit of 34% for both BDO Unibank Group and the Parent Bank compared to that of 2021.

Management will continue to monitor any potential risks arising from the pandemic, and will institute measures to mitigate these, as needed. Based on recent developments, management is optimistic that the BDO Unibank Group will continue to post positive results consistent with the country's economic recovery, and will maintain sufficient liquidity to meet current obligations as they fall due. Accordingly, management has not determined any material uncertainty that may cast significant doubt on the BDO Unibank Group's ability to continue as a going concern due to the effects of the pandemic.

1.4 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, 2022 (including the comparative financial statements as of December 31, 2021 and for the years ended December 31, 2021 and 2020) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 24, 2023.

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 in 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 and Sustainability Reporting Standards Council (FSRSC), 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 2.23).

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 2022 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 and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

PAS 16 (Amendments)	:	Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	:	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
PFRS 3 (Amendments)	:	Business Combinations - Reference to the Conceptual Framework
Annual Improvements to PFRS (2018-2020 Cycle)		
PFRS 9 (Amendments)	:	Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities
PFRS 16 (Amendments)	:	Leases – Lease Incentives

Discussed below and in the succeeding pages are the relevant information about these pronouncements.

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use.* The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The application of these amendments had no significant impact on the BDO Unibank Group and the Parent Bank's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract.* The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the BDO Unibank Group and the Parent Bank's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the BDO Unibank Group and the Parent Bank's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.

(iii) PFRS 3 (Amendments), *Business Combinations – Reference to the Conceptual Framework*. The amendments are responses to feedback received from the post-implementation review of PFRS 3. The amendments clarify the minimum attributes that the acquired set of activities and assets must have to be considered a business. To meet the definition of a business, the acquired set of activities and assets must have inputs and substantive processes that can collectively significantly contribute to the creation of outputs. The amendments removed the assessment of whether market participants are able to replace missing inputs or processes and continue to produce outputs. The amendments introduced an optional test ('the concentration test') that allows the acquirer to carry out a simple assessment to determine whether the acquired set of activities and assets is not a business. The entity can choose whether to apply the concentration test for each transaction it makes. These amendments have no significant impact to the BDO Unibank Group's financial statements.

(iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the amendments relevant to the BDO Unibank Group and the Parent Bank's financial statements which do not have significant impact, and which are effective from January 1, 2022, are presented on the succeeding page.

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities.* The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives.* The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

(b) *Effective in 2022 that are not Relevant to the BDO Unibank Group and the Parent Bank*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following Annual Improvements to PFRS 2018-2020 Cycle are not relevant to the BDO Unibank Group and the Parent Bank's financial statement:

(i) PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*

(ii) PAS 41, *Agriculture – Taxation in Fair Value Measurements*

(c) *Effective Subsequent to 2022 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FSRSC. 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 the BDO Unibank Group and the Parent Bank's financial statements.

(i) PAS 1 (Amendments), Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (effective from January 1, 2023)

(ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)

(iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)

(iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

(v) 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)

(vi) PFRS 17, *Insurance Contracts* (effective January 1, 2023). The new standard will eventually replace PFRS 4. The Insurance Commission (IC), through its Circular Letter 2020-62 issued on May 18, 2020, has further deferred the implementation of PFRS 17 for life insurance and non-life insurance industries by two years after its effective date as decided by the IASB.

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 2.3(c) 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 2.12).

(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 2.22 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 BDO Unibank Group and the Parent Bank resume 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 **2022**	2021	2020
Rural Bank			
BDO Network Bank, Inc. (BDO Network)	**87.37%**	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			
Averon Holdings Corporation (Averon)	**99.88%**	99.88%	99.88%
BDO Rental, Inc. (BDO Rental)	**100%**	100%	100%
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%
Real Estate Companies			
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%
Holding Companies			
Dominion Holdings, Inc. (Dominion Holdings) (formerly BDO Leasing and Finance, Inc.)	**88.54%**	88.54%	88.54%
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
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 (UK) Ltd.	**99.88%**	96.20%	96.20%
BDO Remit International Holdings B.V. (BDO RIH)*	**96.20%**	96.20%	96.20%
BDO Remit (Spain) S.A*	**96.20%**	96.20%	96.20%
CBN Greece S.A*	**96.13%**	96.13%	96.13%
BDO Remit (Italia) S.p.A	**-**	-	100%

**Under liquidation*

Non-controlling interests represent the interests not held by BDO Unibank Group in BDO Network, BDO Capital, Dominion Holdings, Averon, BDO Securities, ASI, Equimark, BDO Remit (UK), BDO RIH, BDO Remit Spain and CBN Greece in 2021 and 2020. For 2022, BDO Unibank Group's non-controlling interest is the same as 2021 and 2020 except for BDO Remit (UK) (see Note 30.1), BDO Network and ASI.

On August 18, 2022 and October 28, 2022, BDO Unibank subscribed to additional 53,505,727 and 80,258,590 of BDO Network common shares, respectively, at the total subscription price of P4,250, thereby increasing its shareholdings from 84.87% in 2021 to 87.37% in 2022.

On July 28, 2022, ASI was sold to a third party for P52. This deconsolidation resulted in the reversal of its assets, liabilities, capital stock and surplus reserves amounting to P60, P4, P42 and P14, respectively, and the recognition of loss on sale amounting to P15.

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).

(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 2.22). 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 are recognized in accordance with PAS 37, 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 Current versus Non-current Classification

The BDO Unibank Group presents assets and liabilities in the statement of financial position based on liquidity, while current or noncurrent classification is presented in Note 4.8. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The BDO Unibank Group classifies all other liabilities as noncurrent. Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

2.6 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 below and 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 statements 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 account in the statements 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 statements 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 2.6(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 2.7).

- *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 or credit 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.

2.7 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.

2.8 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), an 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 2.17(h)].

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 2.22).

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.

2.9 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 2.8 and 2.22).

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.

2.10 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.

2.11 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.

2.12 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 2.22). 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 2.22).

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

2.13 Other Resources

Other resources, which include non-current assets held for sale (see Note 2.11), 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 2.22).

2.14 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 2.22). 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 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 2.22).

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 2.22).

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 2.22).

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.

2.15 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 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 2.17).

(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) *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.

2.16 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.

2.17 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 the amount recognized from changes in BDO Unibank Group's ownership interest in any of its subsidiaries that do not result in loss of control.

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 2.8).

i. Remeasurement on life insurance reserves arises from the increase or decrease of the reserves brought about by changes in discount rates (see Note 2.15).

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 2.23).

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.

2.18 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 Securities and Exchange Commission (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.

2.19 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.

2.20 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.

2.21 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 2.22).

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.

2.22 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.

2.23 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 account (see Note 2.17). 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.

2.24 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. 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 the employee services are rendered, but do 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 is 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 2.24(a).

2.25 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).

2.26 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.

2.27 Trust Activities

BDO Unibank Group commonly acts as trustee and in other fiduciary capacities, including agency functions, 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.

2.28 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 judgment 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, the BDO Unibank Group and the Parent Bank initiated the disposal of certain debt securities from its amortized cost portfolio in accordance with its investment policy. However, in 2022, all of the BDO Unibank and Parent Bank's premature disposal from its amortized cost portfolio were all initiated by issuers. Such disposals have qualified under the permitted sale events set forth in BDO Unibank Group 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. The 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

The 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, the BDO Unibank Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The 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 the 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

The 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, the 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 on 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

The 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 while all other revenue streams are recognized at point in time. In making its judgment, the BDO Unibank Group considers the timing of receipt and consumption of benefits provided by the BDO Unibank Group to the customers. As the work is performed, the 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 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 2.20 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 4.3.5.

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 by management. 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 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 by management. 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.

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

The 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

The 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 14 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, 2022 and 2021 is disclosed in Note 31.1.

(h) Impairment of Non-financial Assets

Except for goodwill and other intangible assets with indefinite useful lives, PAS 36 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 2.22. 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

The 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 current and savings accounts and credit card usages. 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.

The 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.

The 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 (see Note 20).

(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.

The 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 2022, there was 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, including loans and investments, to assess vulnerability to the significant increase in credit risk in response to the continuing impact of COVID-19 pandemic, the impact of higher oil prices, Russia-Ukraine War, and rising interest rates, and the 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 4.7).

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. The 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 analyses of the maturity groupings of resources, liabilities and off-book items as of December 31, 2022 and 2021 in accordance with account classification of the BSP are presented below and 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

	2022				
	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 82,944	P -	P -	P -	P 82,944
Due from BSP and other banks	213,571	19,429	116,275	95,270	444,545
Trading and investment securities	17,190	27,519	161,374	516,747	722,830
Loans and other receivables - net	564,041	290,147	528,938	1,313,775	2,696,901
Other resources - net*	12,932	3,855	4	110,697	127,488
Total Resources	890,678	340,950	806,591	2,036,489	4,074,708
Liabilities and Equity:					
Deposit liabilities	915,451	164,764	1,164,877	975,791	3,220,883
Bills payable	61,727	27,388	79,144	30,632	198,891
Insurance contract liabilities**	77	(1,124)	637	64,773	64,363
Other liabilities	64,736	4,157	2,410	57,811	129,114
Total Liabilities	1,041,991	195,185	1,247,068	1,129,007	3,613,251
Equity	-	-	-	461,457	461,457
Total Liabilities and Equity *(Balance carried forward)*	P 1,041,991	P 195,185	P 1,247,068	P 1,590,464	P 4,074,708

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

	2022				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Three Years**	**More Than Three Years**	**Total**
Total Liabilities and Equity *(Balance brought forward)*	**P 1,041,991**	**P 195,185**	**P 1,247,068**	**P 1,590,464**	**P 4,074,708**
On-book gap	**(151,313)**	**145,765**	**(440,477)**	**446,025**	**-**
Cumulative on-book gap	**(151,313)**	**(5,548)**	**(446,025)**	**-**	**-**
Contingent assets	**272,616**	**46,778**	**18,167**	**25,477**	**363,038**
Contingent liabilities	**344,710**	**47,875**	**18,013**	**25,533**	**436,131**
Off-book gap	**(72,094)**	**(1,097)**	**154**	**(56)**	**(73,093)**
Net Periodic Gap	**(223,407)**	**144,668**	**(440,323)**	**445,969**	**73,093**
Cumulative Total Gap	**(P 223,407)**	**(P 78,739)**	**(P 519,062)**	**(P 73,093)**	**P -**

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	745,821	306,976	590,690	1,980,262	3,623,749
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	629,452	270,791	655,331	2,068,175	3,623,749
On-book gap	116,369	36,185	(64,641)	(87,913)	-
Cumulative on-book gap	116,369	152,554	87,913	-	-
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	(62,897)	(1,028)	(7,741)	127	(71,539)
Net Periodic Gap	53,472	35,157	(72,382)	(87,786)	71,539
Cumulative Total Gap	P 53,472	P 88,629	P 16,247	(P 71,539)	P -

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

Parent Bank

	2022				
	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 80,666**	**P -**	**P -**	**P -**	**P 80,666**
Due from BSP and other banks	**204,651**	**18,101**	**116,268**	**94,245**	**433,265**
Trading and investment securities	**13,079**	**22,138**	**144,385**	**427,187**	**606,789**
Loans and other receivables – net	**565,422**	**274,410**	**497,832**	**1,283,557**	**2,621,221**
Other resources – net*	**1,673**	**3,806**	**-**	**152,903**	**158,382**
Total Resources	**865,491**	**318,455**	**758,485**	**1,957,892**	**3,900,323**
Liabilities and Equity:					
Deposit liabilities	**884,615**	**163,300**	**1,163,399**	**929,702**	**3,141,016**
Bills payable	**64,621**	**17,683**	**76,110**	**30,458**	**188,872**
Other liabilities	**48,727**	**2,786**	**-**	**59,023**	**110,536**
Total Liabilities	**997,963**	**183,769**	**1,239,509**	**1,019,183**	**3,440,424**
Equity	**-**	**-**	**-**	**459,899**	**459,899**
Total Liabilities and Equity	**997,963**	**183,769**	**1,239,509**	**1,479,082**	**3,900,323**
On-book gap	**(132,472)**	**134,686**	**(481,024)**	**478,810**	**-**
Cumulative on-book gap	**(132,472)**	**2,214**	**(478,810)**	**-**	**-**
Contingent assets	**251,178**	**31,050**	**2,145**	**2,074**	**286,447**
Contingent liabilities	**323,587**	**32,353**	**2,082**	**2,071**	**360,093**
Off-book gap	**(72,409)**	**(1,303)**	**63**	**3**	**(73,646)**
Net Periodic Gap	**(204,881)**	**133,383**	**(480,961)**	**478,813**	**73,646**
Cumulative Total Gap	**(P 204,881)**	**(P 71,498)**	**(P 552,459)**	**(P 73,646)**	**P -**

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

Parent Bank

	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 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*	-	-	-	134,611	134,611
Total Resources (*Balance carried forward*)	P 712,630	P 289,592	P 546,343	P 1,917,441	P 3,466,006

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

Parent Bank

	2021				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Total Resources (*Balance brought forward*)	P 712,630	P 289,592	P 546,343	P 1,917,441	P 3,466,006
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	37,139	2,806	2,543	52,168	94,656
Total Liabilities	593,255	267,374	650,112	1,531,804	3,042,545
Equity	-	-	-	423,461	423,461
Total Liabilities and Equity	593,255	267,374	650,112	1,955,265	3,466,006
On-book gap	119,375	22,218	(103,769)	(37,824)	-
Cumulative on-book gap	119,375	141,593	37,824	-	-
Contingent assets	259,638	63,697	2,998	3,022	329,355
Contingent liabilities	322,537	64,872	10,972	3,021	401,402
Off-book gap	(62,899)	(1,175)	(7,974)	1	(72,047)
Net Periodic Gap	56,476	21,043	(111,743)	(37,823)	72,047
Cumulative Total Gap	P 56,476	P 77,519	(P 34,224)	(P 72,047)	P -

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

The 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. The 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

The 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.

The 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. The 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. The 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.

The 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, 2022 and 2021 is presented in the succeeding page.

BDO Unibank Group

	2022 Foreign Currencies	2022 Philippine Pesos	2022 Total	2021 Foreign Currencies	2021 Philippine Pesos	2021 Total
Resources:						
Cash and other cash items and due from BSP	**P 90**	**P 468,633**	**P 468,723**	P 107	P 373,904	P 374,011
Due from other banks	**55,186**	**3,580**	**58,766**	68,401	1,691	70,092
Trading and investment securities:						
At FVTPL	**7,857**	**36,855**	**44,712**	6,622	41,312	47,934
At FVOCI	**80,243**	**85,826**	**166,069**	86,804	83,989	170,793
At amortized cost	**196,188**	**315,861**	**512,049**	164,529	233,005	397,534
Loans and other receivables	**389,365**	**2,307,536**	**2,696,901**	331,327	2,119,576	2,450,903
Other resources	**11,017**	**2,777**	**13,794**	6,214	1,246	7,460
	P 739,946	**P 3,221,068**	**P 3,961,014**	P 664,004	P 2,854,723	P 3,518,727
Liabilities:						
Deposit liabilities	**P 505,050**	**P 2,715,833**	**P 3,220,883**	P 463,368	P 2,357,528	P 2,820,896
Bills payable	**136,277**	**62,614**	**198,891**	120,920	83,511	204,431
Insurance contract liabilities	**7,844**	**56,519**	**64,363**	8,702	56,626	65,328
Other liabilities	**14,089**	**104,760**	**118,849**	16,951	80,666	97,617
	P 663,260	**P 2,939,726**	**P 3,602,986**	P 609,941	P 2,578,331	P 3,188,272

Parent Bank

	2022 Foreign Currencies	2022 Philippine Pesos	2022 Total	2021 Foreign Currencies	2021 Philippine Pesos	2021 Total
Resources:						
Cash and other cash items and due from BSP	**P 6**	**P 462,870**	**P 462,876**	P 33	P 369,067	P 369,100
Due from other banks	**50,611**	**444**	**51,055**	64,188	161	64,349
Trading and investment securities:						
At FVTPL	**3,649**	**2,234**	**5,883**	2,759	1,857	4,616
At FVOCI	**71,632**	**38,015**	**109,647**	74,197	41,768	115,965
At amortized cost	**190,632**	**300,627**	**491,259**	159,235	218,147	377,382
Loans and other receivables	**388,598**	**2,232,623**	**2,621,221**	330,424	2,069,559	2,399,983
Other resources	**10,961**	**1,213**	**12,174**	5,784	968	6,752
	P 716,089	**P 3,038,026**	**P 3,754,115**	P 636,620	P 2,701,527	P 3,338,147
Liabilities:						
Deposit liabilities	**P 493,041**	**P 2,647,975**	**P 3,141,016**	P 450,484	P 2,301,231	P 2,751,715
Bills payable	**136,176**	**52,696**	**188,872**	119,738	76,436	196,174
Other liabilities	**12,034**	**89,853**	**101,887**	15,927	69,452	85,379
	P 641,251	**P 2,790,524**	**P 3,431,775**	P 586,149	P 2,447,119	P 3,033,268

4.2.2 Interest Rate Risk

The 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, 2022 and 2021 based on the expected interest realization or recognition are shown below and in the succeeding pages.

BDO Unibank Group

	2022					
	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 82,944**	**P 82,944**
Due from BSP and other banks	**130,852**	**1,294**	**-**	**-**	**312,399**	**444,545**
Trading and investment securities	**11,874**	**26,823**	**289,426**	**349,995**	**44,712**	**722,830**
Loans and other receivables - net	**1,320,621**	**377,502**	**876,912**	**121,866**	**-**	**2,696,901**
Other resources - net*	**10,036**	**3,807**	**3**	**-**	**113,642**	**127,488**
Total Resources	**1,473,383**	**409,426**	**1,166,341**	**471,861**	**553,697**	**4,074,708**
Liabilities and Equity:						
Deposit liabilities	**1,107,910**	**183,996**	**26,346**	**6,328**	**1,896,303**	**3,220,883**
Bills payable	**85,036**	**13,188**	**91,937**	**5,576**	**3,154**	**198,891**
Insurance contract liabilities**	**(802)**	**(2,159)**	**696**	**37,066**	**29,562**	**64,363**
Other liabilities	**12,832**	**76**	**660**	**70**	**115,476**	**129,114**
Total Liabilities	**1,204,976**	**195,101**	**119,639**	**49,040**	**2,044,495**	**3,613,251**
Equity	**-**	**-**	**-**	**-**	**461,457**	**461,457**
Total Liabilities and Equity *(Balance carried forward)*	**P 1,204,976**	**P 195,101**	**P 119,639**	**P 49,040**	**P 2,505,952**	**P 4,074,708**

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

	2022					
	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**
Total Liabilities and Equity *(Balance brought forward)*	**P 1,204,976**	**P 195,101**	**P 119,639**	**P 49,040**	**P 2,505,952**	**P 4,074,708**
On-book gap	**268,407**	**214,325**	**1,046,702**	**422,821**	**(1,952,255)**	**-**
Cumulative on-book gap	**268,407**	**482,732**	**1,529,434**	**1,952,255**	**-**	**-**
Contingent assets	**40,387**	**1,130**	**2,788**	**-**	**-**	**44,305**
Contingent liabilities	**30,346**	**836**	**13,102**	**-**	**-**	**44,284**
Off-book gap	**10,041**	**294**	**(10,314)**	**-**	**-**	**21**
Net Periodic Gap	**278,448**	**214,619**	**1,036,388**	**422,821**	**(1,952,255)**	**(21)**
Cumulative Total Gap	**P 278,448**	**P 493,067**	**P 1,529,455**	**P 1,952,276**	**P 21**	**P -**

	2021					
	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 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	1,190,066	318,355	1,135,695	416,584	563,049	3,623,749
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	370,510	137,063	122,295	53,585	2,515,748	3,199,201
Equity	-	-	-	-	424,548	424,548
Total Liabilities and Equity *(Balance carried forward)*	P 370,510	P 137,063	P 122,295	P 53,585	P 2,940,296	P 3,623,749

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

Parent Bank

	2022					
	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 80,666**	**P 80,666**
Due from BSP and other banks	**125,084**	**-**	**-**	**-**	**308,181**	**433,265**
Trading and investment securities	**10,657**	**22,138**	**255,436**	**312,675**	**5,883**	**606,789**
Loans and other receivables - net	**1,318,458**	**368,986**	**819,563**	**114,214**	**-**	**2,621,221**
Other resources - net*	**10,036**	**3,806**	**-**	**-**	**144,540**	**158,382**
Total Resources	**1,464,235**	**394,930**	**1,074,999**	**426,889**	**539,270**	**3,900,323**
Liabilities and Equity:						
Deposit liabilities	**1,080,372**	**181,248**	**31,093**	**8,627**	**1,839,676**	**3,141,016**
Bills payable	**79,571**	**6,633**	**97,222**	**5,446**	**-**	**188,872**
Other liabilities	**12,820**	**-**	**-**	**-**	**97,716**	**110,536**
Total Liabilities	**1,172,763**	**187,881**	**128,315**	**14,073**	**1,937,392**	**3,440,424**
Equity	**-**	**-**	**-**	**-**	**459,899**	**459,899**
Total Liabilities and Equity	**1,172,763**	**187,881**	**128,315**	**14,073**	**2,397,291**	**3,900,323**
On-book gap	**291,472**	**207,049**	**946,684**	**412,816**	**(1,858,021)**	**-**
Cumulative on-book gap	**291,472**	**498,521**	**1,445,205**	**1,858,021**	**-**	**-**
Contingent assets	**39,041**	**1,965**	**-**	**-**	**-**	**41,006**
Contingent liabilities	**38,974**	**1,965**	**-**	**-**	**-**	**40,939**
Off-book gap	**67**	**-**	**-**	**-**	**-**	**67**
Net Periodic Gap	**291,539**	**207,049**	**946,684**	**412,816**	**(1,858,021)**	**(67)**
Cumulative Total Gap	**P 291,539**	**P 498,588**	**P 1,445,272**	**P 1,858,088**	**P 67**	**P -**

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

Parent Bank

	2021					
	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 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 - net.*

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:

	2022		2021	
	VaR	**Stress VaR**	VaR	Stress VaR
BDO Unibank Group				
Foreign currency risk	**(P 9)**	**(P 84)**	(P 8)	(P 107)
Interest rate risk – Peso	**(91)**	**(1,469)**	(53)	(888)
Interest rate risk – USD	**(13)**	**(194)**	(13)	(355)
	(P 113)	**(P 1,747)**	(P 74)	(P 1,350)
Parent Bank				
Foreign currency risk	**(P 7)**	**(P 72)**	(P 4)	(P 56)
Interest rate risk – Peso	**(31)**	**(641)**	(15)	(252)
Interest rate risk – USD	**(1)**	**(31)**	(2)	(36)
	(P 39)	**(P 744)**	(P 21)	(P 344)

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 2022 and 2021 is shown below and in the succeeding pages.

BDO Unibank Group

	2022			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 5,085)**	**P 5,085**	**(P 2,543)**	**P 2,543**
As a percentage of the BDO Unibank Group's net interest income for 2022	**(3.41%)**	**3.41%**	**(1.70%)**	**1.70%**
EAR	**P 17,284**			
As a percentage of the BDO Unibank Group's net interest income for 2022	**11.60%**			
Average (1yr) EAR	**P 23,455**			
Stress EAR	**P 30,506**			

BDO Unibank Group

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

Parent Bank

	2022			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 5,572)**	**P 5,572**	**(P 2,786)**	**P 2,786**
As a percentage of the Parent Bank's net interest income for 2022	**(4.00%)**	**4.00%**	**(2.00%)**	**2.00%**
EAR	**P 18,854**			
As a percentage of the Parent Bank's net interest income for 2022	**13.50%**			
Average (1yr) EAR	**P 23,845**			
Stress EAR	**P 31,169**			

	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			

Parent Bank

	2021			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
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			

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 the BDO Unibank Group and the 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, the BDO Unibank Group maintains a diversified portfolio. Diversification of the portfolio is done in accordance with the limits set by the 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, 2022 and 2021. The results are based on the volatility assumption of the benchmark equity index, which was 4.15% and 3.52% in 2022 and 2021, 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 Increase			**Impact on Other Comprehensive Income Increase**		
	2022	2021	2020	**2022**	2021	2020
BDO Unibank Group						
Financial assets at FVTPL	**P 1,054**	P 806	P 1,554	**P -**	P -	P -
Financial assets at FVOCI	**-**	-	-	**158**	148	350
	P 1,054	P 806	P 1,554	**P 158**	P 148	P 350
Parent Bank						
Financial assets at FVOCI	**P -**	P -	P -	**P 25**	P 30	P 291
	P -	P -	P -	**P 25**	P 30	P 291

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 is 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 the 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.

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

- Pass/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) Pass/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 the 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, credit portfolio review is another integral part of the 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 the 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, 2022 and 2021, there are no POCI financial assets in both BDO Unibank Group and Parent Bank's financial statements.

The following tables show the exposure to credit risk as of December 31, 2022 and 2021 for each internal risk grade and the related allowance for ECL:

BDO Unibank Group

			2022			
			Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate						
Grades AAA to B	:	Pass/Current	P 1,922,405	P -	P -	P 1,922,405
Grade B-	:	Watchlisted	24	23,020	1,640	24,684
Grade C	:	EM	55	47,691	3,028	50,774
Grade D	:	Substandard	-	4,391	7,145	11,536
Grade E	:	Doubtful	-	-	3,332	3,332
Grade F	:	Loss	-	-	2,611	2,611
			1,922,484	75,102	17,756	2,015,342
ECL allowance			(6,950)	(26,614)	(14,025)	(47,589)
Carrying amount			P 1,915,534	P 48,488	P 3,731	P 1,967,753
Receivables from customers - consumer						
Grades AAA to B	:	Pass/Current	P 560,560	P -	P 118	P 560,678
Grade B-	:	Watchlisted	-	57	38	95
Grade C	:	EM	-	953	87	1,040
Grade D	:	Substandard	-	1,598	4,311	5,909
Grade E	:	Doubtful	-	-	3,561	3,561
Grade F	:	Loss	-	-	27,186	27,186
			560,560	2,608	35,301	598,469
ECL allowance			(6,614)	(890)	(18,683)	(26,187)
Carrying amount			P 553,946	P 1,718	P 16,618	P 572,282
Other receivables						
Grades AAA to B	:	Pass/Current	P 155,344	P 115	P 213	P 155,672
Grade C	:	EM	-	3	-	3
Grade D	:	Substandard	511	417	339	1,267
Grade E	:	Doubtful	-	-	419	419
Grade F	:	Loss	-	-	2,089	2,089
			155,855	535	3,060	159,450
ECL allowance			(101)	(78)	(2,405)	(2,584)
Carrying amount			P 155,754	P 457	P 655	P 156,866

BDO Unibank Group

		2022			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at amortized cost					
Grades AAA to B	: Pass/Current	**P 512,128**	**P -**	**P -**	**P 512,128**
Grade C	: EM	**-**	**56**	**-**	**56**
Grade E	: Doubtful	**-**	**-**	**1,252**	**1,252**
Grade F	: Loss	**-**	**-**	**267**	**267**
		512,128	**56**	**1,519**	**513,703**
ECL allowance		**(106)**	**(29)**	**(1,519)**	**(1,654)**
Carrying amount		**P 512,022**	**P 27**	**P -**	**P 512,049**
Debt investment securities at FVOCI					
Grades AAA to B	: Pass/Current	**P 161,301**	**P -**	**P -**	**P 161,301**
Grade C	: EM	**-**	**53**	**-**	**53**
Carrying amount		**P 161,301**	**P 53**	**P -**	**P 161,354**
Loan commitments and other contingent accounts					
Grades AAA to B	: Pass/Current	**P 131,273**	**P -**	**P -**	**P 131,273**
Grade B-	: Watchlisted	**-**	**28**	**-**	**28**
Grade C	: EM	**-**	**9**	**-**	**9**
		131,273	**37**	**-**	**131,310**
ECL allowance		**(233)**	**-**	**-**	**(233)**
Carrying amount		**P 131,040**	**P 37**	**P -**	**P 131,077**

		2021			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate					
Grades AAA to B	: Pass/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
		1,733,956	116,369	19,030	1,869,355
ECL allowance		(7,513)	(17,205)	(13,237)	(37,955)
Carrying amount		P 1,726,443	P 99,164	P 5,793	P 1,831,400
Receivables from customers - consumer					
Grades AAA to B	: Pass/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
		473,756	3,043	54,039	530,838
ECL allowance		(5,554)	(504)	(21,246)	(27,304)
Carrying amount		P 468,202	P 2,539	P 32,793	P 503,534
Other receivables					
Grades AAA to B	: Pass/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
		115,309	470	2,674	118,453
ECL allowance		(79)	(77)	(2,328)	(2,484)
Carrying amount		P 115,230	P 393	P 346	P 115,969

BDO Unibank Group

		2021			
		Stage 1	Stage 2	Stage 3	Total
Debt investment securities at amortized cost					
Grades AAA to B	: Pass/Current	P 397,595	P -	P -	P 397,595
Grade E	: Doubtful	-	-	1,146	1,146
Grade F	: Loss	-	-	264	264
		397,595	-	1,410	399,005
ECL allowance		(61)	-	(1,410)	(1,471)
Carrying amount		P 397,534	P -	P -	P 397,534
Debt investment securities at FVOCI					
Grades AAA to B	: Pass/Current	P 165,461	P -	P -	P 165,461
Loan commitments and other contingent accounts					
Grades AAA to B	: Pass/Current	P 112,403	P -	P -	P 112,403
Grade B-	: Watchlisted	-	461	-	461
Grade C	: EM	-	42	-	42
		112,403	503	-	112,906
ECL allowance		(289)	-	-	(289)
Carrying amount		P 112,114	P 503	P -	P 112,617

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

	2022	2021
Grade:		
AAA	**P 7,678**	P 4,449
AA+ to AA	**151**	330
A+ to A-	**-**	371
BBB+ to BBB-	**2,131**	4,440
BB+ to BB-	**158**	516
	P 10,118	P 10,106

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			
					Central Counterparties		**Other Bilateral Collateralized**	
	Total		**Exchange-traded**					
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
2022								
Derivative assets	**P 172,551**	**P 8,613**	**P 1,072**	**P -**	**P 139,990**	**P 3,468**	**P 31,489**	**P 5,145**
Derivative liabilities	**205,608**	**7,809**	**2,489**	**1**	**169,658**	**3,634**	**33,461**	**4,174**
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

As of December 31, 2022 and 2021, the BDO Unibank Group held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P527,489 and P444,103, 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

			2022			
			Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate						
Grades AAA to B	:	Pass/Current	P 1,914,938	P -	P -	P 1,914,938
Grade B-	:	Watchlisted	-	23,020	1,640	24,660
Grade C	:	EM	-	47,691	3,024	50,715
Grade D	:	Substandard	-	4,391	7,145	11,536
Grade E	:	Doubtful	-	-	3,332	3,332
Grade F	:	Loss	-	-	2,609	2,609
			1,914,938	75,102	17,750	2,007,790
ECL allowance			(6,906)	(26,614)	(14,022)	(47,542)
Carrying amount			P 1,908,032	P 48,488	P 3,728	P 1,960,248
Receivables from customers - consumer						
Grades AAA to B	:	Pass/Current	P 494,913	P -	P -	P 494,913
Grade B-	:	Watchlisted	-	57	38	95
Grade C	:	EM	-	906	75	981
Grade D	:	Substandard	-	1,308	4,272	5,580
Grade E	:	Doubtful	-	-	3,300	3,300
Grade F	:	Loss	-	-	24,985	24,985
			494,913	2,271	32,670	529,854
ECL allowance			(6,050)	(775)	(17,209)	(24,034)
Carrying amount			P 488,863	P 1,496	P 15,461	P 505,820
Other receivables						
Grades AAA to B	:	Pass/Current	P 153,966	P -	P -	P 153,966
Grade D	:	Substandard	509	416	336	1,261
Grade E	:	Doubtful	-	-	366	366
Grade F	:	Loss	-	-	1,984	1,984
			154,475	416	2,686	157,577
ECL allowance			(74)	(78)	(2,272)	(2,424)
Carrying amount			P 154,401	P 338	P 414	P 155,153
Debt investment securities at amortized cost						
Grades AAA to B	:	Pass/Current	P 491,324	P -	P -	P 491,324
Grade C	:	EM	-	56	-	56
Grade E	:	Doubtful	-	-	1,252	1,252
Grade F	:	Loss	-	-	267	267
			491,324	56	1,519	492,899
ECL allowance			(92)	(29)	(1,519)	(1,640)
Carrying amount			P 491,232	P 27	P -	P 491,259
Debt investment securities at FVOCI						
Grades AAA to B	:	Pass/Current	P 108,053	P -	P -	P 108,053
Grade C	:	EM	-	53	-	53
Carrying amount			P 108,053	P 53	P -	P 108,106
Loan commitments and other contingent accounts						
Grades AAA to B	:	Pass/Current	P 131,273	P -	P -	P 131,273
Grade B-	:	Watchlisted	-	28	-	28
Grade C	:	EM	-	9	-	9
			131,273	37	-	131,310
ECL allowance			(233)	-	-	(233)
Carrying amount			P 131,040	P 37	P -	P 131,077

Parent Bank

			2021			
			Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate						
Grades AAA to B	:	Pass/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
			1,728,038	116,364	19,026	1,863,428
ECL allowance			(7,477)	(17,204)	(13,233)	(37,914)
Carrying amount			P 1,720,561	P 99,160	P 5,793	P 1,825,514
Receivables from customers - consumer						
Grades AAA to B	:	Pass/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
			438,721	2,743	46,659	488,123
ECL allowance			(5,194)	(414)	(19,752)	(25,360)
Carrying amount			P 433,527	P 2,329	P 26,907	P 462,763
Other receivables						
Grades AAA to B	:	Pass/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
			111,300	406	2,318	114,024
ECL allowance			(31)	(77)	(2,210)	(2,318)
Carrying amount			P 111,269	P 329	P 108	P 111,706
Debt investment securities at amortized cost						
Grades AAA to B	:	Pass/Current	P 377,427	P -	P -	P 377,427
Grade E	:	Doubtful	-	-	1,146	1,146
Grade F	:	Loss	-	-	264	264
			377,427	-	1,410	378,837
ECL allowance			(45)	-	(1,410)	(1,455)
Carrying amount			P 377,382	P -	P -	P 377,382
Debt investment securities at FVOCI						
Grades AAA to B	:	Pass/Current	P 114,095	P -	P -	P 114,095
Loan commitments and other contingent accounts						
Grades AAA to B	:	Pass/Current	P 112,403	P -	P -	P 112,403
Grade B-	:	Watchlisted	-	461	-	461
Grade C	:	EM	-	42	-	42
			112,403	503	-	112,906
ECL allowance			(289)	-	-	(289)
Carrying amount			P 112,114	P 503	P -	P 112,617

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

	2022	2021
Grade:		
AAA	**P 2,088**	P 1,756
AA+ to AA	**5**	5
BBB+ to BBB-	**216**	169
BB+ to BB-	**105**	216
	P 2,414	P 2,146

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.

