BDO Private Bank

2019 ANNUAL REPORT

Building Legacies

BDO Private Bank

2019 ANNUAL REPORT

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Corporate Profile

Our Mission

Our purpose is to help clients meet their financial objectives.

Our goal is to be the best in what we do as individuals and as a firm.

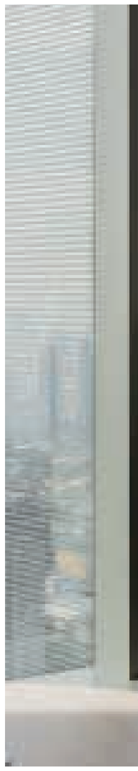
Our ideas should be innovative yet appropriate for our clients' needs.

Our executions shall be seamless.

Our service should be par excellence.

Our integrity will not be compromised.

We are BDO Private Bank.



Our Philosophy

We seek to preserve and enhance the value of our clients' assets by achieving returns that outpace predefined market benchmarks.

We encourage diversification among asset classes and individual securities to mitigate price/market volatility. With these, we seek to grow and protect our clients' wealth for the enjoyment of their successors and their heirs.

We customize investment strategies to address each client's unique circumstances, as well as specific preferences for income, liquidity, and risk.

Where appropriate, we pursue cross-border investment opportunities to enhance returns and provide additional diversification.

Our Commitment

Our commitment to provide the best financial service to our clients requires us to be prudent in our design for financial solutions. We undertake to render proper due diligence, objective valuation, and full disclosure of material information. Through this process, we apply global standards in creating active markets for instruments we sponsor and offer to our clients.

Our product offerings are based on an open product architecture model, where clients are offered the best available products regardless of provider, an approach geared towards delivering the highest possible returns to each of our client groups.

In all these, we anchor our commitment on a solid base, a sound balance sheet, and a strong team of professionals.

To Clients

- Deliver high-value products and quality service
- Offer innovative solutions to specific needs
- Provide timely advice and investment/market information

To Shareholders

- Maximize return on investment
- Manage our business with the highest professional, ethical, and moral standards
- Pursue opportunities that improve shareholder value

To Associates

- Create a responsive environment that promotes teamwork
- Recognize individual worth and contribution
- Maintain and enhance the intellectual capital of our associates through rigorous and relevant training and education

Message from the Chairperson

Teresita T. Sy
Chairperson

Our strong numbers are a reflection of our clients' trust in us as advisors.

Dear Shareholders,

I am pleased to present to you BDO Private Bank's report on its operations in 2019. Following a challenging financial environment in 2018, we were able to strengthen our balance sheet and more than double our net profits in 2019. Our strong numbers are a reflection of our clients' trust in us as advisors.

As the only standalone private bank in the Philippines, BDO Private Bank maintains a unique position. Our focus is on creating wealth management strategies for our clients, such as business owners, family offices, senior corporate executives, and next generation inheritors, and on helping them grow, manage, and preserve their wealth in thoughtful and holistic ways.

We will further sharpen our strategic advisory function and continue to evolve our wealth management, planning, and financial solutions to meet the sophisticated needs of our clients across different aspects of their lives.

I appreciate the invaluable experience and wisdom of our distinguished directors of the board in guiding us, as well as our bank management and support team for their commitment and dedication in producing results our clients can be proud of.

Thank you for your continued trust and support in BDO Private Bank.

Yours truly,

Teresita T. Sy
Chairperson

Message from the President

Albert S. Yeo
President

At BDO Private Bank, we know that the value we create for our shareholders flows from one source only: the value we create for our clients.

Dear Clients and Shareholders,

2019 was a successful year for BDO Private Bank. We were able to strengthen our balance sheet, rationalize and streamline our organization, and more than double our net profits, while providing our clients greater access to more investment alternatives and advice based on their individual goals and circumstances.

Our performance was supported by the return to relative normalcy of global market conditions that had been disrupted by U.S. trade policy disputes. We were also aided by regulatory actions favorable to the financial sector, in particular, an easing of reserve requirements and a reduction in the estate and donors tax from which our clients stood to benefit. We set out to take the best advantage of the resulting global reduction in interest rates and the easing of inflation in the Philippines: we trimmed our balance sheet and reduced our exposure to higher-cost sources of funding, principally time deposits. While this resulted in a significant reduction of our total assets, our net interest margin improved and our profits for the year soared from P301 million in 2018 to P878 million in 2019.

We have concentrated on making available to our clients an industry-leading range of investment alternatives, expanding our already large suite of offerings of offshore mutual funds and ETFs (Exchange Traded Funds). We also made available access to physical gold as an investment class, as a hedge against uncertainties in the global economic outlook. Private Bank clients who chose these opportunities as part of a balanced investment portfolio saw a very attractive gain in 2019.

To further improve our client services, we are strengthening our Relationship Management Group with more seasoned advisors and a more robust Family Office Unit, to better serve families who have established such a function, and to introduce the benefits of said function to other clients who have substantial means but have yet to create one.

Wealth creation is growing at a fast pace in the Philippines, and we know that more individuals and households will soon be needing the kind of services that BDO Private Bank provides. Our current and potential clients are financially sophisticated and demanding, and we are aware they have many alternatives to BDO when they need services such as financial planning, investment management, and wealth protection. Our aim is always to offer them more and better investment opportunities, more information on which to base their decisions, and personal contact with advisors who have the knowledge and experience to guide them to their investment goals. At BDO Private Bank, we know that the value we create for our shareholders flows from one source only: the value we create for our clients.

We are grateful for your continued support.

Sincerely,

Albert S. Yeo
President

Summary Financial Review

(Amounts in Philippine Pesos)

	2019	2018
Profitability		
Total Net Interest Income	796,094,787.00	888,019,539.00
Total Non-interest Income	1,667,521,558.00	1,004,733,392.00
Total Non-interest Expenses	1,330,647,802.00	1,392,577,419.00
Pre-provision profit	1,105,045,071.00	501,733,675.00
Allowance (Reversal) for credit losses	27,923,472.00	(1,558,163.00)
Net Income	878,617,728.00	301,294,310.00
Selected Balance Sheet Data		
Liquid Assets	31,154,201,686.00	42,166,533,830.00
Gross Loans and Other Receivables	3,517,957,022.88	4,720,734,445.70
Total Assets	34,952,096,883.00	48,849,195,197.00
Deposits	26,994,603,440.00	40,513,687,343.00
Total Equity	5,815,953,411.00	5,136,365,729.00
Selected Ratios		
Return on average equity	16.0%	5.8%
Return on average resources	2.1%	0.5%
CET 1 capital ratio	26.33%	18.36%
Tier 1 capital ratio	26.33%	18.36%
Capital Adequacy Ratio	26.54%	18.52%
Per common share data		
Net Income per share:		
Basic	405.83	139.17
Diluted	405.83	139.17
Book Value	2,686.35	2,372
Others		
Cash Dividends declared	800,000,000.00	330,000,000.00
Headcount		
Officers	197	195
Staff	4	6

BDO Private Bank, Making Your Wealth Work for You

Private banking is as old as banking itself, and every large international bank offers private banking services. BDO Private Bank is different.

The essence of private banking is providing personalized financial services to individuals of substantial means. Those with very high net worth have unique opportunities but also face unique problems: how to invest their assets in the most profitable way that is consistent with their time horizon and their tolerance for risk; how to shield assets and transactions from taxation in a dizzyingly complex regulatory environment; and how to distribute those assets, during and after their lifetimes, in accordance with their wishes and in the most efficient way.

Taking advantage of those opportunities, and answering the questions that come with them, requires highly specialized expertise; but expertise is not enough. To be effective, an advisor must also have a sensitive understanding of the client's hopes and concerns; a fresh, holistic, and consultative approach when it comes to financial matters; and the capacity to build the kind of relationship of trust that is earned only over time.

Most other "private banks" in the Philippines are a division of a commercial bank that provides private banking among all its other services or they are a part of the treasury group that provides investment products among other bank products. BDO Private Bank is the only stand-alone private bank in the nation that is not commingled with a larger institution. BDO Private Bank, Inc., a wholly owned subsidiary of BDO Unibank, Inc., is a separate entity with its own banking license, its own independently audited financial statements, and a singular focus on creating relationships of trust that will enable us to help our clients manage their wealth with peace of mind.

Understanding Your Priorities

So how do we help make our clients' wealth work for them? It begins with the core of our mission statement: to "help our clients meet their financial objectives" — a goal that is simple to state but takes 100% commitment from a team of bankers and relationship managers and the many other bank employees who support them. Truly understanding an individual's financial objectives means more than asking them to fill out a questionnaire. In conversations that usually begin in one of our eight customer lounges, our relationship managers take the time to listen carefully to the client's individual circumstances, their goals and priorities, their appetite for risk, their time horizon, and the many other things that determine how they want their wealth to work for them.

Once we have gotten to know a client, we work together to decide on an investment approach that prioritizes the client's financial and estate planning goals. This will involve asset allocation plans that capture the maximum potential benefit consistent with the client's risk tolerance. It may include alternative investment vehicles, trust arrangements, or other structures tailored to the client's specific situation.

Then the client decides, in consultation with our advisors, how to put that plan into action. Clients can listen to our investment advice and take it into account in making their own investment decisions. They can delegate investment decision-making entirely to our expert wealth advisors, or they can make any arrangement in between. The bank offers various approaches, including managed accounts, which afford clients the maximum convenience; advisory accounts, for clients that seek more active involvement in the process of investment decision-making; and execution accounts, for clients who prefer to make all investment choices for themselves.

The Strong Team Behind You

Only by investing in our people and our infrastructure are we able to maintain the high standard of service that we insist on. Our relationship managers participate in rigorous training when they join our team, and on an ongoing basis, to keep them up to date on trends and regulatory changes as well as to expand their skill set into new areas.

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WEALTH MANAGEMENT

- Financial Planning
- Strategic Investment Advisory
- Investment Management
- Wealth Protection and Distribution

Because we have invested heavily in recent years in upgrading our technology platforms, our relationship managers have access to up-to-the-minute information about BDO Private Bank's many product offerings; the client's instructions, financial position, and transactional history; and sophisticated market data and other metrics, all in real time. This allows them to give the most timely and personalized advice, whether on a new opportunity or a prudent "course correction."

We Value Your Plans Like They Are Ours

Our clients' wealth provides many opportunities, of course, but also imposes responsibilities. The distribution of great wealth, whether by gift or by bequest, always generates legal questions in areas like tax, trusts and estates, and insurance. It also often gives rise to delicate and difficult emotional issues. Helping a client to navigate these is among the most complicated, sensitive tasks we face, and that is when our singular focus on the issues that arise with individuals of exceptionally high net worth pays off the most.

Wealth creation is growing at a fast pace in the Philippines, and we expect that the need for private banking services will increase in the coming years. Creating personalized financial planning solutions for financially sophisticated clients — based on information and expertise, a world-class suite of investment opportunities, and (most of all) a thorough, personally derived understanding of the client's own goals and circumstances — is the crux of what we do at BDO Private Bank. Among all banking institutions in the country, we are best positioned to provide those services and to grow as our nation's economy grows.

Creating personalized financial planning solutions for financially sophisticated clients is the crux of what we do at BDO Private Bank.

Awards & Recognition

BEST PRIVATE WEALTH MANAGEMENT BANK IN THE PHILIPPINES
(12 consecutive years: 2008–2019)
Alpha Southeast Asia
13th Financial Institution Awards 2019

BEST PRIVATE BANK IN THE PHILIPPINES
(12 consecutive years: 2008–2019)
FinanceAsia 2019 Country Awards

BEST PRIVATE BANK, PHILIPPINES
(10 consecutive years: 2010–2019)
The Asset Triple A Private Banking,
Wealth Management, Investment
and ETF Awards 2019

TOP INVESTMENT HOUSE – PRIVATE BANK
The Asset Triple A
Benchmark Research Awards 2019

BEST PRIVATE BANK — PHILIPPINES
(5 consecutive years: 2015–2019)
Asian Private Banker
9th Awards for Distinction 2019

BEST PRIVATE BANK IN THE PHILIPPINES
#1 ASSET MANAGEMENT
(5 consecutive years: 2015–2019)
Euromoney Private Banking Survey 2019

BEST PRIVATE BANK IN THE PHILIPPINES
(5 consecutive years: 2015–2019)
Global Finance Best Private
Bank Awards 2019

BEST PRIVATE BANK IN THE PHILIPPINES
Asiamoney Best Bank Awards 2019

BEST PHILIPPINE PRIVATE BANK
Wealth Briefing Asia Greater China
Awards for Banking Excellence 2019

Corporate Governance

Corporate governance in BDO Private Bank, in consonance with its Parent Bank BDO Unibank, Inc., is about effective oversight, strict compliance with regulations, and sustainable value creation to promote the best interests of its various stakeholders.

BDO Private Bank, Inc. affirms its deep commitment to a high standard of corporate governance practice firmly anchored on the principles of accountability, fairness, integrity, transparency and performance, consistently applied throughout the institution. BDOPB believes that incorporating ethical, social, economic and environmental considerations in its daily operations creates the best long-term value for its stakeholders. The Bank's good market reputation has been built on the solid foundation of an ethical corporate culture and responsible business conduct, underpinned by a well-structured and effective system of governance.

2019 was another year of constructive change and constant improvement in BDOPB's corporate governance practice. The Bank continues to comply with the provisions of BSP Circular 969 on Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions and, where applicable, the recommendations of the SEC Code of Corporate Governance for Publicly-Listed Companies in its Corporate Governance Manual. BDOPB has likewise maintained adherence, where appropriate, with the international best practices of corporate governance issued by globally recognized standards setting bodies such as the Organization for Economic Cooperation and Development (OECD) and the ASEAN Corporate Governance Scorecard which serve as essential points of reference.

The ensuing report describes the highlights of our corporate governance practices throughout the financial year ended December 31, 2019.

Governance Structure

Board of Directors

Responsibility for good governance resides with the Board. It is responsible for providing effective leadership and overall direction to foster the long-term success of the Bank. It oversees the business affairs of the Bank, reviews the strategic plans and performance targets, financial plans and budgets, key operational initiatives, capital expenditures, acquisitions and divestments, annual and interim financial statements, and corporate governance practices. It oversees management performance, enterprise risk management framework, internal control systems, financial reporting and compliance, related party transactions, continuing director education, and succession plans for the Board and executive management. It considers sustainability issues related to the environment and social factors as part of its sustainable banking practices.

The Board is composed of 10 members and is aided by 3 advisors. The members of the Board are all professionals with proficiency in banking, accounting and finance, law, merchandise marketing, strategy formulation, bank regulations, information technology, sustainability, and risk management. It is headed by a Non-Executive Chairperson with 4 Independent Directors, 4 Non-Executive Directors and only one Executive Director who is the President. Independent Directors make up 40% of the members of the Board, thus exceeding the requirement of the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP). Non-Executive Directors including Independent Directors comprise 90% of the Board, more than the requirement of the BSP of at least majority of the Board. This provides independent and objective judgment on significant corporate matters and ensures that key issues and strategies are objectively reviewed, constructively challenged, thoroughly discussed and rigorously examined. The Board Advisors are considered an integral part of the Board whose influence is akin to that of a director. Their opinions and recommendations are taken into consideration by the Board members. The presence of 2 female Board Advisors provides an independent view of the Bank and complements the three (3) female non-executive directors.

The Board is responsible for the screening of new directors through the Corporate Governance Committee. The Committee leads the process of identifying and evaluating the nominees for directors. It evaluates the balance, skills, knowledge and experience of the

Board Snapshot

DIRECTOR DIVERSITY

3 Female

7 Male

DIRECTOR AGE

5 60-65

2 66-70

3 70+

SKILLS, EXPERIENCE & BACKGROUND

5 Banking & Finance

Business Executives

4 Private

1 Government

2019 BOARD MEETINGS

Directors	No. of Meetings Attended	Total No. of Meetings	Percent Rating
Teresita T. Sy	6	6	100%
Nestor V. Tan	6	6	100%
Albert S. Yeo	6	6	100%
Nicasio I. Alcantara	5	6	83%
Johnip G. Cua	6	6	100%
Gregory L. Domingo	6	6	100%
Violeta O. LuYm	4	6	67%
Pedro Emilio O. Roxas	5	6	83%
Elizabeth T. Sy	5	6	83%
Alfonso A. Uy	6	6	100%

existing Board and the requirements of the Bank. The result of the evaluation determines the role and key attributes that an incoming director should have. The Committee receives recommendations of potential candidates and uses, to the extent possible, external search firms or external databases in selecting the pool of candidates for the new members of the Board. It recommends the most suitable candidate to the Board for appointment or election as director.

For the re-election of incumbent directors, the Committee also considers the results of the most recent self-assessment of the Board, the annual peer evaluation, attendance record in meetings, participation in Board activities and overall contribution to the functioning of the Board.

In evaluating the suitability of an individual board member and promoting diversity in the composition of the Board, the Corporate Governance Committee takes into account the relevant qualifications of every candidate nominated for election such as among others, physical/mental fitness, relevant educational and professional background, personal track record, experience/training, commitment to contribute, willingness to serve and interest to remain engaged and involved without regard to race, gender, ethnic origin, religion, age or sexual orientation.

The Board is also responsible for approving the selection and appointment of a competent executive management led by the President, including the heads of units who will exercise control functions i.e. Chief Compliance Officer, Chief Risk Officer and Chief Internal Auditor. Fit and proper standards are applied in the selection of key officers and utmost consideration is given to their integrity, technical expertise and banking industry experience.

Each year, the composition of the Board and board committees including the skills and competencies of its members is reviewed to ensure appropriate balance of skills and experience, and alignment with the new regulations. In 2019, the organizational structures of the Risk Management, Trust and Related Party Transactions Committees remained in alignment with the Revised Corporate Governance Framework, having been revisited and reconfigured in the previous year. Additionally, independent directors chair four out of seven board committees, namely Risk Management, Audit, Corporate Governance and Related Party Transactions.

Considering the changes made, complexity and scope of the Bank's business, the Board believes that its current size and composition provide sufficient diversity among its directors that fosters critical discussion and promotes balanced decision-making by the Board. It views diversity at the Board level, which includes differences in skills, experience, gender, sexual orientation or preference, age, education, race, business and other related experience, as an essential element in maintaining an effective board for strong corporate governance.

During the year, the Board reviewed and approved the Bank's budget and business targets, declaration of dividends, and the hiring, resignation and promotions of senior officers. It approved the release of the 2019 audited financial statements within 60 days from year end. Its oversight functions include review of operational and financial performance of senior management and work of the various committees in accordance with their mandates.

Considering the changes made, complexity and scope of the Bank's business, the Board believes that its current size and composition provide sufficient diversity among its directors that fosters critical discussion and promotes balanced decision-making by the Board.

Improving Board Effectiveness

Board Performance

A yearly self-assessment is conducted focusing on the performance of the Board and its various Committees using an approved set of questionnaires. The performance evaluation process begins with sending out customized Board Evaluation Questionnaires to the directors and advisors. They are then required to accomplish the questionnaire and return the same to the Chief Compliance Officer within the specified submission date. A cover letter is attached to the questionnaire explaining the rationale and objectives of the performance evaluation. Based on the returns from each respondent, the ratings and responses are tabulated and consolidated. The Chief Compliance Officer prepares the overall report and presents this to the Corporate Governance Committee for discussion and endorsement to the Board, including the recommended actions and focus areas to improve effectiveness.

For 2019, the results of the self-assessment were presented to the Board including directors' recommendations to improve effectiveness in its governance functions. The overall assessment showed that the Board continues to operate on a very high standard of independence, committees function effectively and senior management has the relevant professional experience, necessary skills and ability to manage the Bank while the directors have rigorously maintained independence of view and the relationships between Board and committee members remain strong.

Continuing Education for Directors

The continuing education program for directors is an ongoing process geared towards the enhancement of their skills and knowledge and encouraging best practice. Every year, all directors and key officers are given updates and briefings on relevant policies and rules governing their respective roles, and are required to attend a corporate governance seminar on significant topics to ensure that they are continuously informed of the developments in the business and regulatory environments, including emerging opportunities and risks as well as sustainability strategy in the banking industry.

The directors of BDO Private Bank complied with the annual corporate governance training requirement of four (4) hours for 2019. Seven (7) directors of BDO Private Bank attended the in-house corporate governance seminar last July 24, 2019, in Makati City. It concentrated on cybersecurity in the Philippines and blockchain technology/cryptocurrencies, to equip themselves for emerging risks as banks move into the era of digital banking. Three (3) directors separately attended external corporate governance training conducted by MERALCO, SGV and Risks, Opportunities, Assessment and Management (ROAM), Inc.

Succession Planning

Succession planning for the Board and senior management is a vital part of the governance process. The Bank espouses the succession planning policy of the Parent Bank, complete with the succession framework and leadership development plans for senior management and those directly reporting to the President. This is reviewed by BDO Unibank's Corporate Governance Committee and subsequently approved by its Board. As part of the periodic review, the succession framework is updated and training programs are conducted accordingly. The Bank has likewise adopted the policy on the Term Limit of Independent Directors of 9 consecutive years of service as a way to refresh the Board membership progressively and in an orderly manner.

Remuneration

The Bank also adopts the Remuneration policy of the Parent Bank which is geared towards attracting, retaining and motivating employees and members of the Board. The remuneration framework for senior management includes fixed pay, bonuses and a long-term Employee Stock Option Plan (ESOP) as a long term incentive program. A clawback mechanism is in place, where the benefits and rights accruing from the ESOP can be revoked or forfeited, if the eligible employee is terminated from service for cause or in the event of imposition of an administrative or disciplinary sanction or penalty against the eligible employee at any time during and after the vesting period prior to exercise. It is linked to corporate and individual performance, based on an annual appraisal of senior management officers.

The five (5) most highly compensated management officers are the President, one (1) Executive Vice President and three (3) Senior Vice Presidents. All qualified employees may be entitled to an annual merit increase in salary, based on their performance for the immediately preceding year. This has a long-term and compounding effect to the fixed pay, which serves as basis for their retirement benefit.

Non-Executive Directors (NEDs) receive per diem for attending board and committee meetings. There is no distinction on the fee for a committee chairman or member. In addition, the Bank grants director fees other than per diem in accordance with law to ensure that the remuneration is commensurate with the effort, time spent and responsibilities of NEDs.

Dividends

BDOPB's dividend policy is adopted from the Parent Bank's, and recognizes the importance of providing a stable and sustainable dividend stream consistent with its commitment to its shareholders. The Bank has been paying annual cash dividends and will endeavor to do so while maintaining financial flexibility. The procedures in paying dividends entail prior board approval of the amount, record and payment dates consistent with BSP and SEC rules. Upon Board approval, appropriate disclosures are made in compliance with regulatory requirements. The full dividend policy statement is published in the BDO corporate website.

Related Party Transactions

The Bank has in place policies and procedures on related party transactions established by BDO Unibank, Inc. for the BDO Group in accordance with BSP and SEC regulations. These include definition of related parties, coverage of Related Party Transactions policy, guidelines in ensuring arm's-length terms, identification and prevention of management potential or actual conflicts of interest which arise, adoption of materiality thresholds, internal limits for individual and aggregate exposures, whistle-blowing mechanisms, and restitution of losses and other remedies for abusive RPTs. The RPT Committee reviews and endorses to the Board for final approval all material RPTs. The Related Party Transactions policy is intended to ensure that every related party transaction is conducted in a manner that will protect the Bank from conflict of interest which may arise between the Bank and its Related Parties; and proper review, approval, ratification and disclosure of transactions between the Bank and any of its related party/ies as required in compliance with legal and regulatory requirements. The policy also requires that any member of the RPT Committee who has a potential interest in any related party transaction shall abstain from the discussion and endorsement of the related party transaction and any member of the Board who has interest in the transaction must abstain from the deliberation and approval of any related party transaction. Related party transactions, whose value may exceed 10% of the Bank's total assets, require review of an external independent party to evaluate the fairness of its terms and conditions and approval of 2/3 vote of the Board, with at least a majority of the independent directors voting affirmatively. The full version of the Related Party Transactions Policy is published in the BDO corporate website at www.bdo.com.ph/corporate-governance/corporate-governance/companys-policies.

Chairperson of the Board

The Chairperson is largely responsible for steering the Board and ensuring its effectiveness. She provides independent leadership to the Board, fosters a constructive relationship between Directors, promotes an open environment for critical discussions and constructive debate on key issues and strategic matters, and ensures that the Board of Directors exercises strong oversight over the Bank's business to performance of senior management. She takes a lead role in ensuring that the Board provides effective governance of the Bank and continues to operate at a very high standard of independence with the full support of the directors.

Major Stockholders

As of December 31, 2019, the following are known to BDO Private Bank, Inc. (BDOPB) to be directly or indirectly the record and/or beneficial owners of more than 5% of BDO Private Bank's voting securities:

Title of Class	Name	Citizenship	Percentage
Common	BDO Unibank, Inc.	Filipino	99.99%

Every stockholder shall be entitled to one (1) vote for each share of stock standing in his name in the books of BDO Private Bank, unless the law otherwise provides. Cumulative voting shall be used in the election of the members of the Board of Directors.

