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

Confirmation of your representation: You have accessed the attached document on the basis that you have confirmed to The Hongkong and Shanghai Banking Corporation Limited (the "Sole Arranger") that (1) you are not a resident in a country where delivery of this document by electronic transmission may not be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, AND (2) that you consent to delivery of this document by electronic transmission.

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You understand that: The information in the offering circular has been provided by BDO Unibank, Inc. (the "Issuer") in relation to its ₱65,000,000,000.00 Bond Programme (the "Programme"). The Sole Arranger has not independently verified all the information contained in the offering circular. The Sole Arranger (1) accepts no liability or responsibility for (a) the contents of this offering circular or for any other statement, made or purported to be made by the Sole Arranger or on its behalf in connection with the Issuer, (b) the accuracy or completeness of the information contained in the offering circular or on which the offering circular is based, or (c) the issue and offering of the Bonds, (2) nor makes any representation or warranty, express or implied, with respect to, the information contained in the offering circular or on which the offering circular is based. The Sole Arranger accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering circular or any such statement.

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

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If you are in any doubt about this Offering Circular, you should consult representatives of the Selling Agents such as a sales professional or bank manager, or a professional accountant or other professional adviser.

OFFERING CIRCULAR 15 November 2019

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

₱65,000,000,000.00
BOND PROGRAMME

Under this ₱65,000,000,000 Bond Programme, BDO Unibank, Inc ("**BDO**", the "**Bank**" or the "**Issuer**") may offer from time to time, in one or more series of tranches, Bonds, pursuant to BSP Circular No. 1010 (Series of 2018), and any other circulars and regulations as may be relevant for the transaction, as amended from time to time.

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

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

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

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

SOLE ARRANGER

HSBC

SELLING AGENTS

BDO Capital & Investment Corporation

BDO Private Bank

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The date of this Offering Circular is 15 November 2019.

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

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

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

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

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

Neither the delivery of this Offering Circular nor the offer of Bonds shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank or the Group since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof. Each of the Sole Arranger and the Selling Agents expressly does not undertake to review the financial condition or affairs of the Bank during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

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

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

The Bank's audited financial statements as of and for the years ended December 31, 2016, 2017, and 2018 and the reviewed consolidated financial statements for the six months ended June 30, 2018 and 2019 which will be considered an integral part hereof, have been prepared in compliance with Philippine Financial Reporting Standards ("**PFRS**"). The Bank's financial statements as of and for the years ended December 31, 2016, 2017 and 2018 were audited by, and the Bank's reviewed consolidated financial statements for the six months ended June 30, 2018 and 2019 were reviewed by Punongbayan & Araullo.

Conventions

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

Forward-looking Statements

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

Industry and Market Data

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

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

Pricing Supplement

For each issuance of Bonds under the Bank's Bond Programme, the Bank shall distribute the Pricing Supplement which shall be disclosed to the public through filing with the PSE and made available for download from the website of the Bank, specifically **www.bdo.com.ph**.

The Pricing Supplement shall contain the following information:

(a) Name of the issuer;
(b) Description of the issue;
(c) Description of the specified currency or currencies;
(d) Description of the offer size of the specific offering;
(e) Description of the manner of distribution;
(f) Description of the issue size;

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

(h) Description of the timetable and offer period;

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

(j) Description of the interest payable;

(k) Description of the provisions relating to redemption;

(l) Distribution;

(m) Investment considerations;

(n) Parties to the distribution;

(o) Relevant payment account.

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

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DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

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

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

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

GENERAL DESCRIPTION OF THE PROGRAMME

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

This Offering Circular and any supplement will only be valid for listing Bonds on PDS in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Bonds previously or simultaneously issued under the Programme, does not exceed ₱65,000,000,000.

OFFERING CIRCULAR SUMMARY

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

DESCRIPTION OF THE BANK

BDO Unibank, Inc. (the "**Bank**") is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust and investments, investment banking, private banking, cash management, leasing and finance, remittance, insurance, rural banking, stock brokerage, retail cash cards and credit card services. The Bank is the product of a merger between Banco de Oro Universal Bank, Inc. ("**BDO**") and Equitable PCI Bank, Inc. ("**EPCIB**") which took effect on May 31, 2007. As of June 30, 2019, according to the statements of condition submitted by banks to the BSP, the Bank ranked as the number one bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital, and total trust funds under management. The Bank's consolidated total resources were ₱2.3 trillion, ₱2.7 trillion, ₱3.0 trillion and ₱3.1 trillion, as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively while total capital funds stood at ₱217.6 billion, ₱298.3 billion, ₱328.1 billion and ₱350.8 billion, respectively.

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

As of June 30, 2019, the Bank's network consists of 1,360 domestic branches (including 221 One Network Bank, Inc. or "ONB" branches), 4,379 ATMs (including 224 ONB ATMs), 511 CDMs, and two full-service branches in Hong Kong and Singapore. As of June 30, 2019, the Bank also has 25 remittance and representative offices across Asia, North America, Europe and the Middle East. As of the same date, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 54.47% of the Bank's issued share capital.

As of October 21, 2019, the Bank had a market capitalization on the Philippine Stock Exchange ("**PSE**") of approximately ₱652.2 billion. The Bank's consolidated Common Equity Tier 1 ("**CET1**") ratio, Tier 1 capital adequacy ratio and total capital adequacy ratio were 12.7%, 12.9%, and 14.3%, respectively, as of June 30, 2019.

COMPETITIVE STRENGTHS

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

Leading brand name and banking franchise in the Philippines

The Bank believes that its combination of scale, reach, business mix, product offerings and brand recognition has made it a leading financial institution in the Philippines. According to statements of condition submitted by banks to the BSP, as of June 30, 2019, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank believes it has one of the widest domestic branch networks in the Philippines spanning all major cities across the country with 1,360 domestic branches (including 221 ONB branches). The Bank believes that all of these factors have helped to develop the BDO brand, which covers the Bank's entire range of banking products and financial services under a single brand name, as one of the most well known in the domestic market. The Bank's premier branding and market dominance are also reflected in leading market shares across most business segments including private banking, investment banking, remittances and credit cards. The Bank believes that its scale of operations and brand recognition support the continued growth and diversification of its business, network and product mix.

Diversified business model providing full-service operations

The Bank is a full-service universal bank offering a host of industry-leading banking products and services to serve the retail and corporate markets, including lending products (such as loan products tailored to corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, rural banking, life insurance, insurance brokerage and stock brokerage services. *See "Subsidiaries and Affiliates"*. The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products that is expected to increase the recurring fee income contribution the Bank's operating income. For the years ended December 31, 2016, 2017 and 2018, the Bank's other operating income, mainly comprising of non-interest income, increased by 30.7%, 13.4% and 5.2%, respectively to ₱41.6 billion, ₱47.2 billion and ₱49.7 billion. For the six months ended June 30, 2019, the Bank's other operating income increased 29.5% to ₱29.5 billion from ₱22.8 billion for the six months ended June 30, 2018. Moreover, the Bank believes that it has built a stable earnings base, wherein approximately more than 90% of its income is from recurring sources, rendering it less susceptible to market and industry volatility.

Customer-centric culture complemented by strategic distribution platform

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

To efficiently serve its customers, the Bank's branch network stretches to cover all major cities in the Philippines, with the Bank often establishing multiple branches in general areas it has identified to have greater potential for business. The Bank believes that this extensive domestic distribution network, including strategic locations within SM malls and other high customer traffic areas, allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As of June 30, 2019, the Bank's network consists of 1,360 domestic branches (including 221 ONB branches), 4,379 ATMs (including 224 ONB ATMs), 511 CDMs, and two full-service branches in Hong Kong and Singapore. As of June 30, 2019, the Bank also has 25 remittance and representative offices across Asia, North America, Europe and the Middle East. The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low cost deposit base. Its low cost CASA deposit base (comprising demand and savings deposits) increased from ₱1.382 trillion as of December 31, 2016 to ₱1.544 trillion as of December 31, 2017, representing a growth of 11.7%. As of December 31, 2018, its low cost CASA deposit base further grew to ₱1.686 trillion. As of December 31, 2018, 2017, and 2016, 69.7%, 72.8%, and 72.6%, respectively, of the Bank's total deposit base comprised of low cost CASA deposits compared to 68.4% as of December 31, 2015. As of June 30, 2019, the Bank's low cost CASA deposits stood at ₱1.686 trillion which comprised 70.3% of its total deposit base, representing a growth of 2.9% over its low cost CASA deposit base of ₱1.640 trillion as of June 30, 2018. In addition, the Bank also believes that its branch network and premier customer service have allowed it to actively utilize its branches to expand its loan portfolio and transform its non-interest income franchise, mainly through aggressive cross-selling of loan and other fee income related products and customer referrals across branches to increase the recurring fee income contribution to overall operating income, while reducing reliance on trading and foreign exchange related gains.

Scalable infrastructure platform for sustained growth

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

Strong and experienced management team

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

Synergies with controlling shareholder group

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

BUSINESS STRATEGIES

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

Diversified and sustainable earnings stream

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

The Bank will continue to pursue focused loan growth to achieve a more balanced loan portfolio and more effective management of its concentration risk. While the Bank believes it already maintains a diversified loan portfolio across various market segments, it intends to increase lending to the more profitable and growing consumer and middle-market segments. The Bank also expects to continue to leverage operating synergies with the SM Group to further diversify its earnings stream through product origination capabilities and fee income sources. In addition, to minimize the volatility of the Bank's income sources, the Bank has gradually built its non-interest earnings by generating increased income from its fee-generating services including, among others, asset/wealth management, electronic banking, bancassurance, credit cards and investment banking. The Bank has been pro-active in transforming its non-interest earnings sources and has implemented relevant strategies such as the consolidation of BDO Life, increasing capabilities in wealth management and leveraging its distribution network to cross-sell fee income related products, which the Bank believes will increase the contribution of recurring fee income to its operating income. The Bank will also seek to more efficiently manage its resources, such as its securities portfolio, to maximize both accrual and trading income.