	Total		Exchange-traded		Over-the-counter			
					Central Counterparties		Other Bilateral Collateralized	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
2022								
Derivative assets	**P 141,062**	**P 3,468**	**P 1,072**	**P -**	**P 139,990**	**P 3,468**	**P -**	**P -**
Derivative liabilities	**170,730**	**3,636**	**1,072**	**1**	**169,658**	**3,635**	**-**	**-**
2021								
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	-	-

As of December 31, 2022 and 2021, the Parent Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P513,931 and P433,449, 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

	2022			2021		
	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 664,420**	**P 402,156**	**P 547,225**	P 547,827	P 397,823	P 438,014
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**399,101**	**-**	-	356,129	-
Real estate activities	**-**	**324,074**	**20,022**	-	307,048	21,656
Wholesale and retail trade	**-**	**299,896**	**3,010**	-	282,446	953
Electricity, gas, steam and air-conditioning supply	**-**	**281,036**	**26,017**	-	282,036	23,345
Manufacturing	**-**	**232,488**	**15,627**	-	206,445	14,198
Construction	**-**	**90,712**	**181**	-	68,951	102
Information and communication	**-**	**90,342**	**7,157**	-	42,845	5,962
Transportation and storage	**-**	**87,256**	**4,089**	-	88,043	4,190
Arts, entertainment and recreation	**-**	**83,076**	**1,025**	-	77,010	715
Education	**-**	**71,731**	**-**	-	37,199	-
Water supply, sewerage waste management and remediation activities	**-**	**38,760**	**321**	-	26,912	148
Accommodation and food service activities	**-**	**36,529**	**-**	-	39,937	-
Human health and social work activities	**-**	**31,875**	**980**	-	30,653	901
Agriculture, forestry and fishing	**-**	**15,642**	**-**	-	15,266	-
Mining and quarrying	**-**	**10,578**	**3,732**	-	10,175	1,279
Professional, scientific and technical services	**-**	**9,912**	**1,059**	-	9,642	975
Administrative and support services	**-**	**9,581**	**1,060**	-	7,592	1,262
Public administrative and defense; compulsory social security	**-**	**1,030**	**5,858**	-	693	2,629
Other service activities	**34**	**98,036**	**55,318**	54	113,348	64,475
	P 664,454	**P 2,613,811**	**P 692,681**	P 547,881	P 2,400,193	P 580,804
Concentration by location:						
Philippines	**P 508,615**	**P 2,439,453**	**P 588,929**	P 400,581	P 2,261,065	P 486,987
Foreign countries	**155,839**	**174,358**	**103,752**	147,300	139,128	93,817
	P 664,454	**P 2,613,811**	**P 692,681**	P 547,881	P 2,400,193	P 580,804

* *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 2.6).*

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

Parent Bank

	2022			2021		
	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 654,033**	**P 401,394**	**P 512,005**	P 535,932	P 397,733	P 414,478
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**391,623**	**-**	-	347,713	-
Real estate activities	**-**	**325,088**	**15,631**	-	308,053	16,953
Wholesale and retail traded	**-**	**294,838**	**3,010**	-	278,173	953
Electricity, gas, steam and air-conditioning supply	**-**	**280,969**	**23,554**	-	281,990	21,731
Manufacturing	**-**	**231,327**	**14,923**	-	205,679	12,891
Information and communication	**-**	**90,123**	**4,584**	-	42,634	3,802
Construction	**-**	**89,326**	**181**	-	68,108	102
Transportation and storage	**-**	**87,613**	**3,720**	-	88,607	3,630
Arts, entertainment and recreation	**-**	**82,107**	**1,025**	-	76,004	715
Water supply, sewerage waste management and remediation activities	**-**	**38,714**	**321**	-	26,870	148
Accommodation and food service activities	**-**	**36,329**	**-**	-	39,688	-
Human health and social work activities	**-**	**31,616**	**980**	-	30,392	901
Agriculture, forestry and fishing	**-**	**14,876**	**-**	-	14,600	-
Mining and quarrying	**-**	**10,483**	**3,732**	-	10,122	1,279
Education	**-**	**10,151**	**-**	-	4,373	-
Professional, scientific and technical services	**-**	**9,861**	**1,059**	-	9,601	975
Administrative and support services	**-**	**9,375**	**1,060**	-	7,430	1,262
Public administrative and defense; compulsory social security	**-**	**1,030**	**5,858**	-	693	2,629
Other service activities	**-**	**100,801**	**14,137**	-	113,088	15,098
	P 654,033	**P 2,537,644**	**P 605,780**	P 535,932	P 2,351,551	P 497,547
Concentration by location						
Philippines	**P 502,022**	**P 2,363,286**	**P 507,850**	P 391,881	P 2,212,423	P 410,296
Foreign countries	**152,011**	**174,358**	**97,930**	144,051	139,128	87,251
	P 654,033	**P 2,537,644**	**P 605,780**	P 535,932	P 2,351,551	P 497,547

** 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 2.6).*

***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

The 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:

	BDO Unibank Group		**Parent Bank**	
	2022	2021	**2022**	2021
Receivable from customers – corporate:				
Property	**P 816,641**	P 643,403	**P 813,925**	P 632,969
Equity securities	**200,243**	119,361	**199,187**	117,459
Hold-out deposits	**53,976**	31,257	**53,342**	30,986
Debt securities	**10,649**	2,298	**9,987**	1,252
Others	**99,530**	105,236	**99,329**	105,024
	1,181,039	901,555	**1,175,770**	887,690
Receivable from customers – consumer:				
Property	**606,259**	558,874	**589,616**	545,335
Debt securities	**704**	989	**675**	989
Equity securities	**183**	146	**183**	146
Hold-out deposits	**7**	52	**7**	52
Others	**195,833**	212,603	**195,833**	202,216
	802,986	772,664	**786,314**	748,738
Other receivables:				
Property	**1,914**	1,832	**1,914**	1,668
Others	**26,305**	17,095	**26,091**	15,800
	28,219	18,927	**28,005**	17,468
	P 2,012,244	P 1,693,146	**P 1,990,089**	P 1,653,896

The BDO Unibank Group and the Parent Bank have recognized certain properties arising from foreclosures in settlement of loan account amounting to P16,875 and P16,729, respectively, in 2022 and P13,523 and P13,479, respectively, in 2021 (see Note 14 and 15.5).

The 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, 2022 and 2021 are as follows:

	2022		2021	
	Net Carrying Amount	**Identifiable Collateral**	Net Carrying Amount	Identifiable Collateral
BDO Unibank Group				
Receivable from customers:				
Corporate	**P 52,219**	**P 52,297**	P 104,957	P 63,098
Consumer	**18,336**	**64,043**	35,332	74,986
Other receivables	**1,112**	**393**	739	2,895
Parent Bank				
Receivable from customers:				
Corporate	**P 52,216**	**P 52,297**	P 104,953	P 63,083
Consumer	**16,957**	**47,370**	29,236	69,602
Other receivables	**752**	**393**	437	2,438

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, 2022 and 2021 as shown below:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Debt securities:				
At amortized cost	**P 512,049**	P 397,534	**P 491,259**	P 377,382
At FVOCI	**161,354**	165,461	**108,106**	114,095
At FVTPL	**10,118**	10,106	**2,414**	2,146
	P 683,521	P 573,101	**P 601,779**	P 493,623

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 in the 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 2022 and 2021, the assumptions and estimation technique have been reviewed to consider the continuing impact of the COVID-19 pandemic, impact of higher oil prices, and rising interest rates. 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. These accounts are continually monitored to determine whether they are subsequently qualified for transfer to either Stage 1 or Stage 2.

(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 were no significant changes in the estimation techniques or significant assumptions made by the BDO Unibank Group in 2022.

(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, 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. The 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 *Bayanihan to Heal as One Act (Bayanihan I)* and *Bayanihan to Recover as One Act (Bayanihan 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.

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.

[illegible]

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, 2022 and 2021:

BDO Unibank Group

	2022	2021
Stage 1 (Performing)		
Corporate	**P 79,515**	P 68,893
Consumer	**55,423**	121,081
	134,938	189,974
Allowance for impairment	**(892)**	(1,404)
	P 134,046	P 188,570
Stage 2 (Underperforming)		
Corporate	**P 19,596**	P 98,434
Consumer	**67,691**	1,075
	87,287	99,509
Allowance for impairment	**(16,350)**	(15,798)
	P 70,937	P 83,711
Stage 3 (Non-performing)		
Corporate	**P 5,474**	P 5,673
Consumer	**6,872**	7,542
	12,346	13,215
Allowance for impairment	**(6,124)**	(4,709)
	P 6,222	P 8,506

Parent Bank

	2022	2021
Stage 1 (Performing)		
Corporate	**P 79,515**	P 68,893
Consumer	**55,063**	120,081
	134,578	188,974
Allowance for impairment	**(840)**	(1,367)
	P 133,738	P 187,607
Stage 2 (Underperforming)		
Corporate	**P 19,596**	P 98,434
Consumer	**67,688**	1,054
	87,284	99,488
Allowance for impairment	**(16,349)**	(15,793)
	P 70,935	P 83,695
Stage 3 (Non-performing)		
Corporate	**P 5,474**	P 5,673
Consumer	**6,783**	7,006
	12,257	12,679
Allowance for impairment	**(6,039)**	(4,521)
	P 6,218	P 8,158

(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 P793 and P331 respectively, in 2022, and P1,054 and P1,015, respectively, in 2021.

(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

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
2022				
Loans and discounts:				
Corporate	**P 2,015,342**	**P 1,181,039**	**P 834,303**	**P 1,181,039**
Consumer	**598,469**	**802,986**	**-**	**598,469**
Reverse repurchase agreements	**26,305**	**26,305**	**-**	**-**
Sales contracts receivables	**1,421**	**1,914**	**-**	**1,421**
	P 2,641,537	**P 2,012,244**	**P 834,303**	**P 1,780,929**
2021				
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	1,283	1,832	-	1,283
	P 2,418,571	P 1,693,146	P 967,800	P 1,433,676

ÍÉÉÉF□F

Parent Bank

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
2022				
Loans and discounts:				
Corporate	**P 2,007,790**	**P 1,175,770**	**P 832,020**	**P 1,175,770**
Consumer	**529,854**	**786,314**	**-**	**529,854**
Reverse repurchase agreements	**26,091**	**26,091**	**-**	**-**
Sales contracts receivables	**1,323**	**1,914**	**-**	**1,323**
	P 2,565,058	**P 1,990,089**	**P 832,020**	**P 1,706,946**
2021				
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	1,226	1,668	-	1,226
	P 2,368,577	P 1,653,896	P 975,738	P 1,377,039

An analysis of the maximum credit risk exposure relating to Stage 3 financial assets as of December 31, 2022 and 2021 is shown below and in the succeeding page.

BDO Unibank Group

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
2022				
Loans and discounts:				
Corporate	**P 17,756**	**P 7,273**	**P 10,483**	**P 7,273**
Consumer	**35,301**	**53,010**	**-**	**35,301**
Sales contracts receivables	**282**	**348**	**-**	**282**
	P 53,339	**P 60,631**	**P 10,483**	**P 42,856**
2021				
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	214	304	-	214
	P 73,283	P 74,844	P 12,575	P 60,708

Parent Bank

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
2022				
Loans and discounts:				
Corporate	**P 17,750**	**P 7,273**	**P 10,477**	**P 7,273**
Consumer	**32,670**	**45,337**	**-**	**32,670**
Sales contracts receivables	**282**	**348**	**-**	**282**
	P 50,702	**P 52,958**	**P 10,477**	**P 40,225**
2021				
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	212	302	-	212
	P 65,897	P 73,053	P 12,571	P 53,326

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:

	Notes	BDO Unibank Group 2022	BDO Unibank Group 2021	Parent Bank 2022	Parent Bank 2021
Cash equivalents	8, 9	**P 527,504**	P 444,103	**P 513,945**	P 433,449
Debt securities:					
At FVOCI	10.2	**161,354**	165,461	**108,106**	114,095
At amortized cost	10.3	**513,703**	399,005	**492,899**	378,837
		P 675,057	P 564,466	**P 601,005**	P 492,932

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 2022 and 2021, the BDO Unibank Group and the Parent Bank performed recalibration of its existing ECL model to incorporate 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

	2022			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 7,513	P 17,205	P 13,237	P 37,955
Transfers to:				
Stage 1	7,025	(7,020)	(5)	-
Stage 2	(25)	31	(6)	-
Stage 3	(3)	(18)	21	-
Net remeasurement of loss allowance	(7,431)	11,833	2,750	7,152
New financial assets originated or purchased	3,075	6,296	4,465	13,836
Derecognition of financial assets	(3,262)	(1,713)	(6,001)	(10,976)
Write-offs	-	-	(1,017)	(1,017)
Foreign exchange	58	-	581	639
Balance at December 31	P 6,950	P 26,614	P 14,025	P 47,589
Receivables from customers – consumer				
Balance at January 1	P 5,554	P 504	P 21,246	P 27,304
Transfers to:				
Stage 1	1,312	(157)	(1,155)	-
Stage 2	(102)	382	(280)	-
Stage 3	(744)	(1,060)	1,804	-
Net remeasurement of loss allowance	(735)	1,153	5,607	6,025
New financial assets originated or purchased	1,836	155	508	2,499
Derecognition of financial assets	(510)	(87)	(1,638)	(2,235)
Write-offs	-	-	(7,426)	(7,426)
Foreign exchange	3	-	17	20
Balance at December 31	P 6,614	P 890	P 18,683	P 26,187
Other receivables				
Balance at January 1	P 79	P 77	P 2,328	P 2,484
Transfers to				
Stage 1	8	(2)	(6)	-
Stage 2	-	(2)	2	-
Stage 3	(24)	15	9	-
Net remeasurement of loss allowance	65	(17)	(9)	39
New financial assets originated or purchased	39	17	605	661
Derecognition of financial assets	(66)	(10)	(359)	(435)
Write-offs	-	-	(165)	(165)
Balance at December 31	P 101	P 78	P 2,405	P 2,584
Debt investment securities at amortized cost				
Balance at January 1	P 61	P -	P 1,410	P 1,471
Transfers to:				
Stage 2	(1)	1	-	-
Net remeasurement of loss allowance	43	28	-	71
New financial assets originated or purchased	4	-	-	4
Foreign exchange	5	-	109	114
Derecognition of financial assets	(6)	-	-	(6)
Balance at December 31	P 106	P 29	P 1,519	P 1,654

BDO Unibank Group

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at FVOCI				
Balance at January 1	**P 50**	**P -**	**P -**	**P 50**
Net remeasurement of loss allowance	**14**	**60**	**-**	**74**
New financial assets originated or purchased	**5**	**-**	**-**	**5**
Derecognition of financial assets	**(12)**	**-**	**-**	**(12)**
Balance at December 31	**P 57**	**P 60**	**P -**	**P 117**
Loan commitments and other contingent accounts				
Balance at January 1	**P 289**	**P -**	**P -**	**P 289**
Net remeasurement of loss allowance	**(54)**	**-**	**-**	**(54)**
New financial assets originated or purchased	**43**	**-**	**-**	**43**
Derecognition of financial assets	**(51)**	**-**	**-**	**(51)**
Foreign exchange	**6**	**-**	**-**	**6**
Balance at December 31	**P 233**	**P -**	**P -**	**P 233**

	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	P 7,513	P 17,205	P 13,237	P 37,955
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	P 5,554	P 504	P 21,246	P 27,304
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	P 79	P 77	P 2,328	P 2,484

BDO Unibank Group

	2021			
	Stage 1	Stage 2	Stage 3	Total
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	P 61	P -	P 1,410	P 1,471
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	P 50	P -	P -	P 50
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	P 289	P -	P -	P 289

Parent Bank

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers – corporate				
Balance at January 1	**P 7,477**	**P 17,204**	**P 13,233**	**P 37,914**
Transfers to:				
Stage 1	**7,009**	**(7,005)**	**(4)**	**-**
Stage 2	**(25)**	**31**	**(6)**	**-**
Stage 3	**(3)**	**(16)**	**19**	**-**
Net remeasurement of loss allowance	**(7,413)**	**11,817**	**2,750**	**7,154**
New financial assets originated or purchased	**3,059**	**6,296**	**4,465**	**13,820**
Derecognition of financial assets	**(3,256)**	**(1,713)**	**(6,001)**	**(10,970)**
Write-offs	**-**	**-**	**(1,015)**	**(1,015)**
Foreign exchange	**58**	**-**	**581**	**639**
Balance at December 31	**P 6,906**	**P 26,614**	**P 14,022**	**P 47,542**
Receivables from customers – consumer				
Balance at January 1	**P 5,194**	**P 414**	**P 19,752**	**P 25,360**
Transfers to:				
Stage 1	**1,158**	**(115)**	**(1,043)**	**-**
Stage 2	**(99)**	**377**	**(278)**	**-**
Stage 3	**(675)**	**(213)**	**888**	**-**
Net remeasurement of loss allowance	**(551)**	**279**	**5,930**	**5,658**
New financial assets originated or purchased	**1,434**	**90**	**396**	**1,920**
Derecognition of financial assets	**(413)**	**(57)**	**(1,487)**	**(1,957)**
Write-offs	**-**	**-**	**(6,966)**	**(6,966)**
Foreign exchange	**2**	**-**	**17**	**19**
Balance at December 31	**P 6,050**	**P 775**	**P 17,209**	**P 24,034**

Parent Bank

	2022			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Balance at January 1	P 31	P 77	P 2,210	P 2,318
Transfers to:				
Stage 1	8	(2)	(6)	-
Stage 2	-	(2)	2	-
Stage 3	-	(2)	2	-
Net remeasurement of loss allowance	63	-	(40)	23
New financial assets originated or purchased	38	17	601	656
Derecognition of financial assets	(66)	(10)	(339)	(415)
Write-offs	-	-	(158)	(158)
Balance at December 31	P 74	P 78	P 2,272	P 2,424
Debt investment securities at amortized cost				
Balance at January 1	P 45	P -	P 1,410	P 1,455
Transfers to:				
Stage 2	(1)	1	-	-
Net remeasurement of loss allowance	44	28	-	72
New financial assets originated or purchased	4	-	-	4
Foreign exchange	4	-	109	113
Derecognition of financial assets	(4)	-	-	(4)
Balance at December 31	P 92	P 29	P 1,519	P 1,640
Debt investment securities at FVOCI				
Balance at January 1	P 37	P -	P -	P 37
Net remeasurement of loss allowance	13	60	-	73
New financial assets originated or purchased	2	-	-	2
Derecognition of financial assets	(10)	-	-	(10)
Balance at December 31	P 42	P 60	P -	P 102
Loan commitments and other contingent accounts				
Balance at January 1	P 289	P -	P -	P 289
Net remeasurement of loss allowance	(54)	-	-	(54)
New financial assets originated or purchased	43	-	-	43
Derecognition of financial assets	(51)	-	-	(51)
Foreign exchange	6	-	-	6
Balance at December 31	P 233	P -	P -	P 233

	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	P 7,477	P 17,204	P 13,233	P 37,914

Parent Bank

	2021			
	Stage 1	Stage 2	Stage 3	Total
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	P 5,194	P 414	P 19,752	P 25,360
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	P 31	P 77	P 2,210	P 2,318
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	P 45	P -	P 1,410	P 1,455
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	P 37	P -	P -	P 37
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	P 289	P -	P -	P 289

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

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Balance at January 1	**P 69,553**	P 60,895	**P 67,373**	P 58,270
Net remeasurement of loss allowance	**13,307**	14,163	**12,926**	14,025
New financial assets originated or purchased	**17,048**	11,418	**16,445**	10,874
Derecognition of financial assets	**(13,715)**	(8,508)	**(13,407)**	(7,996)
Write-offs	**(8,608)**	(8,966)	**(8,139)**	(8,351)
Foreign exchange	**779**	551	**777**	551
Balance at December 31	**P 78,364**	P 69,553	**P 75,975**	P 67,373

(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 2022 and 2021 contributed to the changes in the allowance for ECL.

BDO Unibank Group

	2022			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 1,733,956	P 116,369	P 19,030	P 1,869,355
Transfers to:				
Stage 1	38,178	(38,133)	(45)	-
Stage 2	(2,804)	2,929	(125)	-
Stage 3	(745)	(556)	1,301	-
New financial assets originated or purchased	1,674,386	13,508	6,417	1,694,311
Derecognition of financial assets	(1,520,487)	(19,015)	(7,805)	(1,547,307)
Write-offs	-	-	(1,017)	(1,017)
Balance at December 31	P 1,922,484	P 75,102	P 17,756	P 2,015,342
Receivables from customers – consumer				
Balance at January 1	P 473,756	P 3,043	P 54,039	P 530,838
Transfers to:				
Stage 1	32,222	(26,905)	(5,317)	-
Stage 2	(1,502)	1,927	(425)	-
Stage 3	(8,532)	(1,471)	10,003	-
New financial assets originated or purchased	214,499	26,655	617	241,771
Derecognition of financial assets	(149,883)	(641)	(16,190)	(166,714)
Write-offs	-	-	(7,426)	(7,426)
Balance at December 31	P 560,560	P 2,608	P 35,301	P 598,469

BDO Unibank Group

	2022			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Balance at January 1	P 115,309	P 470	P 2,674	P 118,453
Transfers to				
Stage 1	51	(22)	(29)	-
Stage 2	(18)	27	(9)	-
Stage 3	(208)	(12)	220	-
New financial assets originated or purchased	57,801	196	1,124	59,121
Derecognition of financial assets	(17,080)	(124)	(755)	(17,959)
Write-offs	-	-	(165)	(165)
Balance at December 31	P 155,855	P 535	P 3,060	P 159,450
Debt investment securities at amortized cost				
Balance at January 1	P 397,595	P -	P 1,410	P 399,005
Amortization	(1,621)	-	-	(1,621)
New financial assets originated or purchased	158,756	-	-	158,756
Foreign exchange	15,453	-	109	15,562
Transfers to:				
Stage 2	(56)	56	-	-
Derecognition of financial assets	(57,999)	-	-	(57,999)
Balance at December 31	P 512,128	P 56	P 1,519	P 513,703
Debt investment securities at FVOCI				
Balance at January 1	P 165,461	P -	P -	P 165,461
Amortization	(749)	-	-	(749)
Fair value gain	(16,659)	-	-	(16,659)
New financial assets originated or purchased	280,222	-	-	280,222
Foreign Exchange	7,309	-	-	7,309
Transfers to:				
Stage 2	(53)	53	-	-
Derecognition of financial assets	(274,230)	-	-	(274,230)
Balance at December 31	P 161,301	P 53	P -	P 161,354
Loan commitments and other contingent accounts				
Balance at January 1	P 112,403	P 503	P -	P 112,906
New financial assets originated or purchased	106,296	30	-	106,326
Derecognition of financial assets	(87,426)	(496)	-	(87,922)
Balance at December 31	P 131,273	P 37	P -	P 131,310

	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	P 1,733,956	P 116,369	P 19,030	P 1,869,355

BDO Unibank Group

	2021			
	Stage 1	Stage 2	Stage 3	Total
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	P 473,756	P 3,043	P 54,039	P 530,838
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	P 115,309	P 470	P 2,674	P 118,453
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	P 397,595	P -	P 1,410	P 399,005
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	P 165,461	P -	P -	P 165,461
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	P 112,403	P 503	P -	P 112,906

Parent Bank

	2022			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 1,728,038	P 116,364	P 19,026	P 1,863,428
Transfers to:				
Stage 1	37,967	(37,922)	(45)	-
Stage 2	(2,804)	2,929	(125)	-
Stage 3	(745)	(549)	1,294	-
New financial assets originated or purchased	1,670,470	13,295	6,417	1,690,182
Derecognition of financial assets	(1,517,988)	(19,015)	(7,802)	(1,544,805)
Write-offs	-	-	(1,015)	(1,015)
Balance at December 31	P 1,914,938	P 75,102	P 17,750	P 2,007,790
Receivables from customers – consumer				
Balance at January 1	P 438,721	P 2,743	P 46,659	P 488,123
Transfers to:				
Stage 1	5,227	(752)	(4,475)	-
Stage 2	(1,458)	1,871	(413)	-
Stage 3	(7,518)	(1,187)	8,705	-
New financial assets originated or purchased	154,030	154	328	154,512
Derecognition of financial assets	(94,089)	(558)	(11,168)	(105,815)
Write-offs	-	-	(6,966)	(6,966)
Balance at December 31	P 494,913	P 2,271	P 32,670	P 529,854
Other receivables				
Balance at January 1	P 111,300	P 406	P 2,318	P 114,024
Transfers to				
Stage 1	38	(22)	(16)	-
Stage 2	(18)	(1)	19	-
Stage 3	(146)	1	145	-
New financial assets originated or purchased	44,451	156	1,008	45,615
Derecognition of financial assets	(1,150)	(124)	(630)	(1,904)
Write-offs	-	-	(158)	(158)
Balance at December 31	P 154,475	P 416	P 2,686	P 157,577
Debt investment securities at amortized cost				
Balance at January 1	P 377,427	P -	P 1,410	P 378,837
Amortization	(1,598)	-	-	(1,598)
New financial assets originated or purchased	155,205	-	-	155,205
Foreign exchange	14,987	-	109	15,096
Transfers to (from):				
Stage 2	(56)	56	-	-
Derecognition of financial assets	(54,641)	-	-	(54,641)
Balance at December 31	P 491,324	P 56	P 1,519	P 492,899
Debt investment securities at FVOCI				
Balance at January 1	P 114,095	P -	P -	P 114,095
Amortization	(583)	-	-	(583)
Fair value gain	(11,215)	-	-	(11,215)
New financial assets originated or purchased	258,406	-	-	258,406
Foreign exchange	6,239	-	-	6,239
Transfers to (from):				
Stage 2	(53)	53	-	-
Derecognition of financial assets	(258,836)	-	-	(258,836)
Balance at December 31	P 108,053	P 53	P -	P 108,106

Parent Bank

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loan commitments and other contingent accounts				
Balance at January 1	**P 112,403**	**P 503**	**P -**	**P 112,906**
Transfers to Stage 2	**-**	**-**	**-**	**-**
New financial assets originated or purchased	**106,296**	**30**	**-**	**106,326**
Derecognition of financial assets	**(87,426)**	**(496)**	**-**	**(87,922)**
Balance at December 31	**P 131,273**	**P 37**	**P -**	**P 131,310**

	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	P 1,728,038	P 116,364	P 19,026	P 1,863,428
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	P 438,721	P 2,743	P 46,659	P 488,123
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	P 111,300	P 406	P 2,318	P 114,024
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	P 377,427	P -	P 1,410	P 378,837

Parent Bank

	2021			
	Stage 1	Stage 2	Stage 3	Total
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	P 114,095	P -	P -	P 114,095
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	P 112,403	P 503	P -	P 112,906

(k) Sensitivity Analysis on ECL Measurement

Set out below and in the succeeding page are the changes to the BDO Unibank Group's 12-month ECL as of December 31, 2022 and 2021 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**
2022				
Corporate or Commercial Loans:				
GDP growth rate	**+1%**	**-1%**	**-6.9%**	**6.9%**
Inflation rate	**+1%**	**-1%**	**3.0%**	**-3.0%**
Credit Card Receivables or Personal Loans:				
GDP growth rate	**+1%**	**-1%**	**-1.2%**	**1.2%**
Unemployment rate	**+1%**	**-1%**	**1.8%**	**-1.8%**
Home/Housing Loans:				
GDP growth rate	**+1%**	**-1%**	**-0.2%**	**0.2%**
Inflation rate	**+1%**	**-1%**	**1.3%**	**-1.7%**
Auto Loans:				
GDP growth rate	**+1%**	**-1%**	**-0.02%**	**0.02%**
Unemployment rate	**+1%**	**-1%**	**1.4%**	**-1.4%**

	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%

4.4 Operational Risk

Operational risk is the risk of loss due to the 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.

The 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, the 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 the 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 Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefits payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated, and subsequent development of long-term claims.

(a) Terms and Conditions

The BDO Unibank Group principally writes life insurance where the life of the policyholder is insured against death, illness, injury or permanent disability, usually for a predetermined amount. Life insurance contracts offered by the BDO Unibank Group mainly include whole life, term insurance, endowments, VUL products, group life insurance, and accident and health insurance.

- Whole life insurance and term insurance are conventional products where lump sum benefits are payable upon death of the insured.

- Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the fixed term is completed.

- VUL products differ from conventional policies. In VUL products, a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

- Group life insurance covers a defined group of people insured by the employer under a master policy agreement that is normally issued on a yearly renewable term.

- Accident and health insurance covers payment of hospital and medical expenses when sickness, accidental injury, or accidental death happened to the insured.

(b) Underwriting risk

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising from the policyholder's death experience being higher than expected.

- Morbidity risk - risk of loss arising from the policyholder's health experience being higher than expected.

- Expense risk - risk of loss arising from expense experience being higher than expected.

- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

Underwriting guidelines and limits for insurance and reinsurance contracts are regularly monitored for compliance and updated to reflect current requirements. To further control the underwriting risks, the BDO Unibank Group's Actuarial Department regularly assesses the adequacy of the insurance premiums and technical provisions. The risks of defaults by reinsurers are mitigated as the BDO Unibank Group only deals with accredited reinsurers. Additionally, provisions for known and unknown liabilities arising from the BDO Unibank Group's commitments are calculated using prudent actuarial methods.

The main underwriting strategies of the BDO Unibank Group to control risk are the use of reinsurance, which is discussed below, and the controlled granting of non-medical authority (NMA) to the sales force. The NMA is being given only to members of the sales force who either qualify by virtue of field experience or by passing a certain underwriting and training program. Actual experience is closely monitored and corrective actions are executed whenever necessary.

The BDO Unibank Group utilizes surplus reinsurance programs to manage its mortality risk from large fluctuations in claim experience. A summary of active reinsurance treaties is presented below.

- Individual Business - Surplus treaties covering traditional and VUL products from Individual Line which have retention limits of up to P3 for death benefit and supplementary benefits and 50% of Sum Assured for early stage and late stage critical illness benefit.

- Credit Group Life Business - Surplus treaties covering loan borrowers of Credit Group Life accounts which have retention limits of P6 for death benefit and P6 for supplementary benefits.

- Group Employee Benefit Business - Surplus treaties covering employees of accounts covered under Group Employee which have retention limits of P6 for death benefit and supplementary benefits.

4.6 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 MTPP provides the framework for the BDO Unibank Group and the Parent Bank to adhere with 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.

4.7 Impact of LIBOR Reform

The BDO Unibank Group currently has exposure to contracts with reference to LIBOR and extend beyond 2022, 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, 2022, changes required to systems, processes and models have been 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, 2022 and 2021 for each LIBOR rate that have not yet transitioned to SOFR or an alternative interest rate benchmark as of December 31, 2022 and 2021:

	Carrying value		Notional amount	
	2022	2021	**2022**	2021
BDO Unibank Group				
USD LIBOR	**P 134,799**	P 213,650	**P 348,187**	P 355,523
GBP LIBOR	**1,950**	2,931	**3,124**	3,226
EUR LIBOR	**1,170**	1,230	**1,680**	460
CHF LIBOR	**-**	-	**61**	-
JPY LIBOR	**-**	134	**37**	46
	P 137,919	P 217,945	**P 353,089**	P 359,255
Parent Bank				
USD LIBOR	**P 125,116**	P 206,548	**P 273,651**	P 298,000
GBP LIBOR	**1,950**	2,931	**3,124**	3,226
EUR LIBOR	**1,170**	1,230	**1,680**	460
CHF LIBOR	**-**	-	**61**	-
JPY LIBOR	**-**	134	**37**	46
	P 128,236	P 210,843	**P 278,553**	P 301,732

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

	Carrying value		Notional amount	
	2022	2021	**2022**	2021
BDO Unibank Group				
Non-derivative financial assets –				
Loans and other receivables	**P 111,298**	P 150,569	**P -**	P -
Other assets	**3,303**	4,666	**-**	-
Non-derivative financial liabilities –				
Bills payable	**6,691**	41,534	**-**	-
Other liabilities	**-**	9,282	**-**	-
Derivatives:				
Asset	**8,760**	6,236	**165,327**	175,774
Liability	**7,867**	5,658	**187,762**	183,481
	P 137,919	P 217,945	**P 353,089**	P 359,255

	Carrying value		Notional amount	
	2022	2021	**2022**	2021
Parent Bank				
Non-derivative financial assets –				
Loans and other receivables	**P 111,298**	P 150,569	**P -**	P -
Other assets	**3,303**	4,666		
Non-derivative financial liabilities –				
Bills payable	**6,691**	41,534	**-**	-
Other liabilities	**-**	9,282	**-**	-
Derivatives:				
Asset	**3,432**	2,443	**129,048**	147,736
Liability	**3,512**	2,349	**149,505**	153,996
	P 128,236	P 210,843	**P 278,553**	P 301,732

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 has undergone updates 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.

4.8 Maturity Profile of Resources and Liabilities

The table below presents the resources and liabilities analyzed according to whether these are expected to be recovered or settled in less than 12 months and over 12 months from statement of financial position date:

BDO Unibank Group

	2022			2021		
	Within 12 Months	**Beyond 12 Months**	**Total**	Within 12 Months	Beyond 12 Months	Total
Resources						
Cash and other cash items	**P 82,944**	**P -**	**P 82,944**	P 69,105	P -	P 69,105
Due from BSP and other banks	**444,545**	**-**	**444,545**	374,998	-	374,998
Trading and investment securities	**91,776**	**631,054**	**722,830**	95,000	521,261	616,261
Loans and other receivables - net	**854,188**	**1,842,713**	**2,696,901**	756,430	1,694,473	2,450,903
Premises, furniture, fixtures, and equipment - net	**-**	**46,471**	**46,471**	-	44,807	44,807
Investment properties - net	**-**	**21,158**	**21,158**	-	18,795	18,795
Other resources - net	**16,787**	**43,072**	**59,859**	118	48,762	48,880
	P 1,490,240	**P 2,584,468**	**P 4,074,708**	P 1,295,651	P 2,328,098	P 3,623,749
Liabilities						
Deposit liabilities	**P 3,126,217**	**P 94,666**	**P 3,220,883**	P 2,732,734	P 88,162	P 2,820,896
Bills payable	**80,781**	**118,110**	**198,891**	112,973	91,458	204,431
Insurance contract liabilities	**7,844**	**56,519**	**64,363**	3,375	61,953	65,328
Other liabilities	**106,608**	**22,506**	**129,114**	88,339	20,207	108,546
	P 3,321,450	**P 291,801**	**P 3,613,251**	P 2,937,421	P 261,780	P 3,199,201

Parent Bank

	2022			2021		
	Within 12 Months	**Beyond 12 Months**	**Total**	Within 12 Months	Beyond 12 Months	Total
Resources						
Cash and other cash items	**P 80,666**	**P -**	**P 80,666**	P 66,440	P -	P 66,440
Due from BSP and other banks	**433,265**	**-**	**433,265**	367,009	-	367,009
Trading and investment securities	**46,608**	**560,181**	**606,789**	45,460	452,503	497,963
Loans and other receivables - net	**839,832**	**1,781,389**	**2,621,221**	734,057	1,665,926	2,399,983
Premises, furniture, fixtures, and equipment - net	**-**	**42,394**	**42,394**	-	41,586	41,586
Investment properties - net	**-**	**13,173**	**13,173**	-	11,263	11,263
Other resources - net	**5,479**	**97,336**	**102,815**	-	81,762	81,762
	P 1,405,850	**P 2,494,473**	**P 3,900,323**	P 1,212,966	P 2,253,040	P 3,466,006
Liabilities						
Deposit liabilities	**P 3,050,839**	**P 90,177**	**P 3,141,016**	P 2,664,655	P 87,060	P 2,751,715
Bills payable	**74,225**	**114,647**	**188,872**	106,016	90,158	196,174
Other liabilities	**95,158**	**15,378**	**110,536**	80,340	14,316	94,656
	P 3,220,222	**P 220,202**	**P 3,440,424**	P 2,851,011	P 191,534	P 3,042,545

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 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, 2022 and 2021, 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, 2022 and 2021 as follows:

	BDO Unibank Group	Parent Bank
December 31, 2022		
Tier 1 Capital		
CET 1	P 437,138	P 437,314
Additional Tier 1	6,180	6,180
	443,318	443,494
Tier 2 Capital	27,501	26,540
Total Regulatory Capital	470,819	470,034
Deductions	(42,219)	(72,666)
Total Qualifying Capital	P 428,600	P 397,368
Total Risk-Weighted Assets	P 2,954,935	P 2,846,030
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.5%	14.0%
Tier 1 Capital Ratio	13.6%	13.0%
Total CET 1 Ratio	13.4%	12.8%

	BDO Unibank Group	Parent Bank
December 31, 2021		
Tier 1 Capital		
CET 1	P 403,388	P 404,134
Additional Tier 1	5,150	5,150
	408,538	409,284
Tier 2 Capital	25,209	24,265
Total Regulatory Capital	433,747	433,549
Deductions	(35,097)	(61,769)
Total Qualifying Capital	P 398,650	P 371,780
Total Risk-Weighted Assets	P 2,714,820	P 2,617,747
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%

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:

	2022	2021	2020
BDO Unibank Group			
$\frac{\text{Capital Measure}}{\text{Exposure Measure}}$	**9.8%**	10.3%	10.2%
Parent Bank			
$\frac{\text{Capital Measure}}{\text{Exposure Measure}}$	**9.4%**	9.9%	9.8%

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 and the Parent Bank's LCR as of December 31, 2022, 2021, and 2020 are analyzed below.

	2022	2021	2020
BDO Unibank Group			
Total Stock of High – Quality Liquid Assets / Total Net Cash Outflows	**140.7%**	145.4%	127.1%
Parent Bank			
Total Stock of High – Quality Liquid Assets / Total Net Cash Outflows	**141.2%**	145.9%	129.0%

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, 2022, 2021 and 2020 are summarized below.

	2022	2021	2020
BDO Unibank Group			
Available Stable Funding / Required Stable Funding	**123.9%**	123.5%	122.0%
Parent Bank			
Available Stable Funding / Required Stable Funding	**123.5%**	123.1%	122.0%

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, holding, 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

In 2022, the service line of Dominion Holdings was changed from Leasing and Financing to Others (See Note 30.3).