Security Ownership of Directors

As of December 31, 2019, the following are known to BDOPB to be directly/indirectly the record and/or beneficial owners of BDO Private Bank voting securities:

Name of Director	Position/ Type of Directorship	Nationality	No. of Years as Director	Total No. of Direct (D) and Indirect (I)* Shares as of December 31, 2019	Percent to Total Outstanding Shares
Teresita T. Sy	Chairperson/ Non-Executive Director	Filipino	13	394,947 (I)* 1 (D)	0.0081%
Nestor V. Tan	Vice Chairman Non-Executive Director	Filipino	17	11,661,794 (I)* 1 (D)	0.2382%
Albert S. Yeo	President/ Executive Director	Filipino	2.5	1 (D)	0.0000%
Nicasio I. Alcantara	Independent Director	Filipino	10	1 (D)	0.0000%
Johnip G. Cua	Independent Director	Filipino	12	1 (D)	0.0000%
Gregory L. Domingo	Non-Executive Director	Filipino	1st Term: 2 2nd Term: 3	1 (D)	0.0000%
Violeta O. LuYm	Non-Executive Director	Filipino	12	1 (D)	0.0000%
Pedro Emilio O. Roxas	Independent Director	Filipino	19	1 (D)	0.0000%
Elizabeth T. Sy	Non-Executive Director	Filipino	12	207,002 (I)* 1 (D)	0.0042%
Alfonso A. Uy	Lead Independent Director	Filipino	12	1 (D)	0.0000%

* Ownership of shares in BDO Unibank, Inc.

Board of Directors

Teresita T. Sy

Chairperson
Non-Executive Director
Filipino, 69 years old

Teresita T. Sy, the Chairperson of BDO Unibank, Inc., was elected to the Board of Directors of BDO Private Bank, Inc. on August 6, 2007 and presently serves as Chairperson of the Board. Concurrently, she serves as the Chairperson and/or Director of various subsidiaries and affiliates of BDO: BDO Leasing & Finance, 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 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 in 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

Vice Chairman
Non-Executive Director
Filipino, 61 years old

Nestor V. Tan, the President and CEO of BDO Unibank, Inc., was elected to the Board of Directors and named Vice Chairman of BDO Private Bank, Inc. on December 3, 2003. He concurrently holds the Chairmanship of the following BDO Unibank 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 Leasing and Finance, Inc., BDO Finance Corporation, BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Life Assurance Company, Inc., BDO Remit (USA), Inc., and SM Keppel Land, Inc. He is also a Trustee of BDO Foundation, Inc. and Chairman of the De La Salle University Board of Trustees. He is also the Chairman of Bancnet, the operator of the electronic payment system, InstaPay, and the ATM switching utility for Philippine banks. He previously served as President and Director of the Bankers Association of the Philippines, in addition to being the previous Chairman and Director of Philippine Dealing System Holdings 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, NY; 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.

Albert S. Yeo

President
Executive Director
Filipino, 60 years old

Albert S. Yeo is the President and Executive Director of BDO Private Bank, Inc. He was elected to the Board on April 17, 2017. Prior to joining BDO, he was a senior financial advisor in Merrill Lynch & Co., USA. His 34-year career in finance and investments included other global institutions namely UBS Financial Service, Prudential Securities, Inc., IBJ Schroder Bank & Trust and with the Rizal Commercial Banking Corporation. Mr. Yeo holds a master's degree in Business Administration from Wharton School, University of Pennsylvania and a Bachelor of Science degree in Management Engineering, magna cum laude, from the Ateneo de Manila University.

Nicasio I. Alcantara

Independent Director
Filipino, 77 years old

Nicasio I. Alcantara was elected to the Board of Directors of BDO Private Bank, Inc. on September 14, 2009. He serves as Chairman of both the Corporate Governance Committee and the Related Party Transactions Committee of the Bank, and is a member of the Board Audit Committee. Mr. Alcantara is also the Chairman of the Board of Conal Corporation and Punta Properties, Inc., Chairman and President of Fial and Niacor, and Co-Chairman of Aviana Development Corporation. He is currently a Director of Alsons Corporation, Alsons Development and Investment Corporation, Alsons/AWS Information System, Inc., Conal Holdings Corporation, Aquasur Resources Corporation, Alsons Aquaculture Corporation, Alsons Land Corporation, Finfish Hatcheries, Inc., Kennemer Foods International, Indophil Resources NL, Site Group International Ltd., Sarangani Agricultural Co., Inc,, Sarangani Energy Corporation, Seafront Resources Corporation, Sunfoods Agri. Ventures, Inc., Philodrill Corporation, Alsing Power Holdings, Inc., Southern Philippines Power Corporation, Alsons Power Holdings Corporation, Western Mindanao Power Corporation, San Ramon Power, Inc., Sarangani Energy Corporation, and recently, Enderun Colleges, Inc. Prior to this, Mr. Alcantara held the position of Chairman and CEO of Petron Corporation, Chairman/President of various corporations, namely Alsons Insurance Brokers Corp., Alsons Aquaculture Corp., Alsons Consolidated Resources, Inc., Alsons Cement Corporation, Northern Mindanao Power Corporation, Southern Philippines Power Corporation and Chairman of the Board of ACR Mining Corp. He was also the Chairman of Alsons Prime Investments Corporation until 2015, and served as Director of Bank One Savings, Bancasia Capital Corporation, and C. Alcantara & Sons, Inc. He also served as member of the Board of Trustees of WWF-Philippines from 2008-2013. Mr. Alcantara holds a master's degree in Business Administration from Sta. Clara University, California, and a Bachelor of Science in Business Administration from the Ateneo de Manila University.

Johnip G. Cua

Independent Director
Filipino, 63 years old

Johnip G. Cua was elected to the Board of Directors of BDO Private Bank, Inc. on March 10, 2008. Director Cua is Chairman of the Risk Management Committee and a member of the Trust Committee of the Bank. He was formerly the President of Procter & Gamble Philippines, Inc., and is presently the Chairman of the Board of Xavier School, Inc. and P&Gers Fund, Inc., and Chairman and President of Taibrews Corporation. He is a member of the Board of Trustees of Xavier School Educational & Trust Fund and of MGCC Foundation, and a Director of Interbake Marketing Corporation, Teambake Marketing Corporation, Bakerson Corporation, and Lartizan Corporation. Additionally, Mr. Cua serves as Independent Director of Philippine Airlines, Inc., PAL Holdings, Inc., Century Pacific Food, Inc., LT Group, Inc., Tanduay Distillers Inc., Asia Brewery Inc., PhilPlans First, Inc., Eton Properties Philippines, Inc., ALI-Eton Property Development Corporation, MacroAsia Corporation, MacroAsia Catering Services, Inc., MacroAsia Airport Services Corporation, MacroAsia Properties Development, Corp., and Allied Botanical Corporation. Mr. Cua holds a Bachelor of Science degree in Chemical Engineering from the University of the Philippines, Diliman.

Gregory L. Domingo

Non-Executive Director
Filipino, 65 years old

Gregory L. Domingo was elected to the Board of Directors of BDO Private Bank, Inc. on April 18, 2016, and he serves as Chairman of the Trust Committee and Adviser to the Risk Management Committee of the Bank. Prior to his election as Director, he was the Secretary of the Department of Trade and Industry (DTI) from July 2010 to December 2015. His government service includes posts as Undersecretary of DTI–Industry and Investments Group (IIG), Managing Head of the Board of Investments, Vice Chairman of the National Development Council (NDC), and membership in the respective boards of the Philippine Economic Zone Authority (PEZA), Philippine Export-Import Credit Agency (PHILEXIM), and National Power Corporation (NAPOCOR). Mr. Domingo was formerly the Vice Chairman of Belle Corporation. Additionally, he served as Director of several private companies, among them SM Investments Corporation, BDO Private Bank, Inc., Cal-Comp. Philippines Inc. (CCPH), and Manila Electric Company (MERALCO). He also served as Managing Director of Chase Manhattan Bank/Chemical Bank (New York); President of Carmelray-JTCI Corporation; and Vice President of Seamen's Bank for Savings (New York). Mr. Domingo has worked for other financial institutions in New York and Pennsylvania, including First Boston, Drexel Burnham Lambert, and Mellon Bank/Girard Bank. Mr. Domingo holds a Bachelor of Science degree in Management Engineering from Ateneo de Manila University, a master's degree in Business Administration from the Asian Institute of Management where he graduated with distinction, and a Masters in Science Operations Research from the Wharton School of the University of Pennsylvania.

Violeta O. LuYm

Non-Executive Director
Filipino, 73

Violeta O. LuYm was elected to the Board of BDO Private Bank, Inc. on March 10, 2008. Ms. LuYm serves as a member of the Audit Committee, Corporate Governance Committee, and Related Party Transactions Committee of the Bank. She is the Chairperson of the Board of Directors of BDO Securities Corporation, and the Director and Treasurer of BDO Capital & Investment Corporation. She also sits on the boards of directors of Tangiers Resources Corporation, Venture Vision Realty Development Corporation, and Philippine Equity Corporation, and is a Director and Treasurer of various mutual fund companies under the Philequity Group of Funds. Ms. LuYm is the Corporate Secretary of Homeworld Shopping Corporation. She functioned as a Director of Equitable Savings Bank Inc. from 2007 to 2008; BDO Financial Services from 1997 to 2007; Banco De Oro-EPCI, Inc. from 1998 to 2007; and Vantage Equities, Inc. in 2011. In the past, she has held senior officer positions in the following financial institutions: Security Bank & Trust Co., Bancom Development Corp., International Corporate Bank, Bancom Finance Corp., BDO Commercial Bank, and BDO Universal Bank. She graduated from Assumption College and obtained her MBA from UCLA.

Pedro Emilio O. Roxas

Independent Director
Filipino, 63 years old

Pedro Emilio O. Roxas was elected to the Board of Directors of BDO Private Bank, Inc. on February 16, 2001. He is the Chairman of the Board Audit Committee, and also serves as member of the Corporate Governance Committee and the Related Party Transactions Committee of BDO Private Bank, Inc. Additionally, he is the Chairman of Roxas Holdings, Inc. as well as its operating subsidiaries: Roxaco Land Corporation, Club Punta Fuego, Inc., Fundacion Santiago, Philippine Sugar Millers Association, Central Azucarera Don Pedro Inc. (CADPI), Central Azucarera dela Carlota, Inc., Roxol Bioenergy Corporation, San Carlos Bioenergy and RHI- Agribusiness Development Corporation. He is also the Executive Chairman of Roxas & Company, Inc. He also serves as Independent Director of Philippine Long Distance Telephone Company (PLDT), Manila Electric Company (MERALCO), CEMEX Holdings, Inc., Mapfre Insular Insurance Corporation, and Brightnote Assets Corporation. Mr. Roxas is also a Trustee of Philippine Business for Social Progress and Roxas Foundation Inc. Mr. Roxas holds a bachelor's degree in Business Administration from the University of Notre Dame, Indiana, USA.

Elizabeth T. Sy

Non-Executive Director
Filipino, 67 years old

Elizabeth Sy was elected to the Board of BDO Private Bank, Inc. on August 6, 2007. She is a member of the Executive Committee and Trust Committee of BDO Private Bank. She is also the Chairperson and President of SM Hotels and Conventions Corporation where she steers SM's continuous growth in the tourism, leisure, and hospitality industry. She is also the Chairman of Nazareth School of National University. Ms. Sy likewise serves as Advisor to the Boards of SM Investments Corporation and SM Prime Holdings, Inc., and as Co-Chairperson of Pico De Loro Beach and Country Club. She holds a degree in Business Administration from Maryknoll College.

Alfonso A. Uy

Lead Independent Director
Filipino, 80 years old

Alfonso A. Uy was elected to the Board of Directors of BDO Private Bank, Inc. on August 6, 2007 and is a member of the Risk Management Committee and the Trust Committee. He is also the Lead Independent Director of the Bank. Director Uy is Chairman of various corporations, namely La Filipina Uygongco Corporation, Capiz Sugar Central, Inc., Philippine Foremost Milling Corp., Excel Farm Corporation, Amigo Agro-Industrial Development Corporation, Mindanao Grain Processing Corporation and Star Terminals of the Asian Regions. He is also the Chairman Emeritus of the Iloilo Economic Development Foundation, and President of Uygongco Foundation Inc. Additionally, he serves as Director of Steag State Power Inc. and Global Business Power, Inc. and as Advisor of Metrobank Foundation. Mr. Uy was formerly the President of the Filipino Chinese Chambers of Commerce and Industry. He was also the former Chairman of the Board of Trustees of the Central Philippine University, Iloilo City, and former Vice Chairman of Panay Power Holding Corporation. He has also served as City Councilor of Iloilo City. Mr. Uy holds a Bachelor of Science degree in Chemical Engineering, magna cum laude, from the Central Philippine University.

CORPORATE SECRETARY

Edmundo L. Tan
Filipino, 74 years old

Edmundo L. Tan has been serving as Corporate Secretary of BDO Private Bank, Inc. from February 2012 up to the present. He was formerly a Director of BDO Leasing and Finance, Inc. and now serves as Advisor to the Board. Atty. Tan is a Director of APC Group, Inc. from 2000 up to the present and as Corporate Secretary from 2000 until 2016. He serves as Director of Philippine Global Communications, Inc. from 2000 up to the present and as Corporate Secretary from 2000 until 2010. He is a Director of Aragorn Power and Energy Corporation from 2005 up to the present and as Corporate Secretary from 2005 up to 2012. He is currently a Director of PRC MAGMA Resources (2010 up to the present). He is a Director of OCP Holdings, Inc. from July 2012 up to the present. He was elected as Director of Sagittarius Mines, Inc. in March 2016. On December 12, 2019, he was elected Director of Concrete Aggregates Corporation. Atty. Tan was a founder and was elected President of Philippine Dispute Resolution Center, Inc. in July 2017.

Atty. Tan is the Managing Partner of Tan Acut Lopez & Pison Law Offices (1993 up to present). He was formerly Senior Partner in Ponce Enrile Cayetano Reyes & Manalastas Law Offices, a Partner in Angara Abello Concepcion, Regala & Cruz Law Offices, and an Associate in Cruz Villarin Ongkiko Academia & Durian Law Offices. Atty. Tan holds a Bachelor of Arts degree from De La Salle College, Bacolod and Bachelor's degree in Law from the University of the Philippines.

ADVISORS TO THE BOARD

Raissa Hechanova-Posadas

Harley T. Sy

Josefina N. Tan

Board Committees

The Board is supported by seven (7) committees with their respective mandates and composition as follows:

Executive Committee

FUNCTIONS:

The Executive Committee is responsible for the approval process of the Bank's loans and investments as well as other exposures and credit proposals involving DOSRI or related party accounts. The Board has likewise empowered the Executive Committee to act on its behalf to approve board items which may be referred to it by Management in between regular quarterly board meetings. These items include the approval of actions pertaining to Anti-Money Laundering, Compliance, Bank Signatories, approval of manuals, policies or procedures and other matters of an urgent nature.

During the year, the Committee approved loans and credit facilities of related parties within its Board-delegated authority; it also approved revisions in the policy on Term Loan Review, the approving authorities for credit transactions, and amendments to the Credit Policy Manual, pursuant to its annual review.

Chairperson:

Teresita T. Sy

Members:

Elizabeth T. Sy
Nestor V. Tan
Albert S. Yeo

Meetings:

The Committee had 6 meetings in 2019.

Executive Committee	No. of Meetings Attended	Total No. of Meetings
Teresita T. Sy	6	6
Elizabeth T. Sy	6	6
Nestor V. Tan	6	6
Albert S. Yeo	6	6

Audit Committee

FUNCTIONS:

The Board Audit Committee (BAC) is empowered to assist the Board of Directors in fulfilling its oversight function over the Bank's financial reporting process, system of internal control, overall management of risks, Internal and External Audit functions, and compliance with governance policies and applicable rules and regulations, as set forth in its Board-approved Terms of Reference.

In 2019, the BAC accomplished the following:

1. On financial reporting process:

- Extensively reviewed and discussed with Management and External Auditor the annual audited financial statements for the year ended December 31, 2019 before endorsing the same to the Board of Directors. The related internal controls on the financial reporting process, compliance with accounting standards and tax regulations, as well as the impact of new accounting standards and regulations more specifically the adoption of Philippine Financial Reporting Standards (PFRS) 9 were likewise reviewed.

Chairman:

Pedro Emilio O. Roxas
(Independent Director)

Members:

Nicasio I. Alcantara
(Independent Director)
Violeta O. LuYm
(Non-Executive Director)

Meetings:

The Committee met five (5) times in 2019.

Audit Committee	No. of Meetings Attended	Total No. of Meetings
Pedro Emilio O. Roxas	4	5
Nicasio I. Alcantara	5	5
Violeta O. LuYm	5	5

- Reviewed and discussed with Management the quarterly unaudited financial statements and results of operations prior to endorsement to the Board of Directors for approval.

2. On its oversight function over Internal Audit

- Deliberated with Internal Audit and approved the risk-based audit plan covering the scope, audit methodology, risk assessment and rating processes, financial budget, manpower resources, as well as changes to the plan during the year.
- In accordance with regulation, reviewed the revised Internal Audit Charter.
- Periodically received audit reports and constantly deliberated high and moderate risk findings relating to operational, financial and compliance controls including risk management systems and information security.
- Regularly tracked the timely resolution of findings and asked for Management's action plans on items that needed more time to be addressed.
- The Committee, likewise continued to keep track of updates from Information Technology in further strengthening IT risk management.
- Ensured Internal Audit's independence and free access to all records, properties and information to be able to fully carry out its functions.
- Assessed the performance of the Chief Internal Auditor and key Audit Officers.

3. On its oversight function over External Audit

- Ensured the independence, qualification and objectivity of the appointed BSP-accredited External Auditor.
- Reviewed and discussed with the External Auditor the content of the engagement letter, audit plan, scope of work, focus areas, engagement team among others, prior to commencement of audit work.
- Discussed comprehensively the external audit reports, focusing on internal controls, risk management, governance and matters with financial impact particularly on the changes in accounting and reporting standards.
- Reviewed the Management Letter as well as Management's response and action taken on the external auditor's findings and recommendations.

4. On its oversight over the Compliance function:

- Reviewed and approved the annual plans and compliance roadmaps.
- Endorsed for approval of the Board the revised manual for Compliance and the Money Laundering and Terrorist Financing Prevention Program (MTPP) Manual incorporating new and amended regulations.
- Monitored the progress of the Independent Compliance and Anti-Money Laundering (AML) Testing.
- Ensured timely submission of regulatory requirements, compliance with mandatory ratios as well as continuous improvement of the Bank's Compliance and AML system.
- Discussed in detail the BSP Report of Examination (ROE) and reviewed Management's reply to the findings, ensuring implementation of corrective actions.
- Assessed the performance of the Chief Compliance Officer.

Reports on cases in operations, whistle blower accounts as well as non-loan related cases with impact to financials, internal controls, information systems and reputation were deliberated focusing on risk assessment, legal handling, and fraud prevention.

As part of its commitment to excellent corporate governance, the Committee conducted a self-assessment for its 2019 performance based on its Terms of Reference. The BAC likewise evaluated the performance of Internal Audit, Compliance and Anti-Money Laundering Units, and the External Auditor to ensure their effectiveness and achievement of objectives.

The Board Audit Committee reports its evaluation of the effectiveness of the internal controls, financial reporting process, risk management systems and governance processes of the Bank based on the report and unqualified opinion obtained from the External Auditor, the overall assurance provided by the Chief Internal Auditor and additional reports and information requested from Senior Management, and found that these are generally adequate across BDOPB.

Corporate Governance Committee

FUNCTIONS:

The function of the Corporate Governance Committee is to assist the Board in fulfilling its responsibilities for corporate governance across the Bank. Its role includes ensuring the compliance with corporate governance principles and practices of the Bank; monitoring new corporate governance regulations and recommending appropriate changes; reviewing and reporting to the Board on corporate governance regulatory or compliance issues; reviewing and recommending to the Board on best practices to be adopted as applicable; and, reviewing periodically the disclosure of corporate governance policies and information in the Bank's website.

The Corporate Governance Committee is primarily tasked to assist the Board in formulating the governance policies and overseeing the implementation of the governance practices across the Bank. Annually, it also conducts the performance evaluation of the Board of Directors, its committees, executive management, peer evaluation of directors, and conducts a self-evaluation of its performance. It provides an assessment of the outcome and reports to the Board the final results of the evaluation including recommendations for improvement and areas to focus on to enhance effectiveness. It also oversees the continuing education program for directors and key officers and proposes relevant trainings for them.

For 2019, the Committee reviewed the Corporate Governance Charter and amended its Corporate Governance Manual and Terms of Reference to maintain alignment with the Parent Bank, and to comply with the specific regulatory requirements of the BSP and SEC. The committee conducted its annual evaluation of the Board, committees, executive management and directors, including the self-evaluation of its performance.

Chairman:

Nicasio I. Alcantara
(Independent Director)

Members:

Violeta O. LuYm
(Non-Executive Director)

Pedro Emilio O. Roxas
(Independent Director)

Meetings:

The Committee had five (5) meetings during the year.

Corporate Governance Committee	No. of Meetings Attended	Total No. of Meetings
Nicasio I. Alcantara	5	5
Violeta O. LuYm	5	5
Pedro Emilio O. Roxas	4	5

Trust Committee

FUNCTIONS:

The Trust Committee is primarily responsible for overseeing the fiduciary activities of the Bank. It ensures that fiduciary activities are done in accordance with applicable laws, rules and regulations and prudent practices; effective risk management framework and internal controls are in place and continue to be relevant, comprehensive and effective.

The Trust Committee reviews and approves the opening and closing of trust, investment management and other fiduciary accounts of the Bank's Wealth Advisory and Trust Group as well as account-related transactions including investment activities and investment outlets, new products and services, establishment and renewal of lines and limits with financial institutions and counterparties. It regularly reviews trust and other fiduciary accounts, the overall performance and accountabilities under its management, the industry position of the business, as well as the compliance and risk management of the group. It also oversees and evaluates annually the performance of the Trust Officer.

Chairman:

Gregory L. Domingo
(Non-executive Director)

Members:

Johnip G. Cua
(Independent Director)

Elizabeth T. Sy
(Non-Executive Director)

Alfonso A. Uy
(Independent Director)

Albert S. Yeo
(President)

Juan Sabino P. Lizares
(Trust Officer)

Meetings:

The Trust Committee met four (4) times in 2019.

Trust Committee	No. of Meetings Attended	Total No. of Meetings
Gregory L. Domingo	3	4
Johnip G. Cua	4	4
Elizabeth T. Sy	4	4
Alfonso A. Uy	3	4
Albert S. Yeo	4	4
Juan Sabino P. Lizares	4	4

Risk Management Committee

FUNCTIONS:

The Risk Management Committee is responsible for the oversight of the Bank's Risk Management system to ensure its effectiveness. It develops the Bank's risk plan and policies, designs and implements the appropriate risk management strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses when they occur. It supports the Board in performing its risk oversight functions and reviews the overall risk management philosophy, risk appetite levels and tolerance limits, oversees the implementation and review of the risk management plan on an integrated enterprise-wide basis, system of limits of management of discretionary authority delegated by the Board and takes immediate corrective actions when breached and Management's activities in managing credit, liquidity, market, operational, legal and other risk exposures. It is also responsible for the continuing assessment of the relevance, comprehensiveness and effectiveness of the risk management plan, and revises it when needed including how the business and operating units are addressing and managing these risks. The Committee also reviews risk reports that control and monitor risk exposures and limits.

In 2019, the Committee conducted regular discussions of the Bank's exposures (including the Trust Unit) to credit risks (including country risks), market & liquidity risks, and operational risks, including risk mitigation strategies, where necessary and applicable; large exposures and concentration, asset quality, results of credit stress tests and its impact on capital adequacy; approved the liquidity gaps and results of liquidity stress tests; Value-at-Risk (VAR), Earnings-at-Risk (EAR), results of market risk stress tests and its impact on capital adequacy; operational risk profile of the Bank, significant operational losses and impact on capital adequacy, results of Business Continuity Plan (BCP) testing and any information security incidents; approved the results of the annual review of the Bank's risk management policies and limits; the newly developed or redeveloped risk management models and conducted a discussion on the performance of all implemented models; conducted a discussion on the results of the BSP-mandated stress tests (i.e. BSP Uniform Stress Test and Real Estate Stress Test) for banks; and the profile of client complaints/ requests and a general description of the resolution/actions taken, in compliance with BSP Circular 857 on Consumer Protection.

Chairman:

Johnip G. Cua
(Independent Director)

Members:

Alfonso A. Uy
(Independent Director)
Albert S. Yeo

Advisors:

Gregory L. Domingo
Nestor V. Tan

Meetings:

The Committee met 10 times in 2019.

Risk Management Committee	No. of Meetings Attended	Total No. of Meetings
Johnip G. Cua	9	10
Alfonso A. Uy	7	10
Albert S. Yeo	10	10
Gregory L. Domingo*	7	10
Nestor V. Tan*	7	10

* Advisor

Credit Committee

FUNCTIONS:

The Credit Committee acts as the main approving body for Bank exposures, loans and investments as well as other credit-related issues. It approves credit and investment proposals, except those involving DOSRI or related party accounts, and subject to such limitations that may be imposed by the Board of Directors. The Committee also approves, reviews and revises credit-related policies, procedures, and other credit risk standards.