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

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

Prudent balance sheet management

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

Further develop operating systems, branch infrastructure and advertising efforts

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

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

Complement organic growth with mergers/acquisitions

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

RECENT DEVELOPMENTS

On January 28, 2016, the Bank entered into a joint venture with Mitsubishi Motors Philippines Corporation ("**MMPC**"), Sojitz Corporation ("**SJC**") and JACCS Co., Ltd. ("**JACCS**") to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On June 1, 2016, the Bank announced that the Philippine Securities and Exchange Commission approved the incorporation and registration of MMPC Auto Financial Services Corporation ("**MAFSC**") as a financing company. MAFSC is the joint venture company between BDO Leasing and Finance, Inc. ("**BDOLF**"), a subsidiary of the Bank, with MMPC, SJC and JACCS Co. Ltd. to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On March 7, 2019, BDOLF announced that it was selling its 40% equity interest in MAFSC to JACCS, allowing BDOLF to focus more on its core business of equipment leasing and finance and in line with JACCS' decision to expand its investment in MAFS to accelerate the growth of its overseas business.

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

On October 24, 2016, the Bank issued Senior Notes under its US$2 billion Medium Term Note Programme with a face value of US$300 million at a price of 99.977%. The Senior Notes mature on October 24, 2021 and bear a fixed interest rate of 2.625% per annum. The Senior Notes are payable semi-annually every April 24 and October 24, starting in April 2017. The net proceeds from the issuance are for general corporate purposes.

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised gross proceeds of ₱60.0 billion. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

In March 2017, the Bank signed a Memorandum of Understanding with Shinkin Central Bank ("**SCB**") to develop a business cooperation envisioned to benefit the Japanese bank's SME clients already operating in the Philippines and those eyeing the country as a potential investment destination. The Bank will potentially provide banking services which may include financial facilities, cash management and payment services, foreign exchange and other treasury products to SCB's diversified SME clients.

On August 18, 2017, the Bank issued ₱11.8 billion worth of long term negotiable certificates of deposit with a rate of 3.625% per annum which will mature on February 18, 2023.

On September 6, 2017, the Bank issued Senior Notes under its US$2 billion Medium Term Note Programme with a face value of US$700 million at a price of 99.909%. The Senior Notes mature on March 6, 2023 and bear a fixed interest rate of 2.950% per annum. The Senior Notes are payable semi-annually every March 6 and September 6. The Senior Note issue is part of the Bank's liability management initiatives to tap longer-term funding sources to support the Bank's lending operations and for general corporate purposes.

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

On May 7, 2018, the Bank issued ₱8.2 billion worth of long-term negotiable certificates of deposit with a rate of 4.375% per annum which will mature on November 7, 2023.

On October 1, 2018, the Bank announced that it entered into an agreement with Osmanthus Investment Holdings Pte. Ltd (Singapore) ("**Osmanthus**") for the latter to acquire a 15% stake in BDO's rural bank subsidiary, One Network Bank, Inc. ("**ONB**"). On May 16, 2019, the Bank completed its transaction with Osmanthus for the latter's acquisition of its 15% equity stake in ONB.

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

On April 5, 2019, the Bank issued ₱7.3 billion worth of long term negotiable certificates of deposit with a rate of 5.375% per annum which will mature on October 12, 2024.

On July 31, 2019, the SEC approved the resolution changing the corporate name of ONB from One Network Bank, Inc. (A Rural Bank of BDO) to BDO Network Bank, Inc.

INVESTMENT CONSIDERATIONS

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

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

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

BANK INFORMATION

The registered office of the Bank is BDO Corporate Center, 7899 Makati Avenue, Makati City 0726, Philippines. The Bank's telephone number is +(632) 8840 7000 and its corporate website is **www.bdo.com.ph.** The information on the Bank's website is not incorporated by reference into, and does not constitute part of, this Offering Circular.

SELECTED FINANCIAL INFORMATION

Summary of Consolidated Financial Information

The following tables present selected consolidated financial information of the Bank and its subsidiaries and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular. The selected financial information presented below as of and for the years ended December 31, 2016, 2017 and 2018 were derived from the consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards ("PFRS"), and audited by Punongbayan & Araullo (P&A) in accordance with PSA. The selected financial information as of June 30, 2018 and 2019 and for the six months ended June 30, 2018 and 2019 were derived from the unaudited interim consolidated financial statements of the Bank, prepared in accordance with PAS 34, Interim Financial Reporting and reviewed by P&A in accordance with Philippine Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"(PSRE 2410). P&A has modified its review report as the Group is still in the process of compiling the relevant information to determine the impact and the required adjustment to the Unaudited Interim Consolidated Financial Statements resulting from the adoption of Philippine Financial Reporting Standards 16, Leases. The impact of PFRS 16 will be recognized by the Group in the third quarter of 2019. The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date.

Consolidated Statements of Income

	For the year ended December 31,			For the six months ended June 30,	
	2016	**2017**	**2018**	**2018**	**2019**
	(audited) (in ₱ millions)			**(unaudited) (in ₱ millions)**	
Interest income on					
Loans and other receivables	73,171	88,178	115,384	52,588	70,946
Trading and investment securities	8,142	9,691	11,866	5,572	7,908
Due from BSP and other banks	696	1,742	1,733	905	533
Others	28	184	57	25	36
	82,037	**99,795**	**129,040**	**59,090**	**79,423**
Interest expense on					
Deposit liabilities	13,623	14,919	25,595	10,769	18,586
Bills payable and other borrowings	2,790	3,123	5,153	2,336	3,911
	16,413	**18,042**	**30,748**	**13,105**	**22,497**
Net interest income	65,624	81,753	98,292	45,985	56,926
Impairment losses	3,815	6,537	6,286	3,541	2,988
Net interest income after impairment losses	61,809	75,216	92,006	42,444	53,938
Other operating income					
Trading gain - net	1,860	450	(1,619)	(1,933)	1,990
Service charges and fees	19,074	25,701	27,372	12,964	14,979
Miscellaneous	20,679	21,055	23,921	11,757	12,540
	41,613	**47,206**	**49,674**	**22,788**	**29,509**
Other operating expenses					
Employee compensation and benefits	24,698	27,405	30,449	13,670	15,916
Occupancy	7,661	8,412	9,509	4,421	5,144
Taxes and licenses	7,224	8,270	11,639	5,779	7,081
Other operating expenses	30,405	40,778	46,437	22,925	28,360
	69,988	**84,865**	**98,034**	**46,795**	**56,501**

	For the year ended December 31,			For the six months ended June 30,	
	2016	**2017**	**2018**	**2018**	**2019**
		(audited) (in ₱ millions)		**(unaudited) (in ₱ millions)**	
Income before pre-acquisition income	33,434	37,557	43,646	18,437	26,946
Pre-acquisition income	391	-	-	-	-
Income before tax	33,043	37,557	43.646	18,437	26,946
Income tax expense	6,797	9,452	11,007	5,324	6,806
Net income after tax	**26,246**	**28,105**	**32,639**	**13,113**	**20,140**

Consolidated Statements of Financial Position

	As of December 31,			As of June 30,	
	2016	**2017**	**2018**	**2018**	**2019**
		(audited) (in ₱ millions)		**(unaudited) (in ₱ millions)**	
Cash and other cash items	40,909	45,006	53,749	36,634	44,718
Due from the Bangko Sentral ng Pilipinas	318,002	353,308	354,132	367,651	332,955
Due from other banks	41,794	51,479	55,292	64,193	37,319
Trading and investment securities	269,042	332,927	385,197	366,028	427,667
Loans and other receivables — net	1,573,965	1,791,786	2,071,834	1,950,204	2,119,920
Premises, furniture, fixtures and equipment – net	26,912	29,346	33,660	32,767	33,701
Investment properties	15,188	18,040	19,785	18,662	19,838
Equity investments	4,449	4,945	5,081	4,871	4,949
Deferred tax assets – net	6,334	7,403	8,312	7,560	8,217
Other resources — net	28,404	33,864	35,205	28,606	36,003
Total resources	**2,324,999**	**2,668,104**	**3,022,247**	**2,877,177**	**3,065,286**
Deposit liabilities					
Demand	114,284	134,931	179,944	158,550	190,520
Savings	1,267,983	1,409,256	1,505,680	1,481,027	1,495,834
Time	522,937	576,825	734,341	684,295	713,204
Total deposit liabilities	1,905,204	2,121,012	2,419,965	2,323,873	2,399,558
Bills payable	100,556	130,484	143,623	133,716	166,740
Subordinated notes payable	10,030	10,030	10,030	10,030	10,030
Insurance contract liabilities	20,565	25,986	28,506	25,664	36,156
Other liabilities	71,085	82,252	91,974	80,431	101,966
Total liabilities	**2,107,440**	**2,369,764**	**2,694,098**	**2,573,714**	**2,714,450**
Equity	217,559	298,340	328,149	303,463	350,836
Total liabilities and equity	**2,324,999**	**2,668,104**	**3,022,247**	**2,877,177**	**3,065,286**