Segment information (by service lines) as of and for the years ended December 31, 2022, 2021 and 2020 are as follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
December 31, 2022							
Revenues							
From external customer							
Interest income	P 164,647	P 53	P 1,156	P 629	P 2,587	(P 1)	P 169,071
Interest expense	(19,532)	(2)	(76)	(156)	(76)	3	(19,839)
Net interest income	145,115	51	1,080	473	2,511	2	149,232
Intersegment revenue							
Interest income	182	2	-	-	6	72	262
Interest expense	(121)	(33)	(16)	(18)	(54)	(67)	(309)
Net interest income	61	(31)	(16)	(18)	(48)	5	(47)
Other operating income							
Investment banking fees	-	2,856	-	-	-	-	2,856
Others	54,066	245	1,667	651	21,331	600	78,560
	54,066	3,101	1,667	651	21,331	600	81,416
Total net revenues	199,242	3,121	2,731	1,106	23,794	607	230,601
Expenses							
Other operating expenses							
Depreciation and amortization	9,095	85	85	418	296	82	10,061
Impairment losses	16,321	1	(1)	20	26	3	16,370
Others	101,738	1,039	1,325	341	18,340	346	123,129
	127,154	1,125	1,409	779	18,662	431	149,560
Segment operating income	72,088	1,996	1,322	327	5,132	176	81,041
Tax expense	13,961	592	120	88	1,156	42	15,959
Segment net income	P 58,127	P 1,404	P 1,202	P 239	P 3,976	P 134	P 65,082

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
Statement of Financial Position							
Total resources							
Segment assets	**P 3,975,178**	**P 8,071**	**P 36,985**	**P 8,515**	**P 92,672**	**P 10,505**	**P 4,131,926**
Deferred tax assets							
(liabilities) - net	**5,466**	**(173)**	**15**	**17**	**43**	**(13)**	**5,355**
Intangible assets	**6,908**	**65**	**170**	**-**	**32**	**-**	**7,175**
	P 3,987,552	**P 7,963**	**P 37,170**	**P 8,532**	**P 92,747**	**P 10,492**	**P 4,144,456**
Total liabilities	**P 3,516,144**	**P 4,112**	**P 31,151**	**P 7,154**	**P 74,067**	**P 2,205**	**P 3,634,833**
Other segment information							
Capital expenditures	**P 6,794**	**P 31**	**P 7**	**P 585**	**P 1,160**	**P 36**	**P 8,613**
Investment in associates under equity method	**P -**	**P -**	**P -**	**P -**	**P -**	**P 5,654**	**P 5,654**
Share in the profit of associates	**P -**	**P -**	**P -**	**P -**	**P -**	**P 849**	**P 849**
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	127,831	6	1,038	403	2,067	1	131,346
Intersegment revenue							
Interest income	119	2	-	-	3	1	125
Interest expense	(16)	(45)	(4)	(28)	(11)	(65)	(169)
Net interest income	103	(43)	(4)	(28)	(8)	(64)	(44)
Other operating income							
Investment banking fees	-	2,268	-	-	-	-	2,268
Others	42,725	277	1,451	809	20,412	543	66,217
	42,725	2,545	1,451	809	20,412	543	68,485
Total net revenues	170,659	2,508	2,485	1,184	22,471	480	199,787
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	90,521	772	1,204	385	19,005	291	112,178
	116,011	912	1,256	896	19,124	376	138,575
Segment operating income	54,648	1,596	1,229	288	3,347	104	61,212
Tax expense	11,584	375	264	43	623	18	12,907
Segment net income	P 43,064	P 1,221	P 965	P 245	P 2,724	P 86	P 48,305
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	7,194	76	21	-	44	1	7,336
	P 3,520,745	P 6,658	P 37,973	P 15,224	P 83,073	P 4,316	P 3,667,989
Total liabilities	P 3,091,065	P 2,455	P 31,905	P 8,072	P 71,798	p 2,212	P 3,207,507
Other segment information							
Capital expenditures	P 5,020	P 26	P 23	P 239	P 3,564	P 2	P 8,874
Investment in associates under equity method	P -	P -	P -	P -	P -	P 5,347	P 5,347
Share in the profit of associates	P -	P -	P -	P -	P -	P 814	P 814

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
December 31, 2020							
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	130,155	15	1,000	735	1,797	(2)	133,700
Intersegment revenues							
Interest income	238	9	-	2	13	1	263
Interest expense	(35)	(73)	(6)	(95)	(8)	(80)	(297)
Net interest income	203	(64)	(6)	(93)	5	(79)	(34)
Other operating income							
Investment banking fees	-	1,410	-	-	-	-	1,410
Others	38,683	285	1,552	1,478	16,440	551	58,989
	38,683	1,695	1,552	1,478	16,440	551	60,399
Total net revenues	169,041	1,646	2,546	2,120	18,242	470	194,065
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
	123,852	941	1,248	1,670	16,214	381	144,306
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	P 28,727	P 443	P 1,007	P 279	P 1,457	P 70	P 31,983
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
	P 3,276,039	P 6,470	P 41,433	P 16,231	P 70,443	P 4,386	P 3,415,002
Total liabilities	P 2,877,836	P 2,579	P 35,288	P 9,268	P 64,499	P 2,191	P 2,991,661
Other segment information							
Capital expenditures	P 4,019	P 12	P 10	P 314	P 24	P 4	P 4,383
Investment in associates under equity method	P -	P -	P -	P -	P -	P 5,015	P 5,015
Share in the profit of associates	P -	P -	P -	P -	P -	P 470	P 470

6.3 Reconciliation

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

	2022	2021	2020
Revenue			
Total segment net revenues	**P 230,601**	P 199,787	P 194,065
Elimination of intersegment revenues	**(9,834)**	(7,087)	(5,155)
Net revenues as reported in profit or loss	**P 220,767**	P 192,700	P 188,910
Profit or loss			
Total segment net income	**P 65,082**	P 48,305	P 31,983
Elimination of intersegment profit	**(7,848)**	(5,450)	(3,729)
Net profit as reported in profit or loss	**P 57,234**	P 42,855	P 28,254

	2022	2021	2020
Resources			
Total segment resources	**P 4,144,456**	P 3,667,989	P 3,415,002
Elimination of intersegment assets	**(69,748)**	(44,240)	(40,102)
Total resources	**P 4,074,708**	P 3,623,749	P 3,374,900
Liabilities			
Total segment liabilities	**P 3,634,833**	P 3,207,507	P 2,991,661
Elimination of intersegment liabilities	**(21,582)**	(8,306)	(9,782)
Total liabilities	**P 3,613,251**	P 3,199,201	P 2,981,879

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

	2022			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
At amortized cost:				
Cash and other cash items	**P 82,944**	**P -**	**P 82,944**	**P 82,944**
Due from BSP	**385,779**	**-**	**385,779**	**385,783**
Due from other banks	**58,766**	**-**	**58,766**	**58,781**
Loans and other receivables	**2,696,901**	**-**	**2,696,901**	**2,736,010**
Other resources	**13,794**	**-**	**13,794**	**13,794**
Investment securities	**512,049**	**-**	**512,049**	**473,270**
At FVTPL	**-**	**44,712**	**44,712**	**44,712**
At FVOCI	**-**	**166,069**	**166,069**	**166,069**
	P 3,750,233	**P 210,781**	**P 3,961,014**	**P 3,961,363**
Financial liabilities				
At amortized cost:				
Deposit liabilities	**P 3,220,883**	**P -**	**P 3,220,883**	**P 3,263,048**
Bills payable	**198,891**	**-**	**198,891**	**191,713**
Insurance contract liabilities	**64,363**	**-**	**64,363**	**64,363**
Other liabilities	**111,040**	**-**	**111,040**	**111,040**
At fair value –				
Other liabilities	**-**	**7,809**	**7,809**	**7,809**
	P 3,595,177	**P 7,809**	**P 3,602,986**	**P 3,637,973**

BDO Unibank Group

	2021			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
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
At FVTPL	-	47,934	47,934	47,934
At FVOCI	-	170,793	170,793	170,793
	P 3,300,000	P 218,727	P 3,518,727	P 3,530,266
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
	P 3,182,530	P 5,742	P 3,188,272	P 3,231,529

Parent Bank

	2022			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
At amortized cost:				
Cash and other cash items	**P 80,666**	**P -**	**P 80,666**	**P 80,666**
Due from BSP	**382,210**	**-**	**382,210**	**382,214**
Due from other banks	**51,055**	**-**	**51,055**	**51,069**
Loans and other receivables	**2,621,221**	**-**	**2,621,221**	**2,661,224**
Other resources	**12,174**	**-**	**12,174**	**12,174**
Investment securities	**491,259**	**-**	**491,259**	**453,246**
At FVTPL	**-**	**5,883**	**5,883**	**5,883**
At FVOCI	**-**	**109,647**	**109,647**	**109,647**
	P 3,638,585	**P 115,530**	**P 3,754,115**	**P 3,756,123**

Parent Bank

	2022			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities				
At amortized cost:				
Deposit liabilities	**P 3,141,016**	**P -**	**P 3,141,016**	**P 3,171,809**
Bills payable	**188,872**	**-**	**188,872**	**184,359**
Other liabilities	**98,251**	**-**	**98,251**	**98,251**
At fair value –				
Other liabilities	**-**	**3,636**	**3,636**	**3,636**
	P 3,428,139	**P 3,636**	**P 3,431,775**	**P 3,458,055**

	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
At FVTPL	-	4,616	4,616	4,616
At FVOCI	-	115,965	115,965	115,965
	P 3,217,566	P 120,581	P 3,338,147	P 3,352,278
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	-	2,462	2,462	2,462
	P 3,030,806	P 2,462	P 3,033,268	P 3,071,818

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, 2022 and 2021 are grouped into the fair value hierarchy as presented in the tables in the succeeding pages.

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

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2022					
Resources:					
Financial assets at FVTPL:	10.1				
Equity securities - quoted		**P 25,197**	**P 784**	**P -**	**P 25,981**
Government debt securities		**7,135**	**-**	**-**	**7,135**
Corporate debt securities		**457**	**2,526**	**-**	**2,983**
Derivative financial assets		**-**	**8,613**	**-**	**8,613**
		32,789	**11,923**	**-**	**44,712**
Financial assets at FVOCI:	10.2				
Government debt securities		**109,782**	**-**	**-**	**109,782**
Corporate debt securities		**51,572**	**-**	**-**	**51,572**
Equity securities - quoted		**4,184**	**378**	**-**	**4,562**
Equity securities - not quoted		**-**	**114**	**39**	**153**
		165,538	**492**	**39**	**166,069**
		P 198,327	**P 12,415**	**P 39**	**P 210,781**
Liabilities –					
Derivatives with negative fair values	21	**P 101**	**P 7,708**	**P -**	**P 7,809**
December 31, 2021					
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
		35,265	12,669	-	47,934
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
		170,183	288	322	170,793
		P 205,448	P 12,957	P 322	P 218,727
Liabilities –					
Derivatives with negative fair values	21	P 91	P 5,651	P -	P 5,742

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2022					
Resources:					
Financial assets at FVTPL:	10.1				
Government debt securities		**P 2,207**	**P -**	**P -**	**P 2,207**
Derivative financial assets		**-**	**3,468**	**-**	**3,468**
Corporate debt securities		**207**	**-**	**-**	**207**
Equity securities - quoted		**1**	**-**	**-**	**1**
		2,415	**3,468**	**-**	**5,883**
Financial assets at FVOCI:	10.2				
Government debt securities		**66,465**	**-**	**-**	**66,465**
Corporate debt securities		**41,641**	**-**	**-**	**41,641**
Equity securities - quoted		**1,059**	**369**	**-**	**1,428**
Equity securities - not quoted		**-**	**113**	**-**	**113**
		109,165	**482**	**-**	**109,647**
		P 111,580	**P 3,950**	**P -**	**P 115,530**
Liabilities –					
Derivatives with negative fair values	21	**P 101**	**P 3,535**	**P -**	**P 3,636**
December 31, 2021					
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		1	-	-	1
		2,147	2,469	-	4,616
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
		115,401	282	282	115,965
		P 117,548	P 2,751	P 282	P 120,581
Liabilities –					
Derivatives with negative fair values	21	P 91	P 2,371	P -	P 2,462

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

Discussed 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 tables below and in the succeeding pages summarize the fair value hierarchy of the BDO Unibank Group and the 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

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Resources:				
Cash and other cash items	**P 82,944**	**P -**	**P -**	**P 82,944**
Due from BSP	**385,783**	**-**	**-**	**385,783**
Due from other banks	**58,781**	**-**	**-**	**58,781**
Investment securities at amortized cost	**470,887**	**-**	**2,383**	**473,270**
Loans and other receivables	**388**	**-**	**2,735,622**	**2,736,010**
Other resources	**12,273**	**-**	**1,521**	**13,794**
	P 1,011,056	**P -**	**P2,739,526**	**P3,750,582**
Liabilities:				
Deposit liabilities	**P -**	**P -**	**P3,263,048**	**P3,263,048**
Bills payable	**-**	**133,311**	**58,402**	**191,713**
Insurance contract liabilities	**-**	**-**	**64,363**	**64,363**
Other liabilities	**-**	**-**	**111,040**	**111,040**
	P -	**P 133,311**	**P3,496,853**	**P 3,630,164**
December 31, 2021				
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 receivable	271	-	2, 459,943	2,460,214
Other resources	6,180	-	1,280	7,460
	P 850,316	P -	P 2,461,223	P 3,311,539
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	-	-	91,875	91,875
	P -	P 152,235	P 3,073,552	P 3,225,787

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Resources:				
Cash and other cash items	**P 80,666**	**P -**	**P -**	**P 80,666**
Due from BSP	**382,214**	**-**	**-**	**382,214**
Due from other banks	**51,069**	**-**	**-**	**51,069**
Investment securities at amortized cost	**453,246**	**-**	**-**	**453,246**
Loans and other receivables	**-**	**-**	**2,661,224**	**2,661,224**
Other resources	**10,961**	**-**	**1,213**	**12,174**
	P 978,156	**P -**	**P2,662,437**	**P3,640,593**
Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 3,171,809**	**P 3,171,809**
Bills payable	**-**	**133,311**	**51,048**	**184,359**
Other liabilities	**-**	**-**	**98,251**	**98,251**
	P -	**P 133,311**	**P 3,321,108**	**P3,454,419**
December 31, 2021				
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	5,784	-	968	6,752
	P 818,500	P -	P 2,413,197	P 3,231,697
Liabilities:				
Deposit liabilities	P -	P -	P 2,787,683	P 2,787,683
Bills payable	-	152,235	46,521	198,756
Other liabilities	-	-	82,917	82,917
	P -	P 152,235	P 2,917,121	P 3,069,356

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 noninterest-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, 2022 and 2021 are shown below.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Investment properties				
Land	**P -**	**P -**	**P 29,677**	**P 29,677**
Building and improvements	**-**	**-**	**14,720**	**14,720**
Non-current assets held for sale	**-**	**-**	**3,251**	**3,251**
	P -	**P -**	**P 47,648**	**P 47,648**
December 31, 2021				
Investment properties				
Land	P -	P -	P 27,349	P 27,349
Building and improvements	-	-	12,786	12,786
Non-current assets held for sale	-	-	1,825	1,825
	P -	P -	P 41,960	P 41,960

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Investment properties				
Land	**P -**	**P -**	**P 22,735**	**P 22,735**
Building and improvements	**-**	**-**	**13,798**	**13,798**
Non-current assets held for sale	**-**	**-**	**3,251**	**3,251**
	P -	**P -**	**P 39,784**	**P 39,784**
December 31, 2021				
Investment properties				
Land	P -	P -	P 20,819	P 20,819
Building and improvements	-	-	11,917	11,917
Non-current assets held for sale	-	-	1,824	1,824
	P -	P -	P 34,560	P 34,560

The fair value of the investment properties of the BDO Unibank Group and the Parent Bank as of December 31, 2022 and 2021 (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 in the previous page is their current use. The fair value discussed in the previous page 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.

(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 2022 and 2021.

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, 2022 and 2021 are subject to offsetting, enforceable master netting arrangements and similar agreements.

BDO Unibank Group

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2022				
Financial assets at FVOCI	**P 5,535**	**P 4,799**	**P -**	**P 736**
Investment securities at amortized cost	**17,038**	**10,380**	**-**	**6,658**
Financial assets at FVTPL:				
Currency swaps	**856**	**819**	**-**	**37**
Interest rate swaps	**70**	**69**	**-**	**1**
Loans and receivables –				
Receivables from customers	**23,795**	**-**	**20,886**	**2,909**
	P 47,294	**P 16,067**	**P 20,886**	**P 10,341**
December 31, 2021				
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	29,497	-	26,216	3,281
	P 30,178	P 631	P 26,216	P 3,331

Parent Bank

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2022				
Financial assets at FVOCI	**P 2,508**	**P 2,298**	**P -**	**P 210**
Investment securities at amortized cost	**13,683**	**10,380**	**-**	**3,303**
Financial assets at FVTPL:				
Currency swaps	**111**	**110**	**-**	**1**
Interest rate swaps	**67**	**66**	**-**	**1**
Loans and receivables –				
Receivables from customers	**20,363**	**-**	**20,363**	**-**
	P 36,732	**P 12,854**	**P 20,363**	**P 3,515**

Parent Bank

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
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	26,045	-	26,045	-
	P 26,104	P 58	P 26,045	P 1

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

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2022				
Deposit liabilities	**P 38,295**	**P 20,886**	**P -**	**P 17,409**
Bills payable	**15,179**	**-**	**15,179**	**-**
Derivatives with negative fair values:				
Currency swaps	**1,070**	**819**	**-**	**251**
Interest rate swaps	**79**	**69**	**-**	**10**
	P 54,623	**P 21,774**	**P 15,179**	**P 17,670**
December 31, 2021				
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	72	59	-	13
	P 34,182	P 26,847	P 1,088	P 6,247

Parent Bank

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2022				
Deposit liabilities	**P 37,772**	**P 20,363**	**P -**	**P 17,409**
Bills payable	**12,679**	**-**	**12,679**	**-**
Derivatives with negative fair values:				
Currency swaps	**361**	**110**	**-**	**251**
Interest rate swaps	**75**	**66**	**-**	**9**
	P 50,887	**P 20,539**	**P 12,679**	**P 17,669**
December 31, 2021				
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	66	53	-	13
	P 32,350	P 26,103	P -	P 6,247

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:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Cash and other cash items	**P 82,944**	P 69,105	**P 80,666**	P 66,440
Due from BSP:				
Mandatory reserves	**308,817**	271,953	**306,448**	269,707
Other than mandatory reserves	**76,962**	32,953	**75,762**	32,953
	385,779	304,906	**382,210**	302,660
	P 468,723	P 374,011	**P 462,876**	P 369,100

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, 2022 and 2021, the balance of this account amounted to P706 and P770, respectively, and is presented as part of Due from BSP.

In 2022, the Parent Bank opened a Demand Deposit Account 3 with the BSP for PESONet transactions. As of December 31, 2022, the balance of this account amounted to P14,431 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:

2022	2021	2020
1.50% – 6.45%	1.50% – 1.96%	1.50% – 4.13%

The total interest income earned amounted to P2,558, P1,487 and P1,892 in 2022, 2021 and 2020, respectively, in BDO Unibank Group's statements of income, and P2,533, P1,483 and P1,886 in 2022, 2021 and 2020, 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:

		BDO Unibank Group		**Parent Bank**	
	Note	**2022**	2021	**2022**	2021
Foreign banks		**P 53,513**	P 66,185	**P 49,995**	P 63,193
Local banks		**5,268**	3,907	**1,074**	1,156
		58,781	70,092	**51,069**	64,349
Allowance for impairment	16	**(15)**	-	**(14)**	-
		P 58,766	P 70,092	**P 51,055**	P 64,349

The breakdown of this account as to currency follows:

	BDO Unibank Group		**Parent Bank**	
	2022	2021	**2022**	2021
U.S. dollars	**P 45,474**	P 57,669	**P 41,778**	P 54,480
Other foreign currencies	**9,712**	10,732	**8,833**	9,708
Philippine pesos	**3,580**	1,691	**444**	161
	P 58,766	P 70,092	**P 51,055**	P 64,349

Annual interest rates on these deposits range from:

	2022	2021	2020
BDO Unibank Group	**0.00% – 5.50%**	0.00% – 1.50%	0.00% – 3.38%
Parent Bank	**0.00% – 4.40%**	0.00% – 1.00%	0.00% – 1.00%

There are deposits such as current accounts, which do not earn interest. The total interest income earned amounted to P808, P67, and P266 in 2022, 2021, and 2020, respectively, in the BDO Unibank Group's statements of income, and P674, P50, and P234, in 2022, 2021, and 2020, 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.

		BDO Unibank Group		Parent Bank	
	Note	2022	2021	2022	2021
Financial assets at FVTPL	10.1	**P 44,712**	P 47,934	**P 5,883**	P 4,616
Financial assets at FVOCI	10.2	**166,069**	170,793	**109,647**	115,965
Investment securities at amortized cost - net	10.3	**512,049**	397,534	**491,259**	377,382
		P 722,830	P 616,261	**P 606,789**	P 497,963

10.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Derivative financial assets	**P 8,613**	P 6,232	**P 3,468**	P 2,469
Government debt securities	**7,135**	5,427	**2,207**	1,919
Corporate debt securities	**2,983**	4,679	**207**	227
	18,731	16,338	**5,882**	4,615
Equity securities - quoted	**25,981**	31,596	**1**	1
	P 44,712	P 47,934	**P 5,883**	P 4,616

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** 2022	2021	2020
Interest income	23	**P 103**	P 92	P 122
Trading gain (loss) - net	25	**(728)**	(214)	1,261
Dividend income	25	**66**	118	71
Foreign exchange gain (loss)	25	**(357)**	71	(214)
Total other income (loss)		**(1,019)**	(25)	1,118
Total other expenses		**1**	1	2
Net income/(loss)		**(P 917)**	P 66	P 1,238

	Notes	**Parent Bank** 2022	2021	2020
Interest income	23	**P 69**	P 59	P 84
Trading gain (loss) - net	25	**(333)**	(648)	1,422
Net income (loss)		**(P 264)**	(P 589)	P 1,506

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

	2022	2021	2020
BDO Unibank Group			
Government debt securities	**1.37% – 10.63%**	0.88% – 10.62%	0.63% – 10.63%
Corporate debt securities	**0.09% – 8.51%**	0.09% – 8.51%	0.09% – 8.51%
Parent Bank			
Government debt securities	**1.38% – 9.50%**	0.88% – 9.50%	0.63% – 10.63%
Corporate debt securities	**2.13% – 8.51%**	2.50% – 8.51%	3.00% – 8.51%

Foreign currency-denominated securities amounted to P7,857 and P6,622 as of December 31, 2022 and 2021, respectively, in the BDO Unibank Group's statements of financial position, and P3,649 and P2,759 as of December 31, 2022 and 2021, 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)].

	2022			2021		
	Notional Amount	Fair Values Assets	Fair Values Liabilities	Notional Amount	Fair Values Assets	Fair Values Liabilities
BDO Unibank Group						
Currency forwards/futures	**P 287,952**	**P 2,913**	**P 3,026**	P 313,246	P 2,091	P 2,118
Cross currency swaps	**70,995**	**5,630**	**4,602**	54,243	4,041	3,440
Interest rate swaps	**9,320**	**70**	**81**	13,986	99	93
Interest rate future sold trading	**1,417**	**-**	**-**	1,661	1	-
ROP warrants	**8,475**	**-**	**100**	8,475	-	91
	P 378,159	**P 8,613**	**P 7,809**	P 391,611	P 6,232	P 5,742
Parent Bank						
Currency forwards/futures	**P 285,316**	**P 2,896**	**P 3,008**	P 309,373	P 2,086	P 2,045
Cross currency swaps	**9,781**	**505**	**453**	8,792	329	259
Interest rate swaps	**8,220**	**67**	**75**	8,986	54	66
ROP warrants	**8,475**	**-**	**100**	8,475	-	92
	P 311,792	**P 3,468**	**P 3,636**	P 335,626	P 2,469	P 2,462

Certain financial assets at FVTPL are subject to offsetting against the related derivatives with negative fair values. 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	
	2022	2021	**2022**	2021
Government debt securities	**P 109,782**	P 110,182	**P 66,465**	P 71,798
Corporate debt securities	**51,572**	55,279	**41,641**	42,297
Equity securities:				
Quoted	**4,562**	5,010	**1,428**	1,588
Not quoted	**153**	322	**113**	282
	P 166,069	P 170,793	**P 109,647**	P 115,965

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

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Foreign currencies	**P 80,243**	P 86,804	**P 71,632**	P 74,197
Philippine peso	**85,826**	83,989	**38,015**	41,768
	P 166,069	P 170,793	**P 109,647**	P 115,965

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Within one year	**P 17,722**	P 17,781	**P 13,164**	P 13,743
One to five years	**60,848**	64,349	**43,368**	46,361
Beyond five years	**87,499**	88,663	**53,115**	55,861
	P 166,069	P 170,793	**P 109,647**	P 115,965

Effective interest rates of financial assets at FVOCI range from:

	2022	2021	2020
BDO Unibank Group			
Government debt securities	**0.53% – 5.75%**	0.06% – 5.69%	0.06% – 6.77%
Corporate debt securities	**1.87% – 8.76%**	0.42% – 7.38%	0.82% – 8.29%
Parent Bank			
Government debt securities	**0.54% – 5.75%**	0.54% – 5.69%	1.50% – 6.77%
Corporate debt securities	**1.87% – 8.76%**	1.66% – 7.38%	2.14% – 8.29%

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

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

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Balance at beginning of year	**P 170,793**	P 184,881	**P 115,965**	P 126,922
Additions	**285,428**	476,166	**258,499**	446,867
Disposals	**(279,483)**	(489,677)	**(259,519)**	(459,326)
Unrealized fair value losses	**(18,457)**	(5,259)	**(11,945)**	(2,524)
Foreign currency revaluation	**7,821**	4,963	**6,675**	4,199
Realized fair value losses on FVOCI	**(33)**	(309)	**(28)**	(201)
Reclassification	**-**	28	**-**	28
Balance at end of year	**P 166,069**	P 170,793	**P 109,647**	P 115,965

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

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Balance at beginning of year	**(P 1,630)**	P 4,008	**(P 348)**	P 2,459
Changes on unrealized fair value gains (losses) during the year:				
Fair value losses during the year	**(18,381)**	(5,230)	**(11,945)**	(2,524)
Expected credit losses on FVOCI securities	**67**	(88)	**65**	(71)
Deferred tax assets (liabilities)	**21**	(11)	**22**	(11)
Adjustment	**6**	-	**6**	-
	(19,917)	(1,321)	**(12,200)**	(147)
Realized fair value gains on securities disposed during the year - net	**(33)**	(309)	**(28)**	(201)
Balance at end of year	**(P 19,950)**	(P 1,630)	**(P 12,228)**	(P 348)
Net unrealized fair value gains (losses), net of tax:				
Attributable to:				
Shareholder of the Parent Bank	**(P 18,381)**	(P 5,230)		
Non-controlling interest	**(76)**	(29)		
	(P 18,457)	(P 5,259)		

The Parent Bank disposed of FVOCI securities under equity amounting to P6 and P3,222 in 2022 and 2021, respectively, while the BDO Unibank Group disposed a total of FVOCI equity securities amounting to P181 and P5,454 in 2022 and 2021, 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.

The BDO Unibank Group and the Parent Bank recognized gain on disposal of FVOCI securities amounting to P8 and P13, respectively, in 2022, P278 and P191, respectively, in 2021, and P644 and P178, respectively in 2020.

Impairment losses (recoveries) recognized for FVOCI debt securities presented in NUGL for BDO Unibank Group and the Parent Bank amounted to P67 and P65, respectively, in 2022, (P88) and (P71), respectively, in 2021 and P37 and P36, respectively, in 2020. The total accumulated impairment losses presented in NUGL for the BDO Unibank Group and the Parent Bank amounted to P117 and P102, respectively, as of December 31, 2022, and P50 and P37, respectively, as of December 31, 2021 (see Note 4.3.5).

10.3 Investment Securities at Amortized Cost

This account consists of:

	Note	BDO Unibank Group 2022	BDO Unibank Group 2021	Parent Bank 2022	Parent Bank 2021
Government debt securities		**P 442,970**	P 334,935	**P 427,074**	P 320,925
Corporate debt securities:					
Quoted		**66,832**	59,255	**64,306**	56,523
Not quoted		**3,901**	4,815	**1,519**	1,389
		513,703	399,005	**492,899**	378,837
Allowance for impairment	16	**(1,654)**	(1,471)	**(1,640)**	(1,455)
		P 512,049	P 397,534	**P 491,259**	P 377,382

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

	BDO Unibank Group 2022	BDO Unibank Group 2021	Parent Bank 2022	Parent Bank 2021
Foreign currencies	**P 196,188**	P 164,529	**P 190,632**	P 159,235
Philippine peso	**315,861**	233,005	**300,627**	218,147
	P 512,049	P 397,534	**P 491,259**	P 377,382

The maturity profile of this account is presented below.

	BDO Unibank Group 2022	BDO Unibank Group 2021	Parent Bank 2022	Parent Bank 2021
Less than one year	**P 29,342**	P 29,285	**P 27,561**	P 27,101
One to five years	**227,742**	166,980	**211,611**	155,595
Beyond five years	**254,965**	201,269	**252,087**	194,686
	P 512,049	P 397,534	**P 491,259**	P 377,382

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

	BDO Unibank Group 2022	BDO Unibank Group 2021	Parent Bank 2022	Parent Bank 2021
Balance at beginning of year	**P 397,534**	P 286,819	**P 377,382**	P 267,672
Additions	**161,048**	169,502	**155,379**	161,191
Maturities and disposals	**(61,913)**	(68,042)	**(56,413)**	(60,412)
Foreign currency gains - net	**15,449**	9,063	**14,983**	8,741
Impairment loss	**(69)**	192	**(72)**	190
Balance at end of year	**P 512,049**	P 397,534	**P 491,259**	P 377,382

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

	2022	2021	2020
BDO Unibank Group			
Government debt securities	**0.18% – 8.64%**	0.05% – 7.60%	0.20% – 7.60%
Corporate debt securities	**1.27% – 7.82%**	1.29% – 8.41%	0.39% – 8.41%
Parent Bank			
Government debt securities	**0.18% – 7.56%**	0.05% – 7.60%	0.20% – 7.60%
Corporate debt securities	**1.82% – 7.82%**	1.82% – 7.82%	0.39% – 7.82%

In 2022, the BDO Unibank Group and the Parent Bank disposed of debt securities from its amortized cost portfolio amounting to P1,801 and P749, respectively, resulting in a trading net gain amounting to P13 and P13, respectively. These disposals were all initiated by the issuers. In 2021, the BDO Unibank Group and the Parent Bank disposed of 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, respectively. These disposals were initiated by the Parent Bank because of the deteriorating profile of the securities sold. Management has assessed that such disposals of investment securities in 2022 and 2021 are consistent with the BDO Unibank Group 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 2022	BDO Unibank Group 2021	Parent Bank 2022	Parent Bank 2021
Receivables from customers:					
Loans and discounts	27	**P 2,391,044**	P 2,205,151	**P 2,314,453**	P 2,156,282
Credit card receivables		**127,922**	106,789	**127,922**	106,789
Customers' liabilities under letters of credit and trust receipts		**85,295**	80,217	**85,295**	80,217
Bills purchased		**10,895**	8,360	**10,885**	8,358
		2,615,156	2,400,517	**2,538,555**	2,351,646
Unearned interests or discounts		**(1,345)**	(324)	**(911)**	(95)
Allowance for impairment	16	**(73,776)**	(65,259)	**(71,576)**	(63,274)
		(75,121)	(65,583)	**(72,487)**	(63,369)
		2,540,035	2,334,934	**2,466,068**	2,288,277
Other receivables:					
Interbank loans receivables		**115,694**	90,721	**119,045**	90,721
Reverse repurchase agreements		**26,305**	17,095	**26,091**	15,800
Accounts receivable	27	**14,738**	8,315	**11,118**	6,277
Sales contract receivables		**1,421**	1,283	**1,323**	1,226
Others		**1,292**	1,039	**-**	-
		159,450	118,453	**157,577**	114,024
Allowance for impairment	16	**(2,584)**	(2,484)	**(2,424)**	(2,318)
		156,866	115,969	**155,153**	111,706
		P 2,696,901	P 2,450,903	**P 2,621,221**	P 2,399,983

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

	BDO Unibank Group 2022	BDO Unibank Group 2021	Parent Bank 2022	Parent Bank 2021
Less than one year	**P 760,822**	P 715,409	**P 754,313**	P 708,816
One to five years	**1,010,599**	830,392	**955,786**	795,591
Beyond five years	**842,390**	854,392	**827,545**	847,144
	P 2,613,811	P 2,400,193	**P 2,537,644**	P 2,351,551

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

	BDO Unibank Group 2022	BDO Unibank Group 2021	Parent Bank 2022	Parent Bank 2021
Variable interest rates	**P 1,993,259**	P 1,885,493	**P 1,986,204**	P 1,873,116
Fixed interest rates	**620,552**	514,700	**551,440**	478,435
	P 2,613,811	P 2,400,193	**P 2,537,644**	P 2,351,551

Annual interest rates ranges from:

	2022	2021	2020
Loans and discounts	**0.00% – 60.96%**	0.00% – 60.96%	0.00% – 43.68%
Other receivables	**0.00% – 19.00%**	0.03% – 19.00%	0.04% – 19.00%

The total interest income earned amounted to:

	Note	BDO Unibank Group 2022	2021	2020
Loans and discounts		**P 138,080**	P 123,545	P 137,590
Other receivables		**2,680**	1,003	1,146
	23	**P 140,760**	P 124,548	P 138,736

	Note	Parent Bank 2022	2021	2020
Loans and discounts		**P 131,465**	P 118,667	P 133,261
Other receivables		**2,571**	899	1,068
	23	**P 134,036**	P 119,566	P 134,329

Interest income recognized on impaired loans and receivables amounted to P6,398, P6,046 and P4,557 in 2022, 2021 and 2020, respectively, for the BDO Unibank Group, and P6,395, P6,025 and P4,353 in 2022, 2021 and 2020, respectively, for the Parent Bank.

Certain receivables from customers of the BDO Unibank Group and the Parent Bank amounting to P23,795 and P20,363, respectively, in 2022 and P29,497 and P26,045, respectively, in 2021, are subject to offsetting with the corresponding collaterals received as a means of security amounting to P20,886 and P20,363, respectively, in 2022, and P26,216 and P26,045, respectively, for 2021, 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 P16,414 and P15,665, respectively, in 2022, P17,222 and P17,006, respectively, in 2021, and P29,519 and P28,905, respectively, in 2020 (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 2022 and 2021 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
December 31, 2022							
Cost	P 8,430	P 29,066	P 25,345	P 8,660	P 1,266	P 19,561	P 92,328
Accumulated depreciation and amortization	-	(19,682)	(10,047)	(7,295)	-	(8,189)	(45,213)
Allowance for impairment (see Note 16)	(340)	-	(304)	-	-	-	(644)
Net Carrying Amount	**P 8,090**	**P 9,384**	**P 14,994**	**P 1,365**	**P 1,266**	**P 11,372**	**P 46,471**
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	P 8,066	P 9,340	P 14,356	P 1,471	P 1,316	P 10,258	P 44,807
January 1, 2021							
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	P 8,134	P 9,662	P 14,073	P 1,524	P 977	P 9,960	P 44,330

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
December 31, 2022							
Cost	P 7,693	P 24,804	P 23,466	P 7,674	P 1,250	P 18,911	P 83,798
Accumulated depreciation and amortization	-	(16,859)	(9,409)	(6,678)	-	(7,962)	(40,908)
Allowance for impairment (see Note 16)	(197)	-	(299)	-	-	-	(496)
Net Carrying Amount	**P 7,496**	**P 7,945**	**P 13,758**	**P 996**	**P 1,250**	**P 10,949**	**P 42,394**
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	P 7,472	P 7,966	P 13,654	P 1,224	P 1,314	P 9,956	P 41,586
January 1, 2021							
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	P 7,540	P 7,848	P 13,339	P 1,320	P 970	P 9,815	P 40,832

A reconciliation of the carrying amounts at the beginning and end of 2022 and 2021 of premises, furniture, fixtures and equipment is shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
Balance at January 1, 2022, net of accumulated depreciation, amortization and impairment	P 8,066	P 9,340	P 14,356	P 1,471	P 1,316	P 10,258	P 44,807
Additions	24	2,635	280	463	486	4,683	8,571
Disposals	(3)	(237)	-	(19)	-	(54)	(313)
Reclassifications	-	236	1,024	100	(519)	-	841
Allowance for impairment	3	-	-	-	-	-	3
Adjustments	-	-	-	-	-	(115)	(115)
Reversal	-	-	(12)	-	(17)	-	(29)
Foreign exchange revaluation	-	1	8	3	-	3	15
Depreciation and amortization charges for the year	-	(2,591)	(662)	(653)	-	(3,403)	(7,309)
Balance at December 31, 2022, net of accumulated depreciation, amortization and impairment	**P 8,090**	**P 9,384**	**P 14,994**	**P 1,365**	**P 1,266**	**P 11,372**	**P 46,471**
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	P 8,066	P 9,340	P 14,356	P 1,471	P 1,316	P 10,258	P 44,807

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
Balance at January 1, 2022 net of accumulated depreciation, amortization and impairment	P 7,472	P 7,966	P 13,654	P 1,224	P 1,314	P 9,956	P 41,586
Additions	24	1,876	239	230	470	4,414	7,253
Disposals	-	(120)	-	(19)	-	(53)	(192)
Reclassifications	-	236	505	100	(517)	-	324
Adjustment	-	-	-	-	-	(100)	(100)
Reversal	-	-	(12)	-	(17)	-	(29)
Foreign exchange revaluation	-	1	-	2	-	4	7
Depreciation and amortization charges for the year	-	(2,014)	(628)	(541)	-	(3,272)	(6,455)
Balance at December 31, 2022, net of accumulated depreciation, amortization and impairment	**P 7,496**	**P 7,945**	**P 13,758**	**P 996**	**P 1,250**	**P 10,949**	**P 42,394**
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	P 7,472	P 7,966	P 13,654	P 1,224	P 1,314	P 9,956	P 41,586

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, 2022 and 2021, 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, 2022 and 2021 are still being used in operations with acquisition costs amounting to P9,557 and P8,298, respectively, in the BDO Unibank Group's financial statements and P8,016 and P7,532, 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, 2022 and 2021.

	Number of Right-of-use Asset Leased		Range of Remaining Term		Average Remaining Lease Term	
	2022	2021	**2022**	2021	**2022**	2021
BDO Unibank Group						
Land	**57**	58	**0 mos. – 27 yrs.**	4 mos. – 28 yrs.	**12 yrs.**	12 yrs.
Building	**1,631**	1,568	**1 mo. – 15 yrs.**	1 mo. – 16 yrs.	**3.7 yrs.**	2.2 yrs.
Parent Bank						
Land	**57**	58	**2 mos. – 27 yrs.**	4 mos. – 28 yrs.	**12 yrs.**	12 yrs.
Building	**1,325**	1,281	**1 mo. – 15.1 yrs.**	1 mo. – 16 yrs.	**4 yrs.**	4 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, 2022 and 2021 and the movements during the period are shown below (see Note 12).