Chairperson:

Teresita T. Sy

Members:

Nestor V. Tan
Albert S. Yeo

Meetings:

The Committee met 68 times in 2019.

Credit Committee	No. of Meetings Attended	Total No. of Meetings
Teresita T. Sy	68	68
Nestor V. Tan	68	68
Albert S. Yeo	68	68

Related Party Transactions Committee

FUNCTIONS:

The Related Party Transactions Committee assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interest 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 of the Bank's significant transactions with related parties.

During the year, the Committee reviewed and updated its Related Party Transactions Policy which included the addition of a new provision for the conduct of annual stress-testing of RPT exposures. The RPT Committee also approved the revised benchmarking template stating the prescribed criteria for determining whether the proposed related party transaction is not less favorable to the Bank than those entered into with non-related parties.

Chairman:

Nicasio I. Alcantara
(Independent Director)

Members:

Violeta O. LuYm
(Non-Executive Director)
Pedro Emilio O. Roxas
(Independent Director)

Meetings:

The Committee had five (5) meetings in 2019.

Related Party Transactions Committee	No. of Meetings Attended	Total No. of Meetings
Nicasio I. Alcantara	5	5
Violeta O. LuYm	5	5
Pedro Emilio O. Roxas	4	5

Independent Control Functions

Compliance

BDO's Group Compliance System forms the processes, people, policies and other components that, as an integral unit, ultimately drive the bank's initiatives to conform to industry laws, regulations and standards. The BDOPB Compliance Office reports to and is under the direct supervision of the Board Audit Committee. It is responsible for overseeing, coordinating, monitoring and ensuring compliance of the Bank with existing laws, rules and regulations through the implementation of the overall compliance system and program in accordance with the requirements of the BSP and other regulatory agencies, including but not limited to the identification and control of compliance risks, prudential reporting obligations as well as compliance testing and training.

The Anti-Money Laundering Unit (AMLU) under the Compliance Office, together with the Bank's Anti-Money Laundering Committee (AMLC), focuses on the enforcement of the Anti-Money Laundering Act and its implementing rules and regulations, as well as the Terrorism Financing Prevention and Suppression Act of 2012; the monitoring and reporting of covered and suspicious transactions, and conduct of Anti-Money Laundering training.

Recognizing that the most effectual way to prevent money laundering, combat terrorist financing and stop the flow of funds is through the detection and reporting of money laundering and terrorist financing red flags, the AMLU, in coordination with the Parent Bank, has established policies and guidelines as articulated in a Board-approved Money Laundering and Terrorist Financing Prevention Program Manual (MTPP) aligned with AML laws and BSP regulations, with which frontliners and responsible bank officers comply. The Bank's MTPP supports the conduct of proactive and targeted monitoring initiatives to identify suspected money-launderers and terrorists as well as terrorist-related transactional activities.

The Bank is also part of a BDO Group-wide program of providing e-Learning training courses. The Bank's AMLU also conducts an annual live face-to-face training on AML and other legal and regulatory updates to all Bank units including the Client Lounges.

Internal Audit

The Internal Audit function of the Bank is part of the scope of BDO Unibank's Internal Audit which covers the entire Group including foreign and local subsidiaries and offices. It adheres to the principles required by the ISPPIA (International Standard for the Professional Practice of Internal Auditing), COSO Internal Control - Integrated Framework, COBITS (Control Objectives for Information and Related Technology), the Internal Audit Definition and Code of Ethics.

It provides assurance and a systematic, disciplined approach to evaluate and improve effectiveness of risk management, internal control, and governance processes. Upholding a commitment to integrity and accountability, Internal Audit provides value to senior management and governing bodies as objective source of independent advice.

IA reports to the Board of Directors through the Board Audit Committee. It seeks BAC approval for the annual audit plan, provides updates on accomplishments, reports results of audit conducted and tracks resolution of audit findings.

Risk Management

The Risk Management Unit (RMU) is responsible for developing guidelines and policies for effective risk management. It is also responsible for identifying the key risk exposures, assessing and measuring the extent of risk exposures of the Bank in the conduct of its business. It performs independent monitoring and objective assessment of decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures. On a regular basis, it reports to the Risk Management Committee, a board-level committee, the results of the RMU's assessment and monitoring. RMU is staffed by competent personnel with sufficient experience, qualifications, knowledge of the banking business as well as risk disciplines. It is headed by a Chief Risk Officer (CRO) who is independent from executive functions, business line responsibilities, operations and revenue-generating functions. The CRO reports directly to the Risk Management Committee and can only be appointed and replaced with prior approval from the Board.

The Bank's RMU is part of an integrated risk management framework covering the BDO Universal Bank Group to address the material risks it faces in its banking activities.

Consumer Protection

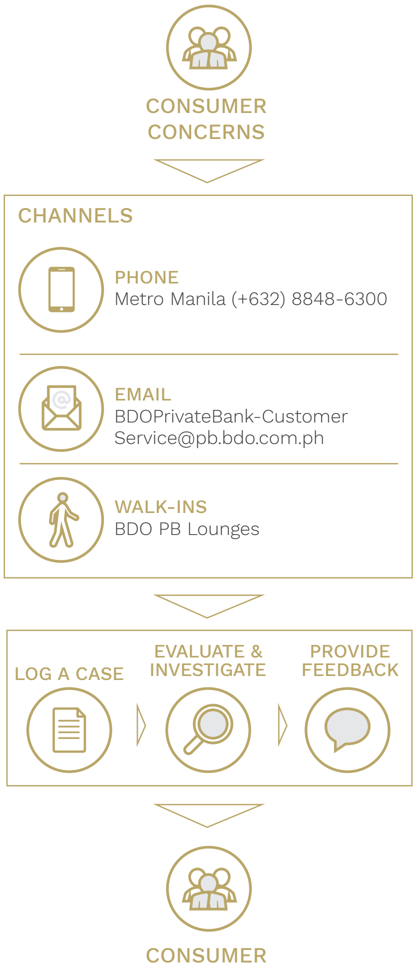
BDOPB adopts the BDO Group's Guiding Principles on Consumer Protection, which was approved by the Board of Directors of the Parent Bank on August 29, 2015, and serves as the Group's framework for defining its Consumer Protection Risk Management System (CPRMS). As specified in the CPRMS, consumer protection practices are embedded in the banking operations, and considered in the development and implementation of products and services. BDO's Code of Conduct reflects the Bank's commitment to ensuring that its customers are always treated fairly and professionally.

A Consumer Assistance Management System (CAMS) was established by Parent Bank in November 2015 to address consumer concerns for the entire conglomerate. To ensure its effective implementation, the Customer Contact Center (CCC) of Parent Bank was designated to receive customer requests, inquiries, complaints or other feedback, it then assigns these to the responsible units for their appropriate handling, monitors resolution and reports the summary to Senior Management and to the Board's Risk Management Committee (RMC) on a periodic basis. The adjacent chart is the illustration of the CAMS.

For the year 2019, a total of 21 customer complaints were received by BDO Private Bank. Of this number, 18 were valid complaints while 3 were considered invalid (i.e., the fault was attributable to client and there was no lapse on the part of the Bank, based on results of independent investigation).

The Bank continues to focus on building responsible customer relationships through its engagement and compliance practices, efforts to counter financial crime and fraudulent activities relative to consumer protection.

CONSUMER ASSISTANCE MANAGEMENT SYSTEM



Compliance with the Securities and Exchange Commission (SEC) Code of Corporate Governance

As of December 31, 2019, BDO Private Bank, Inc., hand in hand with its Parent Bank, has substantially complied with the recommendations of the SEC Code of Corporate Governance except for the following reservations made by Parent Bank: 1) Policy on retirement age of directors; 2) Disclosure of board and executive remuneration on an individual basis, and 3) Adoption of a globally recognized standard/framework in reporting sustainability and non-financial issues.

On the retirement age of directors, we adopt the policy statement laid down by BDO Unibank Board recognizing the fact that chronological age is not the main factor in determining effectiveness of the director in discharging his/her duties and responsibilities. The wisdom of senior directors is a valuable asset. The Board derives much benefit from their counsel and will continue to utilize them for the benefit of all its Stakeholders. Age discrimination is discouraged by law, as once a director has been elected, removal due solely to age is prohibited. Hence, the implementation of the retirement age policy for directors is still held in abeyance. Instead, the Board reviews the individual director's potential contribution to the Bank and its Stakeholders, and decides on that basis.

On the disclosure of the remuneration on an individual basis for Board members and Executive Officers, the Board has serious reservations given the possible adverse security issues and poaching of talents by competitors in the industry. In light of the Revised Corporation Code (R.A. 11232), the Bank shall await guidance from the Securities and Exchange Commission, by way of a Memorandum Circular, with regard to the disclosure of the remuneration of directors on an individual basis. Meanwhile, the remuneration figures for key management personnel are disclosed on a consolidated basis only.

On the reporting of sustainability and non-financial performance across economic, environmental and social aspects, our Parent Bank issues a separate annual Sustainability Report starting April 2019. The report outlines the economic, environmental, social and governance performance for the year preceding the reporting year. It is a substantiation of BDO's commitment to the United Nations Sustainable Development Goals, the principles of United Nations Global Compact (UNGC), the Greenhouse Gas (GHG) Protocol and other universal targets of sustainability. The report has been prepared in accordance with the GRI Standards.

As a wholly-owned subsidiary of a leading practitioner of good corporate governance in the Philippines, BDOPB also aims to apply the essential principles, and comply with the provisions, of the SEC Code of Corporate Governance to the extent possible and appropriate to the business. We are confident that it will be beneficial for our business and that it will open opportunities for the Bank to achieve greater heights in pursuing its objectives with integrity and transparency, and in bringing the most benefit to its clients and stakeholders.

Data Privacy

The Bank adopts the Data Privacy Management Program (DPMP) established by Parent Bank, which serves as the framework for protecting the data privacy rights of the Bank's data subjects, to ensure compliance with the Philippine Data Privacy Act (PDPA). A Data Protection Officer (DPO) who is registered with the National Privacy Commission (NPC) was appointed for the BDO Group. The Bank has its own appointed Compliance Officer for Privacy (COP) to ensure proper coordination with the DPO in the implementation of any initiatives related to the DPMP. The required data processing systems were also registered with the NPC. The Data Privacy Policy, Privacy Statement, and Breach Reporting Procedures were established, including the templates for Consent, Data Sharing Agreement, and Outsourcing Agreement. Furthermore, conduct of Privacy Impact Assessments (PIAs) by critical units were completed to assess privacy risks in order to ensure that the necessary security measures are in place to mitigate risks to personal data and uphold data privacy rights of individuals. Privacy risk monitoring were also enhanced using the existing risk management tools of the Bank. Currently, the Bank is completing the PIAs for the rest of the units and implementation of necessary security measures is being monitored. To ensure continuous education within the Bank, the Data Privacy Training and Awareness Program has been rolled out, consisting of regular conduct of classroom and e-learning courses as well as breach reporting exercises/drills.

Data privacy awareness has also been recently intensified with the in-depth training for key personnel. The Risk Management Committee (RMC) of the Board is regularly updated with respect to the progress of the Bank's compliance to the PDPA. In view of its commitment to comply with data privacy requirements, and as part of its continuing assessment and development efforts, the Bank actively participates in data privacy forums of the NPC and liaises with other DPOs of the Bankers Association of the Philippines (BAP).

Corporate Social Responsibility

The employees and clients of BDO Private Bank support the initiatives of BDO Foundation, the corporate social responsibility arm of BDO Unibank, especially on its disaster response initiatives.

Looking Ahead

Following in the footsteps of its Parent Bank, BDOPB is in the midst of its own digital transformation as we look for ways to optimize the use of new technologies to further strengthen our corporate governance practices while remaining vigilant to the risks of digitization to our business operations. In ensuring that the Bank stays as the market leader in its niche in the Philippine financial services industry, we are focused on maximizing the effectiveness of our corporate governance practices as a business enabler and driver of our performance in the proper context of risks and rewards, opportunities and prospects for the Bank. This is essential going forward as we continue to compete and remain relevant to our various stakeholders. Globally, there is also an increasing call for companies to support the UN Sustainable Development Goals as part of sustainable business performance with emphasis on strategies that promote economic growth, environmental protection, efforts that address a range of social needs and a governance model that considers sustainability issues. BDO Private Bank aligns itself with the Parent Bank as it continues to be mindful of contributing to, and creating a positive impact on sustainability.

Senior Management

Albert S. Yeo
President

Stella L. Cabalatungan
Executive Vice President
Head, Relationship Management

Juan Sabino P. Lizares
Senior Vice President
Trust Officer

Gerardo Clemente C. Rivera
First Vice President
Treasurer

Brenda S. Taruc
First Vice President
Chief Risk Officer/Acting
Chief Compliance Officer

Richard Emil R. Grau
Senior Vice President
Head, Investment Strategy and
Economic Research

Jose Noel M. Mendoza
Senior Vice President
Investment Strategy and
Economic Research

Wendeline Therese M. Tumolva
First Vice President
Head, Operations

Maria Lourdes M. Sevilla
Vice President
Head, Financial Control

Financial Statements

Statement of Management's Responsibility for Financial Statements

The management of **BDO Private Bank, Inc.** (the Bank), is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, 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 Bank's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditor appointed by the stockholders, have audited the financial statements of the Bank in accordance with the Philippine Standards on Auditing, and in their report to the Board of Directors and stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit

Teresita T. Sy
Chairman of the Board

Albert S. Yeo
President

Maria Lourdes M. Sevilla
Vice President
Head — Financial Control Department

SUBSCRIBED and SWORN to me before this 2nd day of March, 2020 affiant exhibiting to me their Competent Evidence of Identity (CEI), as follows:

Name	CEI Number
Teresita T. Sy	SSS No. – 03-2832705-4
Albert S. Yeo	SSS No. – 03-6738633-1
Maria Lourdes M. Sevilla	SSS No. – 33-3535551-1

WITNESS BY HAND AND SEAL on the day first above - mentioned in Makati City.

Doc No. 207
Page No. 43
Book No. 68
Series of 2020

Atty. JOSHUA P. LAPUZ
Notary Public for and in Makati City
Appointment No. M 66 until 12/31/2021
PTR No. 8116016 Jan. 2, 2020, Makati City
Roll No. 45790, IBP Lifetime N. 04897
MCLE No. VI-0016565 / Jan. 14, 2019
G/F Fedman Suites, 199 Salcedo Street,
Legaspi Village, Makati City

Report of Independent Auditors

The Board of Directors
BDO Private Bank, Inc.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

2nd Floor, BDO Equitable Tower
8751 Paseo de Roxas
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Private Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the 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 Bank as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended 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 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 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 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 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.

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.

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 24 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under Revised Securities Regulation Code Rule 68 of the Securities and Exchange Commission.

PUNONGBAYAN & ARAULLO

By: Jerald M. Sanchez
Partner

CPA Reg. No. 0121830
TIN: 307-367-174
PTR No. 8116557, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 121830-SEC (until Dec. 31, 2023)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002551-041-2019 (until Dec. 15, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 17, 2020

Statements of Financial Position

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
RESOURCES			
DUE FROM BANGKO SENTRAL NG PILIPINAS	6	**P 1,331,616,252**	P 4,425,182,127
DUE FROM OTHER BANKS	6	**499,431,082**	3,045,072,454
TRADING AND INVESTMENT SECURITIES			
Financial assets at fair value through profit or loss	7	**4,426,873,059**	3,747,091,347
Financial assets at fair value through other comprehensive income	8	**10,786,300,317**	11,449,767,007
Held-to-collect investments - net	9	**14,109,980,976**	19,499,420,895
LOANS AND RECEIVABLES - Net	10	**3,485,226,491**	4,712,758,038
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**139,480,648**	44,635,643
OTHER RESOURCES - Net	13	**173,188,058**	1,925,267,686
TOTAL RESOURCES		**P 34,952,096,883**	P 48,849,195,197
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	14		
Demand		**P 15,513,553,666**	P 27,616,715,846
Time		**11,481,049,774**	12,896,971,497
Total Deposit Liabilities		**26,994,603,440**	40,513,687,343
BILLS PAYABLE	15	**253,234,426**	-
DERIVATIVE FINANCIAL LIABILITIES	16	**1,449,251,660**	2,821,555,027
ACCRUED EXPENSES AND OTHER LIABILITIES	17	**439,053,946**	377,587,098
Total Liabilities		**29,136,143,472**	43,712,829,468
EQUITY	18	**5,815,953,411**	5,136,365,729
TOTAL LIABILITIES AND EQUITY		**P 34,952,096,883**	P 48,849,195,197

See Notes to Financial Statements.

Statements of Income

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
INTEREST INCOME ON			
Held-to-collect investments	9	**P 633,262,574**	P 726,554,035
Financial assets at fair value through other comprehensive income	8	**438,615,377**	394,763,749
Loans and receivables	10	**205,313,002**	359,921,423
Financial assets at fair value through profit or loss	7	**109,438,466**	20,778,915
Due from Bangko Sentral ng Pilipinas and other banks	6	**79,781,347**	202,775,965
		1,466,410,766	1,704,794,087
INTEREST EXPENSE ON			
Deposit liabilities	14	**591,587,706**	810,810,252
Bills payable	15	**70,187,367**	3,629,675
Others	12, 22	**8,540,906**	2,334,621
		670,315,979	816,774,548
NET INTEREST INCOME		**796,094,787**	888,019,539
IMPAIRMENT LOSSES (REVERSAL) - Net	8, 9, 10	**27,923,472**	(1,558,163)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**768,171,315**	889,577,702
OTHER INCOME			
Service charges, fees and commissions	19	**938,963,857**	842,841,152
Trading and securities gain - net	7, 8	**718,564,284**	42,082,474
Foreign exchange gain - net		**-**	108,007,142
Others		**9,993,417**	11,802,624
		1,667,521,558	1,004,733,392
OTHER EXPENSES			
Employee benefits	22	**494,088,481**	444,546,118
Taxes and licenses	24	**223,395,476**	293,484,270
Supervision		**123,616,258**	118,319,600
Representation and entertainment		**94,552,601**	95,934,111
Insurance		**76,572,558**	103,601,810
Depreciation and amortization	11, 13	**65,958,178**	33,441,509
Transportation and travel		**41,292,597**	44,381,642
Third party information	20	**39,443,045**	40,050,743
Management and professional fees	23	**24,170,076**	27,100,967
Occupancy	12, 23, 27	**11,817,375**	51,523,794
Foreign exchange loss - net		**5,734,443**	-
Others	21	**130,006,714**	140,192,855
		1,330,647,802	1,392,577,419
PROFIT BEFORE TAX		**1,105,045,071**	501,733,675
TAX EXPENSE	24	**226,427,343**	200,439,365
NET PROFIT		**P 878,617,728**	P 301,294,310

See Notes to Financial Statements.

Statements of Comprehensive Income

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
NET PROFIT		**P 878,617,728**	P 301,294,310
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified subsequently to profit or loss			
Unrealized gain (losses) on debt securities at fair value through other comprehensive income (FVOCI)	8, 18	**461,099,232**	(382,276,783)
Transfer of realized gain on disposal of debt securities at FVOCI to statements of income	8, 18	**144,826,462**	26,667,400
Credit losses on debt securities at FVOCI	8, 18	**4,036,387**	1,508,395
		609,962,081	(354,100,988)
Item that will not be reclassified to profit or loss			
Actuarial loss on remeasurement of post-employment defined benefit obligation, net of tax	22	**(8,992,127)**	(2,045,744)
Total Other Comprehensive Income (Loss), Net of Tax		**600,969,954**	(356,146,732)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P 1,479,587,682**	(P 54,852,422)

See Notes to Financial Statements.

Statements of Changes in Equity

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

		Surplus (Note 18)			Revaluation Reserves		
	Share Capital (Note 18)	Reserves	Free	Total	Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income (Note 18)	Accumulated Actuarial Losses (Note 18)	Total Equity
BALANCE AS OF JANUARY 1, 2019	P 2,165,000,000	P 405,434,921	P 2,871,389,798	P 3,276,824,719	(P 230,341,129)	(P 75,117,861)	P 5,136,365,729
Total comprehensive income (loss) for the year	-	-	878,617,728	878,617,728	609,962,081	(8,992,127)	1,479,587,682
Cash dividend	-	-	(800,000,000)	(800,000,000)	-	-	(800,000,000)
Transfer to surplus reserves	-	86,223,528	(86,223,528)	-	-	-	-
BALANCE AS OF DECEMBER 31, 2019	**P 2,165,000,000**	**P 491,658,449**	**P 2,863,783,998**	**P 3,355,442,447**	**P 379,620,952**	**(P 84,109,988)**	**P 5,815,953,411**
BALANCE AS OF JANUARY 1, 2018	P 2,165,000,000	P 335,286,988	P 2,970,243,421	P 3,305,530,409	P 123,759,859	(P 73,072,117)	P 5,521,218,151
Total comprehensive income (loss) for the year	-	-	301,294,310	301,294,310	(354,100,988)	(2,045,744)	(54,852,422)
Cash dividend	-	-	(330,000,000)	(330,000,000)	-	-	(330,000,000)
Transfer to surplus reserves	-	70,147,933	(70,147,933)	-	-	-	-
BALANCE AS OF DECEMBER 31, 2018	P 2,165,000,000	P 405,434,921	P 2,871,389,798	P 3,276,824,719	(P 230,341,129)	(P 75,117,861)	P 5,136,365,729

See Notes to Financial Statements.

Statements of Cash Flows

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 1,105,045,071**	P 501,733,675
Adjustments for:			
Interest received		**1,506,440,312**	1,588,030,262
Interest income	6, 7, 8, 9, 10	**(1,466,410,766)**	(1,704,794,087)
Interest paid		**(742,090,133)**	(787,626,301)
Interest expense	12, 14, 15, 22	**670,315,979**	816,774,548
Unrealized foreign exchange losses (gains)	8, 9	**523,995,177**	(545,296,141)
Unrealized fair value losses (gains) from financial assets at fair value through profit or loss	7	**(199,447,571)**	137,763,188
Gain on sale of financial assets at fair value through other comprehensive income (FVOCI)	8	**(144,826,462)**	(26,667,400)
Amortization of premium on held-to-collect (HTC) investments	9	**91,092,004**	17,613,006
Depreciation and amortization	11, 13	**65,958,178**	33,441,509
Provision for (reversal of) allowance for impairment	8, 9, 10	**27,923,472**	(1,558,163)
Reclassification of bank premises, furniture, fixtures and equipment to outright expense	11	**380,758**	-
Gain on disposal of bank premises, furniture, fixtures and equipment	11	**(28,920)**	-
Operating profit before changes in resources and liabilities		**1,438,347,099**	29,414,096
Increase in financial assets at fair value through profit or loss		**(470,257,006)**	(159,483,197)
Decrease (increase) in loans and receivables		**1,152,952,458**	(325,066,356)
Decrease (increase) in other resources		**1,700,141,187**	(843,823,369)
Decrease in deposit liabilities		**(13,445,806,546)**	(16,325,016,255)
Increase (decrease) in derivative financial liabilities		**(1,372,303,367)**	843,484,696
Increase (decrease) in accrued expenses and other liabilities		**(70,077,104)**	18,002,671
Cash used in operations		**(11,067,003,279)**	(16,762,487,714)
Cash paid for income taxes		**(160,998,848)**	(191,412,455)
Net Cash Used in Operating Activities		**(11,228,002,127)**	(16,953,900,169)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of financial assets at FVOCI	8	**10,870,064,098**	5,412,376,257
Acquisition of financial assets at FVOCI	8	**(9,876,458,312)**	(5,204,576,397)
Proceeds from maturity of HTC investments	9	**5,129,697,522**	11,780,601,000
Acquisitions of bank premises, furniture, fixtures and equipment	11	**(18,443,035)**	(26,121,421)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	11	**200,000**	11,357
Acquisition of HTC investments	9	**-**	(11,656,290,233)
Net Cash From Investing Activities		**6,105,060,273**	306,000,563
CASH FLOW FROM FINANCING ACTIVITIES			
Additional borrowing	15	**11,767,254,566**	-
Repayment of borrowings	15	**(11,448,225,967)**	-
Dividends paid	18	**(800,000,000)**	(330,000,000)
Repayments of lease liabilities	12	**(35,293,992)**	-
Net Cash Used in Financing Activities		**(516,265,393)**	(330,000,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,639,207,247)**	(16,977,899,606)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from Bangko Sentral ng Pilipinas	6	**4,425,182,127**	11,977,051,895
Due from other banks	6	**3,045,072,454**	8,586,596,043
Securities purchased under reverse repurchase agreement		**-**	3,387,574,515
Unquoted debt securities		**-**	496,931,734
		7,470,254,581	24,448,154,187
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Due from Bangko Sentral ng Pilipinas	6	**1,331,616,252**	4,425,182,127
Due from other banks	6	**499,431,082**	3,045,072,454
		P 1,831,047,334	P 7,470,254,581

Supplemental Information on Non-cash Financing Activities

The Bank recognized right-of-use assets and lease liabilities both amounting to P92.0 million as at January 1, 2019 in relation to the adoption of PFRS 16, *Leases*. Additional right-of-use assets and lease liabilities were recognized during the year both amounting to P43.2 million due to new lease agreements entered by the Bank as a lessee (see Notes 11 and 12).