Selected Financial Ratios

(in percentages except earnings per share)	For the year ended December 31,			For the six months ended June 30,	
	2016	2017	2018	2018	2019
Return on assets[1]	1.2	1.1	1.1	0.9	1.3
Return on shareholders' equity[2]	12.5	10.2	10.6	8.7	11.9
Return on average common equity[3]	12.7	10.2	10.7	8.8	12.0
Net interest margin[4]	3.2	3.5	3.6	3.5	4.0
Cost-income ratio[5]	65.4	65.8	66.3	68.0	65.4
Loans to deposits[6]	77.8	82.7	83.5	82.4	85.1
Common equity tier 1 ratio [7]	10.7	12.9	12.1	12.4	12.7
Tier 1 capital adequacy ratio[8]	11.0	13.1	12.4	12.6	12.9
Total capital adequacy ratio[9]	12.4	14.5	13.8	14.0	14.3
Total non-performing loans to total loans -- excluding interbank loans[10]	1.3	1.2	1.0	1.2	1.2
Total non-performing loans to total loans -- including interbank loans[11]	1.2	1.1	1.0	1.1	1.2
Allowances for probable loan losses to total loans[12]	1.8	1.7	1.9	1.9	2.0
Allowances for probable loan losses to total non-performing loans[13]	139.3	146.2	183.1	158.0	163.2
Earnings per share (₱)[14]	6.81	6.42	7.40	2.93	4.53

(1) *Net income divided by average total resources for the period indicated.*
(2) *Net income divided by average total capital funds for the period indicated.*
(3) *Net income attributable to shareholders of the Bank divided by average common equity for the period indicated.*
(4) *Net interest income divided by average interest-earning assets.*
(5) *Total operating expenses divided by the sum of net interest income and other income.*
(6) *Gross customer loans (net of unearned interests or discounts) divided by total deposits.*
(7) *Common equity tier 1 capital divided by total risk-weighted assets.*
(8) *Tier 1 capital divided by total risk-weighted assets.*
(9) *Total capital divided by total risk-weighted assets.*
(10) *Total non-performing loans divided by total loans excluding interbank loans.*
(11) *Total non-performing loans divided by total loans including interbank loans.*
(12) *Total allowance for probable loan losses divided by total loans.*
(13) *Total allowance for probable loan losses divided by total non-performing loans.*
(14) *Net income divided by total number of outstanding shares.*

CAPITALIZATION AND INDEBTEDNESS

The following table sets out the unaudited consolidated long-term debt and capitalization of the Bank as of June 30, 2019. This table should be read in conjunction with the Bank's unaudited consolidated financial statements as of and for the six months ended June 30, 2019 included in this Offering Circular.

	As at 30 June 2019
	Actual
	(in ₱ millions)
Short-Term Liabilities	
Deposit Liabilities	2,272,327
Bills Payable	51,000
Insurance Contract Liabilities	(729)
Other Liabilities	32,281
Total Short-Term Liabilities	**2,354,879**
Long-Term Liabilities – net of current portion	
Deposit Liabilities	127,231
Bills Payable and Subordinated Notes Payable	125,770
Insurance Contract Liabilities	36,885
Other Long-Term Liabilities	69,685
Total Long-Term Liabilities – net of current portion	**359,571**
Capital Funds	
Issued Share Capital	
Preferred Stock	5,150
Common Stock	43,772
Additional Paid-In Capital	123,663
Surplus Reserves	15,265
Other Reserves	12
Surplus Free	173,286
Net Unrealized Fair Value Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)	(3,158)
Accumulated Actuarial Gains (Losses)	(8,877)
Revaluation Increment	1,008
Remeasurement on Life Insurance Reserves	(938)
Accumulated Translation Adjustment	5
Accumulated Share in Other Comprehensive Income(Loss) of Associates	(14)
Non-controlling interest	1,661
Total Capital Funds	**350,836**
Total Capitalization and Indebtedness (1)(2)	**3,065,286**

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

(2) *Changes in the Bank's contingent accounts as of June 30, 2019 are discussed in Note 27.3 to the audited consolidated financial statements of the Bank as at June 30, 2019, included elsewhere in this Offering Circular.*

FORM OF PRICING SUPPLEMENT

PRICING SUPPLEMENT DATED [•]

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

Under its ₱65 Billion Bond Programme

This document constitutes the Pricing Supplement relating to Series [•] Tranche [•] Bonds being offered and described herein (the "Offer"). Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "Terms and Conditions") set forth in the Trust Agreement and the Offering Circular dated [•] 2019 (the "Offering Circular"). This Pricing Supplement contains the final terms of this Offer and the Series [•] Tranche [•] Bonds and must be read in conjunction with the Offering Circular. Full information on the Bank and the Offer is contained in the Offering Circular and in this Pricing Supplement. All information contained in the Offering Circular are deemed incorporated by reference in this Pricing Supplement.

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

Interest:

(a) For Fixed Rate:

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

(b) For Floating Rate:

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

(c) For Zero-Coupon

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

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

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

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

BDO UNIBANK, INC
Issuer and Selling Agent
By:

____
Name:
Position:

INVESTMENT CONSIDERATIONS

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

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

CONSIDERATIONS RELATING TO THE PHILIPPINES

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

The Philippine economy has experienced volatility of the Peso and limited availability of foreign exchange. In July 1997, the BSP, announced that the Peso can be traded and valued freely on the market. As a result the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱28.968 to one U.S. Dollar in July 1997 to ₱56.18 to one U.S. dollar by December 2004.

While the value of the Peso has not dropped to historic low levels yet, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the further rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As of December 31, 2018, according to BSP data, the Peso has depreciated by 5.6% to ₱52.724 per US$1 from ₱49.923 per US$1 at the end of 2017. As of November 14, 2019, the Peso was at ₱50.876 against the U.S. dollar.

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

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

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations;
- foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies (please see discussion on taxes below);

- government budget deficits;
- re-emergence of Middle East Respiratory Syndrome-Corona virus (“MERS-CoV”), SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

In December 2017, President Rodrigo Duterte signed into law Package One of the Tax Reform for Acceleration and Inclusion (TRAIN) bill which seeks to help fund the government’s massive infrastructure program through increased revenues from higher excise taxes on certain items (e.g., petroleum products, coal, automobiles, tobacco and sugar-sweetened beverages), as well as higher tax rates on interest income from deposits in expanded foreign currency system, capital gains, documentary stamps (for various transactions) and stock transactions. While personal income taxes were also lowered under TRAIN, the inflationary impact from the tax reform, along with the sustained rise in oil and food prices, especially rice, partly negated the benefits from lower personal income taxes. Meanwhile, Package 2 of the tax reform package, also known as TRAIN 2 or TRABAHO (Tax Reform for Attracting Better and High-Quality Opportunities), which was approved by the House of Representatives in its third and final reading on September 10, 2018, and which the Duterte government hopes to be signed into law, involves lowering the corporate income tax and rationalizing fiscal incentives. The other tax reform packages that the government hopes to implement include tax amnesty (estate, general), as well as “sin” (e.g., alcohol, gaming), property, passive income and financial, and luxury taxes. While the tax reform program ensures fiscal sustainability, the dampening impact of higher taxes on consumer demand and affected industries (in terms of added costs), could slow down the country’s growth pace and affect the Bank’s business.

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

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

The sovereign credit ratings of the Government directly affect companies resident in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies – Fitch (BBB-), Standard and Poor’s (BBB-) and Moodys (Baa3). In 2014, S&P and Moody’s upgraded their ratings a notch above investment grade to “BBB” and “Baa2” in May and December, respectively, with both agencies affirming these ratings in 2017 and 2018. In December 2017, Fitch upgraded the country’s credit rating to “BBB-” with stable outlook, thus aligning the country’s ratings with those of Moody’s and S&P’s at a notch above investment grade. In April 30, 2019, Standard and Poor upgraded the country’s credit rating from “BBB” to “BBB+” with a “stable” outlook., citing the country’s above-average economic growth, a healthy external position, and sustainable public finance These ratings are the highest that the country has received so far from any credit ratings agency.

With investment grade status from three credit rating agencies, the Philippines is eligible to be part of investment grade indices. These ratings reflect an assessment of the Government’s overall financial capacity to pay its obligations and its ability or willingness to meet its financial commitments as they become due. The ratings of the Government directly affect companies residing in the Philippines, such as the Bank, as international credit rating agencies issue credit ratings for companies with reference to the country in which they are resident.

There is no assurance that Fitch, Moody’s, S&P or other international credit rating agency will not downgrade the credit ratings of the Philippines in the future. Any of such downgrades could have an adverse effect on liquidity in the Philippine financial markets, the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

Ongoing volatility experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants

The ongoing volatility experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

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

The Philippines has from time to time experienced political and military instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business. In the last few years, there were instances of political instability, including public and military protests arising from alleged misconduct in the previous administration.