BDO Unibank Group

	Land	Buildings	Total
Balance at January 1, 2022	P 434	P 9,824	P 10,258
Additions	72	4,611	4,683
Disposal	-	(54)	(54)
Adjustment	-	(115)	(115)
Foreign exchange revaluation	-	3	3
Depreciation and amortization	(60)	(3,343)	(3,403)
Balance at December 31, 2022	**P 446**	**P 10,926**	**P 11,372**
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	P 434	P 9,824	P 10,258

Parent Bank

	Land	Buildings	Total
Balance at January 1, 2022	P 459	P 9,497	P 9,956
Additions	72	4,342	4,414
Disposal	-	(53)	(53)
Adjustment	-	(100)	(100)
Foreign exchange revaluation	-	4	4
Depreciation and amortization	(60)	(3,212)	(3,272)
Balance at December 31, 2022	**P 471**	**P 10,478**	**P 10,949**
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	P 459	P 9,497	P 9,956

13.2 Lease Liabilities

Lease liabilities amounting to P13,344 and P12,087 as at December 31, 2022 and 2021, respectively, for the BDO Unibank Group and P12,927 and P11,800, as at December 31, 2022 and 2021, 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, 2022, 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, 2022, 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 analyses of lease liabilities at December 31, 2022 and 2021 for the BDO Unibank Group and the Parent Bank are as follows:

December 31, 2022

BDO Unibank Group

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 10 Years	10 or More Years	Total
Lease payments	P 3,928	P 3,266	P 2,775	P 2,111	P 1,311	P 2,206	P 585	P 16,182
Finance charges	(784)	(601)	(449)	(290)	(188)	(386)	(140)	(2,838)
Net present value	**P 3,144**	**P 2,665**	**P 2,326**	**P 1,821**	**P 1,123**	**P 1,820**	**P 445**	**P 13,344**
Parent Bank								
Lease payments	P 3,793	P 3,127	P 2,658	P 2,034	P 1,283	P 2,208	P 626	P 15,729
Finance charges	(763)	(587)	(427)	(287)	(188)	(395)	(155)	(2,802)
Net present value	**P 3,030**	**P 2,540**	**P 2,231**	**P 1,747**	**P 1,095**	**P 1,813**	**P 471**	**P 12,927**

December 31, 2021

BDO Unibank Group

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 10 Years	10 or More Years	Total
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	P 2,820	P 2,309	P 1,915	P 1,528	P 1,186	P 1,939	P 390	P 12,087
Parent Bank								
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	P 2,719	P 2,214	P 1,842	P 1,503	P 1,169	P 1,936	P 417	P 11,800

The BDO Unibank Group and the Parent Bank sublease its leased properties. The total income earned from the subleasing activities amounted to nil in 2022, 2021 and 2020 for the BDO Unibank Group and P6, P2 and P2 in 2022, 2021 and 2020, respectively, for the Parent Bank.

The total cash outflow in respect to leases amounted to P4,192, P3,238 and P2,940 in 2022, 2021 and 2020, respectively, for the BDO Unibank Group and P4,032, P3,100 and P2,828 in 2022, 2021 and 2020, respectively, for the Parent Bank. Interest expense in relation to lease liabilities amounted to P927, P817 and P690 in 2022, 2021 and 2020, respectively, for the BDO Unibank Group and P905, P807 and P675 in 2022, 2021 and 2020, 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 P4 and P350 in 2022, P8 and P336 in 2021 and P4 and P269 in 2020 for the BDO Unibank Group, respectively, and nil and P348 in 2022, nil and P328 in 2021, and nil and P262 in 2020 for the Parent Bank, respectively. Moreover, expenses relating to variable lease payments amounted to P171, P114 and P171 for the BDO Unibank Group, and P171, P114 and P171 for the Parent Bank in 2022, 2021 and 2020, respectively. These are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 25).

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 P590 and P83 in 2022, P431 and P86 in 2021, and P366 and P83 in 2020 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 P61 and P3 in 2022, P34 and P3 in 2021, and P23 and P2 in 2020 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 2022 and 2021 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Buildings	Total
December 31, 2022			
Cost	**P 10,457**	**P 18,393**	**P 28,850**
Accumulated depreciation	**-**	**(6,185)**	**(6,185)**
Allowance for impairment (see Note 16)	**(1,442)**	**(65)**	**(1,507)**
Net carrying amount	**P 9,015**	**P 12,143**	**P 21,158**
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	P 7,630	P 11,165	P 18,795

BDO Unibank Group

	Land	Buildings	Total
January 1, 2021			
Cost			
Accumulated depreciation	P 9,176	P 13,310	P 22,486
Allowance for impairment	-	(4,773)	(4,773)
(see Note 16)	(1,773)	(89)	(1,862)
Net carrying amount	P 7,403	P 8,448	P 15,851

Parent Bank

	Land	Buildings	Total
December 31, 2022			
Cost	**P 8,199**	**P 11,530**	**P 19,729**
Accumulated depreciation	**-**	**(5,370)**	**(5,370)**
Allowance for impairment			
(see Note 16)	**(1,162)**	**(24)**	**(1,186)**
Net carrying amount	**P 7,037**	**P 6,136**	**P 13,173**
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	P 5,651	P 5,612	P 11,263
January 1, 2021			
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	P 5,423	P 6,412	P 11,835

A reconciliation of the carrying amounts, at the beginning and end of 2022 and 2021, of investment properties is shown below and in the succeeding page.

BDO Unibank Group

	Land	Buildings	Total
Balance at January 1, 2022, net of accumulated depreciation and impairment	**P 7,630**	**P 11,165**	**P 18,795**
Additions	**1,681**	**3,044**	**4,725**
Reclassifications	**216**	**(509)**	**(293)**
Disposals	**(512)**	**(349)**	**(861)**
Foreign exchange revaluation	**-**	**(39)**	**(39)**
Impairment loss	**-**	**(2)**	**(2)**
Depreciation for the year	**-**	**(1,167)**	**(1,167)**
Balance at December 31, 2022, net of accumulated depreciation and impairment	**P 9,015**	**P 12,143**	**P 21,158**
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	-	(1,007)	(1,007)
Balance at December 31, 2021, net of accumulated depreciation and impairment	P 7,630	P 11,165	P 18,795

Parent Bank

	Land	Buildings	Total
Balance at January 1, 2022, net of accumulated depreciation and impairment	**P 5,651**	**P 5,612**	**P 11,263**
Additions	**1,681**	**1,778**	**3,459**
Disposals	**(511)**	**(349)**	**(860)**
Reclassifications	**216**	**8**	**224**
Depreciation for the year	**-**	**(913)**	**(913)**
Balance at December 31, 2022, net of accumulated depreciation and impairment	**P 7,037**	**P 6,136**	**P 13,173**
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	-	(884)	(884)
Balance at December 31, 2021, net of accumulated depreciation and impairment	P 5,651	P 5,612	P 11,263

The fair value of investment properties as of December 31, 2022 and 2021, determined using observable recent prices of the reference properties adjusted for difference and replacement cost approach, amounted to P44,397 and P40,135, respectively, for the BDO Unibank Group's financial statements and P36,533 and P32,736, 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, 2022 and 2021 was based on value in use computed through discounted cash flows method at an effective rate of 1.42% and 0.69% in 2022 and 2021, 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, 2022 and 2021, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Investment properties	**P 12,929**	P 11,070	**P 12,783**	P 11,028
Financial assets at FVOCI	**484**	499	**484**	499
Non-current assets held for sale	**3,462**	1,954	**3,462**	1,952
	P 16,875	P 13,523	**P 16,729**	P 13,479

15. OTHER RESOURCES

The components of this account are shown below.

	Notes	BDO Unibank Group		Parent Bank	
		2022	2021	**2022**	2021
Foreign currency notes and coins on hand		**P 10,582**	P 5,597	**P 10,582**	P 5,597
Deferred charges	15.1	**6,544**	7,852	**6,544**	7,852
Equity investments	15.2	**5,654**	5,347	**56,268**	43,839
Deferred tax assets – net	31.1	**5,355**	6,768	**5,028**	6,262
Goodwill	15.3	**4,535**	4,535	**1,391**	1,391
Computer software – net	15.6	**3,536**	3,696	**3,260**	3,535
Credit card acquiring		**3,490**	1,226	**3,490**	1,226
Non-current assets held for sale	15.5	**3,462**	1,954	**3,462**	1,952
Branch licenses	15.4	**3,020**	3,020	**3,020**	3,020
Margin deposits		**1,688**	581	**378**	187
Prepaid documentary stamps		**798**	454	**737**	414
Customer lists - net	15.6	**487**	487	**487**	487
Retirement assets	26.2	**215**	-	**-**	-
Real properties for development and sale		**174**	260	**-**	-
Others	15.6, 20	**13,050**	10,024	**10,586**	8,602
		62,590	51,801	**105,233**	84,364
Allowance for impairment	16	**(2,731)**	(2,921)	**(2,418)**	(2,602)
		P 59,859	P 48,880	**P 102,815**	P 81,762

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). 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:

		BDO Unibank Group		Parent Bank	
	Held	2022	2021	2022	2021
Philippine subsidiaries					
BDO Network	87.37%	P -	P -	P 12,416	P 8,166
BDOSHI	100%	-	-	5,684	5,684
BDO Life	97%	-	-	3,403	3,403
BDO Private	100%	-	-	2,579	2,579
Dominion Holdings	87.43%	-	-	1,878	1,878
BDO Capital	99.88%	-	-	1,878	1,878
BDOI	100%	-	-	11	11
Equimark	60%	-	-	4	4
		-	-	27,853	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	1.69%	-	-	35	35
		3,465	3,465	3,500	3,500
Accumulated equity in total comprehensive income:					
Balance at beginning of year		1,882	1,550	16,399	10,280
Equity in net profit		849	814	8,710	6,350
Equity in other comprehensive income (loss)		11	(6)	3,367	2,587
Dividends		(553)	(476)	(3,898)	(2,818)
Balance at end of year		2,189	1,882	24,578	16,399
Net investments in associates/subsidiaries		5,654	5,347	56,268	43,839
Allowance for impairment		(153)	(153)	(153)	(153)
		P 5,501	P 5,194	P 56,115	P 43,686

Equity in other comprehensive income or loss consists of the following:

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Accumulated actuarial gains (losses)	P 11	(P 9)	P 126	(P 342)
Remeasurement on life insurance reserves	-	-	9,620	5,686
Accumulated translation adjustment	-	-	51	50
Net unrealized fair value gains (losses) on FVOCI	-	3	(6,430)	(2,807)
Equity in other comprehensive income (loss)	P 11	(P 6)	P 3,367	P 2,587

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2022 and 2021, except for BDO Life, Dominion Holdings and BDO Securities. For BDO Life and Dominion Holdings, the interest held is at 100% and 88.54% for BDO Unibank Group, respectively (see Note 2.3) in both years and 97.00% and 87.43%, for the Parent Bank, respectively in both years. For BDO Securities, the interest held is at 99.88%, for BDO Unibank Group (see Note 2.3), in both years and 1.69% and 2.65% for Parent Bank, in 2022 and 2021, respectively.

In 2020, the trading of the shares of Dominion Holdings were suspended indefinitely. Using the last traded price on January 24, 2020, the fair value amounted 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, 2022 are all incorporated in the Philippines, except for the following:

Foreign Subsidiaries	Country of Incorporation
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, 2022 and 2021, 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, 2022 and 2021, 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, Dominion Holdings and BDO Network, with significant NCI:

	Proportion of Ownership Interest and Voting Rights Held by NCI		Profit Allocated to NCI		Accumulated NCI	
Name	**2022**	2021	**2022**	2021	**2022**	2021
Dominion Holdings	**11.46%**	11.46%	**P 9**	P 5	**P 698**	P 689
BDO Network	**12.63%**	15.13%	**169**	58	**1,454**	941

The registered office and principal place of business of Dominion Holdings 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.

Dividends paid to NCI amounted to P2 and nil in 2022 and 2021, respectively (see Note 22.3).

The summarized financial information of Dominion Holdings and BDO Network, before intragroup eliminations, follows:

	Dominion Holdings	
	2022	2021
Statements of financial position:		
Total current resources	**P 6,110**	P 6,020
Total current liabilities	**16**	8
Equity attributable to owners of the parent	**5,396**	5,323
Non-controlling interest	**698**	689
Statements of comprehensive income:		
Total interest income	**63**	-
Total other operating income	**64**	57
Profit attributable to owners of the parent	**73**	39
Profit attributable to NCI	**9**	5
Profit	**82**	44
Total comprehensive income attributable to owners of the parent	**73**	39
Total comprehensive income attributable to NCI	**9**	5
Total comprehensive income	**P 82**	P 44
Statements of cash flows:		
Net cash from (used in) operating activities	**P 40**	(P 31)
Net cash from (used in) investing activities	**5,928**	(70)
Net cash inflow (outflow)	**P 5,968**	(P 101)

	BDO Network 2022	BDO Network 2021
Statements of financial position:		
Total current resources	**P 13,711**	P 10,091
Total non-current resources	**73,519**	44,648
Total current liabilities	**70,422**	47,743
Total non-current liabilities	**5,298**	776
Equity attributable to owners of the parent	**10,056**	5,278
Non-controlling interest	**1,454**	941
Statements of comprehensive income:		
Total interest income	**6,198**	4,343
Total other operating income	**3,937**	2,090
Profit attributable to owners of the parent	**965**	325
Profit attributable to NCI	**169**	58
Profit	**1,134**	383
Total comprehensive income attributable to owners of the parent	**632**	59
Total comprehensive income attributable to NCI	**108**	11
Total comprehensive income	**P 740**	P 70
Statements of cash flows:		
Net cash from (used in) operating activities	**(P 7,450)**	P 7,924
Net cash used in investing activities	**(1,077)**	(5,685)
Net cash from (used in) financing activities	**11,039**	(125)
Net cash inflow	**P 2,512**	P 2,114

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2022, 2021 and 2020:

	NLEX Corporation	SM Keppel*	Others	Total
December 31, 2022 (Unaudited)				
Assets	**P 77,318**	**P 11,346**	**P 91,451**	**P 180,115**
Current	8,489	2,057	13,331	23,877
Non-current	68,829	9,289	78,120	156,238
Liabilities	**50,919**	**9,383**	**60,530**	**120,832**
Current	8,876	989	10,079	19,944
Non-current	42,043	8,394	50,451	100,888
Equity	**26,399**	**1,963**	**30,921**	**59,283**
Revenues	**16,675**	**1,227**	**18,095**	**35,997**
Net profit	**7,223**	**236**	**7,389**	**14,848**

** As adjusted to conform to the cost model used in the measurement of Investment Properties of BDO Unibank Group.*

	NLEX Corporation		SM Keppel*		Others		Total
December 31, 2021 (Audited)							
Assets	P	68,073	P	11,892	P	3,064	P 83,029
Current		5,095		2,315		3,057	10,467
Non-current		62,978		9,577		7	72,562
Liabilities		46,197		10,089		436	56,722
Current		7,866		1,264		436	9,566
Non-current		38,331		8,825		-	47,156
Equity		21,876		1,803		2,628	26,307
Revenues		17,919		805		708	19,432
Net profit		5,919		81		193	6,193
December 31, 2020 (Audited)							
Assets	P	62,786	P	11,978	P	3,149	P 77,913
Current		4,020		2,170		2,944	9,134
Non-current		58,766		9,808		205	68,779
Liabilities		42,672		10,276		718	53,666
Current		13,016		1,623		699	15,338
Non-current		29,656		8,653		19	38,328
Equity		20,114		1,702		2,431	24,247
Revenues		18,107		601		843	19,551
Net profit (loss)		3,604	(	331)		118	3,391

** As adjusted to conform to the cost model used in the measurement of Investment Properties of BDO Unibank Group.*

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:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Cost	**P 4,535**	P 4,535	**P 1,391**	P 1,391
Allowance for impairment				
Balance at beginning of year	**1,514**	1,478	**1,391**	1,391
Impairment	**-**	36	**-**	-
Balance at end of year	**1,514**	1,514	**1,391**	1,391
Carrying amount of goodwill	**P 3,021**	P 3,021	**P -**	P -

In 2022 and 2021, 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.

The BDO Unibank Group recognized impairment loss on goodwill amounting nil, P36 and P18 in 2022, 2021 and 2020, respectively. The Parent Bank did not recognize any impairment loss in 2022, 2021 and 2020.

The BDO Unibank Group and the Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit from 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 used to determine any impairment on the goodwill from acquisition of BDO Network was based on value-in-use computed through discounting the five-year cash flow projection to be realized by the acquired entity, which do not include restructuring activities that the BDO Unibank Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested.

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

a. *Discount rate.* Discount rates reflect the current market assessment of the risks and are estimated based on the weighted average cost of capital. The rates are further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. The discount rates applied to cash flow projections in 2022 and 2021 are 5.36% and 3.15%, respectively.

b. *Total income growth rate.* The growth rates used to extrapolate cash flow projections range from 11.45% to 16.75% in 2022 and 14.08% to 16.53% in 2021. Total income forecasts to calculate the cash flow projections are the management's best estimates after considering factors affecting growth target projection on salary loans and micro, small and medium enterprises loans offered by BDO Network.

Management assessed that no reasonably possible change in discount rates and growth rates would cause the carrying value of goodwill in 2022 and 2021 to materially exceed its recoverable amount.

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.

The recoverable amount used to determine any impairment on the branch licenses was based on value-in-use computed through discounting the five-year cash flow projection, which does not include restructuring activities that the BDO Unibank Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested.

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

a. *Discount rate*. Discount rates reflect the current market assessment of the risks and are estimated based on the weighted average cost of capital. The rates are further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. The discount rates applied to cash flow projections in 2022 and 2021 are 5.87% and 5.07%, respectively.

b. *Compound annual growth rate*. The growth rates used to extrapolate cash flow projections are 7.77% in 2022 and 8.25% in 2021. The growth rates are based on the total assets of the Parent Bank for the last five years.

Management assessed that no reasonably possible change in discount rates and growth rates would cause the carrying value of branch licenses in 2022 and 2021 to materially exceed its recoverable amount.

In 2022 and 2021, with regard to the assessment of value-in-use of the cash-generating unit, there were no allowance on impairment loss on branch licenses recognized in the BDO Unibank Group and Parent Bank's financial statements.

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 2020 to 2022 in both the BDO Unibank Group and Parent Bank's financial statements.

15.6 Others

Trademark arising from acquisition of Diners Club International credit card portfolio is fully amortized as of 2022 and 2021. The amortization expense on trademark amounted to nil, P25 and P33 in 2022, 2021 and 2020, respectively. This is presented as part of Miscellaneous under Other Operating Expenses account in the statements of income (see Note 25).

Other intangible assets with indefinite useful lives comprise of branch licenses, customer lists, equity securities with Philippine Clearing House Committee and LGU Guaranty Corporation, and trading rights amounting to P3,020, P487, P15, and P3, respectively, both for 2022 and 2021 in the BDO Unibank Group's financial statements and P3,020, P487, P15 and nil, respectively, in the Parent Bank's financial statements.

Amortization expense on computer software licenses amounted to P1,356, P1,342 and P734 in 2022, 2021 and 2020, respectively, in the BDO Unibank Group's financial statements and P1,259, P1,291 and P696 in 2022, 2021 and 2020, 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 P88, P45 and P21 in 2022, 2021 and 2020, 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 2020 to 2022 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 2022 and 2021, the BDO Unibank Group and the Parent Bank set aside an additional ESOP fund for the purchase of secondary shares amounting to P751 and nil, respectively.

16. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

		BDO Unibank Group		Parent Bank	
	Notes	**2022**	2021	**2022**	2021
Balance at beginning 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	**2,921**	2,826	**2,602**	2,522
		74,511	65,776	**71,555**	62,399
Impairment losses (recoveries)					
Due from other banks	9	**14**	-	**13**	-
Investment securities at amortized cost	10.3	**69**	(192)	**72**	(190)
Loans and other receivables	11	**16,414**	17,222	**15,665**	17,006
Investment properties	14	**2**	-	**-**	-
Other resources	15	**(205)**	93	**(232)**	56
		16,294	17,123	**15,518**	16,872
Write-offs and other adjustments					
Write-offs		**(8,610)**	(8,970)	**(8,142)**	(8,353)
Foreign currency revaluation		**774**	549	**772**	551
Reclassification		**50**	86	**50**	86
Adjustments		**(108)**	(52)	**1**	-
Reversals		**-**	(1)	**-**	-
		(7,894)	(8,388)	**(7,319)**	(7,716)
Balance at end of year:					
Due from other banks	9	**15**	-	**14**	-
Investment securities at amortized cost	10.3	**1,654**	1,471	**1,640**	1,455
Loans and other receivables	11	**76,360**	67,743	**74,000**	65,592
Bank premises	12	**644**	647	**496**	496
Investment properties	14	**1,507**	1,729	**1,186**	1,410
Other resources	15	**2,731**	2,921	**2,418**	2,602
		P 82,911	P 74,511	**P 79,754**	P 71,555

The BDO Unibank Group and the Parent Bank provided impairment loss (recovery) on debt securities measured as FVOCI amounting to P67 and P65, respectively, in 2022, (P88) and (P71), respectively, in 2021 and P37 and P36, respectively, in 2020. 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 on loan commitments and other contingent accounts amounting to P5, P28 and P68 in 2022, 2021 and 2020, respectively, which is recognized as Provision – Others under Other Liabilities in the statements of financial position (see Note 21).

The total impairment losses on certain financial assets amounted to P16,497, P17,030 and P29,624 in 2022, 2021 and 2020, respectively, in the BDO Unibank Group's statements of income and P15,750, P16,816 and P29,001 in 2022, 2021 and 2020, respectively, in the Parent Bank's statements of income.

The total impairment losses (recoveries) on non-financial assets amounted to (P203), P93 and P511 in 2022, 2021 and 2020, respectively, in the BDO Unibank Group's statements of income and (P232), P56, and P491 in 2022, 2021 and 2020, respectively, in the Parent Bank's statements of income.

17. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Demand	**P 459,511**	P 404,568	**P 438,838**	P 381,824
Savings	**2,077,360**	2,000,245	**2,044,595**	1,972,851
Time	**684,012**	416,083	**657,583**	397,040
	P3,220,883	P 2,820,896	**P 3,141,016**	P 2,751,715

This account is composed of the following (by counterparties):

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Due to other banks:				
Demand	**P 4,595**	P 2,639	**P 4,582**	P 2,630
Savings	**4,332**	4,672	**4,332**	4,672
Time	**12,432**	5,710	**7,516**	5,530
	21,359	13,021	**16,430**	12,832
Due to customers:				
Demand	**454,916**	401,929	**434,256**	379,194
Savings	**2,073,028**	1,995,573	**2,040,263**	1,968,179
Time	**671,580**	410,373	**650,067**	391,510
	3,199,524	2,807,875	**3,124,586**	2,738,883
	P3,220,883	P 2,820,896	**P 3,141,016**	P 2,751,715

The breakdown of deposit liabilities as to currency is as follows:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Philippine pesos	**P 2,715,833**	P 2,357,528	**P 2,647,975**	P 2,301,231
Foreign currencies	**505,050**	463,368	**493,041**	450,484
	P 3,220,883	P 2,820,896	**P 3,141,016**	P 2,751,715

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Less than one year	**P 3,126,217**	P 2,732,734	**P 3,050,839**	P 2,664,655
One to five years	**33,537**	25,667	**30,091**	25,374
Beyond five years	**61,129**	62,495	**60,086**	61,686
	P 3,220,883	P 2,820,896	**P 3,141,016**	P 2,751,715

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 2022, 2021 and 2020. 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, 2022 and 2021 as follows:

BSP Approval	Effective Rate	Outstanding Balance 2022	Outstanding Balance 2021	Issue Date	Maturity Date
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
		P 33,820	P 33,820		

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. 1041 issued on May 29, 2019 of the BDO Unibank Group are likewise subject to reserve requirement of 4% effective May 31, 2019.

18. BILLS PAYABLE

This account is composed of the following borrowings from:

		BDO Unibank Group		Parent Bank	
	Note	**2022**	2021	**2022**	2021
Senior notes	18.1	**P 84,355**	P 73,053	**P 84,355**	P 73,053
Fixed rate bonds	18.2	**52,696**	76,436	**52,696**	76,436
Foreign banks		**39,243**	46,881	**39,142**	45,792
Deposit substitutes		**12,679**	893	**12,679**	893
Local banks		**8,890**	2,640	**-**	-
Others		**1,028**	4,528	**-**	-
		P 198,891	P 204,431	**P 188,872**	P 196,174

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Foreign currencies	**P 136,277**	P 120,920	**P 136,176**	P 119,738
Philippine pesos	**62,614**	83,511	**52,696**	76,436
	P 198,891	P 204,431	**P 188,872**	P 196,174

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
One to three months	**P 58,936**	P 24,640	**P 57,495**	P 18,906
More than three months to one year	**21,845**	88,333	**16,730**	87,110
More than one to three years	**79,384**	53,551	**75,921**	52,251
More than three years	**38,726**	37,907	**38,726**	37,907
	P 198,891	P 204,431	**P 188,872**	P 196,174

Bills payable bear annual interest rates of 0.45% to 6.50% in 2022, 0.30% to 4.50% in 2021 and 0.52% to 6.25% in 2020 (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):

	2022	2021	2020
BDO Unibank Group			
Fixed rate peso bonds	**P 2,742**	P 2,893	P 3,540
Senior notes	**2,260**	2,257	2,012
Foreign banks	**826**	356	791
Deposit substitutes	**138**	1	-
Local banks	**118**	189	470
Others	**65**	43	34
	P 6,149	P 5,739	P 6,847
Parent Bank			
Fixed rate peso bonds	**P 2,742**	P 2,893	P 3,540
Senior notes	**2,260**	2,257	2,012
Foreign banks	**824**	349	790
Deposit substitute	**138**	-	-
Others	**-**	1	-
	P 5,964	P 5,500	P 6,342

18.1 Senior Notes

The Parent Bank issued US dollar denominated senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance 2022	Outstanding Balance 2021
May 16, 2022	May 16, 2029	3.71%	100	**P 5,557**	P -
July 13, 2020	January 13, 2026	2.13%	600	**33,528**	30,591
February 20, 2018	February 20, 2025	4.16%	150	**8,475**	7,741
September 6, 2017	March 6, 2023	2.95%	654	**36,795**	34,721
				P 84,355	P 73,053

On May 16, 2022, the Parent Bank issued its maiden blue bond amounting to US$100 million through an investment from the International Finance Corporation (IFC). The bond, with an interest rate of 3.71% and a tenor of seven years, expanded financing for projects that help prevent marine pollution and preserve clean water resources. The issuance marked a milestone for BDO Unibank Group for being the first private sector issuance for a blue bond in Southeast Asia.

The issuance of senior notes in 2020 is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and 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.

On January 28, 2022, the Parent Bank issued P52,700 million of Peso-denominated fixed rate Association of Southeast Asian Nations (ASEAN) Sustainability Bonds. The bonds carry an interest rate of 2.9% per annum and will mature on January 28, 2024.

The Parent Bank's issuances of fixed rate peso bonds as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance 2022	Outstanding Balance 2021
January 28, 2022	January 28, 2024	2.90%	52,700	**P 52,696**	P -
February 3, 2020	August 3, 2022	4.41%	40,100	**-**	40,256
July 3, 2020	April 3, 2022	3.13%	36,000	**-**	36,180
				P 52,696	P 76,436

18.3 Reconciliation of Liabilities Arising from Financing Activities

Presented below and in the succeeding page is the reconciliation of liabilities arising from financing activities both in 2022 and 2021, 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, 2022	P 46,881	P 73,053	P 76,436	P 2,640	P 893	P -	P 4,528	P 204,431
Cash flows from financing activities								
Additional borrowings	40,215	5,219	52,292	16,349	13,133	20	13,013	140,241
Repayment of borrowings	(49,099)	(1,205)	(76,436)	(10,126)	(1,026)	(20)	(16,512)	(154,424)
Non-cash financing activities								
Interest amortization	133	142	404	70	106	-	(1)	854
Revaluation	1,113	7,146	-	(43)	(427)	-	-	7,789
Balance as of December 31, 2022	**P 39,243**	**P 84,355**	**P 52,696**	**P 8,890**	**P 12,679**	**P -**	**P 1,028**	**P 198,891**
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

Parent Bank

	Foreign Banks	Senior Notes	Fixed Rate Peso Bonds	Local Banks	Deposit Substitute	BSP	Others	Total
Balance as of January 1, 2022	P 45,792	P 73,053	P 76,436	P -	P 893	P -	P -	P 196,174
Cash flows from financing activities								
Additional borrowings	39,426	5,219	52,292	-	13,133	10	-	110,080
Repayment of borrowings	(47,292)	(1,205)	(76,436)	-	(1,026)	(10)	-	(125,969)
Non-cash financing activities								
Interest amortization	129	142	404	-	106	-	-	781
Revaluation	1,087	7,146	-	-	(427)	-	-	7,806
Balance as of December 31, 2022	**P 39,142**	**P 84,355**	**P 52,696**	**P -**	**P 12,679**	**P -**	**P -**	**P 188,872**
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

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.

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to nil in 2022 and 2021 and P99 in 2020, both in BDO Unibank Group and Parent Bank (see Note 24).

20. INSURANCE CONTRACT LIABILITIES

This account consists of:

		2022		2021
Legal policy reserves	**P**	**59,321**	P	60,438
Policy and contract claims payable		**3,516**		3,716
Policyholders' dividends		**1,526**		1,174
	P	**64,363**	P	65,328

The aging profile of this account is presented below.

		2022		2021
Within one year	**P**	**7,844**	P	3,375
More than one year		**56,519**		61,953
	P	**64,363**	P	65,328

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities		Reinsurer's Share of Liabilities		Net	
	2022	2021	**2022**	2021	**2022**	2021
Aggregate reserves for:						
Ordinary life policies	**P 30,781**	P 35,217	**P -**	P -	**P 30,781**	P 35,217
Variable unit-linked (VUL) contracts	**27,930**	24,627	**-**	-	**27,930**	24,627
Group life insurance policies	**614**	578	**20**	31	**594**	547
Accident and health policies	**(4)**	15	**-**	-	**(4)**	15
Policy and contract claims	**3,516**	3,716	**24**	59	**3,492**	3,657
Policyholders' dividends	**1,526**	1,175	**-**	-	**1,526**	1,175
	P 64,363	P 65,328	**P 44**	P 90	**P 64,319**	P 65,238

The movements in legal policy reserves are as follows:

	Legal Policy Reserves		Reinsurer's Share of Liabilities		Net	
	2022	2021	**2022**	2021	**2022**	2021
Balance at the beginning of the year	**P 60,438**	P 55,439	**P 31**	P 60	**P 60,407**	P 55,379
Premiums received	**19,240**	18,384	**73**	92	**19,167**	18,292
Liability released for payments of death, maturity and surrender benefits and claims	**(12,356)**	(10,725)	**(84)**	(121)	**(12,272)**	(10,604)
Accretion of investment income or change in unit prices	**542**	2,584	**-**	-	**542**	2,584
Changes in valuation of interest rate	**(9,620)**	(5,686)	**-**	-	**(9,620)**	(5,686)
Change in assumptions	**574**	-	**-**	-	**574**	
Foreign exchange adjustments	**503**	442	**-**	-	**503**	442
Balance at end of year	**P 59,321**	P 60,438	**P 20**	P 31	**P 59,301**	P 60,407

The movement in Legal policy reserves for the years ended December 31, 2022 and 2021 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).

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. 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 margins for adverse deviations from the expected experience. Assumptions are further evaluated on a continuous basis in order to ensure adequacy of valuations. Assumptions are subject to the provisions of the Code and guidelines set by the IC.

To test the adequacy of the statutory reserve liability, the present value of the current estimates of future cash flows is calculated without margins for adverse deviations, and compared to the booked statutory reserve liability. The test for adequacy is sensitive to the following key assumptions:

a. *Mortality rates.* Assumptions are based on standard industry and morbidity tables, according to the type of contract written and adjusted, if appropriate, to reflect the BDO Unibank Group's own experiences. The 2017 Philippine Intercompany Mortality Table was chosen as an appropriate base table used in projecting death claims. Higher mortality and morbidity rates would lead to a larger number of claims, increasing the benefit payments and reducing profits for the shareholders.

b. *Discount rates.* The discount rate affects the calculated present value of the cash flows. The estimate is based on current market returns as well as expectations about future economic and financial developments. A decrease in the discount rate will increase the present value of the cash flows. The discount rate used in the LAT is 6.25% for Peso and 5.50% for Dollar in 2022, and 4.50% for Peso and 3.25% for Dollar in 2021.

c. *Expense assumptions.* The expense assumptions are based on the BDO Unibank Group's actual current expense experience as determined by an expense study. Future expense assumptions are projected based on the BDO Unibank Group's expense forecasts.

d. *Lapse and surrender rates.* The lapse and surrender rates assumed vary by product type and policy duration. These assumptions are based on the BDO Unibank Group's experience.

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:

		BDO Unibank Group		Parent Bank	
	Notes	**2022**	2021	**2022**	2021
Outstanding acceptances payable		**P 21,983**	P 16,972	**P 21,983**	P 16,972
Accounts payable		**20,885**	13,572	**15,599**	10,144
Accrued expenses		**18,723**	17,089	**17,396**	16,124
Lease liabilities	13.2	**13,344**	12,087	**12,927**	11,800
Manager's checks		**12,774**	13,788	**12,655**	13,682
Bills purchased – contra		**9,601**	6,039	**9,601**	6,039
Derivatives with negative fair values	10.1, 27(d)(i)(4)	**7,809**	5,742	**3,636**	2,462
Premium on deposit fund		**3,971**	3,641	**-**	-
Withholding taxes payable		**2,669**	2,093	**2,449**	1,922
Lease deposits		**1,070**	745	**123**	124
Due to BSP and Treasurer of the Philippines		**722**	727	**719**	723
Capitalized interest and other charges		**297**	193	**254**	151
Due to principal		**206**	97	**-**	-
Retirement benefit obligation	26.2	**-**	3,800	**-**	3,650
Others	16, 34.1.2	**15,060**	11,961	**13,194**	10,863
		P 129,114	P 108,546	**P 110,536**	P 94,656

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Within one year	**P 106,608**	P 88,339	**P 95,158**	P 80,340
More than one year	**22,506**	20,207	**15,378**	14,316
	P 129,114	P 108,546	**P 110,536**	P 94,656

The liability for unredeemed reward points amounting to P3,211 and P3,677 as of December 31, 2022 and 2021, 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 2.20).

Others include margin deposits, life insurance deposits, cash letters of credit and other miscellaneous liabilities.

Interest expense on certain liabilities amounting to P94, P78 and P106 in 2022, 2021 and 2020, respectively, for the BDO Unibank Group and P19, P10 and P18 in 2022, 2021 and 2020, 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 recognized for off-books account amounted to P5, P28 and P68 for both the BDO Unibank Group and the Parent Bank in 2022, 2021 and 2020, respectively. The accumulated impairment losses as of December 31, 2022, 2021 and 2020 amounting to P233, P289 and P317, 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	
	2022	2021	**2022**	2021
Preferred shares – P10 par value				
Authorized				
Balance at end of year	**1,000,000,000**	1,000,000,000	**P 10,000**	P 10,000
Issued, fully paid and outstanding				
Balance at beginning of year	**515,000,000**	515,000,000	**P 5,150**	P 5,150
Issued during the year	**103,000,000**	-	**1,030**	-
Balance at end of year	**618,000,000**	515,000,000	**P 6,180**	P 5,150

	Number of Shares		Amount	
	2022	2021	**2022**	2021
Common shares – P10 par value				
Authorized				
Balance at end of year	**8,500,000,000**	5,500,000,000	**P 85,000**	P 55,000
Issued, fully paid and outstanding				
Balance at beginning of year	**4,385,519,015**	4,384,227,915	**P 43,855**	P 43,842
Issued during the year	**878,612,660**	1,291,100	**8,786**	13
Balance at end of year	**5,264,131,675**	4,385,519,015	**P 52,641**	P 43,855

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:

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	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 Corporation	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
Stock dividends	Various	December 29, 2022	877,337,627
Stock options	Various employees	January 17, 2022 to December 27, 2022	1,275,033
			5,264,131,675

As of December 31, 2022 and 2021, there are 12,309 and 12,390 holders, respectively, of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P105.70 and P120.70 per share as of December 29, 2022 and December 31, 2021, respectively, (the last trading day in 2022 and 2021).

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 depositary of ADRs for a period of five years. As depositary 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 depositary of ADRs for another five years.

As of December 31, 2022 and 2021, 554,539 and 442,787 ADRs valued at US$11,566,297 and US$11,046,429 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$20.86/share and US$24.95/share, respectively).

22.3 Surplus Free

The details of the Parent Bank's cash dividend distributions are as follows:

Date Declared and Approved	Common shares dividend Per Share	Common shares dividend Total Amount	Record Date	Date Paid/Payable
February 27, 2020	P 0.30	P 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
February 24, 2022	0.30	1,316	March 14, 2022	March 31, 2022
April 22, 2022	1.00	4,386	May 6, 2022	May 31, 2022
May 28, 2022	0.30	1,316	June 14, 2022	June 30, 2022
August 26, 2022	0.30	1,316	September 13, 2022	September 30, 2022
December 3, 2022	0.30	1,579	December 20, 2022	December 29, 2022

Date Declared and Approved	Preferred shares dividend Per Annum	Preferred shares dividend Total Amount	Date Paid/ Payable
February 1, 2020	6.50%	339	February 21, 2020
January 30, 2021	6.50%	340	February 22, 2021
January 29, 2022	6.50%	339	February 22, 2022

On March 26, 2022, the BOD approved the declaration of stock dividends equivalent to 20% of the BDO Unibank's outstanding capital stock to be issued out of the increase in BDO Unibank's authorized capital stock (common shares) from 5,500,000,000 to 8,500,000,000 shares amounting to P85,000 with par value of P10 per share and 103,000,000 preferred shares with a par value of P10 per share, payable to all stockholders as of record date. On November 29, 2022, the Bank received the approval from the SEC for this stock dividend issuance, setting December 15, 2022 as the record date. The stock dividends were issued on December 29, 2022.

22.4 ESOP

For options that were exercised in 2022 and 2021, BDO Unibank Group issued new common shares of 1,275,033 and 1,291,100, respectively, from its authorized capital stock (see Note 22).