See Notes to Financial Statements.

Notes to Financial Statements

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Organization and Operations

On December 22, 1995, the Bangko Sentral ng Pilipinas (BSP) authorized BDO Private Bank, Inc. (the Bank) to operate as a commercial bank. The Bank was incorporated in the Philippines to engage in banking activities, as well as to engage in and carry on the business of a trust bank and to operate a foreign currency deposit unit.

The Bank is a wholly owned subsidiary of BDO Unibank, Inc. (BDO Unibank or Parent Bank), a publicly listed bank incorporated and domiciled in the Philippines. BDO Unibank is authorized to operate as an expanded commercial bank and to engage in trust and foreign currency deposit operations.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank 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. The Bank is subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791).

The Bank's registered office, which is also its principal place of business, is located at the 2nd Floor, BDO Equitable Tower, 8751 Paseo de Roxas, Makati City. The registered office of BDO Unibank is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2019 (including the comparative financial statements as of and for the year ended December 31, 2018) were authorized for issue by the Bank's Board of Directors (BOD) on February 17, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized 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 Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, 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 resource, 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 Bank presents statement of comprehensive income separate from the statement of income.

The Bank presents 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 Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2019 that are Relevant to the Bank

The Bank adopted for the first time the following new PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments

Annual Improvements to
PFRS (2015-2017 Cycle)
PAS 12 (Amendments) : Income Taxes – Tax Consequences of Dividends

Discussed below and in the succeeding pages are the relevant information about these new standard, amendments, interpretation and annual improvements.

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Bank's financial statements.

(ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). The application of these amendments had no significant impact on the Bank's financial statements.

(iii) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Bank has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. Accordingly, comparative information were not restated. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019. There was no significant impact on the Surplus account as of the beginning of 2019.

The new accounting policies of the Bank as a lessee are disclosed in Note 2.13.

Discussed below are the relevant information arising from the Bank's adoption of PFRS 16 and how the related accounts are measured and presented on the Bank's financial statements as at January 1, 2019.

a. For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

b. The Bank recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as of January 1, 2019. The Bank's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.95%.

c. The Bank has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Bank also elected to measure the right-of-use assets at an amount equal to the lease liability as at January 1, 2019.

d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	Notes		
Operating lease commitments, December 31, 2018 (PAS 17)	27.2	P	252,256,583
Previously included lease payments relating to extensions		(	76,172,396)
Recognition exemptions:			
Leases of low value assets	2.2(a)(iii)(d)	(	15,180,000)
Leases with remaining term of less than 12 months	2.2(a)(iii)(d)	(	58,785,215)
Operating lease liabilities before discounting			102,118,972
Discount using incremental borrowing rate	2.2(a)(iii)(b)	(	10,115,989)
Lease liabilities, January 1, 2019 (PFRS 16)*	12	P	92,002,983

** Equal to the right-of-use asset as of January 1, 2019 (see Note 11).*

(iv) IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. The application of this interpretation had no significant impact on the Bank's financial statements

(v) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments, PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends* (effective from January 1, 2019), is relevant to the Bank but had no material impact to the Bank's financial statements as these amendments merely clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

(b) Effective in 2019 that are not Relevant to the Bank

The following annual improvements to PFRS 2015-2017 Cycle are mandatorily effective for annual periods beginning on or after January 1, 2019 but are not relevant to the Bank's financial statements:

PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 and 11 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Venture

(c) Effective Subsequent to 2019 but not Adopted Early

There are annual improvements to PFRS and amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, management is currently assessing the impact on the Bank's financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.

(ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

2.3 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 trade date (i.e., the date that the Bank commits to purchase or sell the asset).

At initial recognition, the Bank 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), transactions 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 fair value through profit or loss are expensed in profit or loss.

(a) Classification, Measurement and Reclassification of Financial Assets

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

(i) Financial Assets at Amortized Cost

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

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

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank 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 Bank's financial assets at amortized cost are presented in the statement of financial position as Due from BSP, Due from Other Banks, Loans and Receivables, Held-to-Collect (HTC) Investments, and Margin deposits (under Other Resources). Due from BSP and Due from Other Banks are considered cash and cash equivalents, which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Loans and receivables include receivables from customers and all other receivables from customers and other banks.

For purposes of reporting cash flows, cash and cash equivalents include amounts due from BSP and other banks, securities purchased under reserve repurchase agreement and certain unquoted debt securities, if any, with maturities of three months or less from placement date.

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

The Bank accounts for financial assets at 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, the Bank 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 Bank for trading or as mandatorily required to be classified as FVTPL. The Bank does not hold equity instruments as of December 31, 2019 and 2018.

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 Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves 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 cumulative fair value gains or losses are recycled to profit or loss.

Any dividends earned on holding equity instruments, if any, are recognized in the statement of income, when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and the amount of the 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, if any, are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Bank's financial assets at FVTPL include derivatives, corporate and government debt securities which are held for trading purposes or designated as at FVTPL.

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

The interest earned is recognized as part of Interest Income account in the statement of income.

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

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank 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 Bank'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 recorded 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 Bank 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 balance sheet with an increase (reduction) in Interest Income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The Bank 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, 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*

The Bank assesses its expected credit loss (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI and other contingent accounts. No impairment loss is recognized on equity investments, if any. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. Instead, the Bank 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 Bank 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). Unless 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 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 Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.3.

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 (see Note 4.3.5) 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 that 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)* – it represents the gross carrying amount of the financial instruments subject to the 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.

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.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank's detailed ECL measurement, as determined by the management, is disclosed in Note 4.3.5.

(d) Derecognition of Financial Assets

(i) Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank 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 Bank 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 Bank 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 between the old financial asset derecognized and the fair value of the new financial asset are recognized as gain or loss in profit or loss upon derecognition. 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 Bank 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 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(e) Classification and Measurement of Financial Liabilities

Financial liabilities, which include deposit liabilities, bills payable, derivative financial liabilities and accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of income.

Deposit liabilities and bills payable are recognized initially at fair value, which is the fair value of consideration received (issue price), net of direct issue costs, and are subsequently measured at amortized cost. Any difference between the proceeds received, net of transaction costs and the redemption value is amortized in the profit or loss over the period of the borrowings using the effective interest method.

Derivative financial liabilities are recognized initially at fair value and subsequently valued at fair value with changes in fair value charged to profit or loss.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank and subject to the requirements of BSP Circular 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Requirements*.

(f) Derecognition of Financial Liabilities

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between carrying amount of financial liability derecognized and the consideration paid or payable is recognized in profit or loss. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

2.4 Derivative Financial Instruments

The Bank is a party to various foreign currency forward contracts, cross currency and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing the Bank's foreign exchange and interest rate exposure as well as for trading purposes.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets and through 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 (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognizes the profit or loss at initial recognition.

For more complex instruments, the Bank uses proprietary models, which usually are developed from recognized valuation models. 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, usually an increase, in fair value indicated by valuation techniques is recognized in 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 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, and 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.

2.5 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 the Bank currently has legally enforceable right to set-off 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.

2.6 Other Resources

Other resources pertain to other assets controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.7 Intangible Assets

Intangible assets pertain to computer software licenses presented as part of Other Resources in the statement of financial position. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight line basis over the estimated useful life. The expected useful life of computer software is five years. In addition, computer software is subject to impairment testing as described in Note 2.15. 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.

2.8 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

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

The estimated useful life of furniture, fixtures, and equipment is five years. Leasehold improvements are amortized over the lease term or five years, whichever is shorter.

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 2.15).

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

An item of bank premises, furniture, fixtures and equipment including related accumulated depreciation and impairment losses 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 from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income in the year the item is derecognized.

2.9 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they 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.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the 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, possible inflows of economic benefits to the Bank 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 the Bank 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.

2.10 Equity

Share capital (common stocks) represents the nominal value of shares that have been issued.

Surplus reserves pertain to reserve for trust business representing the accumulated amount set aside by the Bank under existing regulations requiring the Bank to carry to surplus 10% of its net profits accruing from its trust business until the surplus shall amount to 20% of its authorized capital stock and, to the appropriation related to general loan loss provision as prescribed by the BSP (see Note 18.3).

Surplus free includes all current and prior period results as disclosed in statement of income and which are available and not restricted for use by the Bank, reduced by the amounts of dividends declared, if any.

Revaluation reserves include unrealized gains (losses) on financial assets at FVOCI which pertain to mark-to-market valuation and accumulated actuarial gains (losses) which relate to remeasurement of post-employment defined benefit plans.

2.11 Related Party Transactions and Relationships

Related party transactions consist of transfer of resources, services or obligations between the Bank and its related parties, regardless 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 parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded retirement plan (see Note 22.2).

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.12 Other Income and Expense Recognition

Revenue is recognized only when (or as) the Bank 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 Bank's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenues from Contracts with Customers*. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is within the 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.

The Bank also earns service fees on various banking services which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15.

For revenues arising from 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) Individual and Corporate Banking Services

The Bank provides banking services to individual and corporate customers, including account management, servicing arrangements and all other banking transactions (i.e., lending, foreign currency transactions, settlement and remittance).

Transaction-based fees are charged to the customer's account; hence, revenues are recognized at the point in time when the transaction takes place.

(b) Asset Management Services

The Bank provides asset management services, which include trust and fiduciary activities. Related fees are recognized as follows:

(i) Asset management and trust fees – these are service fees calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on the scheduled collection date. Revenue from asset management services is recognized over time as the services are provided.

(ii) Non-refundable upfront fees – are charged to customers when opening certain types of trust account with the Bank. These fees give rise to material rights for future services and are recognized as revenue over the period for which a customer is expected to continue receiving asset management services.

2.13 Leases – Bank as Lessee

(a) Accounting for Leases in Accordance with PFRS 16 (2019)

For any new contracts entered into on or after January 1, 2019, the Bank 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, the Bank assesses whether the contract meets three key evaluations which are whether:

- 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 the Bank;

- the Bank 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,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank 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 Bank 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 the Bank, 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, the Bank 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 Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.15).

On the other hand, the Bank 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 the Bank'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.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients allowed under PFRS 16. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

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

(b) Accounting for Leases in Accordance with PAS 17 (2018)

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expense as incurred.

2.14 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of income under Foreign exchange gain (loss). Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI 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 (loss).

2.15 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment, computer software, and other non-financial assets included in Other Resources account in the statement of financial position are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell, and value in use based on an internal discounted cash flow evaluation. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. 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.

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 recoverable amount exceeds its carrying amount.

2.16 Employee Benefits

The Bank 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 Plan

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 the Bank, 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, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that 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. BVAL provides evaluated prices that are based on market observations from contributed sources.

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 net 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. Net interest is reported as part of Others under Interest Expense account in the statement of income.

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

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into an independent entity such as the Social Security System. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, 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 reporting period are discounted to their present value.

(d) *Bonus Plans*

The Bank recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement. Unavailed leaves of employees under the retirement plan are valued and funded as part of the present value of defined benefit obligation under item (a) of Note 2.16.

(f) *Employee Stock Option Plan*

The Bank grants stock option plan to its senior officers (from vice-president up) for their contribution to the Bank's performance and attainment of team goals. The stock option plan gives qualified employees the right to purchase BDO Unibank's shares at an agreed strike price. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on the Bank's performance in the preceding year and amortized over five years (vesting period) starting from date of approval of the BOD. The number of officers qualified at the grant date is regularly evaluated (at least annually) during the vesting period and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification.

Liability recognized on the stock option plan for the amount charged by BDO Unibank attributable to the qualified officers of the Bank is included under Accrued Expenses and Other Liabilities in the statement of financial position and the related expense is presented in Employee benefits under Other Expenses in the statement of income (see Notes 17 and 22.1).

2.17 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current 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 year. 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 carry forward 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 deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the 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 deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank 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 deferred tax 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 the Bank 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.

2.18 Trust Operations

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

2.19 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The 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 likely differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank'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 HTC Investments and Financial Assets at FVOCI

The Bank uses a general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts, if any. 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.

The Bank 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.

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

The Bank 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.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank'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 the Bank) 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 under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Bank as those relate to the Bank'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 under PFRS 9, the Bank 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, the Bank 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, the Bank 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, the Bank 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 the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

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

The Bank determines that its revenues from services for asset management and other non-refundable upfront fees shall be recognized over time. In making its judgment, the Bank considers the timing of receipt and consumption of benefits provided by the Bank to the customers. As the work is performed, the Bank becomes entitled to payments. This demonstrates that the customers simultaneously receive and consume the benefits of the Bank's rendering of these banking services as it performs.

In determining the best method of measuring the progress of the Bank'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, time elapsed, and appraisals of milestones reached or activities already performed.

(e) *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 2.9 and relevant disclosures are presented in Note 27.

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 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) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)

The Bank 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 Bank'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.

(b) Estimation of Allowance for ECL

The measurement of the allowance for ECL on financial assets at amortized cost 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, HTC investments and Loans and other receivables and, the analysis of the allowance for impairment on such financial assets, are shown in Notes 8, 9 and 10, respectively.

(c) Fair Value Measurements for Financial Instruments

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

The carrying values of the Bank'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 7 and 8, respectively.

(d) 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 using the net present value computation.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions and correlations require management to make estimates.

The Bank uses judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

(e) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Computer Software*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, and computer software 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. Actual results; however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Analyses of the carrying amounts of bank premises, furniture, fixtures, and equipment and computer software are disclosed in Notes 11 and 13, respectively.

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

The Bank 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 asset to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2019 and 2018 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Notes 13 and 24.

(g) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.15). 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 those 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.

No impairment losses on non-financial assets were recognized in 2019 and 2018.

(h) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of return on plan assets, salary rate increase and employee turnover rate. 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, as well as the significant assumptions used in estimating such obligation are presented in Note 22.2.

4. RISK MANAGEMENT

With its culture of managing risk prudently within its capacity and capabilities, the Bank pursues 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 Bank 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 Bank 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 Bank's goal is to remain a strong bank that is resilient to possible adverse events. Hence, the Bank ensures:

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

For credit risk, market risk, and liquidity risk, the Bank 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 Bank's activities and transactions.

Risk management at the Bank 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 development and oversight of the risk management program. Considering 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 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.

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 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 shareholders.

4.1 Market Risk

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 BOD.

4.1.1 Foreign Exchange Risk

The Bank 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 Bank's net foreign exchange exposure is computed as its foreign currency resources less foreign currency liabilities plus contingent assets less contingent liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the consolidated excess foreign exchange holdings of banks in the Philippines. The Bank's foreign exchange exposure is primarily foreign exchange trading with corporate accounts and other financial institutions. The Bank, as a market participant in the Philippine Dealing System, 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.

The tables below set out the composition of the Bank's financial resources and financial liabilities as to currency as of December 31, 2019 and 2018 (amounts in thousands):

	2019					
		Foreign Currencies		**Philippine Peso**		**Total**
Resources:						
Due from BSP	**P**	**-**	**P**	**1,331,616**	**P**	**1,331,616**
Due from other banks		**477,937**		**21,494**		**499,431**
Financial assets at FVTPL		**1,823,398**		**2,603,475**		**4,426,873**
Financial assets at FVOCI		**10,786,300**		**-**		**10,786,300**
HTC investments		**4,144,033**		**9,965,948**		**14,109,981**
Loans and receivables - net		**838,151**		**2,647,075**		**3,485,226**
Other resources		**95,046**		**1,102**		**96,148**
	P	**18,164,865**	**P**	**16,570,710**	**P**	**34,735,575**
Liabilities:						
Deposit liabilities	**P**	**16,778,680**	**P**	**10,215,923**	**P**	**26,994,603**
Bills payable		**253,234**		**-**		**253,234**
Derivative financial liabilities		**15,580**		**1,433,672**		**1,449,252**
Other liabilities		**51,429**		**270,016**		**321,448**
	P	**17,098,923**	**P**	**11,919,611**	**P**	**29,018,537**

	2018					
		Foreign Currencies		Philippine Peso		Total
Resources:						
Due from BSP	P	-	P	4,425,182	P	4,425,182
Due from other banks		3,003,023		42,049		3,045,072
Financial assets at FVTPL		242,063		3,505,028		3,747,091
Financial assets at FVOCI		7,789,348		3,660,419		11,449,767
HTC investments		7,272,526		12,226,895		19,499,421
Loans and receivables - net		377,282		4,335,476		4,712,758
Other resources		1,738,954		1,567		1,740,521
	P	20,423,196	P	28,196,616	P	48,619,812
Liabilities:						
Deposit liabilities	P	18,155,392	P	22,358,295	P	40,513,687
Derivative financial liabilities		49,046		2,772,509		2,821,555
Other liabilities		2,224		79,175		81,399
	P	18,206,662	P	25,209,979	P	43,416,641

4.1.2 Interest Rate Risk

The Bank 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 repricing 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 behavioural 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; 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 the Bank 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 following table shows the amounts of the Bank's resources and liabilities that are subject to different interest rate arrangements as of December 31, 2019 and 2018 (amounts in thousands):

	2019		2018	
	Resources	**Liabilities**	Resources	Liabilities
Subject to floating interest rates	**P 1,773,576**	**P 22,703**	P 1,626,617	P 190,041
Subject to fixed interest rates	**30,703,349**	**22,931,183**	41,016,534	37,055,307
Noninterest-bearing	**2,475,172**	**6,182,258**	6,206,043	6,467,481
	P 34,952,097	**P 29,136,144**	P 48,849,194	P 43,712,829

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2019 and 2018 based on expected interest realization or recognition are presented below and in the succeeding page (amounts in millions):

	2019					
	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:						
Due from BSP	P -	P -	P -	P -	P 1,332	P 1,332
Due from other banks	399	100	-	-	-	499
Trading and investment securities	640	1,051	16,659	10,329	644	29,323
Loans and receivables - net	1,265	348	545	1,046	281	3,485
Other resources - net*	-	-	-	95	218	313
Total Resources	**2,304**	**1,499**	**17,204**	**11,470**	**2,475**	**34,952**
Liabilities and Equity:						
Deposit liabilities	18,205	1,807	453	1,232	5,298	26,995
Bills payable	253	-	-	-	-	253
Other liabilities**	82	325	597	-	884	1,888
Total Liabilities	**18,540**	**2,132**	**1,050**	**1,232**	**6,182**	**29,136**
Equity	-	-	-	-	5,816	5,816
Total Liabilities and Equity	**18,540**	**2,132**	**1,050**	**1,232**	**11,998**	**34,952**
On-book Gap	(16,236)	(633)	16,154	10,238	(9,523)	-
Cumulative On-book Gap	**(16,236)**	**(16,869)**	**(715)**	**9,523**	**-**	**-**
Contingent Resources	3,001	1,797	-	-	-	4,798
Contingent Liabilities	2,964	1,773	-	-	-	4,737
Off-book Gap	37	24	-	-	-	61
Cumulative Total Gap	**(P 16,199)**	**(P 16,808)**	**(P 654)**	**P 9,584**	**P 61**	**P -**

	2018					
	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:						
Due from BSP	P -	P -	P -	P -	P 4,425	P 4,425
Due from other banks	1,706	1,313	26	-	-	3,045
Trading and investment securities	2,690	4,459	12,682	13,556	1,309	34,696
Loans and receivables - net	1,785	454	564	1,669	241	4,713
Other resources - net*	1,739	-	-	-	231	1,970
Total Resources	7,920	6,226	13,272	15,225	6,206	48,849
Liabilities and Equity:						
Deposit liabilities	28,398	3,960	1,679	1,218	5,259	40,514
Other liabilities**	6	1,094	890	-	1,209	3,199
Total Liabilities	28,404	5,054	2,569	1,218	6,468	43,713
Equity	-	-	-	-	5,136	5,136
Total Liabilities and Equity	28,404	5,054	2,569	1,218	11,604	48,849
On-book Gap	(20,484)	1,172	10,703	14,007	(5,398)	-
Cumulative On-book Gap	(20,484)	(19,312)	(8,609)	5,398	-	-
Contingent Resources	5,051	1,618	-	-	-	6,669
Contingent Liabilities	4,943	1,577	-	-	-	6,520
Off-book Gap	108	41	-	-	-	149
Cumulative Total Gap	(P 20,376)	(P 19,163)	(P 8,460)	P 5,547	P 149	P -

* *Other resources include bank premises, furniture, fixtures and equipment, margin deposits, petty cash and other deposits.*
** *Other liabilities include derivative liabilities, manager's checks, accrued expenses, unclaimed balances and other liabilities.*

The 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 Bank uses the 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 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 (EAR) – 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.

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; and,

- 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.

A summary of the VaR position of the Bank's trading portfolios as of December 31, 2019 and 2018 are as follows:

	December 31, 2019		December 31, 2018	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**P 267,298**	**P 3,147,290**	P 2,143,704	P 34,540,828
Interest rate risk – Peso	**20,205,099**	**504,694,139**	7,716,546	103,433,436
Interest rate risk – USD	**7,866,547**	**310,027,791**	6,089,388	254,335,891
	P 28,338,944	**P 817,869,220**	P 15,949,638	P 392,310,155

For the Bank, 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" assumptions 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 in VaR. The volatility calculations make use of actual pre-defined time series data, using five years' worth of yearly changes, at the 99% confidence interval. The frequency of measurement for EAR is monthly. EAR Stress Test uses 300 basis point increase in US interest rates and 400 basis point increase in peso interest rates.

The EAR before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2019 and 2018 is shown below (amounts in millions).

	2019			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change in annualized net interest income	**P 104.36**	**(P 104.36)**	**P 52.18**	**(P 52.18)**
As a percentage of the Bank's net interest income for 2019	**13.11%**	**(13.11%)**	**6.55%**	**(6.55%)**
EAR	**P 157.01**			
As a percentage of the Bank's net interest income for 2019	**19.72%**			
Average (1yr) EAR	**P 181.57**			
Stress EAR	**P 357.25**			

	2018			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change in annualized net interest income	P 146.48	(P 146.48)	P 73.24	(P 73.24)
As a percentage of the Bank's net interest income for 2018	16.50%	(16.50%)	8.25%	(8.25%)
EAR	P 261.17			
As a percentage of the Bank's net interest income for 2018	29.41%			
Average (1yr) EAR	P 193.42			
Stress EAR	P 507.56			

4.2 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analyses of the maturity groupings of resources, liabilities and off-book items as of December 31, 2019 and 2018, in accordance with the account classifications of the BSP, are presented below and in the succeeding page (amounts in millions). The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows using the primary contractual maturities or behavioural assumptions on core levels (e.g. core deposit liabilities), if the latter is more relevant in profiling the liquidity gap.

	2019				
	One to Three Months	**More Than Three Months To One Year**	**More Than One Year To Five Years**	**More Than Five Years**	**Total**
Resources:					
Due from BSP	P 191	P 1	P -	P 1,140	P 1,332
Due from other banks	399	100	-	-	499
Trading and investment securities	2,887	750	13,744	11,942	29,323
Loans and receivables - net	987	292	1,160	1,046	3,485
Other resources - net*	-	-	-	313	313
Total Resources	**4,464**	**1,143**	**14,904**	**14,441**	**34,952**
Liabilities and Equity:					
Deposit liabilities	6,263	813	204	19,715	26,995
Bills payable	253	-	-	-	253
Other liabilities**	231	-	-	1,657	1,888
Total Liabilities	6,747	813	204	21,372	29,136
Equity	-	-	-	5,816	5,816
Total Liabilities and Equity	**55,980**	**813**	**204**	**24,188**	**34,952**
On-book Gap	(2,283)	330	14,700	(12,747)	-
Cumulative On-book Gap	**(2,283)**	**(1,953)**	**12,747**	**-**	**-**
Contingent Resources	6,061	8,846	22,207	568	37,682
Contingent Liabilities	5,994	8,657	21,858	549	37,058
Off-book Gap	67	189	349	19	624
Cumulative Total Gap	**(P 2,216)**	**(P 1,697)**	**P 13,352**	**P 624**	**P -**

	2018				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Total
Resources:					
Due from BSP	P 431	P 9	P -	P 3,985	P 4,425
Due from other banks	1,706	1,313	26	-	3,045
Trading and investment securities	2,668	3,257	11,305	17,466	34,696
Loans and receivables - net	1,898	277	869	1,669	4,713
Other resources - net*	-	-	-	1,970	1,970
Total Resources	6,703	4,856	12,200	25,090	48,849
Liabilities and Equity:					
Deposit liabilities	5,375	3,073	624	31,442	40,514
Other liabilities**	48	222	-	2,929	3,199
Total Liabilities	5,423	3,295	624	34,371	43,713
Equity	-	-	-	5,136	5,136
Total Liabilities and Equity	5,423	3,295	624	39,507	48,849
On-book Gap	1,280	1,561	11,576	(14,417)	-
Cumulative On-book Gap	1,280	2,841	14,417	-	-
Contingent Resources	5,698	17,064	16,825	-	39,587
Contingent Liabilities	5,568	16,779	16,542	-	38,889
Off-book Gap	130	285	283	-	698
Cumulative Total Gap	P 1,410	P 3,256	P 15,115	P 698	P -

* *Other resources include banks premises, furniture, fixtures and equipment, margin deposits, petty cash and other deposits.*
** *Other liabilities include derivative financial liabilities, manager's checks, accrued expenses, unclaimed balances and other liabilities.*

Contractual Maturity Analysis – Derivative Financial Liabilities

As of December 31, 2019 and 2018, the Bank's derivative financial liabilities for which contractual maturities are essential for the understanding of cash flows have contractual maturities as follows (amounts in thousands):

	2019				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Total**
Forwards (FX swaps/outrights)	**P 340**	**P 947**	**P -**	**P -**	**P 1,287**
Nondeliverable forwards	**-**	**-**	**-**	**29,486**	**29,486**
Cross currency swaps	**84,731**	**300,950**	**746,024**	**170,844**	**1,302,549**
Interest rate swaps	**4,740**	**17,191**	**93,999**	**-**	**115,930**
	P 89,811	**P 319,088**	**P 840,023**	**P 200,330**	**P 1,449,252**

	2018									
		One to Three Months		More Than Three Months to One Year		More Than One Year to Five Years		More Than Five Years		Total
Forwards (FX swaps/outrights)	P	351	P	-	P	-	P	-	P	351
Cross currency swaps		267		1,571,314		1,025,073		-		2,596,654
Interest rate swaps		5,523		72,271		146,756		-		224,550
	P	6,141	P	1,643,585	P	1,171,829	P	-	P	2,821,555

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, treasury, derivatives and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the RMG, which undertakes several functions with respect to credit risk management.