On March 27, 2014, the Government and the Moro Islamic Liberation Front ("**MILF**") signed a peace agreement, the Comprehensive Agreement on Bangsamoro. On September 10, 2014, the draft of the Bangsomoro Basic Law ("BBL") was submitted by former President Aquino to Congress. The BBL is a draft law intended to establish the Bangsamoro political entity in the Philippines and provide for its basic structure of government, which will replace the existing Autonomous Region in Muslim Mindanao. Following the Mamasapano incident where high-profile terrorists clashed with armed members of the Bangsamoro Islamic Freedom Fighters and MILF leading to the deaths of members of the Special Action Force ("SAF") of the Philippine National Police, MILF, the Bangsamoro Islamic Freedom Fighters, and several civilians, the Congress stalled deliberations on the BBL, until it was shelved. However, President Rodrigo Duterte, who was elected into office in June 2016, actively pushed for the passage of the BBL, stressing that it was a campaign promise to the Moro people and integral to his administration's campaign for a federal form of government. On July 26, 2018, President Duterte signed the Bangsamoro Organic Law (formerly known as BBL), creating the new Bangsamoro Autonomous Region in Muslim Mindanao with a regional government, parliament and justice system as well as fiscal autonomy, effectively replacing the Autonomous Region of Muslim Mindanao (ARMM). On January 21, 2019, a regional plebiscite was held to ratify the Bangsamoro Organic Law.

The Philippine Presidential elections were held on May 9, 2016, and on June 30, 2016 President Rodrigo Duterte assumed the presidency with a mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte government also initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. In April 2018, the President created a task force to further improve the reintegration package for communist rebels who surrender to the government.

President Duterte is also pushing for the shift to the federal-parliamentary form of government. Under the draft federal charter, the Philippines will be divided into 18 autonomous federal regions which are given more power for self-governance than under the present Philippine Constitution. The federal regions are said to be granted greater powers over socioeconomic planning, land use, financial administration and management. The central government, on the other hand, will retain powers over national security and defense, international relations and diplomacy, customs and tariff, federal crimes and implementation of the criminal justice system. In addition to this, the draft federal charter increases the number of Philippine senators from 24 to 36 and Congressmen from 297 to 400. Recently, however, several concerns were raised regarding the financial viability and monetary cost of the proposed shift to federalism and the possibility of hyperinflation and implications on fiscal position due to the expected overspending in the federal regions.

There is no guarantee that future events will not cause political instability in the Philippines. Any potential instability could have an adverse effect on the Philippine economy, which may impact the Company's business, financial condition and results of operations.

Acts of terrorism, violent crimes and geo-political/territorial tensions could undermine the country's stability and adversely affect the Bank's business and financial condition.

The Philippines has been subject to a number of terrorist attacks since 2000. An increase in the number of terrorist activities or violent crimes in the Philippines could negatively affect the Philippine economy and, therefore, the Bank's financial condition and its business.

In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. In September 2015, Canadians John Ridsdel and Robert Hall, Norwegian Kjartan Sekkingstad and Filipina Marites Flor were kidnapped from a tourist resort on Samal Island in southern Philippines by the Abu Sayyaf which demanded ransom for the hostages' release. Hall and Ridsdel were later beheaded on separate occasions in April and June 2016, respectively, after the ransom demands were not allegedly met. Meanwhile, Sekkingstad and Flor were released from captivity separately by the Abu Sayyaf in September and June 2016. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

Moreover, there were isolated bombings in the Philippines in recent years, mainly in regions in the southern part of the Philippines, such as the province of Maguindanao. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines and adversely affect the country's economy.

The Government of the Philippines and the Armed Forces of the Philippines have clashed with members of several separatist groups seeking greater autonomy, including the MILF, the Moro National Liberation Front and the New People's Army.

In January 2015, a clash took place in Mamasapano in Maguindanao province between the SAF of the Philippine National Police and the Bangsamoro Islamic Freedom Fighters ("**BIFF**") and the MILF, which led to the deaths of 44 members of SAF, 18 from the MILF, five from the BIFF, and several civilians, including Zulkifli Abdhir, a Malaysian national included in the US Federal Bureau of Investigation's most wanted terrorists.

On September 2, 2016, a bombing that killed 15 and injured 71 took place in Davao City, Mindanao. It is believed that the Abu Sayyaf organization and/or their allies were responsible for the bombing.

On May 23, 2017, a deadly firefight in Marawi, Lanao del Sur, erupted between government security forces and the ISIS affiliated-Maute group, following the government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared Martial Law ("**ML**") in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on July 22 2017, both House of Congress voted to extend Martial Law until the end of 2017. After nearly five months since the rebellion broke out, Defense Secretary Delfin Lorenzana announced the termination of all combat operations in Marawi on October 21, 2017. Despite the liberation of Marawi, however, Martial Law has continually been extended over Mindanao, with the latest extension having been approved by Congress on December 12, 2018. Mindanao will thus be under martial law for a total of over two and a half years, or from May 23, 2017 to December 2019.

There can be no assurance that the Philippines will not be subject to further acts of terrorism and violence in the future. Terrorist attacks have, in the past, had material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, the Bank's business. Though the Bank has a current insurance policy that covers terrorist attacks, any terrorist attack or violent acts arising from, and leading to, instability and unrest could cause interruption to parts of the Bank's businesses and materially and adversely affect the Bank's financial conditions, results of operations and prospects.

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

In February 2015, a Filipina nurse who arrived from Saudi Arabia tested positive for the MERS-CoV (Middle East Respiratory Syndrome-Corona virus). She was quarantined, received medical treatment and later discharged and cleared of the disease by the Department of Health. All known contacts of the said nurse, including some passengers in the same flight that arrived from Saudi Arabia, were also cleared of the infection, putting the country once again free of an active case of the disease.

In March 2016, reports of an American woman who stayed in the Philippines for four weeks in January 2016, tested positive for the Zika virus upon returning home, indicating the local transmission of the disease through the Aedes aegypti mosquito. In May 2016, a South Korean national was reported to have acquired the infection while visiting the Philippines, following earlier reports of two other confirmed cases of the viral infection in the country. All of the patients had recovered, indicating that the Zika viral infection acquired in the country was self-limiting.

The outbreak of an infectious disease in the Philippines, Asia, or elsewhere, together with any resulting restriction on travel and/or imposition of quarantines, could have a negative impact on the economy and business activities in the Philippines or Asia generally and could materially and adversely affect the Bank's business, financial condition and results of operations.

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

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

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

Although a principal objective of the Philippine securities laws and the Philippine Stock Exchange's ("PSE") listing rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. Furthermore, although the Bank complies with the requirements of the PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code (Republic Act No. 8799) (the "**SRC**") and the Philippine Revised Corporation Code, requires the corporations vested with public interest such as the Bank, to have at least two independent directors or such number of independent directors as is equal to 20.0% of the Board, whichever is the lower number. The Bank currently has five independent directors, representing 45% of the Board.

Furthermore, corporate governance standards may be different for public companies listed on the Philippine securities markets than for securities markets in developed countries. Rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well-defined and enforced in the Philippines than elsewhere, putting shareholders at a potential disadvantage. Because of this, the directors of Philippine companies may be more likely to have interests that conflict with the interests of shareholders generally, which may result in them taking actions that are contrary to the interests of shareholders.

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

The Philippines has been engaged in a number of territorial disputes with China, and other Southeast Asian countries over disputed islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over a group of islands known as the Scarborough Shoal is supported by recognized principles of international law, and is consistent with the United Nations Convention on the Law of the Sea ("**UNCLOS**"). Actions taken by both governments have disrupted trade between the two countries, including a temporary ban by China on banana imports from the Philippines. China rejected the Philippine government's request for arbitral proceedings in accordance with UNCLOS to resolve the disputes. In 2016, the Permanent Court of Arbitration ruled in favor of the Philippines and against China in relation to the disputes over the islands in the West Philippine Sea. Despite this, China has categorically stated that it will not recognize said ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. Without a formal enforcement mechanism, the territorial dispute remains unresolved.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Bank's operations could be adversely affected as a result. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or overseas Filipinos permits.

CONSIDERATIONS RELATING TO THE PHILIPPINE BANKING INDUSTRY

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

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

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board's lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank, United Overseas Bank, First Commercial Bank of Taiwan, Hua Nan Commercial Bank, Ltd. and Chang Hwa Commercial Bank, being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery. As of August 30, 2019, according to data from the BSP, there were a total of 46 domestic, foreign, universal and commercial banks operating in the Philippines.

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

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (approved on July 15, 2014): a) the acquisition, purchase or ownership of up to one hundred percent (100%) of the voting stock of an existing bank; b) investment in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under Philippine law; or c) establishment of branches with full banking authority;
- Foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;

- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases resulting in excess capital that can be leveraged for asset growth and market share gains; and
- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the removal of foreign ownership restrictions.

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

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

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

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

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the NPL ratios exclusive of interbank loans in the Philippine banking system for universal and commercial banks were 1.7%, 1.4%, 1.3%, 1.3%, and 1.6% as of the years ended December 2015, 2016, 2017, 2018, and six months ended June 30, 2019 respectively.

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

The Philippine banking sector has generally recovered from the global economic crisis. According to data published by the BSP as of June 30, 2019, NPL ratios in the Philippine universal and commercial banking system were at less than 2.0%, an improvement from the 2%-4% range reported from 2009-2011. Further, the NPL coverage ratio in the Philippine universal and commercial banking system reached 113.24% as of June 30, 2019, within the 96%-126% range reported from 2009 to 2011, according to the BSP. The Bank has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

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

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

However, BSP’s early adoption of Basel III on January 1, 2014 a year ahead of the Basel Committee on Banking Supervision’s recommended implementation timeline as well as the imposition of higher limits and stricter minimum requirements for regulatory capital relative to international standards with no transition period are seen as efforts to boost the Philippine banking industry’s resiliency and enhance its ability to absorb risks. In addition the BSP has been prudent and conservative in setting the minimum reserve requirement compared to other regulators in the region, with a minimum reserve requirement for Peso deposit balances of 16% to be held with the BSP (compared to, for example, Indonesia, where the minimum local currency reserve requirement is 6.0% of local currency deposit balances).