Set out below are summaries of number of options vested under the plan:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Balance at beginning of year	**14,950,363**	6,498,024	**12,985,298**	4,530,459
Vested during the year	**10,018,699**	14,118,934	**9,492,930**	13,552,572
Forfeited during the year	**(43,235)**	(46,800)	**(36,135)**	(29,250)
Expired during the year	**(557,900)**	(373,000)	**(431,400)**	(337,500)
Exercised during the year	**(5,982,040)**	(5,246,795)	**(5,412,845)**	(4,730,983)
Balance at end of year	**18,385,887**	14,950,363	**16,597,848**	12,985,298

The weighted average exercise price was P110.69 and P109.97 for the years ended December 31, 2022 and 2021, respectively.

The share options expensed and included as part of Compensation and benefits under Other Operating Expenses in the BDO Unibank Group's statements of income, amounted to P294, P273 and P354 in 2022, 2021 and 2020, respectively, and in the Parent Bank's statements of income, amounted to P289, P252 and P316, respectively (see Note 26.1).

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:

	2022	2021
Average option life	**5 years**	5 years
Average share price at grant date	**P 119.50**	P 101.80
Average exercise price at grant date	**P 118.29**	P 93.25
Average fair value of options at grant date	**P 41.07**	P 34.77
Average standard deviation of share price returns	**30.29%**	34.94%
Average dividend yield	**0.97%**	1.20%
Average risk-free investment rate	**5.72%**	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.

22.5 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to P132 in 2022, P44 for 2021 and P40 in 2020 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 P5, P3 and P2 in 2022, 2021 and 2020, 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 P2,475 and P2,311 in 2022, P1,337 and P1,250 in 2021 and (P830) and (P827) in 2020, respectively. The accumulated amount of appropriation to surplus reserves for general loan loss portfolio as of December 31, 2022, 2021 and 2020 amounted to P15,905, P13,430 and P12,093, respectively, for BDO Unibank Group and P15,477, P13,166 and P11,916, 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 P251, P263 and P272 in 2022, 2021 and 2020, respectively, and P251, P263 and P223 in 2022, 2021 and 2020, 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 2022, 2021 and 2020 surplus reserves are the appropriations made by BDO Securities and ASI (see Note 2.3) totaling P5, P2 and P5 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. On July 28, 2022, ASI was sold to a third party which resulted in the reversal of Surplus Reserves amounting to P14 (see Note 2.3).

23. INTEREST INCOME

Interest income consists of the following:

	Notes	BDO Unibank Group 2022	2021	2020
Loans and other receivables	11, 27	**P 140,760**	P 124,548	P 138,736
Trading and investment securities:				
At amortized cost	10.3	**17,490**	12,410	10,424
At FVOCI	10.2	**7,275**	6,215	5,546
At FVTPL	10.1	**103**	92	122
Due from BSP and other banks	8, 9	**3,366**	1,554	2,158
Others		**77**	60	45
		P 169,071	P 144,879	P 157,031

	Notes	Parent Bank 2022	2021	2020
Loans and other receivables	11, 27	**P 134,036**	P 119,566	P 134,329
Trading and investment securities at:				
At amortized cost	10.3	**16,612**	11,633	9,689
At FVOCI	10.2	**4,641**	3,939	3,440
At FVTPL	10.1	**69**	59	84
Due from BSP and other banks	8, 9	**3,207**	1,533	2,120
Others		**67**	42	35
		P 158,632	P 136,772	P 149,697

24. INTEREST EXPENSE

Interest expense is composed of the following:

	Notes	BDO Unibank Group 2022	2021	2020
Deposit liabilities	17, 27	**P 12,377**	P 6,952	P 15,521
Bills payable and other borrowings	18, 19, 21, 26.2	**6,535**	5,764	7,120
Finance lease liabilities	13.2, 21, 27	**927**	817	690
		P 19,839	P 13,533	P 23,331

	Notes	Parent Bank 2022	2021	2020
Deposit liabilities	17, 27	**P 11,572**	P 6,644	P 15,196
Bills payable and other borrowings	18, 19, 21, 26.2	**6,251**	5,455	6,529
Finance lease liabilities	13.2, 21	**905**	807	675
		P 18,728	P 12,906	P 22,400

25. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	BDO Unibank Group 2022	2021	2020
Service charges, fees and commissions	27	**P 38,545**	P 30,485	P 24,822
Insurance premiums		**18,938**	18,136	15,009
Foreign exchange gains	10.1	**6,060**	3,621	1,748
Trust fees	28	**4,555**	4,364	3,811
Rental	14	**1,301**	1,269	1,430
Income from assets sold or exchanged	14	**483**	1,275	1,169
Dividends	10.1	**147**	207	551
Trading gains (losses) - net	10.1	**(600)**	220	5,563
Miscellaneous - net		**2,106**	1,777	1,107
		P 71,535	P 61,354	P 55,210

	Notes	Parent Bank 2022	2021	2020
Service charges, fees and commissions	27	**P 31,061**	P 25,293	P 21,152
Share in net income of subsidiaries and associates	15.2	**8,710**	6,350	3,839
Foreign exchange gains		**5,182**	3,273	1,591
Trust fees	28	**3,395**	3,477	3,035
Rental	14	**492**	482	514
Income from assets sold or exchanged	14	**326**	1,174	1,097
Dividends		**18**	19	258
Trading gains (losses) - net	10.1	**(299)**	(349)	5,230
Miscellaneous - net		**1,244**	916	538
		P 50,129	P 40,635	P 37,254

Other operating expenses consist of the following:

	Notes	BDO Unibank Group 2022	2021	2020
Compensation and benefits	26.1	**P 44,405**	P 41,744	P 37,392
Fees and commissions		**22,570**	17,140	14,994
Policy reserves, insurance benefits and claims	20	**14,492**	15,633	13,136
Taxes and licenses	14	**13,167**	11,180	12,703
Occupancy	13, 15.6 27	**10,553**	9,222	9,572
Insurance		**6,342**	5,828	5,551
Security, clerical, messengerial and janitorial		**4,202**	3,851	3,674
Repairs and maintenance		**2,334**	1,982	1,600
Advertising		**2,016**	2,586	2,621
Power, light and water		**1,402**	1,130	1,011
Amortization of computer software	15.6	**1,356**	1,342	734
Representation and entertainment		**1,317**	1,806	1,877
Information technology		**1,104**	1,136	919
Traveling		**991**	883	1,034
Litigation on assets acquired		**854**	773	601
Supplies		**794**	731	767
Telecommunication		**520**	560	616
Freight		**422**	378	257
Miscellaneous	15.6	**2,367**	1,970	3,581
		P 131,208	P 119,875	P 112,640

	Notes	Parent Bank 2022	2021	2020
Compensation and benefits	26.1	**P 37,955**	P 35,786	P 32,525
Fees and commissions		**21,606**	16,600	14,575
Taxes and licenses	14	**11,509**	10,009	11,631
Occupancy	13, 15.6 27	**9,182**	7,963	8,199
Insurance		**6,218**	5,715	5,457
Security, clerical, messengerial and janitorial		**3,843**	3,522	3,382
Repairs and maintenance		**2,158**	1,855	1,487
Advertising		**1,823**	2,509	2,495
Power, light and water		**1,263**	1,047	912
Amortization of computer software	15.6	**1,259**	1,291	696
Representation and entertainment		**1,141**	1,573	1,637
Information technology		**1,057**	1,113	885
Litigation on assets acquired		**834**	766	592
Supplies		**675**	606	676
Traveling		**638**	619	778
Telecommunication		**421**	456	523
Freight		**372**	339	241
Miscellaneous	15.6	**2,165**	1,844	3,376
		P 104,119	P 93,613	P 90,067

26. COMPENSATION AND BENEFITS

26.1 Compensation and Benefits

Expenses recognized for compensation and benefits (see Note 25) are presented below.

		BDO Unibank Group		
	Notes	**2022**	2021	2020
Salaries and wages		**P 26,465**	P 23,914	P 22,206
Bonuses		**8,387**	7,876	7,269
Retirement - defined benefit plan	26.2	**2,961**	2,421	2,097
Social security costs		**1,413**	1,254	1,013
Employee stock option plan	26.3	**294**	273	354
Other benefits		**4,885**	6,006	4,453
	25	**P 44,405**	P 41,744	P 37,392

		Parent Bank		
	Notes	**2022**	2021	2020
Salaries and wages		**P 22,375**	P 20,409	P 19,147
Bonuses		**7,360**	6,942	6,424
Retirement - defined benefit plan	26.2	**2,583**	1,825	1,850
Social security costs		**1,195**	1,062	863
Employee stock option plan	26.3	**289**	252	316
Other benefits		**4,153**	5,296	3,925
	25	**P 37,955**	P 35,786	P 32,525

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 but not less than the regulatory benefit under Republic Act No. 7641, plus the cash conversion of accumulated vacation and sick leaves, if any.

(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 2022 and 2021.

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	
	2022	2021	**2022**	2021
Present value of the DBO	**P 43,139**	P 42,440	**P 39,252**	P 38,325
Fair value of plan assets	**(43,396)**	(38,647)	**(39,252)**	(34,675)
Deficiency (surplus) of plan assets	**(257)**	3,793	**-**	3,650
Effect of asset ceiling	**42**	7	**-**	-
Retirement benefit obligation (assets)	**(P 215)**	P 3,800	**P -**	P 3,650

The movements in the present value of the DBO are as follows:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Balance at beginning of year	**P 42,440**	P 34,288	**P 38,325**	P 31,318
Benefits paid by the plan	**(2,285)**	(3,231)	**(2,086)**	(3,037)
Current service cost	**2,961**	2,040	**2,583**	1,825
Interest expense	**2,399**	1,323	**2,167**	1,215
Past service cost	**-**	381	**-**	-
Transfer to/(from) the plan	**-**	-	**110**	(49)
Remeasurements:				
Actuarial losses (gains) arising from changes in:				
8 financial assumption	**(5,357)**	3,173	**(4,759)**	3,464
8 demographic assumptions	**1,915**	330	**1,824**	54
8 experience adjustments	**1,066**	4,136	**1,088**	3,535
Balance at end of year	**P 43,139**	P 42,440	**P 39,252**	P 38,325

The movements in the fair value of plan assets are presented below.

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Balance at beginning of year	**P 38,647**	P 35,650	**P 34,675**	P 32,582
Contributions paid into the plan	**8,746**	4,286	**8,136**	3,500
Interest income	**2,107**	1,378	**1,899**	1,272
Benefits paid by the plan	**(2,285)**	(3,231)	**(2,086)**	(3,037)
Transfer to/(from) the plan	**-**	-	**110**	(49)
Remeasurement loss - return on plan assets (excluding amounts included in net interest)	**(3,819)**	564	**(3,482)**	407
Balance at end of year	**P 43,396**	P 38,647	**P 39,252**	P 34,675

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics are shown below.

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Debt securities:				
Government bonds	**P 25,317**	P 19,400	**P 22,900**	P 17,407
Corporate bonds	**7,416**	7,726	**6,708**	6,932
UITFs	**10,706**	8,919	**9,683**	8,003
Loans and other receivables	**2,400**	499	**2,171**	447
Equity securities	**512**	881	**463**	790
Cash and cash equivalents	**126**	74	**114**	66
Other properties – net	**(3,081)**	1,148	**(2,787)**	1,030
	P 43,396	P 38,647	**P 39,252**	P 34,675

Actual returns on plan assets were (P1,712) and (P1,583) in 2022 and P1,943 and P1,679 in 2021 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:

	BDO Unibank Group		
	2022	2021	2020
Recognized in profit or loss:			
Current service costs	**P 2,961**	P 2,040	P 2,097
Past service costs	**-**	381	-
Interest expense (income)	**292**	(53)	68
	P 3,253	P 2,368	P 2,165
Recognized in other comprehensive income, net of tax (see Note 31.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 799**	P 3,102	P 729
- demographic assumptions	**1,436**	248	-
- financial assumptions	**(4,018)**	2,379	(2,105)
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**2,864**	(423)	580
- changes in the effect of the asset ceiling	**27**	(43)	33
	1,108	5,263	(763)
Effect of change in income tax rate	**-**	750	-
	1,108	6,013	(763)
Share in actuarial losses of associates	**(11)**	9	7
	P 1,097	P 6,022	(P 756)

	Parent Bank		
	2022	2021	2020
Recognized in profit or loss:			
Current service costs	**P 2,583**	P 1,825	P 1,850
Interest expense (income)	**268**	(55)	70
	P 2,851	P 1,770	P 1,920
Recognized in other comprehensive income, net of tax (see Note 31.1):			
Actuarial losses (gains) arising from change in:			
• experience adjustments	**P 816**	P 2,651	P 693
• demographic assumptions	**1,368**	40	-
• financial assumptions	**(3,569)**	2,599	(1,935)
Remeasurement losses (gains) arising from:			
• return on plan assets (excluding amounts included in net interest expense)	**2,612**	(305)	477
• changes in the effect of the asset ceiling	**-**	(37)	33
	1,227	4,948	(732)
Effect of change in income tax rate	**-**	715	-
	1,227	5,663	(732)
Share in actuarial losses (gains) of subsidiaries and associates	**(126)**	342	(20)
	P 1,101	P 6,005	(P 752)

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 offset 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	
	2022	2021	**2022**	2021
Discount rates	**7.62% - 7.88%**	5.03% - 5.04%	**7.63%**	5.03%
Expected rate of salary increases	**2.00% - 14.00%**	2.00% - 11.70%	**4.75% - 11.00%**	4.00% - 11.70%

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 22.6 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 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 in the succeeding pages.

(i) Sensitivity Analysis

The table below summarizes the effects of changes in the significant actuarial ssumptions used in the determination of the retirement benefit asset as of December 31, 2022 and 2021.

	Impact on Retirement Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
BDO Unibank Group			
December 31, 2022			
Discount rate	**+/-1%**	**(P 1,954)**	**P 2,166**
Salary increase rate	**+/-1%**	**2,150**	**(1,978)**
December 31, 2021			
Discount rate	+/-1%	(P 1,850)	P 2,051
Salary increase rate	+/-1%	1,990	(1,835)
Parent Bank			
December 31, 2022			
Discount rate	**+/-1%**	**(P 1,615)**	**P 1,764**
Salary increase rate	**+/-1%**	**1,757**	**(1,639)**
December 31, 2021			
Discount rate	+/-1%	(P 1,474)	P 1,601
Salary increase rate	+/-1%	1,556	(1,463)

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, 2022 and 2021 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, 2022, the plan of the BDO Unibank Group is overfunded by P215 while the Parent Bank is fully funded based on the latest actuarial valuation report.

The BDO Unibank Group and the Parent Bank expect to pay P9,200 and P8,300, respectively, as contributions to retirement benefit plans in 2023.

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:

	BDO Unibank Group	**Parent Bank**
Between one to five years	P 41,416	P 38,877
Between six to ten years	28,413	25,443
	P 69,829	**P 64,320**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 3.5 to 13.2 years for the BDO Unibank Group and 5.4 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 2022 and 2021, vested shares totaled 10,018,699 shares and 14,118,934 shares, respectively, for BDO Unibank Group, and 9,492,930 shares and 13,552,572 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 P294, P273 and P354 in 2022, 2021 and 2020, respectively, and in the Parent Bank's statements of income, amounted to P289, P252 and P316, respectively (see Note 26.1).

27. RELATED PARTY TRANSACTIONS

The Parent Bank created a Related Party Transactions Committee composed of two independent directors and a non-executive director, as of December 31, 2022. 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, 2022 and 2021 and for each of the three years ended are as follows:

		Amounts of Transaction			Outstanding Balance	
Related Party Category	Note	**2022**	2021	2020	**2022**	2021
DOSRI Loans	27(a)					
Stockholders		**P 11,241**	P 24,854	P 3,636	**P 21,122**	P 34,266
Related Parties under Common Ownership		**2**	12	24	**-**	-
Directors		**-**	3	3	**-**	-
Officers and Employees		**1,900**	1,807	1,418	**2,254**	2,068
Deposit Liabilities	27(b)					
Stockholders		**500,212**	468,175	390,344	**27,962**	19,852
Related Parties under Common Ownership		**16,992**	2,670	5,099	**227**	227
Directors		**561**	443	451	**32**	54
Officers and Employees		**-**	222	82	**-**	1
Other Transactions with Associates	27(d)					
Loans and Advances		**-**	480	500	**7,895**	8,261
Interest Income		**295**	251	359	**98**	58
Related Parties Under Common Ownership	27(d)					
Right-of-use Asset		**1,619**	1,677	378	**4,818**	3,904
Lease Liabilities		**1,361**	1,474	285	**3,199**	2,816
Interest Expense		**87**	77	3	**237**	178
Depreciation Expense		**263**	184	39	**1,098**	524
Key Management Personnel	27(d)					
Compensation		**1,673**	1,543	1,589	**-**	-
Retirement Plan	27(c)	**(263)**	160	238	**5,705**	8,351

The summary of the Parent Bank's significant transactions with its related parties as of December 31, 2022 and 2021 and for each of the three years ended are as follows:

		Amounts of Transaction			Outstanding Balance	
Related Party Category	Note	**2022**	2021	2020	**2022**	2021
DOSRI Loans	27(a)					
Stockholders		**P 11,241**	P 24,854	P 3,636	**P 21,122**	P 34,266
Related Parties under Common Ownership		**2**	12	24	**-**	-
Directors		**-**	3	3	**-**	-
Officers and Employees		**1,898**	1,805	1,411	**2,250**	2,065
Deposit Liabilities	27(b)					
Stockholders		**500,212**	468,175	390,344	**27,962**	19,852
Related Parties under Common Ownership		**990**	2,324	4,152	**83**	111
Directors		**561**	443	451	**32**	54
Officers and Employees		**-**	222	82	**-**	1
Other Transactions with Subsidiaries	27(d)					
Loans and Advances		**P 28,755**	P 25,011	P 37,123	**P 9,339**	P 2,912
Derivative Assets		**3,059**	992	-	**123**	31
Derivative Liabilities		**1,738**	612	1,471	**60**	-
Deposit Liabilities		**6,599**	(572)	(1,881)	**11,368**	4,769
Accounts Payable		**-**	-	(2)	**-**	1
Miscellaneous Assets		**(83)**	117	259	**59**	142
Miscellaneous Liabilities		**28**	(28)	-	**-**	-
Interest Income		**183**	119	238	**24**	3
Rent Income		**143**	136	132	**-**	-
Service Fees		**1,070**	874	796	**-**	-
Interest Expense		**79**	5	25	**70**	-
Right-of-use Asset		**24**	-	-	**100**	97
Lease Liabilities		**3**	(12)	(11)	**117**	113
Depreciation/Amortization		**16**	14	13	**-**	-
Interest Expense – Finance Lease Payment Payable		**7**	7	7	**-**	-
Trust Fees		**120**	120	107	**-**	-
Miscellaneous Expense		**83**	117	123	**-**	-
Insurance Expense		**56**	42	40	**-**	-
Trading Gain/Loss		**230**	(20)	(90)	**-**	-
Miscellaneous Income		**123**	49	3	**-**	-
Repairs and Maintenance		**1**	1	1	**-**	-
Fees and Commission		**135**	140	149	**-**	-
Other Transactions with Associates	27(d)					
Loans and Advances		**-**	480	500	**7,895**	8,261
Interest Income		**295**	251	344	**98**	58
Related Parties under Common Ownership	27(d)					
Right-of-use Asset		**1,619**	1,677	378	**4,818**	3,904
Lease Liabilities		**1,361**	1,474	285	**3,199**	2,816
Interest Expense		**87**	77	3	**237**	178
Depreciation Expense		**263**	184	39	**1,098**	524
Key Management Personnel	27(d)					
Compensation		**966**	905	1,006	**-**	-
Retirement Plan	27(c)	**(263)**	160	238	**5,703**	8,349

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 2022, 2021 and 2020, 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.

Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within 20 years.

The total loan releases and collections in 2022 amounted to P13,143 and P26,101 for the BDO Unibank Group and P13,141 and P26,100 for the Parent Bank, respectively. 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.

(b) Deposits from Related Parties

The total deposits made by the related parties amounted to P517,765, P471,510 and P395,976 in 2022, 2021 and 2020 for the BDO Unibank Group, and P501,763, P471,164 and P395,029 in 2022, 2021 and 2020 for the Parent Bank, respectively, and bearing interest rates range of 0.00% to 5.38% in 2022, and 0.00% to 4.53% 2021 and 2020, respectively. The related interest expense from deposits amounted to P935, P795 and P860 in 2022, 2021 and 2020, 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, 2022 and 2021 and for each of the three years ended are as follows:

	Amounts of Transaction			Outstanding Balance	
Related Party Category	**2022**	2021	2020	**2022**	2021
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 4**	P 7
Investment in shares of					
BDO Unibank, Inc.	**-**	-	-	**195**	48
Dominion Holdings	**-**	-	-	**2**	2
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**5,504**	8,294
Trading gain (loss)					
BDO Unibank, Inc.	**(271)**	158	235	**-**	-
Interest expense					
BDO Unibank, Inc.	**6**	-	1	**-**	-
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, 2022 and 2021 and for each of the three years ended are as follows:

	Amounts of Transaction			Outstanding Balance	
Related Party Category	**2022**	2021	2020	**2022**	2021
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 4**	P 7
Investment in shares of –					
BDO Unibank, Inc.	**-**	-	-	**195**	48
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**5,504**	8,294
Trading gain (loss)					
BDO Unibank, Inc.	**(271)**	158	235	**-**	-
Interest expense					
BDO Unibank, Inc.	**6**	-	1	**-**	-
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 26.2.

(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 P259 and P111, P111 and P28, and P46 and P44, in 2022, 2021 and 2020, respectively. The 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 P259 and P111 as of December 31, 2022 and 2021, respectively (see Note 11).

The Parent Bank also grants both secured and unsecured interest-bearing loans to subsidiaries with outstanding balance of P9,080 and P2,801 as of December 31, 2022 and 2021, 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 P28,496, P24,900 and P37,076 while total loans collected amounted to P22,217, P27,215 and P35,593 for 2022, 2021 and 2020, respectively. These loans are payable in cash with a term between eight 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 3.32% to 6.50%, 2.50% to 3.50% and 2.27% to 5.75% per annum in 2022, 2021 and 2020, 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 monthly in cash 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, 2022 and 2021. Total service fees amounted to P1,070, P874 and P796 in 2022, 2021 and 2020, 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, 2022 and 2021 are included as part of Accounts receivable under Loans and Other Receivables (see Note 11). The total trust fees amounted to P120 for both 2022 and 2021, and P107 for 2020.

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 ranges from three years to five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2022 and 2021. The total rent income amounted to P143, P136 and P132 in 2022, 2021 and 2020, 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 P100 and P97, as of December 31, 2022 and 2021, 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 P16, P14 and P13 in 2022, 2021 and 2020, 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 statement on income amounted to P7 for years 2022, 2021 and 2020 (see Note 24). Outstanding balance arising from these transactions amounted to P117, P113 and P118 as of December 31, 2022, 2021 and 2020, 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 2022, 2021 and 2020.

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 P56, P42 and P40 in 2022, 2021 and 2020, respectively.

In 2020, the Parent Bank purchased receivables from Dominion Holdings (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 P83 and P117 in 2022 and 2021, respectively (see Note 25). No similar transaction occurred in 2022 and 2021.

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 P135, P140 and P149 in 2022, 2021 and 2020, respectively.

(4) Derivatives

In 2022 and 2021, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards. As of December 31, 2022 and 2021, 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 2022, 2021 and 2020 amounted to P801,252, P669,405 and P559,611, respectively. These are with yearly corresponding withdrawals amounting to P794,653 for 2022, P668,833 for 2021 and P561,492 for 2020. These deposits bear interest rates of 0.00% to 4.88% in 2022, 0.00% to 0.50% in 2021 and 0.00% to 3.25% in 2020. The related interest expense from these deposits is included as part of Interest Expense account on deposit liabilities in the statements of income (see Note 24).

In 2022, the BOD approved the assignment of additional government securities to BDO Network amounting to P1.0 billion to secure transactions between the Parent Bank and BDO Network. As of December 31, 2022 and 2021, the total assigned government securities to BDO Network amounted to P2.0 billion and P1.0 billion, respectively. Additionally, the total assigned government securities to BDO Private for purposes of securing transactions amounted to P2.0 billion for both 2022 and 2021.

(6) Real Estate Joint Venture

On October 23, 2021 and November 11, 2021, the respective BOD of BDO Unibank and BDOSHI have approved the Real Estate Joint Venture Agreement between the two companies wherein BDOSHI will contribute its 3,695 square meters vacant lots and Air Rights in Valero St. Makati City. BDO Unibank will construct Annex A Building on the said lots as part of the BDO Makati Campus Project and shall bear the estimated cost of the construction subject to any adjustment based on the final calculations by the parties. As of December 31, 2022, construction of the said building has not yet started.

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2022 and 2021, the outstanding secured and unsecured interest-bearing loans and advances to associates amounting to P7,895 and P8,261 for the BDO Unibank Group and P7,895 and P8,261 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 P366, P444 and P75 for BDO Unibank Group and P366, P262 and P57 for the Parent Bank in 2022, 2021 and 2020, respectively.

Annual interest rates on these loans are 4.95% and 2.94% in 2022 and 2021, respectively. For 2020, annual interest rates range from 2.95% to 7.70%. 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, 2022, 2021 and 2020, 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 P4,818 and P3,904 as of December 31, 2022 and 2021, 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 P263, P184, and P39 in 2022, 2021 and 2020, 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 P87, P77, and P3 in 2022, 2021 and 2020, respectively, in the Parent Bank's statements of income (see Note 24). The outstanding balances arising from this transaction amounted to P3,199 and P2,816 as of December 31, 2022 and 2021, respectively, and is included as part of Lease liabilities under Other Liabilities (see Note 21).

The terms of the lease are from one to ten 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		
	2022	2021	2020
Salaries and other benefits	**P 1,450**	P 1,381	P 1,368
Retirement expense	**223**	162	221
	P 1,673	P 1,543	P 1,589

	Parent Bank		
	2022	2021	2020
Salaries and other benefits	**P 809**	P 819	P 849
Retirement expense	**157**	86	157
	P 966	P 905	P 1,006

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 35(h)].

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Investments	**P 1,813,001**	P 1,769,064	**P 1,246,315**	P 1,223,191
Others	**12,018**	9,654	**9,436**	7,679
	P 1,825,019	P 1,778,718	**P 1,255,751**	P 1,230,870

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 P19,695 and P18,435 as of December 31, 2022 and 2021 (see Note 10.3), respectively, in BDO Unibank Group and, P13,495 and P12,178 as of December 31, 2022 and 2021, 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, 2022 and 2021, the additional reserve for trust functions amounted to P251 and P263 for both the BDO Unibank Group and Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 22.5).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P4,555, P4,364 and P3,811 for the years ended December 31, 2022, 2021 and 2020, respectively, in BDO Unibank Group's statements of income and P3,395, P3,477 and P3,035 for the years ended December 31, 2022, 2021 and 2020, 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, 2022 and 2021, 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.

		2022		2021
Assets:				
Cash and cash equivalents	**P**	**161**	P	153
Financial assets at FVTPL		**27,760**		24,592
Other receivables		**55**		36
	P	**27,976**	P	24,781
Liabilities and Equity:				
Other liabilities	**P**	**159**	P	191
Net assets attributable to unitholders		**27,817**		24,590
	P	**27,976**	P	24,781

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 statement 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 in 2021 and P16 in 2022. This was approved by the BSP on November 9, 2021 and by the BDO RIH shareholders on February 2, 2022.

On July 20, 2022, BDO Capital made additional investment of P47 for its purchase of the shares of BDO Remit UK.

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 Dominion Holdings

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. Dominion Holdings, 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 Dominion Holdings. 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.

On July 18, 2022, the SEC approved the change in name and purpose of BDO Leasing into Dominion Holdings, Inc, a holding company and remains listed in the PSE.

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 Tax

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.

The components of tax expense relating to profit or loss and other comprehensive income follows:

	BDO Unibank Group		
	2022	2021	2020
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 25% in 2022 and 2021 and 30% in 2020	**P 10,187**	P 9,422	P 14,762
Final taxes at 20%, 15% and 10%	**4,011**	2,689	2,286
Adjustment to current income tax from prior year	**(69)**	(13)	-
Minimum corporate income tax (MCIT) at 1% in 2022 and 2021 and 2% in 2020	**7**	(5)	33
Adjustment in 2020 income taxes due to change in income tax rate	**-**	(1,378)	-
	14,136	10,715	17,081
Deferred tax expense relating to origination and reversal of temporary differences	**1,823**	2,213	695
Effect of the change in income tax rate	**-**	1	-
Application of previously unrecognized MCIT	**-**	(22)	-
	1,823	2,192	695
	P 15,959	P 12,907	P 17,776
Reported in other comprehensive income:			
Actuarial gains (losses)	**(P 389)**	(P 1,754)	P 321
Fair value of financial assets at FVOCI	**(21)**	4	-
Effect of the change in income tax rate	**-**	683	-
Revaluation increment	**-**	(4)	-
	(P 410)	(P 1,071)	P 321

	Parent Bank		
	2022	2021	2020
Reported in profit or loss:			
Current tax expense:			
RCIT at 25% and 30%	**P 8,380**	P 8,411	P 13,998
Final taxes at 20%, 15% and 10%	**3,357**	2,165	1,801
Adjustment in 2020 income taxes due to change in income tax rate	**-**	(1,300)	-
Adjustment to current income tax from prior year	**(68)**	(13)	-
	11,669	9,263	15,799
Deferred tax expense relating to origination and reversal of temporary differences	**1,664**	2,112	483
Effect of the change in income tax rate	**-**	3	-
	1,664	2,115	483
	P 13,333	P 11,378	P 16,282
Reported in other comprehensive income:			
Actuarial gains (losses)	**(P 408)**	(P 1,649)	P 314
Fair value of financial assets at FVOCI	**(22)**	12	-
Effect of the change in income tax rate	**-**	647	-
Revaluation increment	**-**	(4)	-
	(P 430)	(P 994)	P 314

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		
	2022	2021	2020
Tax on pretax profit at 25% and 30%	**P 18,298**	P 13,940	P 13,809
Adjustment for income subjected to lower income tax rates	**(1,007)**	(561)	(879)
Adjustment in 2020 income taxes due to change in income tax rate	**-**	(1,377)	-
Tax effects of:			
Income exempt from tax	**(7,246)**	(2,884)	(4,062)
Non-deductible expenses	**6,644**	4,245	9,736
Deductible temporary differences not recognized	**(914)**	(312)	(903)
Net operating loss carryover (NOLCO) not recognized	**94**	4	91
Adjustment to current income tax from prior year	**(69)**	(13)	-
Application of previously unrecognized MCIT	**-**	(29)	-
Utilization of previously unrecognized NOLCO	**-**	-	(1)
Others	**159**	(106)	(15)
Tax expense reported in profit or loss	**P 15,959**	P 12,907	P 17,776

	Parent Bank		
	2022	2021	2020
Tax on pretax profit at 25% in 2022 and 2021 and 30% in 2020	**P 17,581**	P 13,515	P 13,467
Adjustment for income subjected to lower income tax rates	**(738)**	(436)	(865)
Adjustment in 2020 income taxes due to change in income tax rate	**-**	(1,297)	-
Tax effects of:			
Income exempt from tax	**(9,004)**	(4,120)	(4,969)
Non-deductible expenses	**6,306**	4,103	9,519
Deductible temporary differences not recognized	**(743)**	(374)	(870)
Adjustment to current income tax from prior year	**(69)**	(13)	-
Tax expense reported in profit or loss	**P 13,333**	P 11,378	P 16,282

Components of the net deferred tax assets (see Note 15) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Deferred tax assets:				
Unamortized past service costs	**P 3,521**	P 2,577	**P 3,190**	P 2,280
Allowance for impairment	**2,681**	4,088	**2,455**	3,747
Retirement obligation (net of OCI)	**(344)**	606	**(344)**	568
Recognition of right-of-use assets and lease liabilities	**87**	67	**84**	47
Lease income differential	**7**	-	**-**	-
Others	**13**	66	**-**	-
	5,965	7,404	**5,385**	6,642

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Deferred tax liabilities:				
Revaluation increment	**P 336**	P 337	**P 335**	P 335
Retirement asset (net of OCI)	**54**	-	**-**	-
Capitalized interest	**31**	33	**31**	33
Changes in fair values of financial assets at FVOCI	**(7)**	11	**(9)**	12
Lease income differential	**2**	2	**-**	-
Others	**194**	253	**-**	-
	610	636	**357**	380
Net deferred tax assets	**P 5,355**	P 6,768	**P 5,028**	P 6,262

Movements in net deferred tax assets for the years ended December 31 follow:

BDO Unibank Group

	Statements of Income		
	2022	2021	2020
Allowance for impairment	**P 1,407**	P 2,289	P 160
Retirement obligation (asset)	**1,392**	(405)	1,059
Unamortized past service costs	**(944)**	317	(591)
Recognition of right-of-use assets and lease liabilities	**(19)**	(45)	47
Lease income differential	**(8)**	-	-
Capitalized interest	**(2)**	(9)	(3)
Others	**(3)**	67	23
Deferred tax expense	**P 1,823**	P 2,214	P 695

Parent Bank

	Statements of Income		
	2022	2021	2020
Retirement obligation (asset)	**P 1,321**	(P 412)	P 1,012
Unamortized past service costs	**(910)**	451	(576)
Allowance for impairment	**1,292**	2,111	-
Recognition of right-of-use assets and lease liabilities	**(37)**	(26)	49
Capitalized interest	**(2)**	(9)	(2)
Deferred tax expense	**P 1,664**	P 2,115	P 483

	Statements of Comprehensive Income					
	BDO Unibank Group			Parent Bank		
	2022	2021	2020	**2022**	2021	2020
Movements in actuarial losses	**(P 389)**	(P 1,004)	P 321	**(P 408)**	(P 934)	P 314
Movements in fair value of financial assets at FVOCI	**(21)**	5	-	**(22)**	12	-
Movements in revaluation increment	**-**	(72)	-	**-**	(72)	-
Deferred tax expense (income)	**(P 410)**	(P 1,071)	P 321	**(P 430)**	(P 994)	P 314

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):

Year	NOLCO	MCIT	Valid Until
2022	P 359	P 6	2025

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2022 and 2021 are as follows:

	BDO Unibank Group			
	2022		2021	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 71,760**	**P 17,940**	P 57,101	P 14,275
NOLCO	**359**	**90**	-	-
MCIT	**6**	**6**	2	2
Others	**834**	**208**	1,037	259
	P 72,959	**P 18,244**	P 58,140	P 14,536

	Parent Bank			
	2022		2021	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 69,935**	**P 17,484**	P 56,568	P 14,142
Others	**1,022**	**255**	1,021	255
	P 70,957	**P 17,739**	P 57,589	P 14,397

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:

	2022	2021 (As Restated)	2020 (As Restated)
Net profit attributable to shareholders of the Parent Bank	**P 57,054**	P 42,791	P 28,246
Dividends on preferred shares	**(339)**	(340)	(339)
Net profit available to common shares	**56,715**	42,451	27,907
Divided by the weighted average number of outstanding common shares (in millions)	**5,264**	5,262	5,261
Basic earnings per share	**P 10.77**	P 8.07	P 5.30

Diluted earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	2022	2021 (As Restated)	2020 (As Restated)
Net profit attributable to shareholders of the Parent Bank	**P 57,054**	P 42,791	P 27,907*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**5,264**	5,262	5,261
Potential common shares from assumed conversion of preferred shares	**58**	51	*
Potential common shares from stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**5,322**	5,313	5,261
Diluted earnings per share	**P 10.72**	P 8.05	P 5.30

* *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.*

The 2021 and 2020 earnings per share of BDO Unibank Group were restated to account for the stock dividends declared in 2022 (Note 2.26). As a result of this restatement, the 2021 and 2020 basic earnings per share decreased from P9.68 to P8.07 and from P6.37 to P5.30, respectively. On the other hand, the 2021 and 2020 diluted earnings per share decreased from P9.66 to P8.05 and from P6.37 to P5.30, respectively.

33. EVENTS AFTER THE REPORTING PERIOD

33.1 Dividend

On January 28, 2023, 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 P407. The dividends will be paid within 60 days from dividend declaration date.

33.2 Liquidation of BDO Remit (Spain)

On February 7, 2023, BDO Remit (Spain) S.A. has completed its liquidation as confirmed by the Mercantile Registry of Barcelona.

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, 2022, 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 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.

All other Respondents have filed their respective Comments and/or Oppositions to the Petition.

In a Decision dated December 1, 2021, the Supreme Court denied the Petition and declared that RR 4-2011 issued by the Secretary of the Department of Finance is void for having been issued ultra vires. The decision became final and executory on June 7, 2022, and was recorded in the Book of Entries of Judgement.

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, 2022.

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, 2022, 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

The following are the significant lease commitments involving the BDO Unibank Group:

34.2.1 Finance Leases

BDO Unibank Group, as a lessor, enters into finance leases covering various equipment and vehicles with lease term ranging from one to more than four years. The BDO Unibank Group is subject to risk incidental to the operation of its leased properties, which include, among others, changes in market rental rates, inability to renew leases upon lease expiration, and inability to collect rent from lessees due to bankruptcy or insolvency of lessees. Majority of the BDO Unibank Group's revenue from rental properties are derived from various equipment and vehicles. If the expected growth, particularly from the lessees, does not meet management's expectations, the BDO Unibank Group may not be able to lease their properties in a timely manner or collect rent at profitable rates.