The RMG undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The RMG performs account risk ratings and ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The RMG is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The RMG also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, regions, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

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 issuer, or groups of borrowers or issuers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review.

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 securing eligible collateral/guarantees.

4.3.1 Exposure to Credit Risk

Loan classification and credit risk rating are an integral part of the Bank'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 Bank's definition of its loan classification and corresponding credit risk ratings are as follows:

- Current/Unclassified : Grades AAA to B
- Watchlisted : Grade B-
- Loans 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) Unclassified

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

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 Bank.

(ii) Substandard

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

(iii) Doubtful

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

(iv) Loss

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

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

In addition to the above, credit portfolio review is another integral part of the Bank'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 Bank using internal credit ratings.

4.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of financial resources measured at amortized cost and FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. As of December 31, 2019 and 2018, the Bank has no loan commitments and financial guarantee contracts. Thus, there are no amounts committed or guaranteed in the table below and in the succeeding page.

The following tables show the exposure to credit risk as of December 31, 2019 and 2018 for each internal risk grade and the related allowance for impairment (amounts in thousands):

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Grades AAA to B: Current	P 2,386,409	P -	P -	P 2,386,409
Expected credit loss allowance	(4,465)	-	-	(4,465)
Carrying amount	**P 2,381,944**	**P -**	**P -**	**P 2,381,944**
Receivables from customers – individual				
Grades AAA to B: Current	P 822,984	P -	P -	P 822,984
Expected credit loss allowance	(1,108)	-	-	(1,108)
Carrying amount	**P 821,876**	**P -**	**P -**	**P 821,876**
Other receivables				
Grades AAA to B: Current	P 281,407	P -	P -	P 281,407
Grade F: Loss	-	-	27,157	27,157
Expected credit loss allowance	-	-	(27,157)	(27,157)
Carrying amount	**P 281,407**	**P -**	**P -**	**P 281,407**
Debt securities – Financial assets at FVOCI				
Grades AAA to B: Current	**P 10,786,300**	**P -**	**P -**	**P 10,786,300**
Debt securities – HTC investments				
Grades AAA to B: Current	P 14,115,428	P -	P -	P 14,115,428
Expected credit loss allowance	(5,447)	-	-	(5,447)
Carrying amount	**P 14,109,981**	**P -**	**P -**	**P 14,109,981**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Grades AAA to B: Current	P 4,336,880	P -	P -	P 4,336,880
Expected credit loss allowance	(6,573)	-	-	(6,573)
Carrying amount	P 4,330,307	P -	P -	P 4,330,307
Receivables from customers – individual				
Grades AAA to B: Current	P 142,584	P -	P -	P 142,584
Expected credit loss allowance	(1,403)	-	-	(1,403)
Carrying amount	P 141,181	P -	P -	P 141,181
Other receivables				
Grades AAA to B: Current	P 241,271	P -	P -	P 241,271
Expected credit loss allowance	-	-	-	-
Carrying amount	P 241,271	P -	P -	P 241,271
Debt securities – Financial assets at FVOCI				
Grades AAA to B: Current	P 11,449,767	P -	P -	P 11,449,767
Debt securities – HTC investment				
Grades AAA to B: Current	P 19,506,337	P -	P -	P 19,506,337
Expected credit loss allowance	(6,916)	-	-	(6,916)
Carrying amount	P 19,499,421	P -	P -	P 19,499,421

The following table sets out the credit quality of trading debt securities measured at FVTPL (see Note 7) (amounts in thousands):

	2019	2018
Grade:		
AAA	**P 602,702**	P -
AA+ to AA-	**437,326**	111,921
BBB+ to BBB-	**1,363,779**	7,732
BB+ to BB-	**-**	14,037
	P 2,403,807	P 133,690

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Outstanding derivative exposures to counterparties are generally to investment grade counterparty banks. Derivative transactions with non-bank counterparties are on a fully secured basis (amounts in thousands):

					Over-the-counter			
	Total		**Exchange-traded**		**Central counterparties**		**Other bilateral collateralized**	
	Notional Amount	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
2019								
Derivative assets	**P24,408,491**	**P 2,023,066**	**P -**	**P -**	**P -**	**P -**	**P 24,408,491**	**P2,023,066**
Derivative liabilities	**16,434,120**	**1,449,252**	**-**	**-**	**-**	**-**	**16,434,120**	**1,449,252**
2018								
Derivative assets	P29,921,159	P3,613,401	P -	P -	P -	P -	P 29,921,159	P 3,613,401
Derivative liabilities	15,659,252	2,821,555	-	-	-	-	15,659,252	2,821,555

4.3.3 Concentration of Credit Risk

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.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance for impairment) at the reporting date is shown below and in the succeeding page (amounts in thousands).

	2019		
	Cash and Cash Equivalents*	**Loans and Receivables**	**Trading and Investment Securities**
Concentration by sector:			
Financial and insurance activities	P 1,927,195	P 941,597	P 7,387,792
Arts, entertainment and recreation	-	1,066,953	-
Other service activities	-	1,040,760	1,243,451
Real estate activities	-	190,351	1,606,605
Information	-	185,988	-
Construction	-	92,308	-
Government	-	-	16,875,352
Electricity, gas, steam and air-conditioning supply	-	-	2,158,677
Transportation and storage	-	-	56,724
	P 1,927,195	P 3,517,957	P 29,328,601
Concentration by location:			
Philippines	P 1,598,405	P 2,958,798	P 22,594,778
Other	328,790	559,159	6,733,823
	P 1,927,195	P 3,517,957	P 29,328,601

	2018		
	Cash and Cash Equivalents*	Loans and Receivables	Trading and Investment Securities
Concentration by sector:			
Financial and insurance activities	P 9,210,775	P 1,660,887	P 10,596,554
Arts, entertainment and recreation	-	1,100,470	-
Electricity, gas, steam and air-conditioning supply	-	569,155	1,272,775
Real estate activities	-	226,849	1,438,884
Construction	-	96,008	-
Wholesale and retail trade	-	48,642	-
Mining and quarrying	-	-	20,018,106
Transportation and storage	-	-	117,681
Government	-	-	54,379
Other service activities	-	1,018,723	1,204,816
	P 9,210,775	P 4,720,734	P 34,703,195
Concentration by location:			
Philippines	P 6,706,555	P 4,604,608	P 27,337,387
Other	2,504,220	116,126	7,635,808
	P 9,210,775	P 4,720,734	P 34,703,195

**In addition to the accounts that comprise cash and cash equivalent in Note 2.3, the amount also includes margin deposits with foreign bank and other financial assets classified under Other Resources (see Note 13) totalling P96,148 and P1,740,521 as of December 31, 2019 and 2018, respectively.*

The table below shows the maximum exposure to credit risk for the components of the statements of financial position, including derivatives. The maximum exposure is gross, before the effect of mitigation through the use of netting and collateral agreements (amounts in thousands).

	Notes	**2019**	2018
Due from BSP	6	**P 1,331,616**	P 4,425,182
Due from other banks	6	**499,431**	3,045,072
Financial assets at FVTPL	7		
Derivatives		**2,023,066**	3,613,401
Corporate debt securities		**1,282,635**	127,000
Government securities		**1,121,172**	6,690
Financial assets at FVOCI (gross)	8		
Corporate debt securities		**6,741,525**	6,312,283
Government securities		**4,044,775**	5,137,484
HTC investments (gross)	9		
Government securities		**12,886,813**	15,650,103
Corporate debt securities		**1,228,615**	3,856,234
Loans and receivables (gross)	10		
Receivable from customers		**3,209,393**	4,479,464
Other receivables		**308,564**	241,271
Other resources	13		
Margin deposits		**95,046**	1,738,954
Others		**1,102**	1,567
		P 34,773,753	P 48,634,705

4.3.4 Collateral Held as Security and Other Credit Enhancements

The Bank holds some collateral against loans to customers in the form of deposits and money market investments; fixed, floater and zero coupon bonds and notes guaranteed by the government; fixed, floater or zero coupon bonds issued by domestic corporations; and listed and publicly traded liquid equity issues. The market values of collaterals are based on the previous day's closing price and are revalued daily. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activities.

Estimate of the fair value of collateral and other security enhancements held against the following loans and receivables risk groupings as of December 31 are as follows (amounts in thousands):

		2019		2018
Neither past due nor impaired				
Equity securities	**P**	**488,882**	P	882,373
Debt securities		**407,359**		316,217
Others		**224,021**		145,144
	P	**1,120,262**	P	1,343,734

4.3.5 Amounts Arising from Expected Credit Losses

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as Stage 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 Bank measures credit risk using PD, LGD and EAD.

(a) *Significant Increase in Credit Risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk 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).

The Bank uses the following criteria in determining whether there has been a significant increase in credit risk: (i) quantitative test based on movement in PD; and (ii) qualitative indicators, such as substantial decline in sales or intermittent delays in payment:

(i) Credit Risk Grading

The Bank 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 judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

(ii) Generating the Term Structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed 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 Bank employs statistical models to analyze the data collected and to generate the term structure of PD estimates.

(iii) Determining Whether Credit Risk has Significantly Increased

The Bank 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 Bank.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank'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 substantial decline in sales 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.

(b) *Definition of Default*

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank 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 Bank; 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 Bank 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.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

The definition of default has been aligned with the definition used for regulatory capital purposes. Definition of default can be rebutted and the rebuttal will be monitored and reviewed on annual basis to ensure definition remains appropriate.

These criteria are consistent with the definition of default used for internal credit risk management purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Bank.

(c) *Forward-looking Information*

The Bank incorporates forward-looking information (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 Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The relevant macro-economic variables for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth, unemployment rate, foreign exchange, 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.

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.

(d) *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 Bank renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Bank's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt; or if there is a high risk of default, there is evidence that 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, changing the timing of interest payments and amending the terms of loan covenants. Individual and corporate loans are subject to restructuring. The Bank's Credit Committee regularly reviews reports on restructured activities.

For financial assets modified as part of the Bank's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time 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.

(e) *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 in the preceding section under the heading 'Generating the Term Structure of PD' under item (a) of Note 4.3.5.

LGD is the magnitude of the likely loss if there is a default. The Bank 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 Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. 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 some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The assumptions underlying the ECL calculation are monitored and reviewed on an annual basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank 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 Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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

- 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.

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

(f) *Write-offs*

The Bank 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 Bank'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 Bank has still, however, enforceable right to receive payment even if the financial assets have been written off except in certain cases.

(g) *Loss Allowance*

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument (amounts in thousands).

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,573	P -	P -	P 6,573
New financial assets originated	2,661	-	-	2,661
Derecognition of financial assets	(4,739)	-	-	(4,739)
Foreign exchange	(30)	-	-	(30)
Balance at December 31	P 4,465	P -	P -	P 4,465
Receivables from customers – individual				
Balance at January 1	P 1,403	P -	P -	P 1,403
New financial assets originated	931	-	-	931
Derecognition of financial assets	(1,206)	-	-	(1,206)
Foreign exchange	(20)	-	-	(20)
Balance at December 31	P 1,108	P -	P -	P 1,108
Other receivables				
Balance at January 1	P -	P -	P -	P -
New financial assets originated	-	-	27,157	27,157
Balance at December 31	P -	P -	P 27,157	P 27,157
Debt securities – Financial assets at FVOCI				
Balance at January 1	P 7,757	P -	P -	P 7,757
Net remeasurement of loss allowance	2,374	-	-	2,374
New financial assets purchases	4,971	-	-	4,971
Derecognition of financial assets	(2,904)	-	-	(2,904)
Foreign exchange	(405)	-	-	(405)
Balance at December 31	P 11,793	P -	P -	P 11,793
Debt securities – HTC investments				
Balance at January 1	P 6,916	P -	P -	P 6,916
Net remeasurement of loss allowance	(174)	-	-	(174)
Derecognition of financial assets	(1,148)	-	-	(1,148)
Foreign exchange	(147)	-	-	(147)
Balance at December 31	P 5,447	P -	P -	P 5,447

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 7,163	P -	P -	P 7,163
New financial assets originated	4,116	-	-	4,116
Derecognition of financial assets	(4,814)	-	-	(4,814)
Foreign exchange	108	-	-	108
Balance at December 31	P 6,573	P -	P -	P 6,573
Receivables from customers – individual				
Balance at January 1	P 1,785	P -	P -	P 1,785
New financial assets originated	1,328	-	-	1,328
Derecognition of financial assets	(1,660)	-	-	(1,660)
Foreign exchange	(50)	-	-	(50)
Balance at December 31	P 1,403	P -	P -	P 1,403
Debt securities – Financial assets at FVOCI				
Balance at January 1	P 6,248	P -	P -	P 6,248
Net remeasurement of loss allowance	861	-	-	861
New financial assets purchased	973	-	-	973
Foreign exchange	153	-	-	153
Derecognition of financial assets	(478)	-	-	(478)
Balance at December 31	P 7,757	P -	P -	P 7,757
Debt securities – HTC investments				
Balance at January 1	P 8,533	P -	P -	P 8,533
Net remeasurement of loss allowance	41	-	-	41
New financial purchased	2,286	-	-	2,286
Foreign exchange	142	-	-	142
Derecognition of financial assets	(4,086)	-	-	(4,086)
Balance at December 31	P 6,916	P -	P -	P 6,916

An aging of neither past due nor impaired Loans and Receivables account reckoned from the last unpaid due date follows (amounts in thousands):

	2019	2018
Up to 30 days	**P 1,869,414**	P 146,620
31 to 60 days	**832,352**	157,487
61 to 90 days	**348,629**	2,030,352
More than 90 days	**158,998**	2,145,006
	P 3,209,393	P 4,479,465

4.4 Equity Risk

Equity risk is the risk that the fair values of equity investments will decrease as a result of changes in the levels of equity indices and the value of individual stocks (whether traded or not). The Bank has no significant equity risk.

4.5 Operational Risk

Operational risk is the risk of loss due to the Bank's:

- failure to comply with defined Bank 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 Bank manages its operational risks by having 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.

4.5.1 Framework

True to its commitment to sound management and corporate governance, the Bank considers operational risk management as a critical element in the conduct of its business. Under the Bank's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of risk in the Bank. The business and service unit heads, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their respective businesses. The RMG provides the common risk language and management tools across the Bank as well as monitors the implementation of the ORM framework and policies.

The Bank continued to pursue its proactive management of identified operational risks, focusing on the ongoing adoption of the Risk and Control Self-Assessment Process so that business process owners could document both their operational risks and the control mechanisms they have put in place to manage those risks. This ORM tool allows the Bank 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.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into the Bank's day-to-day operations. These include environmental consciousness, occupational health and safety, and community health and safety.

5. CATEGORIES AND OFFSETTING OF FINANCIAL RESOURCES AND FINANCIAL LIABILITIES

5.1 Comparison of Carrying Amounts and Fair Values

The table below summarizes the carrying amounts and fair values by categories of those financial resources and financial liabilities in the statements of financial position (amounts in thousands):

	Notes	2019 Carrying Amounts	2019 Fair Values	2018 Carrying Amounts	2018 Fair Values
Financial Resources					
Financial assets at Amortized Cost:					
Due from BSP	6	**P 1,331,616**	**P 1,331,616**	P 4,425,182	P 4,425,182
Due from other banks	6	**499,431**	**499,431**	3,045,072	3,045,072
Receivables from customers – net	10	**3,203,820**	**3,378,854**	4,471,487	4,268,371
Other receivables - net	10	**281,407**	**281,407**	241,271	241,271
Other resources*	13	**96,148**	**96,148**	1,740,521	1,740,521
		5,412,422	**5,587,456**	13,923,533	13,720,417
Financial assets at FVTPL:	7				
Derivative financial assets		**2,023,066**	**2,023,066**	3,613,401	3,613,401
Corporate debt securities		**1,282,635**	**1,282,635**	127,000	127,000
Government debt securities		**1,121,172**	**1,121,172**	6,690	6,690
		4,426,873	**4,426,873**	3,747,091	3,747,091
Financial assets at FVOCI:	8				
Corporate debt securities		**6,741,525**	**6,741,525**	6,312,283	6,312,283
Government debt securities		**4,044,775**	**4,044,775**	5,137,484	5,137,484
		10,786,300	**10,786,300**	11,449,767	11,449,767
HTC investments:	9				
Government debt securities		**12,883,409**	**12,927,650**	15,650,103	14,457,052
Corporate debt securities		**1,226,572**	**1,167,296**	3,849,318	3,718,305
		14,109,981	**14,094,946**	19,499,421	18,175,357
		P 34,735,576	**P 34,895,575**	P 48,619,812	P 47,092,632
Financial Liabilities					
Financial liabilities at Amortized Cost:					
Deposit liabilities	14	**P 26,994,603**	**P 26,995,238**	P 40,513,687	P 40,515,529
Bills payable	15	**253,234**	**253,234**	-	-
Other liabilities**	17	**321,444**	**321,444**	81,399	81,399
		27,569,281	**27,569,916**	40,595,086	40,596,928
Financial liabilities at Fair Value – Derivative financial liabilities	16	**1,449,252**	**1,449,252**	2,821,555	2,821,555
		P 29,018,533	**P 29,019,168**	P 43,416,641	P 43,418,483

* *Other resources include margin deposits, petty cash and other deposits.*
** *Other liabilities include manager's checks, accrued expenses, unclaimed balances and other liabilities.*

5.2 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 asset or 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 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 the Bank 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.

5.3 Financial Instruments Measured at Fair Value

The tables below and in the succeeding page show the fair value hierarchy of the Bank's classes of financial resources and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2019 and 2018 (amounts in thousands).

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Resources:				
Financial assets at FVTPL:				
Derivative financial assets	P -	P 2,023,066	P -	P 2,023,066
Corporate debt securities	1,282,635	-	-	1,282,635
Government debt securities	1,121,172	-	-	1,121,172
Financial assets at FVOCI:				
Corporate debt securities	6,741,525	-	-	6,741,525
Government debt securities	4,044,775	-	-	4,044,775
Total Resources	P 13,190,107	P 2,023,066	P -	P 15,213,173
Liabilities –				
Derivatives financial liabilities	P -	P 1,449,252	P -	P 1,449,252

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Resources:				
Financial assets at FVTPL:				
Derivative financial assets	P -	P 3,613,401	P -	P 3,613,401
Corporate debt securities	127,000	-	-	127,000
Government securities	6,690	-	-	6,690
Financial assets at FVOCI:				
Government debt securities	6,312,283	-	-	6,312,283
Corporate debt securities	5,137,484	-	-	5,137,484
Total Resources	P 11,583,457	P 3,613,401	P -	P 15,196,858
Liabilities –				
Derivatives financial liabilities	P -	P 2,821,555	P -	P 2,821,555

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

Described below is the information about how the fair values of the Bank's classes of financial assets are determined.

(a) Debt securities

The fair value of the Bank's debt securities, which are categorized within Level 1 is discussed below.

(i) The fair values of 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.

(b) Derivatives

The fair value of derivative financial instruments, which are categorized within Level 2, is determined through valuation techniques using the net present value computation [see Note 3.2(d)].

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

The table below summarizes the fair value hierarchy of the Bank's financial resources and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amounts in thousands).

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Resources:				
Due from BSP	**P 1,331,616**	**P -**	**P -**	**P 1,331,616**
Due from other banks	**499,431**	**-**	**-**	**499,431**
HTC investments	**14,094,946**	**-**	**-**	**14,094,946**
Loans and other receivables	**-**	**-**	**3,660,261**	**3,660,261**
Other resources	**95,046**	**-**	**1,102**	**96,148**
	P 16,021,039	**P -**	**P 3,661,363**	**P 19,682,402**
Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 26,995,238**	**P 26,995,238**
Bills payable	**-**	**-**	**253,234**	**253,234**
Other liabilities	**-**	**-**	**321,444**	**321,444**
	P -	**P -**	**P 27,569,916**	**P 27,569,916**
December 31, 2018				
Resources:				
Due from BSP	P 4,425,182	P -	P -	P 4,425,182
Due from other banks	3,045,072	-	-	3,045,072
HTC investments	15,567,788	2,607,569	-	18,175,357
Loans and other receivables	-	-	4,509,642	4,509,642
Other resources	1,738,954	-	1,567	1,740,521
	P 24,776,996	P 2,607,568	P 4,511,209	P 31,895,774
Liabilities:				
Deposit liabilities	P -	P -	P 40,515,529	P 40,515,529
Other liabilities	-	-	81,399	81,399
	P -	P -	P 40,596,928	P 40,596,928

For financial resources 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 resources and financial liabilities presented in the statements of financial position at their amortized cost:

(a) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Bank to the BSP for clearing, reserve requirements and placement of excess liquidity in Overnight Deposit Facility (ODF) and Term Deposit Facility (TDF) in 2019 and 2018, respectively. Due from other banks include interbank placements and items in the course of collection. 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 approximates the nominal value.

(b) *HTC Investments*

The fair value of investment securities at amortized cost consisting of government securities and corporate debt securities is determined based on reference prices appearing in Bloomberg (Level 1). For HTC investments categorized at Level 2, the fair values are determined by using generally accepted valuation techniques. Inputs used in these techniques are from observable data and quoted market prices in respect of similar financial instruments existing at reporting dates.

The Bank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(c) *Loans and Other Receivables*

Receivables from customers and other receivables are presented net of provisions for impairment, if any. 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.

(d) *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 and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. For bills payable categorized within Level 3, the 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.

(e) *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.

5.5 Offsetting of Financial Assets and Financial Liabilities

The table below shows the financial assets of the Bank as of December 31, 2019 and 2018 which are subject to offsetting, enforceable master netting arrangements and similar agreements which are not set off in the statements of financial position (amounts in thousands).

	December 31, 2019			
	Financial Assets	**Financial Liabilities Available for Set-off**	**Collateral Received**	**Net Amount**
Financial assets at FVTPL				
Currency forwards	**P 1,800,242**	**P 298,470**	**P -**	**P 1,501,772**
Interest rate swaps	**167,782**	**50,965**	**-**	**116,817**
Loans and receivables				
Receivables from customers	**3,485,226**	**-**	**59,938**	**3,425,288**
Other resources				
Margin deposits on currency forwards	**95,046**	**89,624**	**-**	**5,422**
	P 5,548,296	**P 439,059**	**P 59,938**	**P 5,049,299**

	December 31, 2018			
	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
Financial assets at FVTPL				
Currency forwards	P 3,254,783	P 296,645	P -	P 2,958,138
Interest rate swaps	243,824	65,266	-	178,558
Loans and receivables				
Receivables from customers	4,712,758	-	46,445	4,666,313
Other resources				
Margin deposits on currency forwards	1,738,954	1,731,459	-	7,495
	P 9,950,319	P 2,093,370	P 46,445	P 7,810,504

The following financial liabilities with net amounts presented in the statements of financial position are not set-off in the statements of financial position subject to offsetting, enforceable master netting arrangements and similar agreements which are as follows (amount in thousands):

	December 31, 2019			
	Financial Liabilities	**Financial assets Available for Set-off**	**Collateral Given**	**Net Amount**
Deposit liabilities	**P 26,994,603**	**P 146,792**	**P -**	**P 26,847,811**
Financial liabilities				
Currency forwards	**1,302,549**	**298,470**	**90**	**1,003,989**
Interest rate swaps	**115,930**	**51,086**	**-**	**64,844**
	P 28,413,082	**P 496,348**	**P 90**	**P 27,916,644**

	December 31, 2018			
	Financial Liabilities	Financial assets Available for Set-off	Collateral Given	Net Amount
Deposit liabilities	P 40,513,687	P 138,687	P -	P 40,375,000
Financial liabilities				
Currency forwards	2,596,654	296,645	1,731,459	568,550
Interest rate swaps	224,550	65,266	-	159,284
	P 43,334,891	P 500,598	P 1,731,459	P 41,102,834

For the financial assets and financial liabilities subject to enforceable master netting arrangements or similar arrangements in the previous pages, each agreement between the Bank 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 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.