Philippine banks face regulatory pressure to comply with new and stricter capital, liquidity and leverage standards, as well as meet prudential limits for real estate exposures; the Bank may experience difficulties due to the implementation of such standards, including Basel III, in the Philippines.

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

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short- and medium-term quantitative liquidity ratios. The revised standards also distinguish further (i) Tier 1 capital, which is also referred to as Going-Concern Capital, and is composed of Common Equity and Additional Tier 1 capital; and (ii) Tier 2 capital, which is also referred to as Gone-Concern capital and establish new eligibility criteria for such capital instruments previously not implemented in regulatory capital instruments. The BSP adopted Basel III on January 1, 2014 with higher limits and stricter minimum requirements for regulatory capital relative to international standards and with no phase-in period.

In response to Basel III, the BSP and Monetary Board imposed a number of new requirements, including a capital surcharge to banks deemed as Domestic Systemically Important Banks (“**D-SIB**”), with compliance to be phased in starting from January 2017 until January 2019, as well as increased minimum capital requirements for banks in all categories. Local banks also face new liquidity requirements such as the Liquidity Coverage Ratio (“**LCR**”) and the Net Stable Funding Ratio (“**NSFR**”).

In March 2016, the Monetary Board announced that it had approved the LCR framework which requires universal and commercial banks to hold sufficient High Quality Liquid Assets (“**HQLAs**”) that can be easily converted into cash to service liquidity requirements over a 30-day stress period. The approval of the LCR framework by the Monetary Board provides for an observation period from July 1, 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On January 1, 2018, the LCR threshold that banks are required to meet is 90%, to be increased to 100% commencing on January 1, 2019. Banks are required to publicly disclose information related to the LCR on solo and consolidated bases beginning January 1, 2019. This is required to be disclosed in single currency, to be published in the quarterly published balance sheet, as well as in the annual reports or published financial reports.

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

On June 6, 2018, the BSP issued Circular No. 1007, which imposed a NSFR framework on all universal and commercial banks, including subsidiary banks and quasi-banks, on both solo and consolidated basis. The NSFR Framework seeks to limit overreliance on short-term wholesale funding and to promote enhanced assessment of funding risk across all on- and off- balance sheet accounts. Said covered entities are required to maintain an NSFR of at least 100% at all times. The BSP issued the implementing guidelines, template and details on the submission of the NSFR report, with observation period that ran from July 1, 2018 to December 31, 2018. Actual implementation began on January 1, 2019. Covered banks shall submit an NSFR Report, monthly on a solo basis, and quarterly on a consolidated basis, accompanied by a certification on compliance with the NSFR requirement on all calendar days.

In December 2018, the Monetary Board approved the Philippine adoption of the Basel III countercyclical buffer ("**CCyB**"), completing the BSP's implementation of international standards for banks in terms of capital. The BSP initially set the CCyB at 0%, citing that the ongoing buildup of credit does not pose an imminent risk. The CCyB is subject to upward adjustment to a rate determined by the BSP when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall he effective 12 months after its announcement. Meanwhile, reductions in the buffer take effect immediately.

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

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

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

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

Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Group's business, financial condition and results of operations.

Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the BSP and Monetary Board regulations add pressure on local banks to meet these additional capital adequacy requirements. This may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. This may also lead banks in the Philippines to conduct capital raising exercises. Through its compliance with these regulations, the Bank's business, financial position and results of operations may be adversely affected.

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

PFRS continues to evolve as standards and interpretations promulgated subsequent to December 31, 2013 come into effect. PFRS 9, the local adoption of International Financial Reporting Standards ("**IFRS**") 9 Financial Instruments, originally issued in 2009, reflects the first and third phases of the three-phase improvement project by the International Accounting Standards Board to replace International Accounting Standards ("**IAS**") 39 Financial Instruments: Recognition and Measurement. Phases 1 and 3 of the project apply to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. It requires entities to classify and subsequently measure financial assets at either amortized cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. The adoption of the first phase of PFRS 9 affects the classification and measurement of the Banks financial assets, but has no impact on the classification and measurement of financial liabilities. On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach.

PFRS 9 also requires enhanced disclosures to help the users of financial statements to better understand the risks and the likely cash flows from the financial assets. The latest amendment to PFRS 9, issued in July 2014, provides for the new standard on financial instruments and its effectivity on January 1, 2018.

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

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

Starting January 1, 2019, the following PFRS and interpretations have become effective:

PFRS 16, Leases. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets and, subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with terms of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may adopt PFRS 16 earlier but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatment. The Philippine Interpretation IFRIC 23 ("IFRIC 23 Interpretation") addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, Income Taxes. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The IFRI 23 Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Bank believes that other amendments and improvement to PFRS issued effective after December 31, 2018 have no material impact on the Bank's financial statements.

An increase in interest rates could decrease the value of the Bank's securities portfolio and raise the Bank's funding costs.

Domestic interest rates have remained low since 2009, with the monetary policy directed towards stimulating the economy. In 2018, however, domestic interest rates started to rise following the BSP's staggered 175 basis point hike in policy rates to subdue inflationary pressures from higher taxes under the R.A. 10963 or the Tax Reform for Acceleration and Inclusion ("**TRAIN**") (implemented in January 2018), rising global oil prices, an acute rice shortage, and a weaker peso. In 2019, the BSP has cumulatively cut its rates by 50 basis points to help bolster economic growth back to the government's target and with inflation on a downtrend.

The Bank realizes income from the margin between income earned on its interest-earning assets and interest paid on its interest-bearing liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates and any changes in the liquidity position of the Philippine market. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial position, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio and the Bank's ability to earn excess trading gains as revenue. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all).

Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimize the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Bank's credit portfolio.

In addition, lower levels of liquidity in the system may lead to an increase in the cost of funding as banks actively compete for funds by raising the interest rates they charge on deposits. Banks with strong deposit franchise and large low-cost deposit base are better equipped amid tighter liquidity and increasing funding costs.

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

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on March 18, 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay US$780 million in fines for their role in assisting U.S. citizens in evading income taxes. It imposes a new reporting regime and, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. On July 13, 2015, the Intergovernmental Agreement ("**IGA**") Model 1 was signed and executed by the Philippines and the United States. As a Reporting Model 1 participating foreign financial institution ("**PFFI**") within Philippine jurisdiction, the obligation to withhold tax under section 1471 or 1472 of the U.S. Internal Revenue Code with respect to an account held by a recalcitrant account holder is suspended subject to compliance by the Bank and the Bureau of Internal Revenue thereunder. This suspension, however, may possibly be lifted either by the U.S. Internal Revenue Service ("**IRS**") or the Philippine Competent Authority, specifically by the BIR.

FATCA impacts a number of organizations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions ("**FFIs**") that invest in U.S. markets will be impacted as well as U.S.

financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens.

An FFI will have to set up a process to identify U.S. accounts as part of its on boarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

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

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

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on April 25, 2014 as a PFFI and then amended its FATCA status on March 27, 2015 to Registered Deemed Compliant Foreign Financial Institution under a Model 1 IGA.

The IGA between the US and the Philippines was signed on July 13, 2015 and is presently awaiting concurrence by the Philippine Senate. It is only after such concurrence that the FATCA will enter into force and reporting by the Bank to the Philippine Bureau of Internal Revenue shall begin.

CONSIDERATIONS RELATING TO THE BANK AND ITS SUBSIDIARIES

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

Over the past three years, the Bank has experienced substantial growth (organically and through acquisitions), with its loan portfolio expanding by 15.8%, 18.4% and 15.1% in the years ended 31 December 2016, 2017 and 2018, respectively, and 6.7% for the six months ended June 30, 2019 (compared to June 30, 2018). The Bank's total assets reached ₱1.0 trillion as at 31 December 2010, the first local bank to achieve this milestone, resulting in the Bank being ranked as the largest domestic bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital and total trust funds under management. Total assets thereafter stood at ₱2.3 trillion, ₱2.7 trillion and ₱3.0 trillion, as of December 31, 2016, 2017 and 2018, respectively, and ₱3.1 trillion as of June 30, 2019. The Bank is also the industry leader in terms of investment banking, private banking, rural banking, remittances, leasing and finance, insurance brokering and credit cards in 2018. However, the Bank's strategy, which includes growing and diversifying its loan portfolio and expanding its range of products and services to better cater to the needs of its customers, is also dependent on a number of external factors.

In particular, the Bank may not be successful in relation to the introduction of new services and products. It is entering into new lines of business and expanding into new provincial areas in the Philippines in which it is likely to encounter significant competition from other banks already offering similar products and services being introduced. There can be no assurance that the Bank will be able to compete effectively against such existing banks. Furthermore, there may not be sufficient demand for such services and products, and they may not generate sufficient revenues relative to the costs associated with developing and introducing such services and products. Even if the Bank were able to introduce new products and services successfully, there can be no assurance that the Bank will be able to achieve its intended return on such investments.