To manage its risks over these finance leases, the BDO Unibank Group retains its legal title over the underlying assets and uses these as securities over the finance lease receivables. Moreover, it requires lessees to pay security deposits, which are presented as Lease Deposits under Other Liabilities in the BDO Unibank Group’s statements of financial position (see Note 21).

Future minimum lease payments receivable (MLPR) under these finance leases together with the present value of net minimum lease payments receivable (NMLPR) follow:

	2022		2021	
	Future MLPR	**PV of NMLPR**	Future MLPR	PV of NMLPR
Within one year	**P 1,301**	**P 1,297**	P 770	P 767
After one year but not more than two years	**1,148**	**1,091**	725	705
After two years but not more than three years	**694**	**603**	616	506
After three years but not more than five years	**612**	**329**	224	129
More than five years	**-**	**-**	3	2
Total MLPR	**3,755**	**3,320**	2,338	2,109
Unearned lease income	**(435)**	**-**	(229)	-
Present value of MLPR	**P 3,320**	**P 3,320**	P 2,109	P 2,109

The net investment relating to these finance leases, presented as Others under Loans and Other Receivables in the BDO Unibank Group’s statements of financial position for the years ended December 31, 2022 and 2021, amounted to P3,320 and P2,109, respectively, for the BDO Unibank Group and nil in both years for the Parent Bank (see Note 11). The change in the carrying amount of the net investment in finance leases during the year pertains to new lease arrangements entered, amortization of interest income and paydowns.

Interest income recognized on the net investment in finance leases, presented under Others as part of Interest Income in the BDO Unibank Group’s statements of income for the years ended December 31, 2022, 2021 and 2020, amounted to P185, P94 and P622, respectively, for the BDO Unibank Group and nil for the Parent Bank (see Note 23).

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 15 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, 2022, 2021 and 2020, amounted to P1,301, P1,269 and P1,430, respectively, for the BDO Unibank Group and P492, P482 and P514, respectively, for the Parent Bank (see Note 25).

Future minimum rental receivables as of December 31, 2022 under operating leases follow:

	BDO Unibank Group	Parent Bank
Within one year	P 1,171	P 443
More than one year to two years	859	320
More than two years to three years	445	170
More than three years to four years	198	70
More than four years to five years	84	14
More than five years	7	1
	P 2,764	P 1,018

35. 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.

	2022	2021	2020
BDO Unibank Group			
Return on common equity*: Net profit / Average common equity	**13.0%**	10.5%	7.6%
Return on average equity*: Net profit / Average total capital accounts	**12.9%**	10.4%	7.5%
Return on average resources*: Net profit / Average total resources	**1.5%**	1.2%	0.9%
Net interest margin*: Net interest income / Average interest earning resources	**4.1%**	4.0%	4.4%
Parent Bank			
Return on common equity*: Net profit / Average total common equity	**13.0%**	10.5%	7.6%
Return on average equity*: Net profit / Average total capital accounts	**12.9%**	10.4%	7.6%
Return on average resources*: Net profit / Average total resources	**1.5%**	1.3%	0.9%
Net interest margin*: Net interest income / Average interest earning resources	**4.1%**	4.0%	4.4%

** In 2022, 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 2021 and December 2022. (2 data points)*

** In 2021 and 2020, averages are computed as the simple average of outstanding balance 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, 2022 and 2021, 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

	2022			2021		
		Amount	**Percentage**		Amount	Percentage
Financial and insurance activities	**P**	**402,156**	**15.4%**	P	397,823	16.6%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use		**399,101**	**15.3%**		356,129	14.8%
Real estate activities		**324,074**	**12.4%**		307,048	12.8%
Wholesale and retail trade		**299,896**	**11.5%**		282,446	11.8%
Electricity, gas, steam and air-conditioning supply		**281,036**	**10.7%**		282,036	11.8%
Manufacturing		**232,488**	**8.9%**		206,445	8.6%
Construction		**90,712**	**3.5%**		68,951	2.9%
Information and communication		**90,342**	**3.5%**		42,845	1.8%
Transportation and storage		**87,256**	**3.3%**		88,043	3.7%
Arts, entertainment and recreation		**83,076**	**3.2%**		77,010	3.2%
Education		**71,731**	**2.7%**		37,199	1.5%
Water supply, sewerage, waste management and remediation activities		**38,760**	**1.5%**		26,912	1.1%
Accommodation and food service activities		**36,529**	**1.4%**		39,937	1.7%
Human health and social service activities		**31,875**	**1.2%**		30,653	1.3%
Agriculture, forestry and fishing		**15,642**	**0.6%**		15,266	0.6%
Mining and quarrying		**10,578**	**0.4%**		10,175	0.4%
Professional, scientific, and technical activities		**9,912**	**0.4%**		9,642	0.4%
Administrative and support services		**9,581**	**0.4%**		7,592	0.3%
Public administrative and defense; compulsory social security		**1,030**	**0.0%**		693	0.0%
Other service activities		**98,036**	**3.7%**		113,348	4.7%
	P	**2,613,811**	**100%**	P	2,400,193	100%

	2022			2021		
		Amount	Percentage		Amount	Percentage
Parent Bank						
Financial and insurance activities	P	401,394	15.8%	P	397,733	16.9%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use		391,623	15.4%		347,713	14.8%
Real estate activities		325,088	12.8%		308,053	13.1%
Wholesale and retail trade		294,838	11.6%		278,173	11.8%
Electricity, gas, steam and air-conditioning supply		280,969	11.1%		281,990	12.0%
Manufacturing		231,327	9.1%		205,679	8.7%
Information and communication		90,123	3.6%		42,634	1.8%
Construction		89,326	3.5%		68,108	2.9%
Transportation and storage		87,613	3.5%		88,607	3.8%
Arts, entertainment and recreation		82,107	3.3%		76,004	3.3%
Water supply, sewerage, waste management and remediation activities		38,714	1.5%		26,870	1.2%
Accommodation and food service activities		36,329	1.4%		39,688	1.7%
Human health and social service activities		31,616	1.2%		30,392	1.3%
Agriculture, forestry and fishing		14,876	0.6%		14,600	0.6%
Mining and quarrying		10,483	0.4%		10,122	0.4%
Education		10,151	0.4%		4,373	0.2%
Professional, scientific, and technical activities		9,861	0.4%		9,601	0.4%
Administrative and support services		9,375	0.4%		7,430	0.3%
Public administrative and defense; compulsory social security		1,030	0.0%		693	0.0%
Other service activities		100,801	4.0%		113,088	4.8%
	P	2,537,644	100%	P	2,351,551	100%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

As of December 31, 2022, 10% of Tier 1 capital of the BDO Unibank Group and the Parent Bank amounted to P40,110 million and P37,083 million, respectively. As of December 31, 2021, 10% of Tier 1 capital of the BDO Unibank Group and the Parent Bank amounted to P37,229 million and P34,744 million, respectively. The table below and in the succeeding pages show the industry groups exceeding this level (amounts in millions).

		BDO Unibank Group		Parent Bank
December 31, 2022				
Financial and insurance activities	P	402,156	P	401,394
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use		399,101		391,623
Real estate activities		324,074		325,088
Wholesale and retail trade		299,896		294,838
Electricity, gas, steam and air-conditioning supply		281,036		280,969
Manufacturing		232,488		231,327
Construction		90,712		89,326
Information and communication		90,342		90,123

	BDO Unibank Group		Parent Bank
December 31, 2022			
Transportation and storage	**P**	**87,256**	**P**	**87,613**
Arts, entertainment and recreation		**83,076**		**82,107**
Education		**71,731**		**10,151**
Water supply, sewerage, waste management and remediation activities		**38,760**		**38,714**
Other service activities		**98,036**		**100,801**
December 31, 2021				
Financial and insurance activities	P	397,823	P	397,733
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use		356,129		347,713
Real estate activities		307,048		308,053
Wholesale and retail trade		282,446		278,173
Electricity, gas, steam and air-conditioning supply		282,036		281,990
Manufacturing		206,445		205,679
Transportation and storage		88,043		88,607
Arts, entertainment and recreation		77,010		76,004
Construction		68,951		68,108
Information and communication		42,845		42,634
Accommodation and food service activities		39,937		39,688
Other service activities		113,348		113,088

(d) Credit Status of Loans

The breakdown of receivable from customers as to status is shown below:

	2022					
		Performing		Non-Performing		Total Loan Portfolio
BDO Unibank Group						
Gross carrying amount:						
Corporate	**P**	**2,005,115**	**P**	**19,823**	**P**	**2,024,938**
Consumer		**554,461**		**34,412**		**588,873**
Allowance for ECL	**(**	**41,372)**	**(**	**32,404)**	**(**	**73,776)**
Net carrying amount	**P**	**2,518,204**	**P**	**21,831**	**P**	**2,540,035**

	2022		
	Performing	**Non-Performing**	**Total Loan Portfolio**
Parent Bank			
Gross carrying amount:			
Corporate	**P 1,998,357**	**P 19,821**	**P 2,018,178**
Consumer	**487,990**	**31,476**	**519,466**
Allowance for ECL	**(40,689)**	**(30,887)**	**(71,576)**
Net carrying amount	**P 2,445,658**	**P 20,410**	**P 2,466,068**

	2021		
	Performing	Non-Performing	Total Loan Portfolio
BDO Unibank Group			
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	P 2,298,077	P 36,857	P 2,334,934
Parent Bank			
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	P 2,253,318	P 34,959	P 2,288,277

Non-performing loans (NPL) included in the total loan portfolio of the BDO Unibank Group and the Parent Bank as of December 31, 2022 and 2021 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**	
	2022	2021	**2022**	2021
NPL	**P 53,314**	P 69,821	**P 50,543**	P 66,601
Allowance for impairment	**(31,766)**	(33,498)	**(30,395)**	(32,149)
	P 21,548	P 36,323	**P 20,148**	P 34,452

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, 2022 and 2021, the non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Gross NPLs	**P 53,314**	P 69,821	**P 50,543**	P 66,601
NPLs fully covered by allowance for impairment	**(17,217)**	(9,689)	**(17,130)**	(9,359)
	P 36,097	P 60,132	**P 33,413**	P 57,242

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 P102,416 and P143,337 for BDO Unibank Group and P101,110 and P142,062 for Parent Bank as of December 31, 2022 and 2021, respectively. The related allowance for credit loss of such loans amounted to P22,918 and P21,137 for BDO Unibank Group and P22,228 and P20,578 for Parent Bank as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, gross and net NPL ratios of the BDO Unibank Group and the Parent Bank as reported to BSP were 1.95% and 0.79%, and 1.89% and 0.76%, respectively. As of December 31, 2021, gross and net NPL ratios of the BDO Unibank Group and the Parent Bank were 2.80% and 1.46%, and 2.72% and 1.41%, 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	
	2022	2021	**2022**	2021
Secured:				
Real estate mortgage	**P 342,468**	P 327,719	**P 335,612**	P 320,993
Chattel mortgage	**90,508**	94,875	**87,153**	92,748
Other securities	**86,575**	83,797	**84,574**	81,998
	519,551	506,391	**507,339**	495,739
Unsecured	**2,094,260**	1,893,802	**2,030,305**	1,855,812
	P 2,613,811	P 2,400,193	**P 2,537,644**	P 2,351,551

(f) *Information on Related Party Loans*

In the ordinary course of business, the Parent Bank has loan transactions with subsidiaries, affiliates, and 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:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Total DOSRI loans	**P 23,376**	P 36,334	**P 23,372**	P 36,331
Unsecured DOSRI loans	**2,123**	1,919	**2,123**	1,919
Past due DOSRI loans	**11**	3	**11**	3
Non-performing DOSRI loans	**16**	12	**16**	12
% of DOSRI loans to total loan portfolio	**0.89%**	1.51%	**0.92%**	1.54%
% of unsecured DOSRI loans to total DOSRI loans	**9.08%**	5.28%	**9.08%**	5.28%
% of past due DOSRI loans to total DOSRI loans	**0.05%**	0.01%	**0.05%**	0.01%
% of non-performing DOSRI loans to total DOSRI loans	**0.07%**	0.03%	**0.07%**	0.03%

DOSRI loans of the BDO Unibank Group and the Parent Bank bear annual interest rates of 0.00% to 9.00% in 2022, 2021 and 2020 (except for credit card receivables which bear a monthly interest rate of 0.00% to 2.00% in 2022 and 0.00% to 3.64% for both in 2021 and 2020).

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:

	BDO Unibank Group		Parent Bank	
	2022	2021	**2022**	2021
Total Related Party loans	**P 119,439**	P 111,024	**P 119,388**	P 110,966
Unsecured Related Party	**80,819**	66,036	**80,819**	66,036
Past due Related Party	**11**	3	**11**	3
Non-performing Related Party	**16**	12	**16**	12
% of Related Party loans to total loan portfolio	**4.57%**	4.63%	**4.70%**	4.72%
% of unsecured Related Party loans to total Related Party loans	**67.67%**	59.48%	**67.69%**	59.51%
% of past due Related Party loans to total Related Party loans	**0.01%**	0.00%	**0.01%**	0.00%
% of non-performing Related Party loans to total Related Party loans	**0.01%**	0.01%	**0.01%**	0.01%

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, 2022 and 2021, 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 2022 totaled to P22,573 and P15,179 for the BDO Unibank Group and P16,191 and P12,679 for the Parent Bank, respectively. In 2021, the aggregate amount of resources pledged as security and secured liabilities totaled to P1,320 and P1,088 for the BDO Unibank Group and nil for the Parent Bank, respectively.

(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, 2022 and 2021, 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.

		BDO Unibank Group		**Parent Bank**	
	Notes	**2022**	2021	**2022**	2021
Trust department accounts	28	**P 1,825,019**	P 1,778,718	**P 1,255,751**	P 1,230,870
Committed credit lines	4.3.2	**445,683**	433,247	**445,683**	433,247
Forward exchange sold		**194,235**	190,055	**161,324**	164,674
Forward exchange bought		**164,713**	177,434	**133,773**	153,492
Unused commercial letters of credit	4.3.2	**94,851**	75,758	**94,851**	75,758
Bills for collection		**14,889**	8,673	**14,889**	8,673
Export letters of credit confirmed		**14,757**	4,644	**14,757**	4,644
Spot exchange sold		**12,945**	15,646	**12,290**	15,618
ROP warrants		**8,475**	8,475	**8,475**	8,475
Spot exchange bought		**5,038**	9,233	**4,383**	9,205
Interest rate swap receivable		**4,660**	6,993	**4,110**	4,493
Interest rate swap payable		**4,660**	6,993	**4,110**	4,493
Other contingent accounts		**2,889**	1,710	**5,472**	3,049
Outstanding guarantees issued		**2,270**	4,202	**2,270**	4,202
Late deposits/payments received		**1,417**	461	**1,399**	450

P&A Grant Thornton

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

Report of Independent Auditors to Accompany Supplementary Schedules Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

The Board of Directors and the Stockholders
BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue, Makati City

We have audited the financial statements of BDO Unibank, Inc. and subsidiaries (collectively referred to as the BDO Unibank Group) and BDO Unibank, Inc. for the year ended December 31, 2022, on which we have rendered our report thereon dated February 24, 2023. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules (see Table of Contents) of the BDO Unibank Group as of December 31, 2022 and for the year then ended, are presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68, and are not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary schedules are the responsibility of management. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 9566639, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 95626-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-022-2022 (until Oct. 13, 2025)
)UP235UWRI5J1RWOJ

February 24, 2023

BDO Unibank, Inc. and Subsidiaries
SEC Supplementary Schedules
December 31, 2022

Table of Contents

*Note: *Not Applicable*

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

Supplemental Statement of Independent Auditors

The Board of Directors
BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue, Makati City

We have audited the financial statements of BDO Unibank, Inc. (the Bank) for the year ended December 31, 2022, on which we have rendered the attached report dated February 24, 2023.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has 10,709 stockholders owning 100 or more shares each RIWDN capital stock as of December 31, 2022.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 9566639, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 95626-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-022-2022 (until Oct. 13, 2025)
)UP235UWRI5J1R (until Aug. 27, 2024)

February 24, 2023

ANNEX 68-D
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
As of December 31, 2022
(Amounts in Millions)

BDO Unibank, Inc.
BDO Corporate Center, 7899 Makati Avenue, Makati City

Unappropriated Retained Earnings at Beginning of Year	P 249,407		
Prior Year's Outstanding Reconciling Items, net of tax			
Accumulated Income from Subsidiaries and Associates (net of dividends received)	(19,761)		
Deferred tax income	(6,642)		
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning of the year		**P**	**223,004**
Add: Net income actually earned/realized during the period			
Net income during the period closed to Retained Earnings	56,993		
Less: Non-actual/unrealized income net of tax:			
Equity in net income of associates/joint venture	8,710		
Unrealized foreign exchange gains - net	2,937		
Deferred tax income	949		
Sub-total	12,596		
Net income actually earned during the period			**44,397**
Add (Less):			
Dividend declarations during the period	(125,423)		
Appropriations of Retained Earnings during the period	(2,694)		
Treasury shares	(1)		
Sub-total			**(128,118)**
TOTAL RETAINED EARNINGS, END OF THE YEAR AVAILABLE FOR DIVIDEND		**P**	**139,283**

Annex 68-E
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
BDO UNIBANK, INC. AND SUBSIDIARIES
As of December 31, 2022

Ratio	Formula	Current Year	Prior Year
Current ratio	Current resources / Current liabilities	44.9%	45.6%
Acid test ratio	Cash & cash equivalents + Marketable securities + Current receivables / Current liabilities	44.8%	45.6%
Solvency ratio	Total liabilities / Total resources	88.7%	88.3%
Debt-to-equity ratio	Total liabilities / Total equity	783.0%	753.6%
Asset-to-equity ratio	Total resources / Total equity	883.0%	853.6%
Interest rate coverage ratio	Earnings before interest and taxes (EBIT) / Interest expense	468.9%	512.0%
Return on equity	Net profit / Average total capital accounts	12.9%	10.4%
Return on assets	Net profit / Average total resources	1.5%	1.2%
Net profit margin	Net profit / Revenues	23.8%	20.8%
Other ratios:			
Net Interest Margin	Net interest income / Average interest earning resources	4.1%	4.0%
Return on Common Equity	Net profit / Average common equity	13.0%	10.5%
Liquidity ratio	Total liquid resources / Total resources	34.2%	32.2%
Capital to risk Assets ratio	Combined credit, market and operational risk	14.5%	14.7%
Basel III Leverage ratio	Capital Measure / Exposure Measure	9.8%	10.3%
Liquidity Coverage ratio	Total Stock of High Quality Liquid Assets / Total net cash outflows	140.7%	145.4%
Net Stable Funding ratio	Available Stable Funding / Required Stable Funding	123.9%	123.5%

Annex 68-I

SCHEDULE FOR LISTED COMPANIES WITH A RECENT OFFERING OF SECURITIES TO THE PUBLIC

BDO Unibank, Inc. and Subsidiaries

For the period ended December 31, 2022

(In millions)

		Fixed Rate Peso Bonds
1.	Gross and net proceeds as disclosed in the final prospectus	52,700
2.	Actual gross and net proceeds	
	Gross	52,700
	Net	52,283
3.	Each expenditure item where the proceeds were used	
	Reserves	1,581
	Loans	50,702
4.	Balance of the proceeds as of the end of reporting period	52,481

BDO Unibank, Inc. and Subsidiaries
Schedule A - Financial Assets
December 31, 2022
(In Millions)

Type of Securities	Number of Shares or Principal Amount of Bonds and Notes	Amount shown in the Statement of Financial Position	Valued based on Market Quotation at End of Reporting Period	Income Received and Accrued
Financial assets at fair value through profit or loss				
Derivatives	139,023	P 8,613	P 8,613	P 881
Government bonds	15,372	7,135	7,135	58
Other debt securities	721	2,983	2,983	4
Equity securities	780	25,981	25,981	9
		44,712	44,712	952
Fair value through other comprehensive income				
Government debt	114,201	109,782	109,782	1,331
Other debt securities	54,262	51,572	51,572	583
Equity securities	705	4,715	4,715	1
		166,069	166,069	1,915
At amortized cost				
Government debt securities	424,862	442,900	408,280	4,527
Other debt securities	68,163	69,149	64,990	633
		512,049	473,270	5,160
		P 722,830	**P 684,051**	**P 8,027**

BDO Unibank, Inc. and Subsidiaries
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2022
(In Millions)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Ending Balance		Balance at End of Period
			Amounts Collected	Amounts Written Off	Current*	Not Current**	
Amounts Due from Related Parties under Common Ownership:							
Earl Cyril Y Abijay	P -	P 2	P 2	P -	P -	P -	P -
Loans to Officers and Employees:							
Salary Loans	1,760	1,384	1,208	-	212	1,724	1,936
Credit Card Loans	145	465	449	-	152	9	161
Auto Loans	81	37	38	-	4	76	80
Home Loans	78	12	17	-	1	72	73
Others***	4	2	2	-	4	-	4
	2,068	1,900	1,714	-	373	1,881	2,254
Loans to Stockholders:							
SM Investments Corporation	17,036	6,807	11,305	-	1,986	10,552	12,538
Sybase Equity Investments Corporation	7,730	2,889	5,115	-	4,002	1,502	5,504
Romer Mercantile Inc	2,924	1,224	1,133	-	3,015	-	3,015
Intercontinental Devt Corp	65	3	3	-	65	-	65
Carmen Copper Corporation	6,511	318	6,829	-	-	-	-
	34,266	11,241	24,385	-	9,068	12,054	21,122
Total	**P 36,334**	**P 13,143**	**P 26,101**	**P -**	**P 9,441**	**P 13,935**	**P 23,376**

**Due within one year*
***Due beyond one year*
****This consists of insignificant DOSRI Loans*

BDO Unibank, Inc. and Subsidiaries
Schedule C - Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
December 31, 2022
(In Millions)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions: Amounts Collected	Deductions: Amounts Written Off	Current*	Not Current**	Balance at End of Period
BDO Life Assurance Holdings Corp.	P 81	P 4,751	P 1,600	P -	P 3,232	-	P 3,232
BDO Network Bank, Inc.	-	3,272	612	-	2,660	-	2,660
BDORO Europe, Ltd.	1,835	198	248	-	1,785	-	1,785
BDO Private	-	846	-	-	846	-	846
BDO Capital & Investment Corporation	750	4,411	4,520	-	641	-	641
BDO Remit (USA), Inc.	99	8,413	8,401	-	111	-	111
BDO Insurance Brokers Inc,	28	26	28	-	26	-	26
BDO Remit (Japan) Ltd.	9	2,667	2,658	-	18	-	18
BDO Strategic Holdings, Inc.	109	3,734	3,826	-	17	-	17
BDO Remit Canada Ltd.	1	437	435	-	3	-	3
	P 2,912	**P 28,755**	**P 22,328**	**P -**	**P 9,339**	**-**	**P 9,339**

**Due within one year*
***Due beyond one year*

BDO Unibank, Inc. and Subsidiaries
Schedule D - Long-Term Debt
December 31, 2022
(In Millions)

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under Caption "Current portion of Long-Term Debt" in related Statement of Financial Position	Amount shown under Caption "Long-Term Debt" in related Statement of Financial Position	Interest Rate	Maturity Date
Bills Payable					
Metropolitan Bank & Trust Company	P 502	P 502	P -	3.00%	October 31, 2023
Metropolitan Bank & Trust Company	501	501	-	3.13%	November 21, 2023
Metropolitan Bank & Trust Company	301	301	-	3.13%	November 22, 2023
Bank of America, N.A., Singapore Branch	4,179	4,179	-	4.97%	November 24, 2023
Citicorp International Limited	3,902	2	3,900	5.29%	January 26, 2024
The Norinchukin Bank	398	-	398	5.29%	January 26, 2024
The Hong Kong and Shanghai Banking Corp. Ltd.	239	-	239	5.29%	January 26, 2024
Wells Fargo Bank, National Association	398	-	398	5.29%	January 26, 2024
United Overseas Bank Limited	159	-	159	5.29%	January 26, 2024
State Bank of India	279	-	279	5.29%	January 26, 2024
Taishin International Bank Co., Ltd.	80	-	80	5.29%	January 26, 2024
Sumitomo Mitsui Banking Corporation Singapore Branch	359	-	359	5.29%	January 26, 2024
Citibank N. A.	239	-	239	5.29%	January 26, 2024
CTBC Bank Co., Ltd,	239	-	239	5.29%	January 26, 2024
Mizuho Bank, Ltd.	398	-	398	5.29%	January 26, 2024
Bank of the Philippine Island	456	6	450	3.42%	February 8, 2024
Cobank, ACB	2,836	-	2,836	2.04%	February 26, 2024
Land Bank of the Philippines	1,506	-	1,506	6.25%	June 6, 2024
Land Bank of the Philippines	1,506	-	1,506	6.25%	July 5, 2024
Wells Fargo Bank, N.A., Singapore Branch	1,672	-	1,672	5.04%	March 28, 2025
Wells Fargo Bank, N.A., Singapore Branch	1,116	2	1,114	5.04%	March 28, 2025
Wells Fargo Bank, National Association	2,790	-	2,790	5.04%	March 28, 2025
	24,055	5,493	18,562		
Senior Notes					
Senior Notes 1	36,795	36,795	-	2.95%	March 6, 2023
Senior Notes 2	8,475	134	8,341	4.16%	February 20, 2025
Senior Notes 3	33,528	332	33,196	2.13%	January 13, 2026
Senior Notes 4	5,557	27	5,530	3.71%	May 16, 2029
	84,355	37,288	47,067		
Fixed Rate Peso Bonds					
Senior Notes 1	52,696	215	52,481	2.90%	January 28, 2024
	P 161,106	**P 42,996**	**P 118,110**		

BDO Unibank, Inc. and Subsidiaries
Schedule E - Indebtedness to Related Parties (Long-Term Loans from Related Companies)
December 31, 2022

Name of related party	Balance at Beginning of Period	Balance at End of Period

Nothing to report

BDO Unibank, Inc. and Subsidiaries
Schedule F - Guarantees of Securities of Other Issuers
December 31, 2022

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person for which Statement is Filed	Nature of Guarantee

Nothing to report

BDO Unibank, Inc. and Subsidiaries
Schedule G - Capital Stock
December 31, 2022

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as shown under the Statement of Financial Position caption	Number of shares Reserved for Options, Warrants, Coversion and other Rights	Number of Shares Held by		
				Related Parties	Directors, Officers and Employees	Others
Common shares - P10 par value	8,500,000,000	5,264,131,675	-	2,904,997,669	39,206,223	2,319,927,783
Preferred Shares - P10 par value	1,000,000,000	618,000,000	-	618,000,000	-	-

Report on Review of Condensed Consolidated Interim Financial Statements

BDO Unibank, Inc. and Subsidiaries

For the Nine Months Ended September 30, 2023 and 2022
(With Comparative Audited Figures as of December 31, 2022)

Report on Review of Condensed Consolidated Interim Financial Statements

The Board of Directors and the Stockholders
BDO Unibank, Inc. and Subsidiaries
BDO Towers Valero
8741 Paseo de Roxas, Salcedo Village
Makati City, Philippines

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of BDO Unibank, Inc. and subsidiaries (together hereinafter referred to as “the BDO Unibank Group”), which comprise the condensed consolidated interim statements of financial position as of September 30, 2023, and the condensed consolidated interim statements of income, condensed consolidated interim statements of comprehensive income, condensed consolidated interim statements of changes in equity and condensed consolidated interim statements of cash flows for the nine months ended September 30, 2023 and 2022, and notes to condensed consolidated interim financial statements, including a summary of selected material accounting policy information and other explanatory information (hereinafter referred to as “condensed consolidated interim financial statements”). Management is responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial position of the BDO Unibank Group as at September 30, 2023, and its condensed consolidated interim financial performance and their condensed consolidated interim cash flows for the nine months ended September 30, 2023 and 2022 are not prepared, in all material respects, in accordance with PAS 34.

Other Matter

We have previously audited the consolidated financial statements of the BDO Unibank Group as of December 31, 2022, including the consolidated statement of financial position, which is presented herein for comparative purposes, on which we have rendered our report thereon dated February 24, 2023.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 9566639, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 95626-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-022-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

November 22, 2023

BDO UNIBANK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2023
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2022)
(Amounts in Millions of Philippine Pesos)

	Notes		**September 30, 2023 (Unaudited)**		December 31, 2022 (Audited)
R E S O U R C E S					
CASH AND OTHER CASH ITEMS	7	**P**	**57,812**	P	82,944
DUE FROM BANGKO SENTRAL NG PILIPINAS	7		**388,425**		385,779
DUE FROM OTHER BANKS - Net	8		**63,501**		58,766
TRADING AND INVESTMENT SECURITIES - Net	9		**914,212**		722,830
LOANS AND OTHER RECEIVABLES - Net	10		**2,738,277**		2,696,901
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11		**46,218**		46,471
INVESTMENT PROPERTIES - Net	13		**21,094**		21,158
OTHER RESOURCES - Net	14		**58,798**		59,859
TOTAL RESOURCES		**P**	**4,288,337**	P	4,074,708
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	16	**P**	**3,408,088**	P	3,220,883
BILLS PAYABLE	17		**182,333**		198,891
INSURANCE CONTRACT LIABILITIES	18		**72,160**		64,363
OTHER LIABILITIES	19		**123,055**		129,114
Total Liabilities			**3,785,636**		3,613,251
EQUITY	20				
Attributable to:					
Shareholders of the Parent Bank			**500,468**		459,332
Non-controlling Interests			**2,233**		2,125
Total Equity			**502,701**		461,457
TOTAL LIABILITIES AND EQUITY		**P**	**4,288,337**	P	4,074,708

See Notes to Condensed Consolidated Interim Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(UNAUDITED)
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

	Notes	2023	2022
INTEREST INCOME ON			
Loans and other receivables	10	**P 142,183**	P 100,001
Trading and investment securities	9	**26,906**	17,918
Due from Bangko Sentral ng Pilipinas and other banks	7, 8	**5,991**	1,693
Others		**67**	55
		175,147	119,667
INTEREST EXPENSE ON			
Deposit liabilities	16	**31,685**	6,327
Bills payable and other borrowings	17, 19	**5,382**	4,572
Finance lease liabilities	12, 19	**649**	678
		37,716	11,577
NET INTEREST INCOME		**137,431**	108,090
IMPAIRMENT LOSSES (RECOVERIES) - Net			
Financial assets	9, 10, 15	**10,704**	12,369
Non-financial assets	14, 15	**(45)**	(210)
Others	15, 19	**20**	4
		10,679	12,163
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**126,752**	95,927
OTHER OPERATING INCOME	21	**57,850**	53,192
OTHER OPERATING EXPENSES	21	**114,725**	98,106
PROFIT BEFORE TAX		**69,877**	51,013
TAX EXPENSE	27	**15,880**	10,856
NET PROFIT		**P 53,997**	P 40,157
Attributable To:			
Shareholders of the Parent Bank		**P 53,899**	P 39,998
Non-controlling Interests		**98**	159
		P 53,997	P 40,157
Earnings Per Share:	29		
Basic		**P 10.16**	P 7.54
Diluted		**P 10.15**	P 7.52

See Notes to Condensed Consolidated Interim Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Notes	2023	2022
NET PROFIT		**P 53,997**	P 40,157
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	9, 27	**596**	(19,262)
Transfer of realized gains on disposed debt investments at FVOCI to statements of income, net of tax		**(15)**	(26)
Impairment losses on debt investments at FVOCI	9, 15	**109**	7
Translation adjustments related to foreign operations		**56**	87
		746	(19,194)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement on life insurance reserves	18	**(1,695)**	9,170
Unrealized losses on equity investments at FVOCI, net of tax	9, 27	**(51)**	(1,037)
Actuarial gains (losses) on remeasurement of retirement benefit obligation, net of tax	27	**(5)**	11
		(1,751)	8,144
Other Comprehensive Loss, net of tax		**(1,005)**	(11,050)
TOTAL COMPREHENSIVE INCOME		**P 52,992**	P 29,107
Attributable To:			
Shareholders of the Parent Bank		**P 52,884**	P 29,026
Non-controlling Interests		**108**	81
		P 52,992	P 29,107

See Notes to Condensed Consolidated Interim Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Note	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Shares at cost	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Gains (Losses)	Revaluation Increment	Remeasurement on Life Insurance Reserves	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Loss of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
Balance at January 1, 2023		P 52,641	P 6,180	P 229,946	(P 1)	P 22,131	(P 76)	P 178,537	(P 19,950)	(P 17,566)	P 1,010	P 6,447	P 38	(P 5)	P 459,332	P 2,125	P 461,457
Transactions with owners:	20																
Issuance of shares during the period		40	-	476	-	-	-	-	-	-	-	-	-	-	516	-	516
Options transferred during the period		-	-	-	-	(355)	-	-	-	-	-	-	-	-	(355)	-	(355)
Options expensed during the period		-	-	-	-	347	-	-	-	-	-	-	-	-	347	-	347
Cash dividends		-	-	-	-	-	-	(12,256)	-	-	-	-	-	-	(12,256)	-	(12,256)
Total transactions with owners		40	-	476	-	(8)	-	(12,256)	-	-	-	-	-	-	(11,748)	-	(11,748)
Total comprehensive income (loss)		-	-	-	-	-	-	53,899	629	-	-	(1,695)	56	(5)	52,884	108	52,992
Transfer from Surplus Free:	20																
Appropriation of excess General Loan Loss Provision (GLLP) over Expected Credit Loss (ECL)		-	-	-	-	1,076	-	(1,076)	-	-	-	-	-	-	-	-	-
Other reserves		-	-	-	-	40	-	(40)	-	-	-	-	-	-	-	-	-
		-	-	-	-	1,116	-	(1,116)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as FVOCI		-	-	-	-	-	-	6	(6)	-	-	-	-	-	-	-	-
Balance at September 30, 2023		**P 52,681**	**P 6,180**	**P 230,422**	**(P 1)**	**P 23,239**	**(P 76)**	**P 219,070**	**(P 19,327)**	**(P 17,566)**	**P 1,010**	**P 4,752**	**P 94**	**(P 10)**	**P 500,468**	**P 2,233**	**P 502,701**
Balance at January 1, 2022		P 43,855	P 5,150	P 124,447	-	P 19,930	P 29	P 249,743	(P 1,630)	(P 16,454)	P 1,010	(P 3,173)	P 43	(P 16)	P 422,934	P 1,614	P 424,548
Transactions with owners:	20																
Issuance of shares during the period		11	-	116	-	-	-	-	-	-	-	-	-	-	127	-	127
Options transferred during the period		-	-	-	-	(838)	-	-	-	-	-	-	-	-	(838)	-	(838)
Options expensed during the period		-	-	-		72	-	-	-	-	-	-	-	-	72	-	72
Cash dividends		-	-	-	-	-	-	(8,673)	-	-	-	-	-	-	(8,673)	-	(8,673)
Total transactions with owners		11	-	116	-	(766)	-	(8,673)	-	-	-	-	-	-	(9,312)	-	(9,312)
Total comprehensive income (loss)		-	-	-	-	-	-	39,998	(20,240)	-	-	9,170	87	11	29,026	81	29,107
Transfer to (from) Surplus Free:	20																
Reversal of Appropriation		-	-	-	-	(14)	-	14	-	-	-	-	-	-	-	-	-
Appropriation of excess GLLP over ECL		-	-	-	-	1,570	-	(1,570)	-	-	-	-	-	-	-	-	-
Other reserves		-	-	-	-	36	-	(36)	-	-	-	-	-	-	-	-	-
		-	-	-	-	1,592	-	(1,592)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as FVOCI		-	-	-	-	-	-	16	(16)	-	-	-	-	-	-	-	-
Other Adjustments																	
Additional capital contribution to a subsidiary		-	-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	301	300
		-	-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	301	300
Balance at September 30, 2022		P 43,866	P 5,150	P 124,563	-	P 20,756	P 28	P 279,492	(P 21,886)	(P 16,454)	P 1,010	P 5,997	P 130	(P 5)	P 442,647	P 1,996	P 444,643

See Notes to Condensed Consolidated Interim Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Notes	**2023**	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 69,877**	P 51,013
Adjustments for:			
Interest income	7, 8, 9, 10	**(175,147)**	(119,667)
Interest received		**173,279**	120,404
Interest expense	12, 16, 17, 19	**37,716**	11,577
Interest paid		**(34,578)**	(11,505)
Impairment losses	15	**10,679**	12,163
Depreciation and amortization	11, 13, 14	**7,736**	7,441
Foreign exchange gains unrealized		**(3,770)**	(22,157)
Share in net profit of associates	14	**(960)**	(785)
Fair value losses (gains)		**(31)**	63
Gain from disposal of financial assets at fair value through other comprehensive income (FVOCI)		**(8)**	(44)
Gain from disposal of investment securities at amortized cost		**-**	(18)
Operating profit before changes in operating resources and liabilities		**84,793**	48,485
Increase in:			
Financial assets at fair value through profit or loss		**(362)**	(12,992)
Loans and other receivables		**(101,643)**	(141,397)
Investment properties		**(1,036)**	(3,248)
Other resources		**(12,705)**	(12,863)
Deposit liabilities		**185,034**	214,828
Insurance contract liabilities		**6,102**	4,003
Other liabilities		**4,774**	36,766
Cash generated from operations		**164,957**	133,582
Cash paid for income taxes		**(14,455)**	(10,285)
Net Cash From Operating Activities		**150,502**	123,297
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at FVOCI	9	**(634,711)**	(277,494)
Proceeds from disposals of financial assets at FVOCI	9	**481,375**	273,526
Acquisition of investment securities at amortized cost	9	**(73,176)**	(128,362)
Maturities of investment securities at amortized cost	9	**39,422**	49,589
Acquisition of premises, furniture, fixture and equipment	11	**(3,256)**	(2,450)
Proceeds from disposals of premises, furniture, fixtures and equipment		**52**	147
Net Cash Used in Investing Activities		**(190,294)**	(85,044)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of bills payable	17	**(150,305)**	(142,533)
Proceeds from bills payable	17	**131,815**	106,738
Dividends paid	20	**(12,256)**	(8,673)
Payments of lease liabilities		**(3,186)**	(3,136)
Proceeds from issuance of common stock	20	**516**	127
Net Cash Used in Financing Activities		**(33,416)**	(47,477)
NET DECREASE IN CASH AND CASH EQUIVALENTS *(carried forward)*		**(P 73,208)**	(P 9,224)

	Notes	2023	2022
NET DECREASE IN CASH AND CASH EQUIVALENTS *(brought forward)*		**(P 73,208)**	(P 9,224)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Cash and other cash items	7	**82,944**	69,105
Due from Bangko Sentral ng Pilipinas (BSP)	7	**385,779**	304,906
Due from other banks	8	**58,766**	70,092
Reverse repurchase agreements	10	**26,305**	17,095
Interbank loans receivable	10	**98,942**	81,083
Foreign currency notes and coins (FCNC)	14	**10,582**	5,597
		663,318	547,878
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash and other cash items	7	**57,812**	52,236
Due from BSP	7	**388,425**	337,922
Due from other banks	8	**63,501**	81,247
Investment securities at amortized cost	9	**512**	-
Reverse repurchase agreements	10	**26,204**	19,226
Interbank loans receivable	10	**46,064**	40,746
FCNC	14	**7,592**	7,277
		P 590,110	P 538,654

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

a. The BDO Unibank Group recognized additional right-of-use assets amounting to P2,052 and P3,549, which is presented as part of Premises, Furnitures, Fixtures and Equipment, for the nine months ended September 30, 2023 (see Note 12.1) and 2022, respectively.

b. The BDO Unibank Group acquired real and other properties totalling to P2,625 and P6,656 for the nine months ended September 30, 2023 and 2022, respectively, in settlement of certain loan accounts.