6. DUE FROM BSP AND OTHER BANKS

6.1 Due from BSP

This account pertains to the deposit account maintained by the Bank with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. The outstanding balance of this account amounted to P1,331,616,252 and P4,425,182,127 in 2019 and 2018, respectively.

Due from BSP, excluding mandatory reserves which has no interest, bears annual effective interest rates of 3.50% to 4.75% and 2.50% to 4.80% in 2019 and 2018, respectively. The total interest income earned amounted to P5,689,632 and P114,987,532 in 2019 and 2018, respectively, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income. Due from BSP is included in cash and cash equivalents for cash flow statement reporting purposes.

Under Section 254, *Composition of Reserves*, of the Manual of Regulations for Banks (MORB), a bank is required to maintain reserve requirements in the form of deposits with the BSP as among the allowable instruments for reserve cover. Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposits shall be limited to (a) settlement of obligations with the BSP, and; (b) withdrawals to meet cash requirements.

6.2 Due from Other Banks

The balance of this account represents regular deposits with the following:

	Note	**2019**	2018
Foreign banks		**P 375,990,881**	P 2,504,221,257
Local banks	23.1(d)	**123,440,201**	540,851,197
		P 499,431,082	P 3,045,072,454

A breakdown of this account by currency follows:

	2019	2018
United States (U.S.) dollar	**P 297,891,494**	P 2,489,960,430
Philippine peso	**21,493,771**	42,048,715
Other foreign currencies	**180,045,817**	513,063,309
	P 499,431,082	P 3,045,072,454

These deposits earn effective interest at rates ranging from 0.04% to 4.66% and 0.25% to 1.67% per annum in 2019 and 2018, respectively.

The total interest earned on due from other banks amounted to P74,091,715 and P87,788,433 in 2019 and 2018, respectively, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of the following:

	Notes	2019	2018
Derivatives	16, 23.1(c)	**P 2,023,066,482**	P 3,613,401,187
Corporate debt securities		**1,282,634,478**	126,999,948
Government debt securities		**1,121,172,099**	6,690,212
		P 4,426,873,059	P 3,747,091,347

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

	2019	2018
Philippine peso	**P 2,603,475,132**	P 3,505,027,789
Foreign currencies	**1,823,397,927**	242,063,558
	P 4,426,873,059	P 3,747,091,347

Corporate debt securities include local and foreign corporate securities that earn coupon interest from 3.37% to 7.38% and 4.13% to 6.50% per annum in 2019 and 2018, respectively.

Government debt securities consist of various treasury bills and other securities issued by the government that earn coupon interest from 6.75% to 7.39% and 4.70% to 7.20% per annum in 2019 and 2018, respectively.

In 2019, effective interest rates range from 3.81% to 6.57% and 0.68% to 6.06% for peso denominated and foreign currency denominated FVTPL securities, respectively. In 2018, effective interest rates range from 4.63% to 6.25% and 1.73% to 4.43% for peso denominated and foreign currency denominated FVTPL securities, respectively. The total interest earned on financial assets at FVTPL are presented in the statements of income which amounted to P109,438,466 and P20,778,915 in 2019 and 2018, respectively.

The Bank recognized net realized trading gains on financial assets at FVTPL amounting to P374,290,251 and P153,178,262 in 2019 and 2018, respectively. Unrealized fair value gain of P199,447,571 and unrealized fair value losses of P137,763,188 were recognized by the Bank in 2019 and 2018, respectively (see also Note 16). Both realized and unrealized trading gains and losses are presented as part of Trading and Securities Gain in the statements of income.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This account is composed of the following:

	2019	2018
Corporate debt securities	**P 6,741,525,456**	P 6,312,282,718
Government debt securities	**4,044,774,861**	5,137,484,289
	P 10,786,300,317	P 11,449,767,007

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

	2019	2018
Foreign currencies	**P 10,786,300,317**	P 7,789,348,208
Philippine peso	**-**	3,660,418,799
	P 10,786,300,317	P 11,449,767,007

Changes in the Bank's holdings of financial assets at FVOCI are summarized below.

	Note	2019	2018
Balance at beginning of year		**P 11,449,767,007**	P 11,536,769,247
Additions		**9,876,458,312**	5,204,576,397
Disposals		**(10,598,686,041)**	(5,347,358,479)
Fair value gains (losses)	18.2	**461,099,232**	(382,276,783)
Foreign currency revaluation		**(402,338,193)**	438,056,625
Balance at end of year		**P 10,786,300,317**	P 11,449,767,007

These debt securities pertain to local and foreign securities issued by corporate and government entities. Effective interest rates of peso denominated securities range from 4.40% to 6.64% and 3.46% to 7.78% in 2019 and 2018, respectively. On the other hand, foreign currency denominated securities earn effective interest ranging from 1.89% to 7.26% and 1.40% to 7.36% in 2019 and 2018, respectively.

The total interest earned amounted to P438,615,377 in 2019 and P394,763,749 in 2018. Disposals of securities resulted in net gains of P144,826,462 and P26,667,400 in 2019 and 2018, respectively (see Note 18.2), and are included as part of Trading and Securities Gain in the statements of income.

In 2019 and 2018, the Bank recognized credit losses on financial assets at FVOCI amounting to P4,440,860 and P1,225,676 presented as part of Impairment Losses (Reversals) account in the statement of profit or loss with corresponding charge to Unrealized Gains (Losses) on Financial Assets at FVOCI in the statements of comprehensive income.

9. HELD-TO-COLLECT INVESTMENTS

This account is composed of the following:

	2019	2018
Debt securities:		
Government debt securities	**P 12,886,812,714**	P 15,650,102,922
Corporate debt securities	**1,228,615,405**	3,856,233,959
	14,115,428,119	19,506,336,881
Allowance for impairment	**(5,447,143)**	(6,915,986)
	P 14,109,980,976	P 19,499,420,895

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

	2019	2018
Philippine peso	**P 9,965,948,185**	P 12,226,895,399
Foreign currencies	**4,144,032,791**	7,272,525,496
	P 14,109,980,976	P 19,499,420,895

Changes in the Bank's holdings of HTC investments are summarized below.

	2019	2018
Balance at beginning of year	**P 19,499,420,895**	P 19,453,461,938
Additions	**-**	11,656,290,233
Interest accrued	**17,538,171**	78,889,836
Amortization of premium/discount	**(91,092,004)**	(17,613,006)
Foreign currency revaluation	**(187,510,583)**	107,239,516
Maturities	**(5,129,697,522)**	(11,780,601,000)
Recovery of impairment	**1,322,019**	1,753,378
Balance at end of year	**P 14,109,980,976**	P 19,499,420,895

Annual coupon interest rates on government debt securities range from 3.00% to 9.50% both in 2019 and 2018. On the other hand, corporate debt securities have annual coupon interest rates ranging from 5.05% to 6.63% and 1.40% to 6.65% in 2019 and 2018, respectively. Effective interest rate of government debt securities ranges from 3.01% to 4.45% and 1.90% to 5.69% in 2019 and 2018, respectively. While, corporate debt securities earn effective interest ranging from 2.83% to 6.31% and 2.89% to 6.63% in 2019 and 2018, respectively. Interest earned amounted P633,262,574 and P726,554,035 in 2019 and 2018, respectively.

In compliance with the regulations that govern the Bank's trust functions, government bonds owned by the Bank are deposited with the BSP with a total face value of P5,007,832,093 and P4,507,832,093 as of December 31, 2019 and 2018, respectively (see Note 25).

Movements of the Bank's allowance for impairment are as follow:

	2019	2018
Balance at beginning of year	**P 6,915,986**	P 8,533,164
Net recovery	**(1,322,019)**	(1,753,378)
Revaluation	**(146,824)**	136,200
Balance at end of year	**P 5,447,143**	P 6,915,986

10. LOANS AND RECEIVABLES

Loans and receivables consist of the following:

	2019	2018
Receivables from customers	P 3,209,392,764	P 4,479,463,725
Allowance for impairment	(5,573,163)	(7,976,408)
	3,203,819,601	4,471,487,317
Other receivables	308,564,259	241,270,721
Allowance for impairment	(27,157,369)	-
	281,406,890	241,270,721
	P 3,485,226,491	P 4,712,758,038

The maturity profile of the Bank's receivables from customers are as follows:

	2019	2018
Within one year	P 972,629,945	P 1,899,361,927
Beyond one year within five years	1,169,809,777	880,906,129
Beyond five years	1,066,953,042	1,699,195,669
	P 3,209,392,764	P 4,479,463,725

As to security, receivables from customers are classified into:

	2019	2018
Secured	P 824,504,149	P 954,572,293
Unsecured	2,384,888,615	3,524,891,432
	P 3,209,392,764	P 4,479,463,725

Receivables from customers earn effective interest at rates ranging from 2.92% to 7.82% and 3.25% to 7.75% per annum in 2019 and 2018, respectively. The total interest earned on loans and receivables amounted to P205,313,002 and P359,921,423 in 2019 and 2018, respectively. All of the Bank's outstanding loans and receivables as of December 31, 2019 and 2018 are categorized as performing.

Movements of the Bank's allowance for impairment are as follows:

	2019	2018
Balance at the beginning of year	P 7,976,408	P 8,948,121
Provision for (reversal of) allowance for impairment:		
Receivable from customer	(2,352,738)	-
Other receivables	27,157,369	(1,030,461)
Revaluation	(50,507)	58,748
Balance at end of year	P 32,730,532	P 7,976,408

The Bank made an appropriation of P3,349,710 and P37,154,285 out of the Surplus Free to comply with the requirement of the BSP to provide general loan loss provisions in 2019 and 2018, respectively. The appropriation is presented as part of Surplus Reserves (see Note 18.3).

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2019 and 2018 are shown below.

	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-Use Assets (see Note 12)	Total
December 31, 2019				
Cost	P 167,281,210	P 164,511,919	P 135,191,147	P 466,984,276
Accumulated depreciation and amortization	(141,043,571)	(148,678,825)	(37,781,232)	(327,503,628)
Net carrying amount	**P 26,237,639**	**P 15,833,094**	**P 97,409,915**	**P 139,480,648**
December 31, 2018				
Cost	P 162,368,610	P 157,776,154	P -	P 320,144,764
Accumulated depreciation and amortization	(136,743,718)	(138,765,403)	-	(275,509,121)
Net carrying amount	P 25,624,892	P 19,010,751	P -	P 44,635,643
January 1, 2018				
Cost	P 151,836,070	P 142,619,273	P -	P 294,455,343
Accumulated depreciation and amortization	(126,011,805)	(126,300,757)	-	(252,312,562)
Net carrying amount	P 25,824,265	P 16,318,516	P -	P 42,142,781

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2019 and 2018, as follows:

	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-Use Assets (see Note 12)	Total
Balance at January 1, 2019, net of accumulated depreciation and amortization, as previously stated	P 25,624,892	P 19,010,751	P -	P 44,635,643
Effect of adoption of PFRS 16 [(see Note 2.2(a)(iii)]	-	-	92,002,983	92,002,983
Balance at January 1, 2019, net of accumulated depreciation and amortization, as restated	25,624,892	19,010,751	92,002,983	136,638,626
Additions	11,707,270	6,735,765	43,188,164	61,631,199
Reclassification	(380,758)	-	-	(380,758)
Disposal	(171,080)	-	-	(171,080)
Depreciation and amortization charges for the year	(10,542,685)	(9,913,422)	(37,781,232)	(58,237,339)
Balance at December 31, 2019, net of accumulated depreciation and amortization	**P 26,237,639**	**P 15,833,094**	**P 97,409,915**	**P 139,480,648**
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 25,824,265	P 16,318,516	P -	P 42,142,781
Additions	10,964,540	15,156,881	-	26,121,421
Disposals	(11,357)	-	-	(11,357)
Depreciation and amortization charges for the year	(11,152,556)	(12,464,646)	-	(23,617,202)
Balance at December 31, 2018, net of accumulated depreciation and amortization	P 25,624,892	P 19,010,751	P -	P 44,635,643

In 2019 and 2018, the Bank disposed certain furniture, fixtures and equipment with carrying amount of P171,080 and P11,357. The resulting gain on asset disposal in 2019 amounting to P28,920 is presented as part of Others under Other Income in the 2019 statement of income. No gain or loss on asset disposal was recognized in 2018 since the assets were sold equal to their carrying amounts.

Total cost of fully depreciated assets, consisting of furniture, fixtures and equipment amounted to P114,638,819 and P112,942,868 in 2019 and 2018, respectively, and are still being used by the Bank.

The BSP requires that investments in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2019 and 2018, the Bank has satisfactorily complied with this requirement.

12. LEASES

The Bank has leases for certain office and administrative spaces. 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 Bank Premises, Furniture, Fixtures and Equipment (see Note 11) and as a lease liability under Accrued Expenses and Other Liabilities (see Note 17) in the 2019 statement of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Bank is prohibited from selling or pledging the underlying leased assets as security. For leases over office and administrative spaces, the 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 Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The Bank has eleven right-of-use assets leased with remaining lease term ranging from two to five years having an average remaining lease term of three years. These leased assets do not have any enforceable extension options, options to purchase and termination options.

The carrying amount of the Bank's right-of-use assets as at December 31, 2019 and the movements during the period are shown in Note 11, while the movements in the lease liabilities are shown below (see Note 17).

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2019 for the Bank is as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
Lease payments	P 45,407,227	P 35,872,581	P 14,570,514	P 10,255,390	P 3,535,398	P 109,641,110
Finance charges	(5,346,830)	(2,631,301)	(1,217,769)	(499,492)	(48,563)	(9,743,955)
Net present value	**P 40,060,397**	**P 33,241,280**	**P 13,352,745**	**P 9,755,898**	**P 3,486,835**	**P 99,897,155**

The total cash outflow in respect of leases amounted to P38,705,981 in 2019 for the Bank. Interest expense in relation to lease liabilities amounted to P7,097,129 for the Bank, which are presented as part of Others under Interest Expense in the 2019 statement of income.

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. The expenses relating short-term leases and low-value assets amounted to P3,411,989 and P1,597,504, respectively. These are presented as part of Occupancy under Other Expenses account in the 2019 statement of income. As of December 31, 2019, there are no lease commitments relating to short-term leases and low-value assets.

Presented below is the reconciliation of the Bank's lease liability arising from financing activity, which includes both cash and non-cash changes [see Note 2.2(a)(iii)].

Balance as of January 1, 2019	P -
Effect of adoption of PFRS 16	92,002,983
Cash flows from financing activities –	
Repayment of lease liabilities	(35,293,992)
Non-cash financing activities:	
Additional lease liabilities	43,188,164
Balance as of December 31, 2019	P 99,897,155

13. OTHER RESOURCES

This account consists of:

	Note	**2019**	2018
Margin deposits		**P 95,046,149**	P 1,738,954,057
Deferred tax assets – net	24.1	**27,358,272**	28,812,262
Computer software – net		**13,775,663**	17,486,603
Prepaid expenses		**11,995,810**	16,503,104
Sundry debits		**10,715,334**	77,511,140
Documentary stamps		**4,767,592**	2,968,282
Creditable withholding taxes		**756,990**	33,788,614
Others		**8,772,248**	9,243,624
		P 173,188,058	P 1,925,267,686

Margin deposits consist of placements with foreign banks that are offered by the Bank as security on its derivative transactions with certain counterparties. Interest rates on margin deposits ranged between 0.02% to 3.06% and 1.00% to 2.70% in 2019 and 2018, respectively.

Amortization charges related to software costs amounted to P7,720,839 and P9,824,307 in 2019 and 2018, respectively, and are included as part of Depreciation and Amortization in the statements of income.

14. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

	2019	2018
Within one year	**P 26,544,406,367**	P 35,034,221,884
Beyond one year up to five years	**450,197,073**	5,479,465,459
	P 26,994,603,440	P 40,513,687,343

The classification of the Bank's deposit liabilities as to currency are as follows:

	2019	2018
Philippine peso	**P 10,215,923,513**	P 22,358,295,205
Foreign currencies	**16,778,679,927**	18,155,392,138
	P 26,994,603,440	P 40,513,687,343

Interest expense on deposit liabilities comprises of:

	2019	2018
Demand	**P 286,276,493**	P 587,909,710
Time	**305,311,213**	222,900,542
	P 591,587,706	P 810,810,252

Interest rates on time deposits ranged from 0.38% to 3.53% and 1.50% to 5.00% per annum for 2019 and 2018, respectively. For demand deposits, interest rates ranged from 0.00% to 3.63% and 0.00% to 6.75% per annum for 2019 and 2018, respectively.

15. BILLS PAYABLE

Bills payable represents the Bank's borrowings from other local and foreign banks and entities which bear annual interest rates of 1.69% to 5.25% in 2019 and 2.50% to 5.13% in 2018. As of December 31, 2019 and 2018, the Bank has no secured liabilities and assets pledged as security.

As of December 31, 2019, the Bank has an outstanding unsecured bill payables amounting to P253,234,426 (nil as of 2018) from a local bank. Interest expense on bills payable amounted to P70,187,367 and P3,629,675 in 2019 and 2018, respectively, and is presented as Interest Expense on bills payable in the statements of income.

Presented below is the reconciliation of the Bank's bills payable arising from financing activities, which includes both cash and non-cash changes.

	BSP	Local Bank	Foreign Bank	Total
Balance at January 1, 2019	P -	P -	P -	P -
Cash flows from financing activities:				
Additional borrowings	2,000,000,000	8,579,475,000	1,187,779,566	11,767,254,566
Repayments of borrowings	(2,000,000,000)	(8,285,625,000)	(1,162,600,967)	(11,448,225,967)
Non-cash financing activities				
Interest amortization	-	59,426	-	59,426
Revaluation	-	(40,675,000)	(25,178,599)	(65,853,599)
Balance at December 31, 2019	**P -**	**P 253,234,426**	**P -**	**P 253,234,426**

16. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative instruments for both hedging and non-hedging purposes. Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency and interest swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates or a combination of all these. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation.

This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market.
To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the statements of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks.

The derivative instruments become favorable or unfavorable as a result of fluctuations in market interest rates, foreign exchange rates and other underlying relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below [see Notes 7 and 23.1(c)].

	Notional Amount	Fair Values	
		Assets	**Liabilities**
December 31, 2019			
Free-standing			
Cross currency swaps	**P 24,848,027,742**	**P 1,800,241,814**	**P 1,302,548,565**
Interest rate swaps	**11,126,230,000**	**167,782,099**	**115,930,302**
Forward contracts	**4,322,853,068**	**55,042,569**	**1,287,012**
Nondeliverable forwards	**545,500,000**	**-**	**29,485,781**
	P 40,842,610,810	**P 2,023,066,482**	**P 1,449,251,660**
December 31, 2018			
Free-standing			
Cross currency swaps	P 25,951,145,955	P 3,254,782,610	P 2,596,654,271
Interest rate swaps	13,223,380,000	243,823,761	224,550,358
Forward contracts	6,405,885,000	114,794,816	350,398
	P 45,580,410,955	P 3,613,401,187	P 2,821,555,027

The changes in fair value of derivative assets and liabilities determined using a valuation technique amounted to loss of P217,394,254 and P4,810,953 in 2019 and 2018, respectively, and were included in Trading and Securities Gain in the statements of income (see Note 7).

17. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account are as follows:

	Notes	2019	2018
Manager's checks		P 104,253,765	P 47,487,063
Lease liabilities	12	99,897,155	-
Accrued taxes		84,821,967	77,581,080
Sundry credits		49,431,073	68,235,513
Accrued expenses		48,161,403	64,576,440
Withholding taxes		28,466,286	38,005,427
Post-employment defined benefit obligation	22.2	2,702,147	45,797,732
Others		21,320,150	35,903,843
		P 439,053,946	P 377,587,098

As of December 31, 2018, Others include amount payable to BDO Unibank amounting to P26,172,279 representing the Bank's liability arising from the stock option plan offered to the Bank's employees [see Note 2.16(f)]. In 2019, the Bank's liability to BDO Unibank arising from the stock option plan were settled (see Note 22.1).

18. EQUITY

18.1 Share Capital

The Bank has authorized capital stock of 2,500,000 voting shares, with par value of P1,000 per share, 2,165,000 of which are issued and outstanding for a total amount of P2,165,000,000 as of December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock.

18.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below and in the succeeding page.

	Notes	Unrealized Gains (Losses) on Financial Assets at FVOCI	Accumulated Actuarial Gains (Losses)	Total
Balance as of January 1, 2019		(P 230,341,129)	(P 75,117,861)	(P 305,458,990)
Unrealized gains during the year	8	461,099,232	-	461,099,232
Transfer of net realized gains to profit or loss on disposal of debt securities	8	144,826,462	-	144,826,462
Credit losses on financial assets at FVOCI	8	4,036,387	-	4,036,387
Remeasurements of post-employment defined benefit obligation	22.2	-	(12,845,895)	(12,845,895)
Other comprehensive income (loss) before tax		609,962,081	(12,845,895)	597,116,186
Tax income	24.1	-	3,853,768	3,853,768
Other comprehensive income (loss) after tax		609,962,081	(8,992,127)	600,969,954
Balance as of December 31, 2019		P 379,620,952	(P 84,109,988)	P 295,510,964

	Notes	Unrealized Gains (Losses) on Financial Assets at FVOCI	Accumulated Actuarial Gains (Losses)	Total
Balance as of January 1, 2018		P 123,759,859	(P 73,072,117)	P 50,687,742
Unrealized losses during the year	8	(382,276,783)	-	(382,276,783)
Transfer of net realized gains to profit or loss on disposal of debt securities	8	26,667,400	-	26,667,400
Credit losses on financial assets at FVOCI	8	1,508,395	-	1,508,395
Remeasurements of post-employment defined benefit obligation	22.2	-	(2,922,492)	(2,922,492)
Other comprehensive loss before tax		(354,100,988)	(2,922,492)	(357,023,480)
Tax income	24.1	-	876,748	876,748
Other comprehensive loss after tax		(354,100,988)	(2,045,744)	(356,146,732)
Balance as of December 31, 2018		(P 230,341,129)	(P 75,117,861)	(P 305,458,990)

18.3 Surplus Reserve

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions, certain percentage of the trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. The Bank appropriated P82,873,818 and P32,993,648 in 2019 and 2018, respectively. As of December 31, 2019 and 2018, accumulated appropriated surplus related to the Bank's trust functions amounted to P451,154,454 and P368,280,636, respectively.

In addition, the Bank appropriated P3,349,710 and P37,154,285 for general loan loss provision representing the excess of the 1% required allowance of the BSP over the computed allowance for ECL on loans in 2019 and 2018, respectively (see Note 10). As of December 31, 2019 and 2018, accumulated appropriation for general loan loss provision amounted to P40,503,995 and P37,154,285, respectively.

18.4 Surplus Free

On October 14, 2019, the BOD approved dividends amounting to P800,000,000 (or P369.52 per share for common stock). The dividend was paid on November 29, 2019. On April 16, 2018, the BOD approved dividends amounting to P330,000,000 (or P152.42 per share for common stock). The dividend was paid on April 30, 2018 [see Note 23.1(a)].

18.5 Capital Management

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.

The BDO Group is complying with the BSP's ICAAP requirements. BDO Unibank is driving the preparation and compliance requirements of the ICAAP bankwide/group-wide policies. Annually, as required, BDO Unibank submits its updated ICAAP to the BSP. The Bank is closely coordinating with BDO Unibank regarding said policies.

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank 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 requires the Bank, as a subsidiary of a universal bank required to adopt Basel 3, to maintain the following:

(a) Common Equity Tier 1 (CET 1) of at least 11.00% 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 12.50% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET 1 Capital.

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.

The Bank's policy is to maintain a strong capital base to maintain 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 recognized by the Bank as well as 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 Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

Further, under an existing BSP circular, commercial banks must meet a minimum capital threshold amounting to P2.0 billion. As of December 31, 2019 and 2018, the Bank has complied with the above capitalization requirement.