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

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

As of June 30, 2019, the Bank's total exposure to borrowers (or gross loans and receivables to customers) was ₱2.043 trillion. The ten largest borrower groups in aggregate accounted for 23.7% of the Bank's total exposure and its ten largest individual borrowers in aggregate accounted for 13.0% of its total exposure. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group, excluding Government-related entities, of connected persons, in excess of 25% of its net worth (the single borrower limit). As of June 30, 2019, the Bank's single borrower limit was ₱86.7 billion. In determining whether the Bank meets the single borrower limit of the BSP, the Bank includes exposures to related accounts (including accounts of subsidiaries and parent companies of the borrower). The Bank's largest borrower as of June 30, 2019 accounted for 2.2% of the Bank's total exposure and 12.6% of the Bank's total equity. The largest borrower group as of June 30, 2019 accounted for 3.5% of the Bank's total exposure and for 20.6% of the Bank's total equity. Credit losses on these large single borrower and group exposures could adversely affect the business, financial position and results of operation of the Bank.

Under BSP Circular 700, the total amount of loans, credit accommodations and guarantees may be increased by an additional 25.0% of a bank's net worth for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Program of the Philippine government duly certified by the Secretary of Socio-Economic Planning. BSP Circular 700 expired on December 28, 2016 and was not extended, but the Bank believes that the expiration of the additional 25% SBL is not an issue given the Bank's expanded capital base following the successful completion of its ₱60 billion (USD1.2 billion) stock rights offer ("**SRO**") in January 2017, as well as the preference by the current administration for hybrid/Official Development Assistance ("**ODA**") financing that may temper loans under the PPP. However, there can be no guarantee that the BSP will not issue new regulations or guidelines with stricter lending limits.

The Bank extends loans to various sectors in the Philippines. The table below sets out the Bank's five largest industry exposures (net of unearned interest or discount) as of June 30, 2019.

Rank	Industry[1]	Amount (₱ millions)	Percent of Total Exposure to Borrowers
1	Financial and insurance activities	288,496	14.1
2	Wholesale and retail trade	279,149	13.7
3	Real estate activities	256,310	12.5
4	Activities of private household	253,267	12.4
5	Electricity, gas, steam	218,669	10.7
	Total	1,295,891	63.4

[1] Industry classifications are in accordance with the Philippine Standard Industrial Classification Code

The Bank's exposure to these five sectors, totaling ₱1.296 trillion, constituted 63.4% of the Bank's total loan portfolio (net of unearned interest or discount). Although the Bank's portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of non-performing loans ("**NPLs**") and restructured assets, and adversely affect the Bank's business, financial position and results of operations.

The Bank may face increasing levels of non-performing loans and provisioning expense for impairment of assets, which may adversely affect the Bank's business, financial condition, results of operations and capital adequacy.

The Bank's results of operations have been, and continue to be, negatively affected by the level of its non-performing loans. For the years ended December 31 2016, 2017 and 2018 and for the six months ended June 30, 2019, the Bank's provisioning expense for impairment of assets amounted to ₱3.8 billion, ₱6.5 billion, ₱6.3 billion and ₱3.0 billion, respectively, which represented 5.8%, 8.0%, 6.4% and 5.2%, respectively, of net interest income in those periods and 0.3%, 0.4%, 0.3% and 0.1%, respectively, of gross loans in those periods. A slowdown in global growth momentum may adversely affect the ability of the Bank's borrowers to finance their indebtedness and, as a result, the Bank may experience an increase in non-performing loans and loan loss provisions.

The Bank's consolidated NPLs increased by 1.9% to ₱20.8 billion as of December 31, 2018 (representing 1.0% of the Bank's total gross customer loans net of interbank loans as of that date) from ₱20.4 billion as of

December 31, 2017, and increased by 9.8% to ₱24.7 billion as of June 30, 2019 from ₱22.5 billion as of June 30, 2018. As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank's NPL coverage ratio was 139.3%, 146.2%, 183.1% and 163.2%, respectively. The Bank has experienced significant growth in its loan portfolio in recent years and it may experience problems in non-payment arising from these new loans in the future. Any significant increase in the Bank´s non-performing loans would have a material adverse effect on its financial condition, capital adequacy and results of operations. *See "Assets and Liabilities – Non-Performing Loans (NPL) and ROPA"*.

The Bank believes that it has set aside adequate provisions with an NPL coverage ratio of 163.2% as of June 30, 2019 compared to the industry's average NPL coverage ratio of 93.4% (113.2% for universal and commercial banks only), as of June 30, 2019 and reflected current valuations as regards its investment portfolio. While the financial markets have since stabilized, there can be no assurance that the value of the Bank's investment portfolio will not deteriorate should renewed volatility in global financial markets occur.

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

BSP regulations require that Philippine banks classify non-performing loans based on four different categories corresponding to levels of risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears, the type of loan, the terms of the loan, and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank to such classifications and to the factors relevant thereto. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk.

Furthermore, the level of loan loss provisions which the Bank recognizes may increase significantly in the future due to the introduction of new accounting standards and implementation of tighter regulations on credit risk (e.g., BSP Circular 855 and PFRS 9 amendments to loan loss provisions). The level of provisions currently recognized by the Bank in respect of its loan portfolio depends largely on the quality of the portfolio and estimated value of the collateral coverage for the portfolio. Although the Bank has a policy to test its loan portfolio for impairment on a quarterly basis in order to ensure adequacy of provisions as needed and in line with changing market conditions, the level of the Bank´s provisions may not be adequate to cover increases in the amount of its non-performing loans, or any deterioration in the overall credit quality of the Bank´s loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank's reported loan losses may increase in the future as a result of factors beyond the Bank's control.

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

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

While the Bank believes that the new NPL definition and the implementation of IFRS 9 in 2018 will not have any material impact on its loan loss provisioning, there is no guarantee that such new accounting standards may result in the Bank recognizing significantly higher provisions for loan loss in the future.

In addition, while the Bank believes its current level of provisions and collateral position are more than adequate to cover its non-performing loan exposure, an unexpected or significant increase in non-performing loan levels may result in the need for higher levels of loan loss provisions in the future.

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

As of June 30, 2019, the Bank's secured loans represented 25.1% of the Bank's total gross customer loans, and 57.2% of the collateral on these secured loans consisted of real estate properties. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the current prevailing value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its loan loss provisions may be inadequate and the Bank may need to increase such provisions. Any increase in the Bank's loan loss provisions could adversely affect its business, financial position, results of operations and capital adequacy ratios.

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

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

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

In the six months ended June 30, 2019, the Bank sold ₱1.0 billion worth of acquired assets and intends to continue with its strategy of gradually reducing ROPA holdings. As a result, the Bank recorded net ROPA of ₱11.7 billion as of June 30, 2019 representing 0.4% of the Bank's total resources. In prior years, the Bank had ₱7.8 billion, ₱9.8 billion and ₱11.1 billion, as of December 31, 2016, 2017 and 2018, respectively, representing 0.3%, 0.4% and 0.4% of the Bank's total resources as of such dates.

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

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

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

For example, while the Philippines enacted the Anti-Money Laundering Act of 2001 (the "**Anti-Money Laundering Act**" or "**AMLA**") to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the Financial Action Task Force (the "**FATF**"). However, following pressure from the FATF, an amendment to the Anti-Money Laundering Act became effective on March 23, 2003. In January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories ("**NCCTs**"), confirming that anti-money laundering ("**AML**") measures to remedy deficiencies that were originally identified by the FATF were in place. AML systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. In June 2012, President Benigno S. Aquino III signed into law two measures intended to further strengthen the country's campaign against money laundering. These measures included criminalizing terrorist financing activities as well as allowing the Government, upon determination of probable cause, to examine bank accounts or investments ex parte, or without informing the account holder concerned. The enactment of these measures resulted in the Philippines being upgraded by the FATF to the anti-money laundering compliance "gray list", signifying sufficient progress in the country's campaign against money laundering and terrorist financing.

The AMLA, as amended, provides that certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Insurance Commission, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱0.5 million within one banking day. Republic Act No. 10167 has expanded the coverage of the AMLC to enable inquiries into so-called "related accounts," defined as: "funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)." The high threshold level for covered transactions, the coverage of "covered institutions" and the existing Bank Secrecy Law, the amendments to the AMLA were signed into law on March 7, 2003 under Republic .Act No.. 9194. The amendments included the following: (i) lowering the threshold for covered transactions from P 4.0 million to P 500,000; (ii) authorizing the BSP to inquire or examine any deposit or investment with any banking institution without court order in the course of a periodic or special It also addressed concerns such as examination; and (iii) removing the provision prohibiting the retroactivity of the law.

On February 15, 2013, then President Aquino signed into law Republic Act No. 10365 (An Act Further Strengthening the Anti-Money Laundering Law, Amending for the Purpose Republic Act No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001", as amended), which expanded the AMLA covered institutions and crimes. This law took effect on March 7, 2013.

Under Republic Act No. 10365, jewelry dealers will now be required to report transactions worth ₱1 million and above. The law also required the Land Registration Authority to submit to the Anti-Money Laundering Council reports covering real estate purchases worth ₱500,000 and above. Aside from this, predicate crimes – or those criminal acts where the law may also be applied if money is involved – were also expanded to cover 20 additional offenses or crimes, including bribery, extortion, malversation of public funds, fraud and financing of terrorism. The original law only mentioned 14 offenses or crimes connected to money laundering such as kidnapping, piracy on high seas, smuggling, robbery and plunder.