Other Information

Certain Investment securities at amortized cost, Reverse repurchase agreements and 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 condensed consolidated interim statements of financial position.

See Notes to Condensed Consolidated Interim Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 and 2022
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2022)
(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's banking network within and outside the Philippines as of September 30, 2023 and December 31, 2022 follows:

	September 30, 2023	December 31, 2022
Local branches	**1,705**	1,650
Foreign branches	**2**	2
Automated teller machines (ATMs):		
On-site	**2,834**	2,385
Off-site	**1,920**	2,269
Cash accept machines (CAMs)	**607**	640
Branch universal machines (UM)	**50**	-
Self-service teller machines	**4**	8
Mobile automated teller machines	**1**	1

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 1.8%, 1.3% and 1.2% of BDO Unibank Group's total revenues for the nine months ended September 30, 2023, 2022 and 2021, respectively, and 2.2% and 2.0% of BDO Unibank Group's total resources as of September 30, 2023 and December 31, 2022, respectively.

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 Subsidiaries

The BDO Unibank Group holds interests in the following subsidiaries as of September 30, 2023 and December 31, 2022:

	Percentage of Ownership	
Subsidiaries	**September 30, 2023**	December 31, 2022
Savings Bank		
BDO Network Bank, Inc. (BDO Network)	**87.37%**	87.37%
Investment House		
BDO Capital & Investment Corporation (BDO Capital)	**99.88%**	99.88%
Private Banking		
BDO Private Bank, Inc. (BDO Private)	**100%**	100%
Leasing and Finance		
Averon Holdings Corporation (Averon)	**99.88%**	99.88%
BDO Rental, Inc. (BDO Rental)	**100%**	100%
BDO Finance Corporation (BDO Finance)	**100%**	100%
Securities Companies		
BDO Securities Corporation (BDO Securities)	**99.88%**	99.88%
Real Estate Companies		
BDORO Europe Ltd. (BDORO)	**100%**	100%
Equimark-NFC Development Corporation (Equimark)	**60%**	60%
Insurance Companies		
BDO Life Assurance Company Inc. (BDO Life)	**100%**	100%
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%
Holding Companies		
Dominion Holdings, Inc. (Dominion Holdings)*	**88.54%**	88.54%
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%
Remittance Companies		
BDO Remit (USA), Inc. (BRUSA)	**100%**	100%
BDO Remit (Japan) Ltd.	**100%**	100%
BDO Remit (Canada) Ltd.	**100%**	100%
BDO Remit Limited	**100%**	100%
BDO Remit (Macau) Ltd.	**100%**	100%

Subsidiaries	Percentage of Ownership **September 30, 2023**	December 31, 2022
Remittance Companies		
BDO Remit (UK) Ltd.	**99.88%**	99.88%
BDO Remit International Holdings B.V. (BDO RIH)**	**96.20%**	96.20%
CBN Greece S.A**	**96.13%**	96.13%
BDO Remit (Spain) S.A***	**-**	96.20%

** Formerly BDO Leasing and Finance, Inc.*
*** Under liquidation*
**** Liquidated on February 7, 2023 (see Note 26.3)*

Non-controlling interests represent the interests not held by BDO Unibank Group in BDO Network, BDO Capital, Dominion Holdings, Averon, BDO Securities, Equimark, BDO Remit (UK), BDO RIH, BDO Remit Spain and CBN Greece. Please refer to Note 15.2 of the audited consolidated financial statements as of and for the year ended December 31, 2022 for information on these entities.

1.3 Approval of Condensed Consolidated Interim Financial Statements

The condensed consolidated interim financial statements (unaudited) of BDO Unibank Group as of and for the nine months ended September 30, 2023 (including the comparative audited consolidated financial statements as of December 31, 2022 and the unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2022) were authorized for issue by the Parent Bank's President on November 22, 2023.

2. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements for the nine months ended September 30, 2023 and 2022 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting.* They do not include all of the information required in annual financial statements, and should be read in conjunction with the BDO Unibank Group's audited consolidated financial statements as of and for the year ended December 31, 2022. The condensed consolidated interim financial statements of BDO Unibank Group has been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by the Philippine Board of Accountancy.

BDO Unibank Group adopted for the first time the amendments to existing standards relevant to BDO Unibank Group but had no material impact on the condensed consolidated interim financial statements, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

(ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies*

(iii) PAS 8 (Amendments), *Definition of Accounting Estimates*

(iv) PAS 12 (Amendments), *Deferred Tax related to Assets and Liabilities from a Single Transaction.*

This condensed consolidated interim financial statements is presented in Philippine pesos, BDO Unibank Group's functional and presentation currency, and all values are presented in millions, except for per share data or when otherwise indicated.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of condensed consolidated interim financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of resources and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

In preparing the condensed consolidated interim financial statements, the significant judgments made by management in applying BDO Unibank Group's key sources of estimation uncertainty are consistent with those applied in the BDO Unibank Group's audited consolidated financial statements as of and for the year ended December 31, 2022.

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The BDO Unibank Group is exposed to risk in relation to its operating, investing, and financial activities, and the business environment in which it operates. Generally, the BDO Unibank Group's objectives in risk management are to ensure that it identifies, measures, monitors, and controls the various risks that arise from its business activities and that it adheres strictly to the policies, procedures, and control systems which are established to address these risks. In managing financial instruments, the BDO Unibank Group is exposed to financial risk such as market risk (including foreign currency risk, interest rate risk, and price risk), liquidity risk and credit risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; hence, they should be read in conjunction with the BDO Unibank Group's annual consolidated financial statements as of and for the year ended December 31, 2022.

There have been no significant changes in the risk management structure of the BDO Unibank Group or in any risk management policies since the previous annual period.

5. SEGMENT REPORTING

5.1 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 the 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, *Operating Segments*, 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, holding, 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 made 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.

During the nine months ended September 30, 2023, there have been no significant changes from prior periods in the measurement methods used by the BDO Unibank Group in determining operating segments and reported segment profit or loss.

5.2 Analysis of Segment Information

Segment information (by service lines) as of and for the nine months ended September 30, 2023 (including the comparative audited consolidated financial statements as of December 31, 2022 and the condensed consolidated interim financial statements for the nine months ended September 30, 2022) follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
September 30, 2023 (Unaudited)							
Revenues							
From external customer							
Interest income	P 170,511	P 45	P 951	P 501	P 2,947	P 192	P 175,147
Interest expense	(37,308)	(1)	(112)	(235)	(60)	-	(37,716)
Net interest income	133,203	44	839	266	2,887	192	137,431
Intersegment revenue							
Interest income	762	16	-	-	24	89	891
Interest expense	(218)	(37)	(10)	(9)	(553)	(91)	(918)
Net interest income	544	(21)	(10)	(9)	(529)	(2)	(27)
Other operating income							
Investment banking fees	-	1,296	-	-	-	-	1,296
Others	44,847	220	1,292	428	16,113	345	63,245
	44,847	1,516	1,292	428	16,113	345	64,541
Total net revenues	178,594	1,539	2,121	685	18,471	535	201,945
Expenses							
Other operating expenses							
Depreciation and amortization	7,111	68	77	304	213	61	7,834
Impairment losses	10,635	1	9	20	10	4	10,679
Others	92,147	790	1,198	239	13,642	240	108,256
	109,893	859	1,284	563	13,865	305	126,769
Segment operating income	68,701	680	837	122	4,606	230	75,176
Tax expense	14,158	216	261	37	1,151	57	15,880
Segment net income	P 54,543	P 464	P 576	P 85	P 3,455	P 173	P 59,296
Statement of Financial Position							
Total resources							
Segment assets	P 4,177,284	P 6,314	P 33,777	P 9,700	P 115,307	P 10,718	P 4,353,100
Deferred tax assets (liabilities) - net	4,495	(169)	14	16	37	3	4,396
Intangible assets	9,248	55	148	1	61	-	9,513
	P 4,191,027	P 6,200	P 33,939	P 9,717	P 115,405	P 10,721	P 4,367,009
Total liabilities	P 3,677,763	P 1,923	P 27,313	P 8,254	P 94,873	P 2,249	P 3,812,375
Other segment information							
Capital expenditures	P 4,242	P 8	P 5	P 416	P 251	P 22	P 4,944
Investment in associates under equity method	P -	P -	P -	P -	P -	P 5,884	P 5,884
Share in the profit of associates	P -	P -	P -	P -	P -	P 960	P 960

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
September 30, 2022 (Unaudited)							
Revenues							
From external customer							
Interest income	P 116,463	P 40	P 853	P 472	P 1,837	P 2	P 119,667
Interest expense	(11,380)	(1)	(38)	(103)	(54)	(1)	(11,577)
Net interest income	105,083	39	815	369	1,783	1	108,090
Intersegment revenue							
Interest income	81	1	1	-	3	-	86
Interest expense	(22)	(23)	(5)	(17)	(12)	(48)	(127)
Net interest income	59	(22)	(4)	(17)	(9)	(48)	(41)
Other operating income							
Investment banking fees	-	1,843	-	-	-	-	1,843
Others	39,816	164	1,313	487	16,128	398	58,306
	39,816	2,007	1,313	487	16,128	398	60,149
Total net revenues	144,958	2,024	2,124	839	17,902	351	168,198
Expenses							
Other operating expenses							
Depreciation and amortization	6,826	64	55	321	224	61	7,551
Impairment losses	12,152	-	-	10	1	-	12,163
Others	75,640	743	1,012	267	13,931	260	91,853
	94,618	807	1,067	598	14,156	321	111,567
Segment operating income	50,340	1,217	1,057	241	3,746	30	56,631
Tax expense	9,369	390	121	64	901	11	10,856
Segment net income	P 40,971	P 827	P 936	P 177	P 2,845	P 19	P 45,775
December 31. 2022 (Audited)							
Statement of Financial Position							
Total resources							
Segment assets	P 3,975,178	P 8,071	P 36,985	P 8,515	P 92,672	P 10,505	P 4,131,926
Deferred tax assets (liabilities) - net	5,466	(173)	15	17	43	(13)	5,355
Intangible assets	6,908	65	170	-	32	-	7,175
	P 3,987,552	P 7,963	P 37,170	P 8,532	P 92,747	P 10,492	P 4,144,456
Total liabilities	P 3,516,144	P 4,112	P 31,151	P 7,154	P 74,067	P 2,205	P 3,634,833
September 30, 2022 (Unaudited)							
Other segment information							
Capital expenditures	P 4,960	P 5	P 5	P 218	P 1,144	P 29	P 6,361
Investment in associates under equity method	P -	P -	P -	P -	P -	P 5,589	P 5,589
Share in the profit of associates	P -	P -	P -	P -	P -	P 785	P 785

5.3 Reconciliation

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

	September 30, 2023 (Unaudited)	September 30, 2022 (Unaudited)
Revenues		
Total segment net revenues	**P 201,945**	P 168,198
Elimination of intersegment revenues	**(6,664)**	(6,916)
Net revenues as reported in profit or loss	**P 195,281**	P 161,282
Profit or loss		
Total segment net income	**P 59,296**	P 45,775
Elimination of intersegment profit	**(5,299)**	(5,618)
Net profit as reported in profit or loss	**P 53,997**	P 40,157
Resources		
Total segment resources	**P 4,367,009**	P 4,144,456
Elimination of intersegment assets	**(78,672)**	(69,748)
Total resources	**P 4,288,337**	P 4,074,708
Liabilities		
Total segment liabilities	**P 3,812,375**	P 3,634,833
Elimination of intersegment liabilities	**(26,739)**	(21,582)
Total liabilities	**P 3,785,636**	P 3,613,251

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 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 condensed consolidated interim financial statements of financial position are shown below and in the succeeding page.

	September 30, 2023 (Unaudited)			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
At amortized cost:				
Cash and other cash items	P 57,812	P -	P 57,812	P 57,812
Due from BSP	388,425	-	388,425	388,427
Due from other banks	63,501	-	63,501	63,501
Loans and other receivables	2,738,277	-	2,738,277	2,742,279
Investment securities	548,195	-	548,195	513,624
Other resources	8,978	-	8,978	8,978
Financial assets at Fair Value Through Profit or Loss (FVTPL)	-	44,628	44,628	44,628
Financial assets at Fair Value Through Other Comprehensive Income (FVOCI)	-	321,389	321,389	321,389
	P 3,805,188	P 366,017	P 4,171,205	P 4,140,638
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 3,408,088	P -	P 3,408,088	P 3,501,373
Bills payable	182,333	-	182,333	177,991
Insurance contract liabilities	72,160	-	72,160	72,160
Other liabilities	105,189	-	105,189	105,189
At fair value –				
Other liabilities	-	6,338	6,338	6,338
	P 3,767,770	P 6,338	P 3,774,108	P 3,863,051

	December 31, 2022 (Audited)			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
At amortized cost:				
Cash and other cash items	P 82,944	P -	P 82,944	P 82,944
Due from BSP	385,779	-	385,779	385,783
Due from other banks	58,766	-	58,766	58,781
Loans and other receivables	2,696,901	-	2,696,901	2,736,010
Other resources	13,794	-	13,794	13,794
Investment securities	512,049	-	512,049	473,270
At FVTPL	-	44,712	44,712	44,712
At FVOCI	-	166,069	166,069	166,069
	P 3,750,233	P 210,781	P 3,961,014	P 3,961,363
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 3,220,883	P -	P 3,220,883	P 3,263,048
Bills payable	198,891	-	198,891	191,713
Insurance contract liabilities	64,363	-	64,363	64,363
Other liabilities	111,040	-	111,040	111,040
At fair value –				
Other liabilities	-	7,809	7,809	7,809
	P 3,595,177	P 7,809	P 3,602,986	P 3,637,973

6.2 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.

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of September 30, 2023 and December 31, 2022 are grouped into the fair value hierarchy as presented below and in the succeeding page.

	Notes	Level 1	Level 2	Level 3	Total
September 30, 2023 (Unaudited)					
Resources:					
Financial assets at FVTPL:	9.1				
Equity securities – quoted		**P 25,767**	**P 982**	**P -**	**P 26,749**
Government debt securities		**8,601**	**-**	**-**	**8,601**
Corporate debt securities		**598**	**1,836**	**-**	**2,434**
Derivative financial assets		**-**	**6,844**	**-**	**6,844**
		34,966	**9,662**	**-**	**44,628**
Financial assets at FVOCI:	9.2				
Government debt securities		**251,980**	**-**	**-**	**251,980**
Corporate debt securities		**64,805**	**-**	**-**	**64,805**
Equity securities – quoted		**4,001**	**437**	**-**	**4,438**
Equity securities – not quoted		**115**	**9**	**42**	**166**
		320,901	**446**	**42**	**321,389**
		P 355,867	**P 10,108**	**P 42**	**P 366,017**
Liabilities –					
Derivatives with negative fair values	19	**P 100**	**P 6,238**	**P -**	**P 6,338**
December 31, 2022 (Audited)					
Resources:					
Financial assets at FVTPL:	9.1				
Equity securities – quoted		P 25,197	P 784	P -	P 25,981
Government debt securities		7,135	-	-	7,135
Corporate debt securities		457	2,526	-	2,983
Derivative financial assets		-	8,613	-	8,613
Balance carried forward		P 32,789	P 11,923	P -	P 44,712

	Notes	Level 1	Level 2	Level 3	Total
Balance brought forward		P 32,789	P 11,923	P -	P 44,712
Financial assets at FVOCI:	9.2				
Government debt securities		109,782	-	-	109,782
Corporate debt securities		51,572	-	-	51,572
Equity securities – quoted		4,184	378	-	4,562
Equity securities – not quoted		-	114	39	153
		165,538	492	39	166,069
		P 198,327	P 12,415	P 39	P 210,781
Liabilities –					
Derivatives with negative fair values	19	P 101	P 7,708	P -	P 7,809

There have been no significant transfers between 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'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, 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 Bloomberg Valuation Service (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.

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

The table below and in the succeeding page summarize the fair value hierarchy of BDO Unibank Group's financial assets and financial liabilities, which are measured at amortized cost in the condensed consolidated interim statements of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
September 30, 2023 (Unaudited)				
Resources:				
Cash and other cash items	P 57,812	P -	P -	P 57,812
Due from BSP	388,427	-	-	388,427
Due from other banks	63,501	-	-	63,501
Investment securities at amortized cost	511,467	-	2,157	513,624
Loans and other receivables	664	-	2,741,615	2,742,279
Other resources	7,594	-	1,384	8,978
	P 1,029,465	P -	P 2,745,156	P 3,774,621
Liabilities:				
Deposit liabilities	P -	P -	P 3,501,373	P 3,501,373
Bills payable	-	99,002	78,989	177,991
Insurance contract liabilities	-	-	72,160	72,160
Other liabilities	-	-	105,189	105,189
	P -	P 99,002	P 3,757,711	P 3,856,713

	Level 1	Level 2	Level 3	Total
December 31, 2022 (Audited)				
Resources:				
Cash and other cash items	P 82,944	P -	P -	P 82,944
Due from BSP	385,783	-	-	385,783
Due from other banks	58,781	-	-	58,781
Investment securities at amortized cost	470,887	-	2,383	473,270
Loans and other receivables	388	-	2,735,622	2,736,010
Other resources	12,273	-	1,521	13,794
	P 1,011,056	P -	P 2,739,526	P 3,750,582
Liabilities:				
Deposit liabilities	P -	P -	P 3,263,048	P 3,263,048
Bills payable	-	133,311	58,402	191,713
Insurance contract liabilities	-	-	64,363	64,363
Other liabilities	-	-	111,040	111,040
	P -	P 133,311	P 3,496,853	P 3,630,164

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 condensed consolidated interim 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's vault and those in the possession of tellers, including ATMs (see Note 7).

Other cash items include cash items other than currency and coins on hand (see Note 14) such as checks drawn on the other banks or other branches that were received after the BDO Unibank Group'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 noninterest-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 classifies 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 consolidated statement of financial position are considered to be reasonable approximation of their fair values.

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Cash and other cash items	**P 57,812**	P 82,944
Due from BSP:		
Mandatory reserves	**268,777**	308,817
Other than mandatory reserves	**119,648**	76,962
	388,425	385,779
	P 446,237	P 468,723

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.

The Parent Bank opened a Special Savings Account (SSA) with BSP to comply with Instapay facility requirement. As of September 30, 2023 and December 31, 2022, the balance of this account amounts to P665 and P706, respectively, and is presented as part of Due from BSP.

In 2022, the Parent Bank opened a Demand Deposit Account 3 with the BSP for PESONet transactions. As of September 30, 2023 and December 31, 2022, the balance of this account amounted to P6,946 and P14,431, respectively, and is presented as part of Due from BSP.

Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate ranging from 5.00% to 6.60% for nine months ended September 30, 2023 and from 1.50% to 4.40% for nine months ended September 30, 2022.

The total interest income earned amounted to P4,241 and P1,484 for the nine months ended September 30, 2023 and 2022, respectively, in the condensed consolidated interim statements of income.

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

8. DUE FROM OTHER BANKS

The balance of this account represents regular deposits with the following:

	Note	**September 30, 2023 (Unaudited)**	December 31, 2022 (Audited)
Foreign banks		**P 56,286**	P 53,513
Local banks		**7,256**	5,268
		63,542	58,781
Allowance for impairment	15	**(41)**	(15)
		P 63,501	P 58,766

The breakdown of this account as to currency follows:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
U.S. Dollar	**P 41,785**	P 45,474
Other foreign currencies	**16,133**	9,712
Philippine pesos	**5,583**	3,580
	P 63,501	P 58,766

Annual interest rates on these deposits range from 0.00% to 6.25% and 0.00% to 3.63% for the nine months ended September 30, 2023 and 2022, respectively. There are deposits, such as current accounts, which do not earn interest. Interest income from due from other banks amounted to P1,750 and P209 for the nine-months ended September 30, 2023 and 2022, respectively.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are presented below.

	Note	**September 30, 2023 (Unaudited)**	December 31, 2022 (Audited)
Financial assets at FVTPL	9.1	**P 44,628**	P 44,712
Financial assets at FVOCI	9.2	**321,389**	166,069
Investment securities at amortized cost - net	9.3	**548,195**	512,049
		P 914,212	P 722,830

Interest income from trading and investments securities amounted to P26,906 and P17,918 for the nine-months ended September 30, 2023 and 2022, respectively.

9.1 Financial Assets at FVTPL

This account is composed of the following:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Equity securities – quoted	**P 26,749**	P 25,981
Government debt securities	**8,601**	7,135
Derivative financial assets	**6,844**	8,613
Corporate debt securities	**2,434**	2,983
	P 44,628	P 44,712

Annual coupon interest rate on government and other debt securities range from 0.00% to 10.63% for both nine months ended September 30, 2023 and 2022.

9.2 Financial Assets at FVOCI

This account is composed of the following:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Government debt securities	**P 251,980**	P 109,782
Corporate debt securities	**64,805**	51,572
Equity securities:		
Quoted	**4,438**	4,562
Not quoted	**166**	153
	P 321,389	P 166,069

Effective interest rates of debt securities at FVOCI for both nine months ended September 30, 2023 and 2022 range from:

	2023	2022
Government debt securities	**1.84% – 8.37%**	0.54% – 7.45%
Corporate debt securities	**2.14% – 8.76%**	2.14% – 8.25%

The aggregate amount of resources pledged as security and secured liabilities as of September 30, 2023 totalled to P212 and P169, respectively. As of December 31, 2022, the aggregate amount of resources pledged as security and secured liabilities totalled to P5,535 and P4,799, respectively.

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

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of the period	**P 166,069**	P 170,793
Additions	**634,711**	285,428
Disposals	**(481,360)**	(279,483)
Foreign currency revaluation	**1,437**	7,821
Unrealized fair value gains (losses)	**545**	(18,457)
Realized fair value losses on FVOCI	**(21)**	(33)
Adjustments	**8**	-
	P 321,389	P 166,069

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

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of the period	**(P 19,950)**	(P 1,630)
Changes on unrealized fair value gains (losses) during the year		
Fair value gains (losses) during the period - net	**535**	(18,381)
Expected credit losses on FVOCI securities	**109**	67
Deferred tax assets (liabilities)	**(1)**	21
Adjustments	**-**	6
	(19,307)	(19,917)
Realized fair value gains on securities disposed during the period - net	**(21)**	(33)
	(P 19,328)	(P 19,950)
Net unrealized fair value gains (losses), net of tax:		
Attributable to:		
Shareholder of the Parent Bank	**P 535**	(P 18,381)
Non-controlling interest	**10**	(76)
	P 545	(P 18,457)

9.3 Investment Securities at Amortized Cost

This account is composed of the following:

	Note	**September 30, 2023 (Unaudited)**	December 31, 2022 (Audited)
Government debt securities		**P 479,669**	P 442,970
Corporate debt securities			
Quoted		**66,479**	66,832
Not quoted		**4,180**	3,901
		550,328	513,703
Allowance for impairment	15	**(2,133)**	(1,654)
		P 548,195	P 512,049

Effective interest rates of investment securities at amortized cost for both nine months ended September 30, 2023 and 2022 range from:

	2023	2022
Government debt securities	**0.47% – 8.64%**	0.18% – 8.64%
Corporate debt securities	**1.82% – 7.81%**	1.82% – 8.50%

The aggregate amount of resources pledged as security and secured liabilities as of September 30, 2023 totalled to P19,282 and P15,501, respectively.

As of December 31, 2022, the aggregate amount of resources pledged as security and secured liabilities totalled to P17,038 and P10,380, respectively.

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

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of period	**P 512,049**	P 397,534
Additions	**73,176**	161,048
Maturities and disposals	**(39,422)**	(61,913)
Foreign currency gains - net	**2,842**	15,449
Impairment recovery	**(450)**	(69)
	P 548,195	P 512,049

For the nine months ended September 30, 2023 and 2022, the BDO Unibank Group disposed of certain debt securities from its amortized cost portfolio amounting to P531 and P822, respectively, resulting in a net gain (loss) amounting to (P6) and P13, respectively, which are presented as part of Trading gains (loss) (see Note 21). Management has assessed that such disposals of investment securities in 2023 and 2022 are consistent with the BDO Unibank Group'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 24, certain government debt securities are deposited with the BSP.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Receivables from customers:			
Loans and discounts	23	**P 2,482,085**	P 2,391,044
Credit card receivables		**147,187**	127,922
Customers' liabilities under letters of credit and trust receipts		**83,316**	85,295
Bills purchased		**9,323**	10,895
		2,721,911	2,615,156
Allowance for impairment	15	**(81,357)**	(73,776)
Unearned interests or discounts		**(1,469)**	(1,345)
		2,639,085	2,540,035
Other receivables:			
Interbank loans receivables		**60,201**	115,694
Reverse repurchase agreements		**26,204**	26,305
Accounts receivable		**12,583**	14,738
Sales contract receivables		**1,328**	1,421
Others		**1,622**	1,292
		101,938	159,450
Allowance for impairment	15	**(2,746)**	(2,584)
		99,192	156,866
		P 2,738,277	P 2,696,901

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

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Less than one year	**P 799,324**	P 760,822
One to five years	**1,109,212**	1,010,599
Beyond five years	**811,906**	842,390
	P 2,720,442	P 2,613,811

BDO Unibank Group's credit concentration of receivables from customers (net of unearned interests or discounts) as to industry follows:

		September 30, 2023 (Unaudited)		December 31, 2022 (Audited)
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**P**	**426,391**	P	399,101
Financial and insurance activities		**365,419**		402,156
Wholesale and retail trade		**338,723**		299,896
Electricity, gas, steam and air-conditioning supply		**331,782**		281,036
Real estate activities		**314,579**		324,074
Manufacturing		**237,124**		232,488
Transportation and storage		**102,370**		87,256
Information and communication		**98,102**		90,342
Construction		**91,328**		90,712
Arts, entertainment and recreation		**74,885**		83,076
Education		**70,597**		71,731
Water supply, sewerage, waste management and remediation activities		**42,095**		38,760
Accommodation and food service activities		**36,769**		36,529
Agriculture, forestry and fishing		**33,839**		15,642
Human health and social work activities		**32,695**		31,875
Mining and quarrying		**14,940**		10,578
Administrative and support services		**9,833**		9,581
Professional, scientific and technical services		**8,304**		9,912
Public administrative and defense; compulsory social security		**1,212**		1,030
Other service activities		**89,455**		98,036
	P	**2,720,442**	P	2,613,811

The breakdown of total loans (receivable from customers, net of unearned interests or discounts), as to secured and unsecured follows:

		September 30, 2023 (Unaudited)		December 31, 2022 (Audited)
Secured:				
Real estate mortgage	**P**	**351,245**	P	342,468
Chattel mortgage		**89,005**		90,508
Other securities		**69,251**		86,575
		509,501		519,551
Unsecured		**2,210,941**		2,094,260
	P	**2,720,442**	P	2,613,811

Loans and other receivables bear interest rates range from 0.00% [e.g., non-performing loans (NPL) and zero percent credit card installment program] to 5.08% per month for both nine months ended September 2023 and 2022. Interest income amounted to P142,183 and P100,001 for the nine months ended September 30, 2023 and 2022, respectively.

As of September 30, 2023 and December 31, 2022, there were no receivables from customers of BDO Unibank Group pledged as collateral to secure certain borrowings presented under Bills Payable account in the condensed consolidated interim statements of financial position (see Note 17).

Certain receivables from customers of the BDO Unibank Group amounting to P9,144 as of September 30, 2023 and P23,796 as of December 31, 2022, are subject to offsetting with the corresponding collaterals received as a means of security amounting to P6,731 as of September 30, 2023 and P20,886 as of December 31, 2022, indicating a legally enforceable right to offset the recognized amounts with an intention to settle on a net basis.

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

A reconciliation of the carrying amounts at the beginning and end of the nine months ended September 30, 2023 and of the year ended December 31, 2022 of premises, furniture, fixtures and equipment for BDO Unibank Group is shown below.

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
September 30, 2023 (Unaudited)							
Balance at January 1, 2023, net of accumulated depreciation, amortization and impairment	P 8,090	P 9,384	P 14,994	P 1,365	P 1,266	P 11,372	P 46,471
Additions	-	2,174	149	316	617	2,052	5,308
Disposals	(7)	(50)	-	-	-	(111)	(168)
Reclassifications	(17)	30	129	59	(138)	-	63
Adjustments	-	-	-	-	-	(13)	(13)
Reversal	5	-	-	-	-	-	5
Foreign exchange revaluation	-	1	-	-	-	-	1
Depreciation and amortization charges for the period	-	(1,956)	(505)	(432)	-	(2,556)	(5,449)
Balance at September 30, 2023, net of accumulated depreciation, amortization and impairment	**P 8,071**	**P 9,583**	**P 14,767**	**P 1,308**	**P 1,745**	**P 10,744**	**P 46,218**
December 31, 2022 (Audited)							
Balance at January 1, 2022, net of accumulated depreciation, amortization and impairment	P 8,066	P 9,340	P 14,356	P 1,471	P 1,316	P 10,258	P 44,807
Additions	24	2,635	280	463	486	4,683	8,571
Disposals	(3)	(237)	-	(19)	-	(54)	(313)
Reclassifications	-	236	1,024	100	(519)	-	841
Allowance for impairment	3	-	-	-	-	-	3
Adjustments	-	-	-	-	-	(115)	(115)
Reversal	-	-	(12)	-	(17)	-	(29)
Foreign exchange revaluation	-	1	8	3	-	3	15
Depreciation and amortization charges for the year	-	(2,591)	(662)	(653)	-	(3,403)	(7,309)
Balance at December 31, 2022, net of accumulated depreciation, amortization and impairment	P 8,090	P 9,384	P 14,994	P 1,365	P 1,266	P 11,372	P 46,471

12. LEASES

The BDO Unibank Group has leases for certain land and buildings. With the exception of short-term leases and leases of low-value underlying assets, each lease is recognized as a Right-of-use asset under Premises, Furniture, Fixtures and Equipment (see Note 11) and a Lease liability under Other Liabilities (see Note 19) in the condensed consolidated interim statements of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the BDO Unibank Group 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 is prohibited from selling or pledging the underlying leased assets as security. For leases over land and office spaces, the BDO Unibank Group 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 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 leasing activities by type of right-of-use asset recognized as part of Premises, Furniture, Fixtures and Equipment in the condensed consolidated interim statements of financial position.

	Number of Right-of-use Asset Leased	**Range of Remaining Term**	**Average Remaining Lease Term**
September 30, 2023			
Land	56	0 month – 26 years	12 years
Buildings	1,758	0 month – 14 years	3.7 years
December 31, 2022			
Land	57	0 month – 27 years	12 years
Buildings	1,631	1 month – 15 years	3.7 years

12.1 Right-of-Use Assets

The carrying amounts of BDO Unibank Group's right-of-use assets as of September 30, 2023 and December 31, 2022 and the movements during the period are shown below.

	September 30, 2023 (Unaudited)			December 31, 2022 (Audited)		
	Land	**Building**	**Total**	Land	Building	Total
Balance at the beginning of the period, net of accumulated depreciation	P 446	P 10,926	P 11,372	P 434	P 9,824	P 10,258
Additions	21	2,031	2,052	72	4,611	4,683
Disposal	-	(111)	(111)	-	(54)	(54)
Adjustment	-	(13)	(13)	-	(115)	(115)
Foreign exchange revaluation	-	-	-	-	3	3
Depreciation and amortization	(42)	(2,514)	(2,556)	(60)	(3,343)	(3,403)
Balance at the end of the period, net of accumulated depreciation	P 425	P 10,319	P 10,744	P 446	P 10,926	P 11,372

12.2 Lease Liabilities

Lease liabilities are presented in the condensed consolidated interim statements of financial position as part of Other Liabilities amounting to P12,782 and P13,344 as of September 30, 2023 and December 31, 2022, respectively (see Note 19).

The use of extension and termination options gives the BDO Unibank Group's flexibility in the event 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's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost. As at September 30, 2023, the terms of the lease contracts of the BDO Unibank Group are renewable upon mutual agreement of the parties.

As of September 30, 2023 and December 31, 2022, the BDO Unibank Group 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 as of September 30, 2023 and December 31, 2022 of BDO Unibank Group are as follows:

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 10 Years	10 or More Years	Total
September 30, 2023 (Unaudited)								
Lease payments	P 3,956	P 3,301	P 2,677	P 1,847	P 1,052	P 2,088	P 701	P 15,622
Finance charges	(776)	(584)	(409)	(271)	(182)	(424)	(194)	(2,840)
Net present value	**P 3,180**	**P 2,717**	**P 2,268**	**P 1,576**	**P 870**	**P 1,664**	**P 507**	**P 12,782**
December 31, 2022 (Audited)								
Lease payments	P 3,928	P 3,266	P 2,775	P 2,111	P 1,311	P 2,206	P 585	P 16,182
Finance charges	(784)	(601)	(449)	(290)	(188)	(386)	(140)	(2,838)
Net present value	P 3,144	P 2,665	P 2,326	P 1,821	P 1,123	P 1,820	P 445	P 13,344

The total cash outflow in respect of leases amounted to P3,186 and P3,136 for the nine months ended September 30, 2023 and 2022, respectively. Interest expense in relation to lease liabilities amounted to P649 and P678 for the nine months ended September 30, 2023 and 2022, respectively, which is presented as part of Interest Expense on Finance Lease Liabilities under Interest Expense account in the condensed consolidated interim statements of income.

12.3 Lease Payments Not Recognized as Liabilities

The BDO Unibank Group has elected not to recognize a lease liability for short-term leases and 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 P12 and P294, respectively, for the nine months ended September 30, 2023 and P3 and P263, respectively, for the nine months ended September 30, 2022. Moreover, expenses recognized relating to variable lease payments amounted to P168 and P137 for the nine months ended September 30, 2023 and 2022, respectively. These are presented as part of Occupancy under Other Operating Expenses account in the condensed consolidated interim statements of income (see Note 21).

13. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. A reconciliation of the carrying amounts at the beginning and end of the nine months ended September 30, 2023 and of the year ended December 31, 2022 of investment properties is shown below.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of period, net of accumulated depreciation and allowance for impairment	**P 21,158**	P 18,795
Additions	**1,688**	4,725
Depreciation charges for the period	**(964)**	(1,167)
Disposals	**(652)**	(861)
Reclassifications	**(178)**	(293)
Foreign exchange revaluation	**42**	(39)
Impairment loss	**-**	(2)
Balance at end of period, net of accumulated depreciation and allowance for impairment	**P 21,094**	P 21,158

14. OTHER RESOURCES

Other resources consist of the following:

	Notes	**September 30, 2023 (Unaudited)**	December 31, 2022 (Audited)
Foreign currency notes and coins		**P 7,592**	P 10,582
Deferred charges	14.1	**6,907**	6,544
Equity investments	14.2	**5,884**	5,654
Computer software - net	14.5	**5,873**	3,536
Goodwill	14.3, 26	**4,535**	4,535
Deferred tax assets - net	27	**4,396**	5,355
Retirement assets		**3,446**	215
Branch licenses	14.3	**3,020**	3,020
Non-current assets held for sale	14.4	**2,047**	3,462
Credit card acquiring		**1,107**	3,490
Prepaid documentary stamps		**876**	798
Customer lists - net	14.5	**487**	487
Real properties for development and sale		**171**	174
Margin deposits		**14**	1,688
Others	14.5, 18	**14,900**	13,050
		61,255	62,590
Allowance for impairment	15	**(2,457)**	(2,731)
		P 58,798	P 59,859

14.1 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 condensed consolidated interim statements of financial position (see Note 10). 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 condensed consolidated interim statements of financial position (see Note 16). This also includes originating costs related to Fixed Rate Bonds, Bills Payable and Senior Notes (see Note 17).