The Bank's regulatory capital position based on the Basel 3 risk-based capital adequacy framework as of December 31, 2019 and 2018 are as follows:

	2019	2018
Tier 1 Capital		
CET 1	**P 5,770,574,896**	P 5,100,657,595
Additional Tier 1	**-**	-
	5,770,574,896	5,100,657,595
Tier 2 Capital	**46,077,158**	45,341,760
Total Regulatory Capital	**5,816,652,054**	5,145,999,355
Deductions	**(49,653,918)**	(45,422,118)
Total Qualifying Capital	**P 5,766,998,136**	P 5,100,577,237
Total Risk Weighted Assets	**P 21,731,881,556**	P 27,538,546,809

	2019	2018
Capital ratios:		
CET 1 Ratio	**26.33%**	18.36%
Capital Conservation Buffer	**20.33%**	12.36%
Tier 1 Capital Ratio	**26.33%**	18.36%
Total Capital Adequacy Ratio	**26.54%**	18.52%

19. SERVICE CHARGES, FEES AND COMMISSIONS

This account is composed of the following:

	Note	2019	2018
Trust fees	25	**P 932,218,675**	P 828,738,177
Others – net		**6,745,182**	14,102,975
		P 938,963,857	P 842,841,152

Trust fees are revenue from asset management services and are recognized over time as the services are provided.

20. THIRD PARTY INFORMATION

Third party information account under Other Expenses refers to service charges incurred by the Bank for market data obtained from service providers such as Reuters, Prebon, Morningstar and Bloomberg (used in the Bank's treasury operations and research activities).

21. OTHER EXPENSES

This account is composed of the following:

	2019	2018
Custodianship fees	**P 30,732,156**	P 30,943,908
Security, messengerial and janitorial services	**25,349,773**	20,852,475
Transfer fees and charges	**21,265,214**	20,263,915
Repairs and maintenance	**20,770,195**	19,206,529
Advertising	**8,658,676**	11,673,264
Communication	**6,976,354**	7,553,945
Stationery and supplies	**5,114,169**	4,960,052
Fines, penalties and other charges	**3,000,000**	10,204,500
Contractual services	**1,921,465**	1,592,408
Courier services	**1,249,307**	720,784
Miscellaneous	**4,969,405**	12,221,075
	P 130,006,714	P 140,192,855

22. EMPLOYEE BENEFITS

22.1 Employee Benefits

The total expense recognized by the Bank for employee benefits is broken down below.

	Note	2019	2018
Salaries and wages		**P 450,547,477**	P 396,935,825
Post-employment defined benefit	22.2	**31,439,728**	35,856,044
Social security and medical benefits		**11,116,238**	10,863,911
Others		**985,038**	890,338
		P 494,088,481	P 444,546,118

The salaries and wages account includes the expense recognized arising from the Executive Stock Option Plan [see Notes 2.16(f) and 17].

22.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, non-contributory and multi-employer post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of five years of credited service and late retirement after age 60, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2019 and 2018.

The amounts of post-employment defined benefit obligation recognized in the statements of financial position are presented as part of Accrued Expenses and Other Liabilities are as follows (see Note 17):

	2019	2018
Present value of obligation	**P 441,869,976**	P 412,992,408
Fair value of plan assets	**(439,167,829)**	(367,194,676)
	P 2,702,147	P 45,797,732

The movements in the present value of the post-employment benefit obligation recognized in the books are as follows:

		2019		2018
Balance at beginning of year	P	**412,992,408**	P	410,128,525
Current service cost		**31,439,728**		35,856,044
Interest cost		**30,974,431**		23,377,326
Remeasurements – Actuarial losses (gains) arising from:				
Experience adjustments		**2,848,769**		117,829,559
Changes in financial assumptions		**16,280,039**	(	21,533,860)
Changes in demographic assumptions	(	**16,935,159)**	(	113,976,079)
Benefits paid	(	**35,730,240)**	(	38,689,107)
Balance at end of year	P	**441,869,976**	P	412,992,408

The movements in the fair value of plan assets are presented below.

		2019		2018
Balance at beginning of year	P	**367,194,676**	P	371,585,672
Interest income		**29,530,654**		21,042,705
Return on plan assets (excluding amounts included in net interest)	(	**10,652,246)**	(	20,602,872)
Benefits paid	(	**35,730,240)**	(	38,689,107)
Contributions		**88,824,985**		33,858,278
Balance at end of year	P	**439,167,829**	P	367,194,676

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

		2019		2018
Placements in debt instruments:				
Government bonds	P	**169,079,614**	P	36,487,066
Corporate bonds		**142,641,711**		202,383,699
Cash and cash equivalents		**483,085**		15,600,970
Unit investment trust funds (UITF)		**114,666,720**		78,865,232
Loans and other receivables		**175,667**		22,393,307
Equity instruments		**7,685,437**		7,237,029
Other properties		**4,435,595**		4,227,373
Balance at end of year	P	**439,167,829**	P	367,194,676

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.

Actual return on plan assets amounted to P18,878,408 and P439,833 in 2019 and 2018, respectively.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit plan are as follows:

	Notes	**2019**	2018
Recognized in profit or loss:			
Current service cost	22.1	**P 31,439,728**	P 35,856,044
Net interest expense		**1,443,777**	2,334,621
		P 32,883,505	P 38,190,665
Recognized in other comprehensive income (loss):			
Actuarial gains (losses) arising from changes in:			
- experience adjustment		**(P 2,848,769)**	(P 117,829,559)
- financial assumptions		**(16,280,039)**	21,533,860
- demographic assumptions		**16,935,159**	113,976,079
Return on plan assets (excluding amounts included in net interest expense)		**(10,652,246)**	(20,602,872)
	18.2	**(12,845,895)**	(2,922,492)
Deferred tax income	24.1	**3,853,768**	876,748
		(P 8,992,127)	(P 2,045,744)

Current service cost is presented in the statements of income under Employee Benefits while net interest expense is classified as Others under Interest Expense in the statements of income.

Amounts recognized in other comprehensive income (loss) were presented as an item that will not be reclassified subsequently to profit or loss.

In determining retirement benefits, the following actuarial assumptions were used:

	2019	2018
Discount rates	**5.22%**	7.50%
Salary increase rate	**7.75%**	8.50%

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 65 is 27 and 26 for males and females, respectively. 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 interpolated yields of government bonds with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with Retirement Plan

The plan exposes the 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 defined benefit obligation 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 has investments in debt instruments, cash and cash equivalents, UITF, loans and other receivables, equity securities and other properties. Due to the long-term nature of plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plans efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation 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, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described as follows:

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31:

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
December 31, 2019			
Discount rate	**+/- 1%**	**(P 11,848,735)**	**P 12,541,719**
Salary increase rate	**+/- 1%**	**11,738,044**	**(11,302,996)**
December 31, 2018			
Discount rate	+/- 1%	(P 13,407,208)	P 14,411,583
Salary increase rate	+/- 1%	14,218,950	(13,479,500)

The 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 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 retirement 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 year.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank through its BOD, 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) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank 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 assets as of December 31, 2019 and 2018 consists of debt instruments and UITF, although the Bank also invests in cash and cash equivalents, loans and other receivables, equity securities and other properties.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P2.7 million based on the latest actuarial valuation as of December 31, 2019. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 10 years' time when a significant number of employees is expected to retire.

The Bank expects to make contribution of P31.43 million to the plan during the next financial year.

The maturity profile of undiscounted expected benefits payments from the plan from the end of each reporting period follows:

	2019	2018
Within one year	**P 181,984,601**	P 132,581,362
More than one year to five years	**343,324,469**	322,902,456
More than five years	**192,396,907**	272,710,324
	P 717,705,977	P 728,194,142

23. RELATED PARTY TRANSACTIONS

The summary of the Bank's transactions with its related parties as of and for the years ended December 31, 2019 and 2018 are as follows (amounts in thousands):

		2019		2018	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
BDO Unibank:					
Dividends declared	23.1(a)	**P 800,000**	**P -**	P 330,000	P -
Bills payable	23.1(b)	**64,110,000**	**-**	-	-
Derivative transactions	23.1(c)				
Derivative assets					
Buy: USD/PhP		**$ 515,000**	**-**	$ 325,000	-
Derivative liabilities					
Buy: PhP/USD		**505,000**	**-**	340,000	-
FX spot transactions					
Buy EUR/ USD		**5,368**	**-**	8,412	-
Buy USD/ EUR		**3,570**	**-**	4,033	-
Buy USD/ AUD		**785**	**-**	170	-
Buy SGD/ USD		**800**	**-**	1,444	-
Buy AUD/ USD		**945**	**-**	201	-
Buy PHP/ USD		**-**	**-**	-	-
Buy JPY/ USD		**350**	**-**	50	-
Buy USD/ SGD		**420**	**-**	885	-
Buy USD/ PHP		**2,000**	**-**	-	-
Buy USD/ JPY		**590**	**-**	250	-
Due from other banks (net of withdrawals)	23.1(d)	**(P 385,290)**	**P 102,892**	P 65,776	P 488,182
Lease transactions	23.1(e)				
Right-of-use assets		**38,056**	**81,700**	-	-
Lease liabilities		**(3,670)**	**83,668**	-	-
Depreciation expense		**30,480**	**-**	-	-
Interest expense		**5,875**	**-**	-	-
Rental		**2,341**	**-**	33,701	-
Management services	23.1(g)	**14,669**	**-**	17,302	-
Entity under common ownership:					
Deposit liabilities (net of withdrawals)	23.1(d)	**45,654**	**108,307**	(49,326)	62,653
Rental	23.1(e)	**87**	**-**	-	-
Other transactions – Loans	23.1(f)	**15,000**	**15,000**	-	-
Key management personnel compensation	23.2	**153,809**	**-**	144,944	-

None of the Bank's outstanding balances with related parties has indications of impairment; hence, no impairment losses were recognized in both years.

23.1 Nature of Related Party Transactions

The transactions conducted by the Bank with related parties in the normal course of business are described below and in the succeeding page.

(a) On October 14, 2019, the BOD approved dividends amounting to P800,000,000 (or P369.52 per share for common stock). The dividend was paid on November 29, 2019. On April 16, 2018, the BOD approved dividends amounting to P330,000,000 (or P152.42 per share for common stock). The dividend was paid on April 30, 2018 (see Note 18.4).

(b) In 2019, the Bank entered into interbank bills payable with BDO Unibank. There were no outstanding bills payable as of December 31, 2019 from this transaction.

(c) In 2019 and 2018, the Bank entered into currency forward, interest rate swap and cross currency swap transactions with BDO Unibank. The outstanding derivative assets and liabilities are shown as part of Financial assets at FVTPL under Trading and Investment Securities account and Derivative Financial Liabilities account in statements of financial position (see Notes 7 and 16).

(d) The Bank maintains deposits with BDO Unibank which are included as part of Due from Other Banks in the statements of financial position (see Note 6.2). The interest rates on these deposits ranged from 0.04% to 0.25% per annum in 2019 and 2018. The Bank holds demand deposits from BDO Securities Corporation, an entity under common ownership, with annual interest rates at 2.25% and 1.25% for 2019 and 2018, respectively.

(e) In 2019, the Bank occupied rental spaces with BDO Strategic Holdings Inc. Total rentals amounting to P87,397 is included as part of Occupancy under Other Expenses in the 2019 statement of income. There were no outstanding payable as of December 31, 2019.

In 2018, the Bank entered into a new lease agreement with BDO Unibank for its Ortigas Lounge, for a monthly rental of P272,739. The lease term is for a period of five years and is payable in cash. Other lease agreement for the Bank's Main Office and Lounges remain outstanding in 2019 for a total monthly rental of P2,750,003.

Under PFRS 16, the Bank, as a lessee, recognized right-of-use assets related to lease of space from BDO Unibank amounting to P81,699,588 as of December 31, 2019, which is presented as part of Bank Premises, Furniture, Fixtures and Equipment (see Note 11). Depreciation expense and amortization of the right-of-use assets arising from this transaction amounting to P30,479,573 is presented as part of Depreciation and amortization under Other Expenses in 2019 statement of income. Total interest expense on lease liability amounting to P5,874,665 is included as part of Others under Interest expense in the 2019 statement of income. Outstanding balance arising from these transactions amounted to P83,668,088 as of December 31, 2019 and is included as part of Lease liabilities under Accrued Expenses and Other Liabilities (see Note 17). The expenses relating to short-term leases amounted to P2,341,325 as part of Occupancy under Other Expenses account in the 2019 statement of income.

Under PAS 17, total rent expense incurred pertaining to these agreements are presented as part of the Occupancy under Other Expenses account in the 2018 statement of income. The Bank has no outstanding payable to BDO Unibank as of December 31, 2018 in relation to these lease agreements.

(f) In 2019, the Bank granted a secured, interest-bearing loan to a certain related party amounting to P15,000,000. The loan is payable in cash within one year and bears an annual interest of 6%, which is substantially the same terms as loans granted to other individuals and businesses of comparable risks. The outstanding balance of the loan as of December 31, 2019 is presented as part of Loans and Receivables account in the 2019 statement of financial position. There was no similar transaction in 2018.

The following additional information relates to the related party loan:

Total outstanding related party loan	P	15,000,000
% of related party loan to total loan portfolio		0.47%
% of unsecured related party loans to total related party loans		0.00%
% of past due related party loans to total related party loans		0.00%
% of non-performing related party loans to total related party loans		0.00%

(g) In March 2012, the BSP approved the outsourcing of several functions to BDO Unibank. The arrangement will allow the Bank to tap the resources and expertise of BDO Unibank in the areas covered by the new agreement, specifically in the Bank's asset management, central operations, human resources management, information technology, internal audit services and risk management. Total expense incurred pertaining to this contract is presented as part of Management and professional fees under Other Expenses account in the statements of income. As of December 31, 2019 and 2018, there are no outstanding liabilities in relation to the agreement.

23.2 Key Management Personnel Compensation

The salaries and other benefits given to the Bank's key management personnel are as follows (amounts in thousands):

		2019		2018
Short-term benefits	**P**	**134,327**	P	119,476
Post-employment benefits		**19,482**		25,468
	P	**153,809**	P	144,944

24. TAXES

24.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 are as follows:

	Notes	2019	2018
Reported in profit or loss:			
Final tax at 20% and 10%		**P 156,637,526**	P 187,820,455
Regular corporate income tax (RCIT) at 30% - Regular Banking Unit (RBU)		**57,590,222**	-
RCIT at 30% - Foreign Currency Deposit Unit (FCDU)		**6,891,837**	650,424
Minimum corporate income tax (MCIT) at 2% - RBU		**-**	8,502,696
		221,119,585	196,973,575
Deferred tax expense relating to origination and reversal of temporary differences		**5,307,758**	3,465,790
		P 226,427,343	P 200,439,365
Reported in other comprehensive income – Deferred tax income related to accumulated actuarial gains and losses	18.2, 22.2	**(P 3,853,768)**	(P 876,748)

Current taxes include corporate income tax and final taxes paid on income from FCDU and final withholding tax on gross interest income from debt securities and other deposit substitutes.

In 2019 and 2018, the Bank continued to claim itemized deductions. The Bank is also subject to percentage and other taxes, which consist principally of gross receipts tax or GRT, presented as part of Taxes and Licenses in the statements of income.

The reconciliation of tax on pre-tax profit computed at the applicable statutory rates to tax expense attributable to continuing operations are as follows:

	2019	2018
Tax on pretax profit at 30%	**P 331,513,521**	P 150,520,103
Adjustment for income subjected to lower tax rates	**(24,459,670)**	(88,287,443)
Tax effects of:		
Non-deductible expenses	**171,252,079**	196,226,233
Income from FCDU	**(130,401,930)**	(117,446,495)
Application of net operating loss carry over (NOLCO) and MCIT	**(120,868,581)**	-
Income exempted from income taxes	**(608,076)**	(9,483,963)
Unrecognized deferred tax assets	**-**	60,408,234
Unrecognized MCIT	**-**	8,502,696
	P 226,427,343	P 200,439,365

The net deferred tax assets (included as part of Other Resources – see Note 13) as of December 31 relate to the following:

	Statements of Financial Position 2019	Statements of Financial Position 2018	Statements of Income 2019	Statements of Income 2018	Statements of Comprehensive Income 2019	Statements of Comprehensive Income 2018
Deferred tax assets:						
Lease liabilities	**P 29,969,147**	P -	**P 29,969,147**	P -	**P -**	P -
Post-employment benefit obligation	**17,776,199**	13,489,297	**(433,134)**	(1,299,716)	**(3,853,768)**	(876,748)
Unamortized past service cost	**8,835,901**	15,322,965	**4,994,720**	4,765,506	**-**	-
Deferred tax liability – Right-of-use assets	**(29,222,975)**	-	**(29,222,975)**	-	**-**	-
Deferred tax assets - net	**P 27,358,272**	P 28,812,262				
Deferred tax expense (income)			**P 5,307,758**	P 3,465,790	**(P 3,853,768)**	(P 876,748)

The Bank is subject to MCIT which is computed at 2% of gross income, as defined under tax regulations, or RCIT, whichever is higher. The Bank is subject to RCIT in 2019 since RCIT was higher than the MCIT. In 2018, the Bank is subject to MCIT on its RBU since MCIT was higher than the RCIT.

The details of unrecognized deferred tax assets as of December 31, 2019 and 2018 are as follows:

	2019 Amount	**2019** Tax Effect	2018 Amount	2018 Tax Effect
Allowance on general loan loss provision	**P 31,922,718**	**P 9,576,815**	P 9,733,226	P 2,919,968
NOLCO	**-**	**-**	298,605,795	89,581,739
MCIT	**-**	**-**	31,286,842	31,286,842
	P 31,922,718	**P 9,576,815**	P 339,625,863	P 123,788,549

The composition of and movement in the Bank's NOLCO are as follows:

Year	Amount	Applied in Current Year	Remaining Balance	Valid Until
2018	P 201,360,756	(P 201,360,756)	P -	2021
2017	40,862,502	(40,862,502)	-	2020
2016	56,382,537	(56,382,537)	-	2019
	P 298,605,795	**(P 298,605,795)**	**P -**	

The composition of and movements in the Bank's MCIT follow:

Year	Amount	Applied in Current Year	Remaining Balance	Valid Until
2018	P 8,502,696	(P 8,502,696)	P -	2021
2017	12,310,336	(12,310,336)	-	2020
2016	10,473,810	(10,473,810)	-	2019
	P 31,286,842	**(P 31,286,842)**	**P -**	

24.2 Supplemental Information Required By the Bureau of Internal Revenue

The Bureau of Internal Revenue (BIR) issued Revenue Regulation (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 Securities and Exchange Commission rules and regulations covering form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

25. TRUST OPERATIONS

As of December 31, 2019 and 2018, the following cash, securities and other properties held by the Bank in fiduciary or agency capacity for a fee amounting to P932,218,675 and P828,738,177, respectively, presented as Trust Fees under Service Charges, Fees and Commissions in the statements of income (see Note 19) for its customers are not included in the Banking statements of financial position since these are not resources of the Bank (see Note 27.3):

		2019		2018
Cash	**P**	**33,928,417,173**	P	58,555,906,319
Investments		**315,812,539,430**		243,002,534,048
Real estate		**4,920,524,950**		4,671,040,035
Loans and other receivables		**1,750,453,147**		4,072,351,218
Others		**2,660,956,114**		2,268,242,952
	P	**359,072,890,814**	P	312,570,074,572

The trust operations of the Bank relate mainly to management of funds. Certain government bonds owned by the Bank are deposited with the BSP, as mentioned in Note 9.

26. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some of the financial performance indicators of the Bank:

	2019	2018
Return on average equity		
Net profit / Average total capital accounts	**16.0%**	5.8%
Return on average common equity		
Net profit / Average common equity	**14.8%**	5.8%

	2019	2018
Return on average resources		
Net profit / Average total resources	**2.1%**	0.5%
Net interest margin		
Net interest income / Average interest-earning resources	**1.9%**	1.7%
Net income margin ratio		
Net income x 100 / Total revenues	**28.1:1**	11.1:1
Current ratio		
Current resources / Current liabilities	**60.0%**	80.8%
Cost to income ratio		
Operating cost / Operating income	**54.0%**	73.6%
Debt to equity ratio		
Total Liabilities / Total Equity	**5.0:1**	8.5:1
Asset to equity ratio		
Total Resources / Total Equity	**6.0:1**	9.5:1
Interest rate coverage		
Earnings before interest and taxes / Interest expense	**2.5:1**	1.6:1
Capital to risk assets ratio*		
Combined credit, market and operational risk	**26.5%**	18.5%
Basel III leverage ratio*		
Capital measure / Exposure measure	**15.8%**	10.2%

	2019	2018
Liquidity coverage ratio*		
Total stock of high-quality liquid assets / Total net cash outflows	**151.6%**	**
Net stable funding ratio*		
Available stable funding / Required stable funding	**128.2%**	**

* *Computed using balances prepared under PFRS*
** *Disclosure is not required by the BSP during this period.*

27. COMMITMENTS AND CONTINGENT LIABILITIES

27.1 Litigations

On March 15, 2011, the BIR issued RR No. 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 No. 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 RBU and FCDU/expanded FCDU or offshore banking unit.

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

On April 8, 2015, the RTC of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR No. 4-2011. Also, on April 27, 2015, 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 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 May 25, 2018, the RTC declared RR No. 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 No. 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"). The Supreme Court granted the Motion for Extension.

On August 9, 2018, Petitioners filed a Petition for Review on Certiorari dated August 1, 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. Allegedly, 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 No. 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 Respondents to file their Comment on the Petition. On August 5, 2019, the Respondents filed its *Comment on/Opposition to the Petition for Review on Certiorari.*

All other Respondents have filed their respective Comments and/or Oppositions to the Petition as follows:

1. Land Bank of the Philippines' *Comment (On Petition for Review on Certiorari)* dated July 24, 2019
2. UOBP Collections, Inc.'s *Comment [To: Petition for Review on Certiorari dated August 1, 2018]* dated July 19, 2019
3. Bank of the Philippine Islands and BPI Direct Savings Bank, Inc.'s *Comment (to the Petition for Review dated August 1, 2018)* dated April 1, 2015; and,
4. Development Bank of the Philippines' *Comment to the Petition for Review on Certiorari (Dated August 1, 2018)* dated July 12, 2019.

The case awaits the resolution of the Supreme Court and remains pending as of December 31, 2019.

27.2 Lease Commitments – Bank as Lessee (2018)

As of December 31, 2018, the estimated minimum future annual rentals of the Bank are as follows:

Within one year	P 48,531,392
After one year but not more than five years	203,725,191
	P 252,256,583

The total rentals from these operating leases amounted to P51,523,794 in 2018 which were reported as part of Occupancy under Other Expenses account in the 2018 statement of income.

27.3 Others

In the normal course of its operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the Banking financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become known and quantifiable.

As of December 31, 2019, the Bank's management believes that losses, if any, from the commitments and contingencies will not have a material effect on the Bank's financial statements.

The following is a summary of the Bank's commitments and contingent accounts as of December 31:

	Notes	**2019**	2018
Trust department accounts	25	**P359,072,890,014**	P 312,570,074,572
Cross currency swap receivable	16	**12,715,161,780**	11,268,654,360
Cross currency swap payable	16	**12,132,865,962**	14,682,491,595
Interest rate swap receivable	16	**11,126,230,000**	13,223,380,000
Interest rate swap payable	16	**11,126,230,000**	13,223,380,000
Forward exchange sold	16	**4,322,853,068**	6,405,885,000
Spot exchange bought		**873,458,105**	528,084,814
Spot exchange sold		**873,458,105**	528,084,814
Nondeliverable forwards	16	**545,000,000**	-

28. CURRENT/NON-CURRENT DISTINCTION OF RESOURCES AND LIABILITIES

The table below shows an analysis of resources and liabilities analyzed according to when they are expected to be recovered or settled (amounts in thousands):

	2019			2018		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Resources						
Due from BSP	**P 1,331,616**	**P -**	**P 1,331,616**	P 4,425,182	P -	P 4,425,182
Due from other banks	**499,431**	**-**	**499,431**	3,045,072	-	3,045,072
Financial assets at FVTPL	**1,295,532**	**3,131,341**	**4,426,873**	1,826,051	1,921,040	3,747,091
Financial assets at FVOCI	**-**	**10,786,300**	**10,786,300**	790,359	10,659,408	11,449,767
Held-to-collect investments	**1,265,243**	**12,850,186**	**14,115,429**	5,158,983	14,347,354	19,506,337
Loans and other receivables*	**1,254,037**	**2,263,920**	**3,517,957**	2,140,633	2,580,102	4,720,734
Other resources	**96,148**	**-**	**96,148**	1,740,522	-	1,740,522
	5,742,007	**29,031,747**	**34,773,753**	19,126,801	29,507,904	48,634,705
Allowance for credit and impairment losses	**(1,291)**	**(36,887)**	**(38,178)**	(4,553)	(10,340)	(14,893)
	5,740,716	**28,994,860**	**34,735,575**	19,122,248	29,497,564	48,619,812
Non-financial Resources						
Bank premises, furnitures, fixtures and equipment - net	**-**	**139,481**	**139,481**	-	44,636	44,636
Others	**35,906**	**41,134**	**77,040**	138,447	46,300	184,747
	35,906	**180,615**	**216,521**	138,447	90,936	229,383
	P 5,776,622	**P 29,175,475**	**P 34,952,097**	P 19,260,695	P 29,588,499	P 48,849,195
Financial Liabilities						
Deposit liabilities	**P 26,544,406**	**P 450,197**	**P 26,994,603**	P 35,034,222	P 5,479,465	P 40,513,687
Bills payable	**253,234**	**-**	**253,234**	-	-	-
Derivative liabilities	**408,899**	**1,040,353**	**1,449,252**	1,649,725	1,171,830	2,821,555
Other liabilities	**246,563**	**74,882**	**321,445**	81,399	-	81,399
	27,453,102	**1,565,432**	**29,018,534**	36,765,346	6,651,295	43,416,641
Non-financial Liabilities						
Accrued taxes	**84,822**	**-**	**84,822**	77,581	-	77,581
Withholding taxes	**28,466**	**-**	**28,466**	38,005	-	38,005
Retirement liability	**-**	**2,702**	**2,702**	-	45,798	45,798
Other liabilities	**1,619**	**-**	**1,619**	134,804	-	134,804
	114,907	**2,702**	**117,609**	250,390	45,798	296,188
	P 27,568,009	**P 1,568,134**	**P 29,136,143**	P 37,015,736	P 6,697,093	P 43,712,829

**Gross of allowance for credit and impairment losses*

29. OTHER INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION

Republic Act (RA) No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code) took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no significant impact to the Bank's financial statements.