The controversy involving the US$81 Million heist of the Bangladesh central bank account last year prompted Philippine legislators and agencies, such as the Department of Finance and the BSP, to propose the further amendment of the AMLA (RA 9160). On 15 March 2017, BSP issued Circular 950 Series of 2017 containing the amendments approved by the Monetary Board to the Anti-Money Laundering-Combating the Financing of Terrorism (AML/CFT) regulations. The changes reflected the amendments to the AMLA that took effect in January 2017 as well as the recommendations from Paris-based FATF. It added the requirements for group-wide anti-money laundering compliance function and monitoring systems are incorporated for a holistic management and prevention of money laundering and terrorist financing risks. The amendments feature refinements in the conduct of customer due diligence, more pragmatic definition of "official document" and the use of other reliable, independent source documents, data or information for customer identification and verification. The new rules likewise introduced the concept of a "restricted account" to cater to targeted unbanked sector, wherein minimal customer information are required subject to certain conditions, such as constraints in terms of activity. The new rules recognize and allow the use of information and communication technology in the conduct of customer identification subject to implementation of appropriate measures to manage attendant risks.

On July 14, 2017, President Rodrigo Duterte signed into law Republic Act No. 10927 that amends the Anti-Money Laundering Act of 2001 by expanding the coverage of the AMLA to include casinos (these encompass internet and ship-based operations). RA 10927 also puts any single casino cash transaction of more than ₱5 million, or its equivalent in other currencies, as a "covered transaction" and thus must be reported to the AMLC. Further the Court of Appeals can now issue a 20-day freeze order against any monetary instrument or property linked to unlawful activities as those defined and enumerated under RA 9160.

There can be no assurance however, that current Philippine AML systems will continue to be effective against money laundering and similar transactions, as shown by the incident involving a large Philippine universal bank in an international money laundering case. Any deficiencies or lapses, whether minor or material, in such systems could result in sanctions against Philippine banks, including the Bank, and other financial institutions or persons included in the web of transfers and currency conversions, which could adversely affect its reputation, business and operations or cause it to be in breach of its contractual obligations.

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

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures ("**REEs**") to include mortgages and loans extended to the following: individuals to finance the acquisition/construction of residential real estate for own-occupancy as well as land developers and construction companies for the development of socialized and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines.

As these guidelines are for monitoring purposes only, banks shall continue to comply with the 20% adjusted real estate exposure limit as provided under BSP Circular 600. There is no guarantee, however, that the BSP will not enforce further tightening of real estate exposure limits in the future to head off potential asset bubbles.

In May 2013, the BSP released new guidelines governing its Special Deposit Account ("**SDA**") facility limiting SDA access by trust departments/entities to fund management activities of trust accounts effective January 1, 2014 and banning other fiduciary business including agency accounts and investment management activities access to the SDA facility. The new rules likewise required banks to wind down all SDA placements not consistent with the BSP memorandum by at least 30% by July 31, 2013, until these were eventually phased out on November 30, 2013. In addition, the BSP intermittently reduced SDA rates by a total of 150 basis points in 2013 to 2.0%. Further, the participation of Unit Investment Trust Funds in SDA facilities was gradually wound down, i.e., 50% in December 2016, 30% in March 2017 and fully terminated in June 2017 in line with the BSP's adoption of the interest rate corridor ("**IRC**"). Under the IRC, SDA windows were replaced by the overnight deposit facility ("**ODF**"), with the interest rate for the ODF facility set by the Monetary Board at 2.5%, unchanged from the previous SDA rate. With the BSP's 175 basis point policy rate hike in 2018, the ODF rate now stands at 4.25%.

In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guidelines applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates shall be used. Banks with large holdings of peso-denominated securities in their portfolio are seen most affected by the new BSP ruling as they will have to absorb any losses from the change in valuation.

In June 2016, the BSP implemented the IRC which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the SDA prior to the IRC, is now replaced by the ODF which forms the lower boundary of the IRC. Meanwhile, the Overnight Lending Facility ("**OLF**"), which has replaced the Repurchase Facility ("**RP**"), forms the upper boundary of the IRC. The BSP likewise introduced the Term Deposit Facility ("**TDF**") to serve as the main tool for absorbing liquidity through weekly TDF auctions, the frequency for which may be changed depending on the BSP's liquidity forecasts. According to the BSP, the changes from IRC were purely operational in nature to allow it to conduct monetary policy effectively. The ODF and OLF currently stand at 4.25% and 5.25% following the BSP's 175 basis point policy rate hike in 2018.

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

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. These proceedings are currently on appeal and if the BIR's position is upheld, it could result in the Bank's taxation charge being increased.

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

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

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

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

The Bank's asset portfolio is comprised primarily of loans to customers and investments in securities held at fair value through profit or loss ("**FVTPL**"), fair value through other comprehensive income ("**FVOCI**") securities and hold-to-collect ("**HTC**") securities (comprised primarily of Philippine Government securities). As of June 30, 2019, the Bank's total Philippine government securities balance was ₱291.3 billion representing 67.9% of the Bank's investment securities portfolio.

During periods of declining interest rates, the Bank is able to generate relatively higher earnings from its trading and investment activities. Other debt securities, non-debt securities and derivative financial assets amounted to ₱110.0 billion, ₱22.5 billion and ₱5.4 billion, respectively, as of June 30, 2019, representing 25.6%, 5.2% and 1.3%, respectively, of the Bank's trading and investment securities portfolio.

The Bank's income from these activities is subject to fluctuations based on changes in interest rate direction, foreign currency exchange rate volatility and stock market changes. For example, an increase in interest rates may impact on the value of the Bank's investments in fixed income securities. However, the Bank has undertaken measures to mitigate the negative effects on the portfolio by shortening the duration of its holdings to avert potential losses that may arise once interest rates rise. The Bank is likewise less exposed to risk given that fixed income portfolio comprises approximately 10% of total assets. In addition, the Bank has shifted to higher rated securities in the mix of its credit exposures to minimize the risk of credit rating downgrades.

However, the impact of the implementation of IFRS 9 on the Bank's investment portfolio affects the opportunities to realize trading gains due to the more restricted conditions for disposals and results in volatility due to mark to market valuation of the Bank's trading book. Although the Bank does have hedging and trading limits in place to mitigate these risks, there can be no assurance that the Bank will not incur trading and investment losses in the future in connection with its trading and investment activities. IFRS 9 also introduces expected credit loss provisions for fixed income portfolio not previously required under the IAS accounting framework.

In addition, the varying gains recognized by the Bank as a result of its trading of securities have caused the Bank's trading income to vary significantly from period to period. The Bank experienced a net trading loss amounting to ₱2.9 billion for the year ended December 31, 2008 (which represented 5.1% of total operating income in that period), attributable to the volatility in the global financial markets arising from the subprime crisis in the U.S.. However, as global financial markets stabilized and global interest rates declined, the Bank generated gains from trading activity, with trading gains representing 7.3%, 10.7% and 7.2% of total operating income for the years ended December 31, 2009, 2010 and 2011, respectively. The Bank experienced trading gains of ₱1.9 billion, ₱0.5 billion and ₱2.0 billion, for the years ended December 31, 2016 and 2017 and for the six months ended June 30, 2019, respectively, but recorded a trading loss of ₱1.6 billion for the year ended December 31, 2018, representing 1.7%, 0.3%, 2.3% and -1.1% of total operating income for such periods, respectively. A slowdown in domestic or global growth may make it more difficult for the Bank to generate substantial gains from its trading activities.

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

As a consequence, in part, of the acquisitions the Bank has made over the financial years ended December 31, 2016, 2017 and 2018, and six months ended June 30, 2019, and the varying levels of provisions it has made in respect of non-performing loans, ROPA, pension liabilities, impairment in the value of investments and other developments, the Bank's results of operations have varied from period to period in the past and may fluctuate significantly in the future due to these and other factors.

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

The Bank has a funded non-contributory retirement plan covering substantially all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As of December 31, 2018, the fair value of the retirement plan assets of the Bank was ₱24.1 billion and the present value of the obligation was at ₱28.6 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit liability of ₱4.5 billion for 2018.

The principal actuarial assumptions used by the Bank to determine the cost of retirement benefits include a discount rate of 7.52% and a salary increase of 2.0% to 11.0% per annum, compounded annually. If these assumptions prove to be incorrect, the Bank's funding obligations in respect of its retirement plans may be significantly higher than currently anticipated. The Bank regularly reviews its assumptions and methodology and takes appropriate actions to ensure that the retirement plan assets meet actuarial requirements. Any change in methodology and assumptions affects the amount that the Bank amortizes each year in respect of its retirement fund liabilities, which would adversely affect the Bank's net income.

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

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

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

On February 11, 2018, the Bank disclosed that its subsidiary, ONB, signed an agreement with Rural Bank of Pandi Inc. (RBPI) for the acquisition of the latter's banking business in Bulacan to provide ONB with a stronger presence in the province and fast track its expansion in Central Luzon. The transaction is still subject to closing conditions and applicable regulatory approvals.