14.2 Equity Investments

Equity investments consist of the following:

	% Interest Held	**September 30, 2023 (Unaudited)**	December 31, 2022 (Audited)
Acquisition costs:			
SM Keppel Land, Inc. (SM Keppel)	50.00%	**P 1,658**	P 1,658
NLEX Corporation	11.70%	**1,405**	1,405
NorthPine Land, Incorporated	20.00%	**232**	232
Taal Land, Inc.	33.33%	**170**	170
		3,465	3,465
Accumulated equity in total comprehensive income:			
Balance at beginning of period		**2,189**	1,882
Equity in net profit		**960**	849
Dividends		**(725)**	(553)
Equity in other comprehensive income (loss)		**(5)**	11
Balance at end of period		**2,419**	2,189
Net investments in associates		**5,884**	5,654
Allowance for impairment		**(153)**	(153)
		P 5,731	P 5,501

14.3 Goodwill and Branch Licenses

Goodwill represents the excess of the cost of acquisition of the BDO Unibank Group 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, American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc., BDO RIH, BDO Savings, BDO Network and Rural Bank of Pandi, Inc., which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015 and 2019, respectively.

There was no additional impairment loss on goodwill recognized for the nine months ended September 30, 2023 and 2022.

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. There was no allowance on impairment loss on branch license recognized in the BDO Unibank Group's condensed consolidated interim financial statements, since all branch licenses were already utilized.

14.4 Non-current Assets Held for Sale

Non-current assets held for sale include real and other properties acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale. No impairment loss has been recognized both for the nine months ended September 30, 2023 and 2022.

14.5 Others

Amortization expense on computer software licenses amounted to P1,252 and P1,045 for the nine months ended September 30, 2023 and 2022, respectively, and is presented as Amortization of computer software under Other Operating Expenses account in the condensed consolidated interim statements of income (see Note 21).

Depreciation expense and amortization on certain assets amounted to P71 and P54 for the nine months ended September 30, 2023 and 2022, respectively, and is presented as part of Occupancy under Other Operating Expenses account in the condensed consolidated interim statements of income (see Note 21).

There was no additional impairment loss on customer lists recognized for the nine months ended September 30, 2023 and 2022.

15. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of period:			
Due from other banks	8	**P 15**	P -
Investment securities at amortized cost	9.3	**1,654**	1,471
Loans and other receivables	10	**76,360**	67,743
Bank premises		**644**	647
Investment properties		**1,507**	1,729
Other resources	14	**2,731**	2,921
		82,911	74,511
Impairment losses - net		**10,550**	16,294
Write-offs		**(2,429)**	(8,610)
Foreign currency revaluation		**76**	774
Adjustments		**(30)**	(108)
Reclassifications		**(2)**	50
Reversals		**(5)**	-
		P 91,071	P 82,911

The composition of allowance for impairment is summarized below.

	Notes	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at end of period:			
Due from other banks	8	**P 41**	P 15
Investment securities at amortized cost	9.3	**2,133**	1,654
Loans and other receivables	10	**84,103**	76,360
Bank premises		**619**	644
Investment properties		**1,718**	1,507
Other resources	14	**2,457**	2,731
		P 91,071	P 82,911

For the nine months ended September 30, 2023 and 2022, the BDO Unibank Group provided impairment loss on debt securities measured at FVOCI amounting to P109 and P7, respectively. The impairment loss 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 condensed consolidated interim statements of comprehensive income. Moreover, for the nine months ended September 30, 2023 and 2022, the BDO Unibank Group recognized impairment loss on loan commitments and other contingent accounts amounting to P13 and P4, respectively, and on miscellaneous liabilities – damage suit amounting to P7 and nil, respectively, which are presented as part of Others under Other Liabilities in the condensed consolidated interim statements of financial position (see Note 19).

16. DEPOSIT LIABILITIES

The breakdown of this account is presented below.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Demand	**P 476,783**	P 459,511
Savings	**1,987,101**	2,077,360
Time	**944,204**	684,012
	P 3,408,088	P 3,220,883

The breakdown of this account as to currency follows:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Philippine pesos	**P 2,931,888**	P 2,715,833
Foreign currencies	**476,200**	505,050
	P 3,408,088	P 3,220,883

The maturity profile of deposit liabilities is presented below.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Less than one year	**P 3,331,245**	P 3,126,217
One to five years	**29,001**	33,537
Beyond five years	**47,842**	61,129
	P 3,408,088	P 3,220,883

BDO Unibank Group's deposit liabilities bear annual interest rates ranging from 0.00% to 6.38% and 0.00% to 5.38% for nine months ended September 30, 2023 and 2022, respectively. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest. For the nine months ended September 30, 2023 and 2022, interest on deposit liabilities amounted to P31,685 and P6,327, respectively.

BDO Unibank Group's time deposit liabilities include the Parent Bank's LTNCDs as of September 30, 2023 and December 31, 2022 as presented as follows:

		Outstanding Balance			
BSP Approval	Effective Rate	**September 30, 2023 (Unaudited)**	December 31, 2022 (Audited)	Issue Date	Maturity Date
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	August 18, 2017	February 18, 2023
		P 22,020	P 33,820		

The net proceeds from the issuance of LTNCDs are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

On February 18, 2023, the Parent Bank repaid P11,800 in LTNCD.

17. BILLS PAYABLE

This account is composed of the following borrowings from:

	Note	**September 30, 2023 (Unaudited)**	December 31, 2022 (Audited)
Fixed rate bonds	17.2	**P 52,848**	P 52,696
Foreign banks		**50,316**	39,243
Senior notes	17.1	**48,120**	84,355
Deposit substitutes		**15,329**	12,679
Local banks		**15,044**	8,890
Others		**676**	1,028
		P 182,333	P 198,891

The breakdown of this account as to currency follows:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Foreign currencies	**P 113,765**	P 136,277
Philippine pesos	**68,568**	62,614
	P 182,333	P 198,891

The maturity profile of bills payable is presented below.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
One to three months	**P 32,992**	P 58,936
More than three months to one year	**83,741**	21,845
More than one to three years	**59,984**	79,384
More than three years	**5,616**	38,726
	P 182,333	P 198,891

Bills payable bears annual interest rates from 2.00% to 7.63% and 0.42% to 5.16% for the nine months ended September 30, 2023 and 2022, respectively. Certain bills payable amounting to P15,670 in 2023 and P15,179 in 2022, are collateralized by trading and investment securities amounting to P19,494 for 2023 and P22,573 for 2022 and none for receivables from customers (see Notes 9.2 and 10).

For the nine months ended September 30, 2023 and 2022, interest on bills payable amounted to P5,279 and P4,508, respectively, and is included as part of Interest Expense on Bills Payable and Other Borrowings in the condensed consolidated interim statements of income. The proceeds from and payments of bills payable amounted to P131,815 and P150,305, and P106,738 and P142,533, respectively, for the nine months ended September 30, 2023 and 2022.

17.1 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance September 30 2023 (Unaudited)	Outstanding Balance December 31 2022 (Audited)
May 16, 2022	May 16, 2029	3.71%	100	**P 5,698**	P 5,557
July 13, 2020	January 13, 2026	2.13%	600	**33,905**	33,528
February 20, 2018	February 20, 2025	4.16%	150	**8,517**	8,475
September 6, 2017	March 6, 2023	2.95%	654	**-**	36,795
				P 48,120	P 84,355

On May 16, 2022, the Parent Bank issued its maiden blue bond amounting to US$100 million through an investment from the International Finance Corporation (IFC). The bond, with an interest rate of 3.71% and a tenor of seven years, expanded financing for projects that help prevent marine pollution and preserve clean water resources. The issuance marked a milestone for BDO Unibank Group for being the first private sector issuance for a blue bond in Southeast Asia.

The issuance of the senior notes 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.

On March 3, 2023, the Parent Bank redeemed US$644 million in Senior Notes.

17.2 Fixed rate 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 issuance is also part of the Parent Bank's continuing efforts to diversify its funding sources and support its lending activities.

The Parent Bank issued fixed rate peso bonds as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance September 30, 2023 (Unaudited)	Outstanding Balance December 31, 2022 (Audited)
January 28, 2022	January 28, 2024	2.90%	52,700	**P 52,848**	P 52,696

17.3 Reconciliation of Liabilities Arising from Financing Activities

Presented below is the reconciliation of liabilities arising from financing activities both for the nine months ended September 30, 2023 and 2022, which includes both cash and non-cash changes:

	Senior Notes	Fixed Rate Peso Bonds	Others	Total
Balance as of January 1, 2023	P 84,355	P 52,696	P 61,840	P 198,891
Cash flows from financing activities				
Repayment of borrowings	(36,187)	-	(114,118)	(150,305)
Additional borrowings	-	-	131,815	131,815
Non-cash financing activities				
Interest amortization	(466)	152	1,738	1,424
Revaluation	418	-	91	509
Balance as of September 30, 2023	**P 48,120**	**P 52,848**	**P 81,366**	**P 182,334**
Balance as of January 1, 2022	P 73,053	P 76,436	P 54,942	P 204,431
Cash flows from financing activities				
Additional borrowings	5,219	52,292	49,227	106,738
Repayment of borrowings	(1,102)	(75,987)	(65,444)	(142,533)
Non-cash financing activities				
Interest amortization	(398)	(97)	20	(475)
Revaluation	11,480	-	3,426	14,906
Balance as of September 30, 2022	P 88,252	P 52,644	P 42,171	P 183,067

18. INSURANCE CONTRACT LIABILITIES

This account consists of:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Legal policy reserves	**P 66,966**	P 59,321
Policy and contract claims payable	**3,322**	3,516
Policyholders' dividends	**1,872**	1,526
	P 72,160	P 64,363

Legal policy reserves represent estimates of present value of benefits in excess of present value of premium and also include the policyholders' share in net assets for variable-unit linked life insurance contracts (see Note 25). These estimates are based on interest rates, mortality/morbidity tables, lapsed rate, and valuation method as prescribed by the Insurance Commission (IC). The movements in legal policy reserves for the periods ended September 30, 2023 and 2022, except those brought about by changes in discount rate, is recognized as part of Policy reserves, insurance benefits and claims under Other Operating Expenses in the condensed consolidated interim statements of income (see Note 21).

This account shall be measured and accounted for in accordance with the circular on valuation standard for the life insurance reserves. The movement in legal policy reserves brought about by the changes in discount rate is recognized under Remeasurement on life insurance reserves in the condensed consolidated interim statements of comprehensive income.

19. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	**September 30, 2023 (Unaudited)**	December 31, 2022 (Audited)
Accrued expenses		**P 26,582**	P 18,723
Outstanding acceptances payable		**17,833**	21,983
Accounts payable		**14,502**	20,885
Lease liabilities	12.2	**12,782**	13,344
Manager's checks		**12,080**	12,774
Bills purchased - contra		**9,262**	9,601
Derivatives with negative fair values		**6,338**	7,809
Premium on deposit fund		**4,102**	3,971
Withholding taxes payable		**2,044**	2,669
Lease deposits		**1,429**	1,070
Due to BSP and Treasurer of the Philippines		**1,179**	722
Due to principal		**379**	206
Capitalized interest and other charges		**369**	297
Others	15	**14,174**	15,060
		P 123,055	P 129,114

Others include margin deposits, life insurance deposits, cash letters of credit and miscellaneous liabilities.

Interest expense in relation to lease liabilities amounted to P649 and P678 for the nine months ended September 30, 2023 and 2022, respectively, which is presented as part of Interest Expense on Finance Lease Liabilities under Interest Expense account in the condensed consolidated interim statements of income (see Note 12.2).

Interest expense on certain liabilities amounting to P103 and P64 for the nine months ended September 30, 2023 and 2022, respectively, are presented as part of Interest Expense on Bills Payable and Other Borrowings in the condensed consolidated interim statements of income.

For the nine months ended September 30, 2023 and 2022, the BDO Unibank Group recognized impairment losses for off-books account amounting to P13 and P4, respectively, and on miscellaneous liabilities – damage suit amounting to P7 and nil, respectively. The accumulated impairment losses as of September 30, 2023 and December 31, 2022 for off-books account amounting to P247 and P233, respectively, and for miscellaneous liabilities – damage suit amounting to P78 and P71, respectively, are recognized as part of Others under Other Liabilities account in the condensed consolidated interim statements of financial position (see Note 15).

20. EQUITY

20.1 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 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 2010 to January 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 CET1 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.

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

Under BSP Circular 781, universal banks with more than 100 branches are required to comply with the minimum capital requirement of P20 billion. As of September 30, 2023 and December 31, 2022, the Parent Bank has complied with the above capitalization requirement.

The BSP issued Circular 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 ranging from 1.50% to 2.50%, effective October 12, 2019. As of September 30, 2023 and December 31, 2022, the Parent Bank has complied with the said requirement.

BSP Circular 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 last December 21, 2018.

BDO Unibank Group's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of September 30, 2023 and December 31, 2022 follows:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Tier 1 Capital		
CET 1	**P 476,746**	P 437,138
Additional Tier 1	**6,180**	6,180
	482,926	443,318
Tier 2 Capital	**28,372**	27,501
Total Regulatory Capital	**511,298**	470,819
Deductions	**(49,030)**	(42,219)
Total Qualifying Capital	**P 462,268**	P 428,600
Total Risk Weighted Assets	**P 2,960,682**	P 2,954,935
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	**15.6%**	14.5%
Tier 1 Capital Ratio	**14.7%**	13.6%
Total CET 1 Ratio	**14.5%**	13.4%

20.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)	**September 30, 2023 (Unaudited)**	December 31, 2022 (Audited)
Preferred shares – P10 par value				
Authorized – 1,000,000,000 shares				
Issued, fully paid and outstanding:				
Balance at beginning of period	**618,000,000**	515,000,000	**P 6,180**	P 5,150
Issued during the period	**-**	103,000,000	**-**	1,030
Balance at end of period	**618,000,000**	618,000,000	**P 6,180**	P 6,180
Common shares – P10 par value				
Authorized – 8,500,000,000 shares				
Issued, fully paid and outstanding:				
Balance at beginning of period	**5,264,131,675**	4,385,519,015	**P 52,641**	P 43,855
Issued during the period	**3,946,783**	878,612,660	**40**	8,786
Balance at end of period	**5,268,078,458**	5,264,131,675	**P 52,681**	P 52,641

20.2.1 Preferred Shares

The following are the features of the BDO Unibank Group'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 6.5% per annum of the par value.

20.2.2 Common Shares

As of September 30, 2023 and December 31, 2022, there are 12,278 and 12,309 holders of the listed shares, respectively, equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P141.90 per share as of September 29, 2023 and at P105.70 per share as of December 29, 2022 (the last trading day in 2022).

20.3 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 depositary of ADRs for a period of five years. As depositary 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 Deutsche Bank as the exclusive depositary of ADRs for another five years.

As of September 30, 2023 and December 31, 2022, 906,650 and 554,539 ADRs valued at US$22,620,918 and US$11,566,297 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$24.95/share and US$20.86/share, respectively).

20.4 Surplus Free

The details of the Parent Bank's cash dividend distributions are as follows:

Date Declared and Approved	Common shares dividend Per Share	Common shares dividend Total Amount	Record Date	Date Paid/Payable
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
February 24, 2022	0.30	1,316	March 14, 2022	March 31, 2022
April 22, 2022	1.00	4,386	May 6, 2022	May 31, 2022
May 28, 2022	0.30	1,316	June 14, 2022	June 30, 2022
August 26, 2022	0.30	1,316	September 13, 2022	September 30, 2022
December 3, 2022	0.30	1,579	December 20, 2022	December 29, 2022
February 24, 2023	0.75	3,949	March 13, 2023	March 31, 2023
May 27, 2023	0.75	3,949	June 14, 2023	June 30, 2023
August 25, 2023	0.75	3,951	September 12, 2023	September 29, 2023

Date Declared and Approved	Preferred shares dividend Per Annum	Preferred shares dividend Total Amount	Date Paid/ Payable
January 30, 2021	6.50%	340	February 22, 2021
January 29, 2022	6.50%	339	February 22, 2022
January 28, 2023	6.50%	407	February 20, 2023

On March 26, 2022, the BOD approved the declaration of stock dividends equivalent to 20% of the BDO Unibank's outstanding capital stock to be issued out of the increase in BDO Unibank's authorized capital stock (common shares) from 5,500,000,000 to 8,500,000,000 shares amounting to P85,000 with par value of P10 per share and 103,000,000 preferred shares with a par value of P10 per share, payable to all stockholders as of record date. On November 29, 2022, the Parent Bank received the approval from the SEC for this stock dividend issuance, setting December 15, 2022 as the record date. The stock dividends were issued on December 29, 2022.

20.5 Surplus Reserves

In compliance with BSP regulations, 10% of BDO Unibank Group's profit from trust business amounting to nil for both nine months ended September 30, 2023 and 2022 is appropriated to surplus reserves (see Note 24).

The BDO Unibank Group appropriated its Surplus Free for impairment of general loan loss portfolio amounting to P1,076 and P1,570 for the nine months ended September 30, 2023 and 2022, respectively. The accumulated amount of appropriation to surplus reserves for general loan loss portfolio as of September 30, 2023 and December 31, 2022 amounted to P16,981 and P15,905, respectively, for BDO Unibank Group. This appropriation was prescribed by BSP and was recognized as part of Surplus Reserves account.

The Parent Bank appropriated its Surplus Free amounting to P40 and P36 for the nine months ended September 30, 2023 and 2022, respectively, representing insurance fund on losses due to fire, robbery and other cash losses. This was approved by the Parent Bank's President.

On July 28, 2022, Armstrong Securities, Inc. (ASI) was sold to a third party which resulted in the reversal of Surplus Reserves 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 amounting to P14 (see Note 26.2).

20.6 Employee Stock Option Plan (ESOP)

For options that were vested, BDO Unibank Group issued new common shares of 3,946,783 and 1,275,033 during the nine months ended September 30, 2023 and December 31, 2022, respectively, from its authorized capital stock.

Set out below is the summary of number of options vested under the plan.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of period	**18,385,887**	14,950,363
Vested during the period	**10,423,415**	10,018,699
Forfeited during the period	**(57,825)**	(43,235)
Expired during the period	**(55,500)**	(557,900)
Exercised during the period	**(11,005,112)**	(5,982,040)
Balance at end of period	**17,690,865**	18,385,887

21. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

		For the Nine Months Ended	
	Notes	**September 30, 2023 (Unaudited)**	September 30, 2022 (Unaudited)
Service charges, fees and commissions		**P 31,707**	P 27,695
Insurance premiums		**13,872**	14,594
Foreign exchange gain – net		**4,697**	6,302
Trust fees	24	**3,512**	3,437
Rental		**1,026**	985
Recovery on charged-off assets		**754**	560
Income from assets acquired		**506**	487
Trading gain (loss) – net	9.3	**290**	(2,066)
Dividends		**178**	129
Miscellaneous		**1,308**	1,069
		P 57,850	P 53,192

Other operating expenses consist of the following:

	Notes	For the Nine Months Ended September 30, 2023 (Unaudited)		September 30, 2022 (Unaudited)	
Compensation and benefits	22	**P**	**37,264**	P	32,695
Fees and commissions			**21,228**		16,455
Taxes and licenses			**13,946**		9,193
Policy reserves, insurance benefits and claims	18		**10,368**		11,071
Occupancy	11, 12.3, 14.5, 23		**8,098**		7,908
Insurance			**5,278**		4,725
Security, clerical, messengerial and janitorial			**3,601**		3,082
Advertising			**2,690**		1,811
Repairs and maintenance			**1,809**		1,753
Information technology			**1,503**		845
Amortization of computer software	14.5		**1,252**		1,045
Power, light and water			**1,109**		1,020
Representation and entertainment			**1,095**		931
Supplies			**888**		573
Travelling			**825**		720
Litigation/assets acquired			**483**		677
Miscellaneous			**3,288**		3,602
		P	**114,725**	P	98,106

22. COMPENSATION AND BENEFITS

Expenses recognized for employee benefits are presented below (see Note 21).

	For the Nine Months Ended September 30, 2023 (Unaudited)		September 30, 2022 (Unaudited)	
Salaries and wages	**P**	**21,369**	P	19,791
Bonuses		**7,209**		6,186
Retirement – defined benefit plan		**3,895**		1,801
Social security costs		**1,316**		1,005
ESOP		**347**		72
Other benefits		**3,128**		3,840
	P	**37,264**	P	32,695

23. RELATED PARTY TRANSACTIONS

The summary of BDO Unibank Group's transactions with its related parties for the periods ended September 30, 2023 and 2022 and outstanding balances as of September 30, 2023 and December 31, 2022 are as follows:

Related Party Category	Notes	**September 30, 2023 (Unaudited)** Amount of Transaction	**September 30, 2023 (Unaudited)** Outstanding Balance	September 30, 2022 (Unaudited) Amount of Transaction	December 31, 2022 (Audited) Outstanding Balance
DOSRI Loans	23.1				
Stockholders		**P 12,228**	**P 26,054**	P 9,875	P 21,122
Related Parties Under Common Ownership		**-**	**-**	2	-
Officers and Employees		**1,757**	**2,303**	1,358	2,254
Deposit Liabilities	23.2				
Stockholders		**435,365**	**23,062**	414,654	27,962
Related Parties Under Common Ownership		**1,048**	**166**	11,217	227
Directors		**965**	**21**	505	32
Retirement Plan	23.3	**(215)**	**7,958**	(7)	5,705
Other Transactions with Associates	23.4 (a)				
Loans and Advances		**-**	**7,569**	-	7,895
Interest Income		**410**	**157**	195	98
Related Parties Under Common Ownership	23.4 (b)(i)				
Right-of-use asset		**548**	**5,304**	1,241	4,818
Lease Liabilities		**56**	**3,034**	193	3,199
Interest Expense		**25**	**159**	67	237
Amortization Expense		**82**	**859**	223	1,098
Key Management Personnel	23.4 (b)(ii)				
Compensation		**1,027**	**-**	964	-

In the ordinary course of business, BDO Unibank Group has loans, deposits and other transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI) as described below.

23.1 Loans to Related Parties

Under existing policies of BDO Unibank Group, these loans are made on 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 BDO Unibank Group.

In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group, whichever is lower. As of September 30, 2023 and December 31, 2022, BDO Unibank Group is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

		September 30, 2023 (Unaudited)		December 31, 2022 (Audited)
Total DOSRI loans	**P**	**28,357**	P	23,376
Unsecured DOSRI loans		**2,186**		2,123
Past due DOSRI loans		**7**		11
Non-performing DOSRI loans		**18**		16
% of DOSRI loans to total loan portfolio		**1.04%**		0.89%
% of unsecured DOSRI loans to total DOSRI loans		**7.71%**		9.08%
% of past due DOSRI loans to total DOSRI loans		**0.02%**		0.05%
% of non-performing DOSRI loans to total DOSRI loans		**0.06%**		0.07%

DOSRI loans bear annual interest rates of 0.00% to 9.00% both for the nine months ended September 30, 2023 and 2022 (except for credit card receivables which bear a monthly interest rate of 0.00% to 3.00%).

The total DOSRI loans include loans to officers under the BDO Unibank Group'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 one month to 20 years.

The total DOSRI loan releases and collections for the nine months ended September 30, 2023 amounted to P13,985 and P9,004, respectively. Total loan releases and collections for the nine months ended September 30, 2022, on the other hand, amounted to P11,235 and P22,304, respectively.

23.2 Deposits from Related Parties

For the nine months ended September 30, 2023 and 2022, total deposits made by the related parties to the Parent Bank amounted to P437,378 and P426,376, respectively. Outstanding deposit liabilities from related parties amounted to P23,249 and P28,221 as of September 30, 2023 and December 31, 2022, respectively. Interest expense from deposits amounted to P568 and P433 for the nine months ended September 30, 2023 and 2022, respectively.

23.3 Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group for the nine months ended September 30, 2023 and 2022 and outstanding balances as of September 30, 2023 and December 31, 2022 as follows:

Related Party Category	**September 30, 2023 (Unaudited)** Amount of Transaction	**September 30, 2023 (Unaudited)** Outstanding Balance	September 30, 2022 (Unaudited) Amount of Transaction	December 31, 2022 (Audited) Outstanding Balance
Loans to employees				
BDO Unibank, Inc.	**P -**	**P 4**	P -	P 4
Investment in shares of:				
BDO Unibank, Inc.	**-**	**2,578**	-	195
Dominion Holdings	**-**	**2**	-	2
Deposit liabilities (including LTNCDs)				
BDO Unibank, Inc.	**-**	**5,374**	-	5,504
Trading gain (loss)				
BDO Unibank, Inc.	**(223)**	**-**	(9)	-
Interest expense				
BDO Unibank, Inc.	**7**	**-**	-	-
Rental income				
BDO Unibank, Inc.	**1**	**-**	2	-

23.4 Other Transactions with Related Parties

A summary of other transactions of the BDO Unibank Group with associates and other related parties is shown below and in the succeeding page. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(a) Other transactions of the BDO Unibank Group with associates are shown below.

Loans and Advances to Associates

As of September 30, 2023 and December 31, 2022, the outstanding loans and advances to associates amounted to P7,569 and P7,895, respectively. The related loans and advances are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the condensed consolidated interim statements of financial position (see Note 10). These loans are payable between seven and a half years to 12 years. BDO Unibank Group recognized P410 and P195 interest income on these loans for the nine months ended September 30, 2023 and 2022, respectively. Annual interest rate on these loans is 8.28% and 3.57% for the nine months ended September 30, 2023 and 2022, respectively.

(b) Other transactions of the BDO Unibank Group with related parties under common ownership are shown below:

(i) *Expenses of the Parent Bank*

Under PFRS 16, 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 P5,304 and P4,818, for the nine months ended September 30, 2023 and the year ended December 31, 2022, respectively, which is presented as part of Premises, Furniture, Fixtures and Equipment (see Note 11). Amortization expense on right-of-use assets arising from this transaction, amounting to P82 and P223 for the nine months ended September 30, 2023 and 2022, respectively, and is presented as part of Occupancy under Other Operating Expenses account in the condensed consolidated interim statements of income (see Note 21).

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 P25 and P67 for the nine months ended September 30, 2023 and 2022, respectively, in the condensed consolidated interim statements of income. Outstanding balances arising from this transaction amounted to P3,034 and P3,199 as of September 30, 2023 and December 31, 2022, respectively, and is included as part of Lease liabilities under Other Liabilities (see Note 19).

(ii) The key management of the BDO Unibank Group received salaries and other compensation amounting to P1,027 and P964 for the nine months ended September 30, 2023 and 2022, respectively.

24. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee – see Note 21) for its customers are not included in the accompanying condensed consolidated interim statements of financial position since these are not resources of the BDO Unibank Group (see Note 30.3):

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Investments	**P 1,896,126**	P 1,813,001
Others	**17,036**	12,018
	P 1,913,162	P 1,825,019

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 (see Note 9.3) with a total face value of P21,292 and P19,695 as of September 30, 2023 and December 31, 2022, respectively, 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. For the periods ended September 30, 2023 and 2022, the additional reserve for trust functions both amounted to nil, is included as part of Surplus Reserves account in the condensed consolidated interim statements of changes in equity (see Note 20.5).

25. UNIT-LINKED FUNDS

Variable unit-linked (VUL) life 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 BDO – Trust and Investment Group (BDO – TIG).

As of September 30, 2023 and December 31, 2022, BDO Life has 11 and 12 VUL funds, respectively. The details of the investment funds, which comprise the assets backing the unit-linked liabilities are presented below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the condensed consolidated interim financial statements.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Assets:		
Cash and cash equivalents	**P 180**	P 161
Financial assets at FVTPL	**28,629**	27,760
Other receivables	**42**	55
	P 28,851	P 27,976
Liabilities and Equity:		
Other liabilities	**P 214**	P 159
Net assets attributable to unit holders	**28,637**	27,817
	P 28,851	P 27,976

26. BUSINESS COMBINATIONS, DISPOSALS AND DISSOLUTIONS

26.1 Subscription of Additional Shares in BDO RIH (formerly CBN Grupo)

On October 21, 2016, BDO Capital subscribed to an additional 3,273,000 shares in BDO RIH for P170, making BDO Capital the owner of approximately 96% of the outstanding capital stock of BDO RIH. 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 Note 14.3).

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 in 2021 and P16 in 2022. This was approved by the BSP on November 9, 2021 and by the BDO RIH shareholders on February 2, 2022.

On July 20, 2022, BDO Capital and BDO RIH entered into an agreement for the transfer of shares of BDO Remit (UK) from BDO RIH to BDO Capital. BDO Capital made additional investment of P47 for its purchase of the shares.

26.2 Sale of ASI

On July 28, 2022, ASI was sold to a third party for P52. This deconsolidation resulted in the reversal of its assets, liabilities, capital stock and surplus reserves amounting to P60, P4, P42 and P14, respectively, and the recognition of loss on sale amounting to P15.

26.3 Liquidation of BDO Remit Spain

On February 7, 2023, BDO Remit Spain S.A. has completed its liquidation as confirmed by the Mercantile Registry of Barcelona.

26.4 Acquisition of Additional Shares in SM Keppel

On March 25, 2023, BDO and Keppel Group (Keppel Philippines Properties, Inc. and Opon-KE Properties, Inc.) entered into a Share Purchase Agreement wherein Keppel Group agreed to sell and BDO agreed to purchase Keppel Group's 50% stake in SM Keppel consisting of 254,311,500 common and preferred shares. The transaction will result in BDO owning 100% of SM Keppel.

The acquisition was approved and authorized by the BDO Board on March 25, 2023 and by the Philippine Competition Commission on August 18, 2023. As of September 30, 2023, this transaction is yet to be considered in the BDO Unibank Group consolidation as its completion is still subject to, among others, the approval of the BSP. The acquisition will be accounted for under PFRS 3, *Business Combinations* upon completion.

27. TAXES

On March 26, 2021, Republic Act (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 reverted to its original rate of 2% beginning July 1, 2023; and,
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

The major components of tax expense reported in the condensed consolidated interim statements of income follow:

	For the Nine Months Ended	
	September 30, 2023 (Unaudited)	September 30, 2022 (Unaudited)
Reported in profit or loss:		
Current tax expense	**P 14,932**	P 10,122
Deferred tax expense relating to origination and reversal of temporary differences	**948**	734
	P 15,880	P 10,856
Reported in other comprehensive income (loss) –		
Fair value of FVOCI securities	**P 3**	(P 17)

The components of the net deferred tax assets (see Note 14) follow:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Deferred tax assets:		
Allowance for impairment	P 2,074	P 2,681
Unamortized past service cost	2,896	3,521
Retirement obligation (net of OCI)	(111)	(344)
Recognition of right-of-use assets and lease liabilities	97	87
Lease income differential	-	7
Others	102	13
	5,058	5,965
Deferred tax liabilities:		
Revaluation increment	337	336
Capitalized interest	29	31
Retirement asset (net of OCI)	16	54
Changes in fair values of FVOCI securities	(11)	(7)
Lease income differential	1	2
Others	290	194
	662	610
Deferred tax assets - net	P 4,396	P 5,355

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below presents the resources and liabilities analyzed according to whether these are expected to be recovered or settled in less than 12 months and over 12 months from condensed consolidated interim statement of financial position date:

	September 30, 2023 (Unaudited)			December 31, 2022 (Audited)		
	Within 12 Months	Beyond 12 Months	Total	Within 12 Months	Beyond 12 Months	Total
Resources						
Cash and other cash items	P 57,812	P -	P 57,812	P 82,944	P -	P 82,944
Due from BSP and other banks - net	451,926	-	451,926	444,545	-	444,545
Trading and investment securities	217,199	697,013	914,212	91,776	631,054	722,830
Loans and other receivables - net	859,227	1,879,050	2,738,277	854,188	1,842,713	2,696,901
Premises, furniture, fixtures, and equipment - net	-	46,218	46,218	-	46,471	46,471
Investment properties - net	-	21,094	21,094	-	21,158	21,158
Other resources - net	17,969	40,829	58,798	16,787	43,072	59,859
	P 1,604,133	P 2,684,204	P 4,288,337	P 1,490,240	P 2,584,468	P 4,074,708
Liabilities						
Deposit liabilities	P 3,331,245	P 76,843	P 3,408,088	P 3,126,217	P 94,666	P 3,220,883
Bills payable	116,733	65,600	182,333	80,781	118,110	198,891
Insurance contract liabilities	3,876	68,284	72,160	7,844	56,519	64,363
Other liabilities	102,767	20,288	123,055	106,608	22,506	129,114
	P 3,554,621	P 231,015	P 3,785,636	P 3,321,450	P 291,801	P 3,613,251

29. EARNINGS PER SHARE

29.1 Basic Earnings Per Share

Basic earnings per share attributable to shareholders of BDO Unibank Group are computed as follows:

	For the Nine Months Ended			
	September 30, 2023 (Unaudited)		September 30, 2022 (Unaudited)	
Net profit attributable to shareholders of the Parent Bank	**P**	**53,899**	P	39,998
Less dividends in arrears on preferred shares		**407**		339
Net profit available to common shares		**53,492**		39,659
Divided by the weighted average number of outstanding common shares (in millions)		**5,265**		5,263
Basic earnings per share	**P**	**10.16**	P	7.54

29.2 Diluted Earnings Per Share

Diluted earnings per share attributable to the shareholders of BDO Unibank Group are computed as follows:

	For the Nine Months Ended			
	September 30, 2023 (Unaudited)		September 30, 2022 (Unaudited)	
Net profit attributable to shareholders of the Parent Bank	**P**	**53,899**	P	39,998
Divided by the weighted average number of outstanding common shares (in millions):				
Outstanding common shares		**5,265**		5,263
Potential common shares from assumed conversion of convertible preferred share		**44**		55
Potential common shares from assumed conversion of stock option plan		*****		*
Total weighted average number of common shares after assumed conversion of convertible preferred shares and stock option plan		**5,309**		5,318
Diluted earnings per share	**P**	**10.15**	P	7.52

* *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.*

30. COMMITMENTS AND CONTINGENCIES

30.1 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 September 30, 2023, management believes that no such legal proceedings are expected to have material adverse effect on the BDO Unibank Group's condensed consolidated interim financial information.

30.1.1 Applicability of Revenue Regulation 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, the 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 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 (SC). The SC 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 SC 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.

In a Decision dated December 1, 2021, the SC denied the Petition and declared that RR 4-2011 issued by the Secretary of the Department of Finance is void for having been issued ultra vires. The decision became final and executory on June 7, 2022, and was recorded in the Book of Entries of Judgment.

30.1.2 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 judgment 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 SC but the same was likewise denied by the SC in a Resolution dated July 5, 2023. PDIC filed Motion for Reconsideration with the SC.

On June 18, 2018, the Parent Bank received an amount of P1,243 for the full termination of escrow. As of September 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 the counterparty (see Note 19).

The case is still pending before the SC as of September 30, 2023.

30.1.3 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 September 30, 2023, 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.

30.2 Lease Commitments - as a Lessor

30.2.1 Finance Lease

BDO Unibank Group, as a lessor, enters into finance leases covering various equipment and vehicles with lease term ranging from one to 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:

	September 30, 2023 (Unaudited)		December 31, 2022 (Audited)	
	Future MLPR	**PV of NMLPR**	Future MLPR	PV of NMLPR
Within one year	**P 1,722**	**P 1,714**	P 1,301	P 1,297
After one year but not more than two years	**1,259**	**1,210**	1,148	1,091
After two years but not more than three years	**1,017**	**874**	694	603
After three years but not more than five years	**794**	**415**	612	329
More than five years	**-**	**-**	-	-
Total MLPR	**4,792**	**4,213**	3,755	3,320
Unearned lease income	**(579)**	**-**	(435)	-
Present value of MLPR	**P 4,213**	**P 4,213**	P 3,320	P 3,320

30.2.2 Operating Leases

The BDO Unibank Group entered into various operating leases covering land, offices and equipment with lease term ranging from less than one to five years. Operating lease income, presented under Rental account as part of Other Operating Income and Expenses in the BDO Unibank Group's condensed consolidated interim statements of income for the nine months ended September 30, 2023 and 2022, amounted to P1,026 and P985, respectively (see Note 21).

Future minimum rental receivables under operating leases are as follow:

		September 30, 2023 (Unaudited)		December 31, 2022 (Audited)
Within one year	**P**	**1,112**	P	1,171
More than one year		**1,464**		1,593
	P	**2,576**	P	2,764

30.3 Others

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 the accompanying BDO Unibank Group condensed consolidated 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 September 30, 2023, no additional material losses or liabilities are required to be recognized in the accompanying condensed consolidated financial statements of BDO Unibank Group as a result of these commitments and contingencies.

Following is a summary of BDO Unibank Group's commitments and contingent accounts:

	Note		September 30, 2023 (Unaudited)		December 31, 2022 (Audited)
Trust department accounts	24	**P**	**1,913,162**	P	1,825,019
Committed credit lines			**477,684**		445,683
Forward exchange sold			**285,525**		194,235
Forward exchange bought			**259,972**		164,713
Unused commercial letters of credit			**87,540**		94,851
Spot exchange sold			**31,272**		12,945
Bills for collection			**15,498**		14,889
Export letters of credit confirmed			**13,638**		14,757
Spot exchange bought			**12,930**		5,038
ROP warrants			**8,475**		8,475
Interest rate swap receivable			**3,810**		4,660
Interest rate swap payable			**3,810**		4,660
Late deposits/payments received			**2,382**		1,417
Outstanding guarantees issued			**1,800**		2,270
Other contingent accounts			**7,242**		2,889

31. EVENTS AFTER THE REPORTING PERIOD

31.1 Subscription of Additional Shares to BDO Securities

On September 25, 2023, the BOD of BDO Capital approved and authorized BDO Capital to subscribe up to P250 common shares of BDO Securities to be issued in one or more tranches. The first tranche of P150 was made on October 23, 2023.

31.2 Closure of BRUSA

On October 25, 2023, the BOD approved the cessation of business operations of BRUSA either through the sale or transfer of BRUSA's business and remittance licenses to potential buyer/s or dissolution and liquidation of BRUSA subject to securing and/or compliance with applicable laws and regulations.