Supplementary Management Disclosures

(Amounts in Philippine Pesos)

On Capital Structure and Capital Adequacy

A. CET 1 Capital and Breakdown of Components (including deductions solely from CET 1)

	2019	2018
Paid-up common stock	2,165,000,000	2,165,000,000
Retained earnings	3,317,309,844	3,239,070,841
Other comprehensive income	288,265,052	(303,413,246)
Sub-total	5,770,574,896	5,100,657,595
Less deduction:		
Deferred income tax	30,378,155	27,935,514
Other intangible assets	19,275,763	17,486,603
Total CET 1 capital	5,720,920,978	5,055,235,478

B. Tier 1 Capital and Breakdown of Components (including deductions solely from Tier 1)

	2019	2018
Paid-up common stock	2,165,000,000	2,165,000,000
Retained earnings	3,317,309,844	3,239,070,841
Other comprehensive income	288,265,052	(303,413,246)
Sub-total	5,770,574,896	5,100,657,595
Less deduction:		
Deferred income tax	30,378,155	27,935,514
Other intangible assets	19,275,763	17,486,603
Total Tier 1 capital	5,720,920,978	5,055,235,478

C. Tier 2 Capital and Breakdown of Components

	2019	2018
General loan loss provision	46,077,158	45,341,760
Total Tier 2 capital	46,077,158	45,341,760

D. Computation of Qualifying Capital

	2019	2018
Tier 1 capital	5,770,574,896	5,100,657,595
Tier 2 capital	46,077,158	45,341,760
Gross qualifying capital	5,816,652,054	5,145,999,355
Less: Required deductions	49,653,918	45,422,118
Total qualifying capital	5,766,998,136	5,100,577,237

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital which includes paid-up common, surplus including current year profit, and surplus reserves, less deduction for deferred income tax and other intangible assets. The other component of regulatory capital is Tier 2 (supplementary) capital, which is the general loan loss provision.

E. Capital Conservation Buffer

	2019	2018
Common Equity Tier 1 Capital	5,720,920,978	5,055,235,478
Less: CET 1 requirement	1,303,912,893	1,652,312,809
Capital Conservation Buffer	4,417,008,085	3,402,922,669
Capital Conservation Buffer Ratio	20.33%	12.36%

F. Capital Requirements for Credit Risk

	2019	2018
On -Balance Sheet	13,045,892,328	18,144,035,316
Off -Balance Sheet	—	—
Counterparty (Trading Book)	2,166,942,973	3,763,465,311
Total	15,212,835,301	21,907,500,627
Capital Requirements	1,521,283,530	2,190,750,063

G. Capital Requirements for Market Risk

	2019	2018
Interest Rate Exposures	2,503,156,436	1,473,778,011
Foreign Exchange Exposures	343,241,812	528,047,965
Total	2,846,398,248	2,001,825,976
Capital Requirements	284,639,825	200,182,598

H. Capital Requirements for Operational Risk

	2019	2018
Basic Indicator	3,672,648,007	3,629,220,206
Total	3,672,648,007	3,629,220,206
Capital Requirements	367,264,801	362,922,021

I. Computation of Capital Adequacy Ratio - Total and Tier 1

	2019	2018
Total Qualifying Capital	5,766,998,136	5,100,577,237
Credit risk-weighted assets	15,212,835,301	21,907,500,627
Market risk-weighted assets	2,846,398,248	2,001,825,976
Operational risk-weighted assets	3,672,648,007	3,629,220,206
Risk weighted assets	21,731,881,556	27,538,546,808
Total capital ratio	26.54%	18.52%
Tier 1 capital ratio	26.33%	18.36%
CET 1 ratio	26.33%	18.36%

Full Reconciliation of all Regulatory Capital Elements back to the Balance Sheet in the Audited Financial Statements

	Per AFS	Adj - AFS to Regulatory	Regulatory Capital			
			CET 1	Tier 1	Tier 2	Qualifying
Common Stock	2,165,000,000		2,165,000,000	2,165,000,000		2,165,000,000
Surplus - Free/Reserve	3,355,442,447	(38,132,602)[a]	3,317,309,844	3,317,309,844		3,317,309,844
General Loan Loss Provisions	—	46,077,158[b]			46,077,158	46,077,158
Other Comprehensive Income						
Unrealized Fair Value G/L on AFS	379,620,952		379,620,952	379,620,952		379,620,952
Accumulated Actuarial G/L	(84,109,988)	(7,245,912)[c]	(91,355,900)	(91,355,900)		(91,355,900)
	5,815,953,411	698,643	5,770,574,896	5,770,574,896	46,077,158	5,816,652,054
Regulatory Adjustments/ Deductions						
Deferred Income Tax		(30,378,155)	(30,378,155)	(30,378,155)		(30,378,155)
Other Intangible Assets		(19,275,763)	(19,275,763)	(19,275,763)		(19,275,763)
	5,815,953,411	(48,955,275)	5,720,920,978	5,720,920,978	46,077,158	5,766,998,136

(a)	Various audit adjustments	2,371,393
	Reclass from Reserve for GLLP to Tier 2 GLLP in CAR per Cir#1011	(40,503,995)
		(38,132,602)
(b)	General Loan Loss	5,573,163
	Reserve for GLLP	40,503,995
	Total Tier 2 GLLP	46,077,158
(c)	Various actuarial adjustments	7,245,912

Comprehensive Explanation on How Ratios Involving Components for Regulatory Capital are Calculated

	Regulatory Capital Ratios		
	CET 1	Tier 1	Qualifying
Components of Regulatory Ratios			
Regulatory Capital	5,720,920,978	5,720,920,978	5,766,998,136
Risk Weighted Assets	21,731,881,556	21,731,881,556	21,731,881,556
Computation of Regulatory Ratios			
$\frac{\text{Qualifying Capital}}{\text{Risk Weighted Assets}}$			26.54%
$\frac{\text{Tier 1 Capital}}{\text{Risk Weighted Assets}}$		26.33%	
$\frac{\text{CET 1 Capital}}{\text{Risk Weighted Assets}}$	26.33%		

On Credit Risk Exposures

On-Balance Sheet (BS) Assets

	2019								
			RISK WEIGHTS						
Type of Exposures	Principal Amount	Exposures After CRM	—	0.20	0.50	0.75	1.00	1.50	Total
Cash on Hand									—
Checks and Other Cash Items									—
Due from Bangko Sentral ng Pilipinas	1,331,616,252.06	1,331,616,252.06	1,331,616,252.06						1,331,616,252.06
Due from Other Banks	450,098,301.89	450,098,301.89		48,486,079.70	401,612,222.20		—		450,098,301.89
Financial Assets at FVTPL	—	—							—
Financial Assets at FVOCI	10,786,300,317.13	10,786,300,317.13	—	—	7,794,716,080.38		2,991,584,236.75		10,786,300,317.13
Hold to Collect Investments	14,101,400,632.15	14,101,400,632.15	8,730,795,747.09	1,226,572,093.96	4,144,032,791.10		—		14,101,400,632.15
Unquoted Debt Securities Classified as Loans	—	—			—				—
Loans and Receivables	3,087,733,597.83	3,087,733,597.83					3,087,733,597.83		3,087,733,597.83
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	—	—	—						—
Sales Contract Receivable	—	—							—
Real and Other Properties Acquired	—	—							—
Other Assets	541,382,311.39	541,382,311.39					541,382,311.39		541,382,311.39
Total Exposures	30,298,531,412.45	30,298,531,412.45	10,062,411,999.15	1,275,058,173.66	12,340,361,093.67	—	6,620,700,145.97	—	30,298,531,412.45
Total Risk-weighted On-BS Assets Not Covered by CRM			10,062,411,999.15	1,275,058,173.66	12,340,361,093.67	—	6,620,700,145.97		30,298,531,412.45
Total Risk-weighted On-BS Assets Covered by CRM *			121,659,166.21		—				121,659,166.21
Total Risk-weighted On-BS Assets			10,184,071,165.36	1,275,058,173.66	12,340,361,093.67	—	6,620,700,145.97	—	30,420,190,578.66
Computed Risk Weight/Capital Charge			—	255,011,634.73	6,170,180,546.84	—	6,620,700,145.97	—	13,045,892,327.54

* *The types of eligible credit risk mitigants used on On Balance Sheet Assets are GS, ROP and Deposits*

On-Balance Sheet (BS) Assets

Type of Exposures	Principal Amount	Exposures After CRM	2018 RISK WEIGHTS —	0.20	0.50	0.75	1.00	1.50	Total
Cash on Hand									—
Checks and Other Cash Items									—
Due from Bangko Sentral ng Pilipinas	4,425,182,126.54	4,425,182,126.54	4,425,182,126.54						4,425,182,126.54
Due from Other Banks	3,044,898,940.43	3,044,898,940.43		508,158,887.99	1,996,062,369.02		540,677,683.42		3,044,898,940.43
Financial Assets at FVTPL	—	—							—
Financial Assets at FVOCI	11,430,066,625.33	11,430,066,625.33	2,875,974,670.33	566,144,982.36	4,063,110,221.69		3,924,836,750.95		11,430,066,625.33
Hold to Collect Investments	19,492,612,463.40	19,492,612,463.40	10,994,230,445.85	1,225,856,521.29	7,272,525,496.25		—		19,492,612,463.40
Unquoted Debt Securities Classified as Loans	—	—			—				—
Loans and Receivables	4,313,757,446.47	4,313,757,446.47					4,313,757,446.47		4,313,757,446.47
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	—	—	—						—
Sales Contract Receivable	—	—							—
Real and Other Properties Acquired	—	—							—
Other Assets	2,189,854,484.56	2,189,854,484.56					2,189,854,484.56		2,189,854,484.56
Total Exposures	44,896,372,086.72	44,896,372,086.72	18,295,387,242.72	2,300,160,391.64	13,331,698,086.97	—	10,969,126,365.39	—	44,896,372,086.72
Total Risk-weighted On-BS Assets Not Covered by CRM			18,295,387,242.72	2,300,160,391.64	13,331,698,086.97	—	10,969,126,365.39	—	44,896,372,086.72
Total Risk-weighted On-BS Assets Covered by CRM			67,650,619.52		98,055,658.56				165,706,278.08
Total Risk-weighted On-BS Assets			18,363,037,862.24	2,300,160,391.64	13,429,753,745.52	—	10,969,126,365.39	—	45,062,078,364.80
Computed Risk Weight/Capital Charge			—	*460,032,078.33*	*6,714,876,872.76*	—	*10,969,126,365.39*	—	*18,144,035,316.48*

Off-Balance Sheet (BS) Assets

Type of Exposures	Credit Equivalent	2019 Risk Weights —	0.20	0.50	0.75	1.00	1.50	Total
Guarantees Issued	—					—		—
Transaction-related contingencies	—					—		—
Commitments with an original maturity of up to one (1) year	—					—		
	—					—		—
	—	—	—	—	—	—	—	—
Computed Risk Weight/Capital Charge		—	—	—	—	—	—	—

Off-Balance Sheet (BS) Assets

Type of Exposures	Credit Equivalent	2018 Risk Weights —	0.20	0.50	0.75	1.00	1.50	Total
Guarantees Issued								
Transaction-related contingencies								
Commitments with an original maturity of up to one (1) year								
	—	—	—	—	—	—	—	—
Computed Risk Weight/Capital Charge		—	—	—	—	—	—	—

On External Credit Assessments

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings of Standard and Poor's, Moody's, Fitch and PhilRatings on exposures to sovereigns, MDBs, LGUs, Government Corporations and Corporates.

On Interest Rate Risk in the Banking Books

For interest rate risks in the banking book (IRRBB), please refer to NFS Section 4.1.2. Earnings-at-Risk (EaR) calculated using a 1-year holding period and measured on a monthly basis.

Disclosure Statements on the ff:

Eligible Credit Risk Mitigants including Credit Derivatives

Credit Protection Given by the Bank

Structured Products

Hedging and Continuing Effectiveness of Hedges

Securitization Structures

Risk-weighted on balance sheet assets covered by credit risk mitigants are mostly exposures covered by deposits, government and corporate issued securities. There are no securitization exposures, no exposures covered by credit derivatives, no outstanding credit protection provided by the Bank through credit derivatives, and no outstanding investments in structured products. Moreover, the Bank has no outstanding accounting hedges. In case there are accounting hedges, the Bank performs both prospective and retrospective hedge effectiveness tests to monitor the continuing effectiveness of accounting hedges as a matter of policy.

On Basel III Leverage Ratio

A. Calculation of BASEL III Leverage Ratio

	2019	2018
Capital Measure	5,720,920,978	5,055,235,478
Total On-balance sheet exposures[1/]	33,206,152,774	45,583,292,465
Total Derivatives Exposures	2,801,283,498	4,143,563,908
Total Securities Financing Transactions (SFT)	—	—
Off-balance Sheet Exposures	89,770,349	52,808,481
Total Exposure Measure	36,097,206,622	49,779,664,854
BASEL III Leverage Ratio	15.85%	10.16%

[1/] *Gross of general loan loss provision (GLLP), excluding derivatives and SFTs, and deductions from BASEL III Tier1 capital.*

B. Summary Comparison Table

	2019	2018
Total consolidated assets as per published financial statements[1/]	34,903,891,858	48,846,615,422
Adjustments for derivatives financial instruments	1,147,625,170	917,686,660
Adjustments for securities financial transactions	—	—
Adjustments for off-balance sheet items	89,770,349	52,808,481
Other adjustments	(44,080,756)	(37,445,710)
Leverage ratio exposure	36,097,206,622	49,779,664,854

[1/] *Refers to total on-balance sheet assets per quarterly published balance sheet*

C. Common Disclosure Table

	2019	2018
On-balance sheet items[1/]	33,255,806,692	45,628,714,582
Asset amounts deducted in determining BASEL III Tier 1 Capital	(49,653,918)	(45,422,118)
Total on-balance sheet exposures (excluding derivatives & SFTs)	33,206,152,774	45,583,292,465
Replacement cost associated with all derivatives transactions	1,653,658,328	3,225,877,247
Add-on amounts for Potential Future Exposure associated with all derivative transactions	1,147,625,170	917,686,660
Total derivative exposures	2,801,283,498	4,143,563,908
Gross SFT assets	—	—
Total securities financing transaction exposures	—	—
Off-balance sheet exposure at gross notional amount	897,703,491	528,084,814
Off-balance sheet items	89,770,349	52,808,481
Tier 1 capital	5,720,920,978	5,055,235,478
Total exposures	36,097,206,622	49,779,664,854
Basel III leverage ratio	**15.85%**	**10.16%**

[1/] *Gross of general loan loss provision (GLLP), excluding derivatives and SFTs*

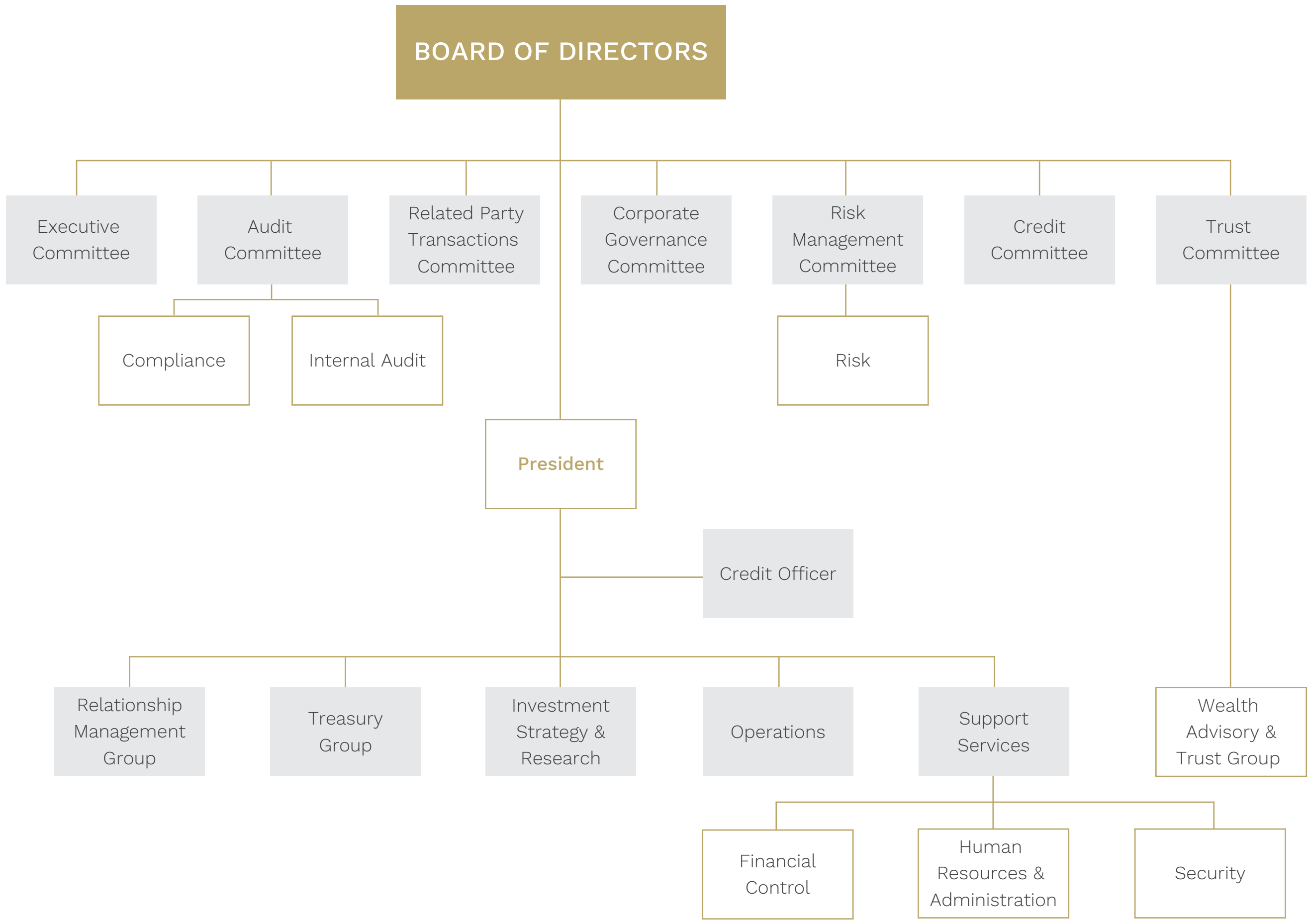
On Basel III Net Stable Funding Ratio (NSFR)

	2019
A. Available Stable Funding	**21,803,155,524**
Capital	5,811,236,037
Retail Deposits	12,593,617,827
Wholesale Deposits	3,398,301,660
Secured and Unsecured Funding	—
Other Liabilities and Equities	—
B. Required Stable Funding	16,999,849,852
NSFR High-Quality Liquid Assets (HQLA)	5,393,112,589
Deposits Held at other Financial Institutions	109,988,757
Performing Loans and Non-HQLA Securities	8,461,991,503
Other Assets	3,034,757,004
Off-Balance Sheet Exposures	—
C. Net Stable Funding Ratio (A/B)	**128.25%**

On Liquidity Coverage Ratio (LCR)

	2019
A. Total Stock of High-Quality Liquid Assets	**14,288,068,807**
Stock of Level 1 Assets	11,350,045,374
Stock of Level 2 Assets	2,938,023,434
Total Stock of High Quality Liquid Assets	14,288,068,807
Adjustments for 40% Cap on Level 2 Assets	—
B. Total Net Cash Outflows	**9,425,339,834**
Total Expected Cash Outflows	13,720,524,084
Total Expected Cash Inflows Before Ceiling	4,295,184,250
Adjustments for 75% Ceiling on Cash Inflows	—
Total Expected Cash Inflows After Ceiling	4,295,184,250
C. Liquidity Coverage Ratio (A/B)	**151.59%**

Organizational Structure



Management Directory

As of December 31, 2019

Albert S. Yeo
President and Director

OFFICE OF THE PRESIDENT

Senior Vice President
Rhodora M. Lugay

Vice President
Marilou M. Espiritu

TREASURY

First Vice President and Treasurer
Gerardo Clemente C. Rivera

Senior Assistant Vice President
Ryan Paul G. Marbella

Assistant Vice President
Christopher Mari M. Topacio

RELATIONSHIP MANAGEMENT

Executive Vice President
Stella L. Cabalatungan

Senior Vice Presidents
Jonathan T. Cua
Sonia D. Go

First Vice Presidents
Jose Rene C. Carlos
Cheryll B. Gaviño
Francis Jay F. Nacino
Arlene Marie H. Uson
Beatriz Y. Zalazar

Vice Presidents
Rossana C. Chan
Catherine S. Choa
Joy Kerwin U. Dela Cruz
Anna Patricia A. Dee
Patricia Ann F. Gonzalez
Michele Y. Lao
Christy K. Ortega
Charisse B. Recto
Ma. Elena I. Rigor
Belinda Rose S. Yap
Avery U. Yu

Senior Assistant Vice Presidents
Maria Katrina G. Datoc
Christopher John S. Jorge
Jonalyn T. See
Donna Marie C. Uy

Assistant Vice Presidents
Gina Camille G. Barrica
Theresita G. Herrera
Pinky Marissa Y. Tan

INVESTMENT STRATEGY & ECONOMIC RESEARCH

Senior Vice Presidents
Richard Emil R. Grau
Jose Noel M. Mendoza

WEALTH ADVISORY & TRUST

Senior Vice President and Trust Officer
Juan Sabino P. Lizares

First Vice Presidents
Lilli Ann D.S. Bautista
Pollyanna B. Diokno
Dalisay S. Molas
Evelyn K. Sy
Steven C. Te
Frederick N. Tiu
Edlyn L. Quiroz
Blandina Uvyhilda B. Vicente

Vice Presidents
Candy U. Dy
Maria Vilma D. Fabian
Michael Geronimo G. Martin

Senior Assistant Vice Presidents
Marie Therese T. Chan
Andrei Ian D. Chua
Martin Antonio L. Español
Julian Raphael B. Favila

Assistant Vice Presidents
John Naphtali D. Cabuyao
Louise Antonia B. Fookson
Jose Lis L. Leagogo
Manuel P. Mallari, Jr.
Marie Christine Z. Morillo
Jaime T. Reyes II
Karen Rose T. Tan
Bess Joy M. Yumul

OPERATIONS

First Vice President
Wendeline Therese M. Tumolva

Vice President
Norberto Robert S. Cabañero

Senior Assistant Vice President
Rowena Remedios I. Estrella

FINANCIAL CONTROL

Vice President
Maria Lourdes M. Sevilla

Assistant Vice President
Rosalia G. Bautista

COMPLIANCE

First Vice President and Acting Compliance Officer
Brenda S. Taruc

Assistant Vice President
Maria Arleli Rose B. Malonzo

RISK MANAGEMENT

First Vice President
Brenda S. Taruc

HUMAN RESOURCES & ADMINISTRATION

Assistant Vice President
Annaliza G. Valmonte

Products and Services

PRODUCTS

Peso and Foreign Currency Settlement Accounts

Multi-Currency Deposits

Foreign Exchange

Multi-Currency Fixed Income/Equity Securities

Derivatives

WEALTH ADVISORY SERVICES

Financial Planning

Strategic Investment Advisory

Investment Management
(Asset Allocation, Portfolio Construction, Investment Selection)

TRUST SERVICES

Estate Planning Advisory

Personal and Management Trust

- Bespoke and Special Needs Trust
- Irrevocable Trust
- Real Estate Trust

Life Insurance Trust

Employee Benefit Trust

Investment Management
(Directional and Discretionary Mandate)

Family Office

BDO Private Bank Lounges

MAKATI (HEAD OFFICE)

G/F to 2/F and 10/F
BDO Equitable Tower
8751 Paseo de Roxas
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CEBU

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Cebu Business Park
Mindanao Avenue corner Bohol Avenue
Cebu City
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DAVAO

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Facsimile: +6382 305-5030

Website: www.bdo.com.ph/privatebank
Email: BDOPrivateBank-CustomerService@pb.bdo.com.ph

Seated Figure
Ang Kiukok
Tempera on Paper, 1981

From the BDO Art Collection

BDO Private Bank