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

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

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

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

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

The Bank is effectively controlled by the SM Group, which is comprised of entities affiliated with SM Investments Corporation ("**SMIC**") and its controlling shareholders. As of June 30, 2019, SMIC directly owned approximately 40.00% of the Bank's common shares, and Multi Realty Development Corporation, Sybase Equity Investments Corporation and SM Prime Holdings, Inc., companies affiliated with the SM Group, held 6.66%, 5.48% and 2.06%, respectively, of the Bank's issued common shares. Through these, other entities and certain Sy Family members, the SM Group owned directly and indirectly 54.47% of the Bank's common shares as of June 30, 2019, thus effectively controlling the Bank and the composition of its Board of Directors. There can be no assurance that the interests of the SM Group will necessarily coincide with the interests of the Bank and the Bank's other Shareholders. *See "Management"*

The Bank has historically had close business relationships with the SM Group, and as of June 30, 2019, the Bank's loans to the SM Group amounted to ₱24.8 billion, or 1.2% of the Bank's total loan portfolio (including secured non-risk loans not subject to the BSP's single borrower limit), which is below the BSP's single borrower limit for related party transactions. The Bank's loans to the SM Group are on commercial arm's length terms. While the Bank is not dependent on the SM Group for any funding, financial guarantees, or other forms of financial support, any default by the SM Group on such loans from the Bank, or failure by the SM Group to make timely payments of amounts due under such loans, could have a material adverse effect on the Bank's financial condition and results of operation. Furthermore, the Bank benefits from its relationship with the SM Group through certain business synergies, including access to SM clients and prospective clients, joint product development and branch/ATM locations in SM malls. As a result, deterioration in the financial condition of the SM Group could have a material adverse effect on the Bank's financial condition and business opportunities.

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

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

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

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

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

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

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

The Bank also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other materially disruptive problems caused by the Bank's increased use of the internet in digital banking. Computer break-ins and security breaches could affect the security of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs security systems, including firewalls and password encryption, designed to minimize the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failures in security measures could have a material adverse effect on the Bank's business, financial position and results of operations.

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

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

The Bank is subject to interest rate risk.

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

The Bank is subject to foreign exchange risk.

As a financial organization, the Bank is exposed to foreign exchange risk. Movements in foreign exchange rates could adversely affect the Bank's business, financial condition and results of operations. The foreign exchange transactions of Philippine banks are subject to stringent BSP regulation. Under BSP guidelines, the Bank is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit ("FCDU") books. As of June 30, 2019, the Bank had ₱458.4 billion of foreign currency assets and ₱448.2 billion of foreign currency liabilities in the FCDU books, primarily in U.S. dollars. The decline in the value of the Peso against foreign currencies, in particular, the U.S. dollar may affect the ability of the Bank's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the Peso can depress the export market which can negatively affect the ability of the Bank's customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the Peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on the Bank.

Increased enforcement by the Government related to priority lending for the agrarian reform and agricultural sectors could adversely affect the Bank's business, financial position and results of operations.

The Government has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts to agrarian reform beneficiaries and the agricultural sectors of the country. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. The Bank has been unable to generate sufficient exposure to the agrarian reform based sector due to its prudent credit and risk management policies, and has, as a result, paid fines in the past and may continue to do so in the future. As an example, as of June 30, 2019, the total requirement applicable to the Parent Bank was ₱305.0 billion comprising a ₱183.0 billion minimum requirement to the agricultural sector and a ₱122.0 billion requirement to agrarian reform beneficiaries. As of June 30, 2019, the Parent Bank lent a total of ₱123.7 billion to the agricultural sector and ₱0.0 billion for agrarian reform credits. As a result of its non-compliance with the requirement for agriculture lending and lending to agrarian reform beneficiaries, the Parent Bank is estimated to pay a fine of approximately ₱446.8 million as of June 30, 2019. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or the Bank is forced to extend loans to the agrarian reform and agricultural sectors that are inconsistent with the Bank's credit and risk management policies, its business, financial position and results of operations could be adversely affected.

A downgrade of the Bank's credit rating could have a negative effect on its business, financial position and results of operations.

In the event of a downgrade of the Bank by one or more credit rating agencies, the Bank may have to accept terms that are not as favorable in its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. This could have a negative impact on the Bank's treasury operations and also adversely affect its financial position and results of operations. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. The rating agencies may also decide to withdraw their ratings altogether, which may have the same effect as a reduction in its ratings. In August 2018, Capital Intelligence affirmed BDO's Financial Strength Rating (FSR) at BBB in view of the Bank's good and improving asset quality indicators, comfortable liquidity position and sound capital ratios following the Bank's successful Stock Rights Offer (SRO) in 2017. In January 2019, Moody's affirmed the Bank's Counterparty Risk Assessment of Baa1(cr)/P-2(cr) on account of BDO's stable asset quality and loss-absorbing buffers, sufficient capital levels, stabile profitability, and robust funding and liquidity profile. In November 2018, Fitch affirmed the Bank's relevant credit rating at BBB-, reflecting the Bank's acceptable asset quality as well as profitability and balance sheet buffers.

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

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

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

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

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

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

The Bank is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities to third parties. One such litigation that the Bank is currently involved in is its action against the City of Cebu relating to the latter's inaction on the Bank's business permit applications for 29 of its branches in Cebu. This inaction stems from an earlier complaint filed by the City of Cebu against the directors and officers of the Bank and the managers of certain Cebu branches for the Bank's alleged under-declaration of the Bank's gross receipts for the year 2015 in its application for business permits for the 2016 calendar year. Said criminal complaints against the directors and officers of the Bank were dismissed by the Investigating Prosecutor. The City of Cebu filed a Petition for Review before the Department of Justice (DOJ), but the same was likewise dismissed. The City of Cebu filed Motion for Reconsideration before the DOJ, which motion is pending to date. Meanwhile, BDO's Amended Petition for Mandamus against the City of Cebu to compel the latter to issue business permits for BDO branches in Cebu City is also still pending to-date before the RTC Cebu City. Further, the Writ of Preliminary Injunction issued by the RTC Cebu City in BDO's favor is still effective, to-date. The Bank's management believes that these actions are not significant given the Bank's overall size. However, there can be no assurance that the results of legal proceedings in which the Bank is involved (including the pending litigation actions by and against the City of Cebu) will not materially harm the Bank's business, reputation or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. Further, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of bank insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial position or results of operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

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

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

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

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

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

In 2015, the effect of the devaluation of the Renminbi by the People's Republic of China (the "**PRC**"), coupled with the slowing of economic growth in various regions around the world, has had an impact on the prospective economic growth in the global financial markets and downward pressure on equity prices. Moreover, further increases in the U.S. Federal Reserve's interest rate, following rate hikes in 2016, 2017 and 2018 have led to the continued appreciation of the U.S. dollar relative to a number of emerging economy currencies (including the Peso), resulting in capital outflows from these economies. Meanwhile, Greece's official creditors will continue to monitor developments in Greece after it completed a third bail-out programme in June 2018 and negotiated a debt relief plan with euro zone creditors on the condition that Greece adheres to existing austerity measures.

Further, economic conditions in some Eurozone sovereign states could possibly lead to these member states re-negotiating or restructuring their existing debt obligations, which may lead to a material change in the current political and/or economic framework of the European Monetary Union. One potential change that may result from the crisis is an end to the single-currency system that prevails across much of Europe, with some or all European member states reverting to currency forms used prior to adoption of the euro. The crisis could also lead to the restructuring or breakup of other political and monetary institutions within the European Union. The risk may have been exacerbated by the referendum on membership of the European Union, held in the UK on June 23, 2016, where the UK public voted by a majority in favor of the British government taking the necessary action for the UK to leave the European Union. If the UK or certain states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Bank's business, financial condition and results of operations.

Global economic growth is expected to moderate in 2019 following the steady performance in 2018, as several headwinds pose risks to the outlook. These include the broad ramifications of the trade war between the US and China, tightening conditions on rising interest rates globally, Brexit and geopolitical tensions, e.g., continuing tensions in the Middle East.

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

CONSIDERATIONS RELATING TO THE BONDS

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

The priority of debt evidenced by a public instrument.

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

The Bonds may have limited liquidity.

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

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

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

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

The Bank may be unable to redeem the Bonds.

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

Transfers only through PDEx

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

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

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

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

Issuance and Transfer Restrictions

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

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

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

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

Taxation of the Bonds

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

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

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

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

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

USE OF PROCEEDS

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

GENERAL TERMS AND CONDITIONS

TERMS AND CONDITIONS OF THE BDO BONDS

These Peso-Denominated Bonds to be issued under the Bank's ₱65 Billion Bond Programme are being issued by BDO Unibank, Inc (the "Bank") in favor of the Bondholders (as defined below) in accordance with the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks ("MORB"), BSP Circular 1010 series of 2018, and such other circulars and regulations as may be relevant for the transaction, as these may be amended from time to time, and shall at all times be subject to and governed by these Terms and Conditions.

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

***"BONDS*"**	means the bonds (whether the same be fixed rate, floating rate and/or zero-coupon bonds) to be issued by the Bank under the Programme, represented by a Bond Certificate or Bond Certificates, and subject to the Governing Regulations and these Terms and Conditions;
"BSP"	means the Bangko Sentral ng Pilipinas;
"BUSINESS DAY"	means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Metro Manila and Makati City are required or authorized to be open for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days;
"CONTRACTS"	means: (a) the Programme Agreement between the Bank, the Arranger and the Initial Selling Agents dated on or about November15, 2019; (b) the Registry and Paying Agency Agreement between the Bank and the Registrar and Paying Agent dated on or about November 15, 2019; (c) the Trust Agreement between the Bank and the Trustee dated on or about November 15, 2019; (d) in respect of a Series or Tranche of Bonds, the relevant Bond Certificate; (e) these Terms and Conditions; (f) the Placement Agreement to be executed for each Series or Tranche of Bonds; (g) the Pricing Supplement for each Series or Tranche of Bonds; and (h) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto;
"EVENT OF DEFAULT"	means an event specified as such under Condition 22 hereof;
"GOVERNING REGULATIONS"	means all the necessary rules and guidelines for the issuance of the Bonds, including, the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks, BSP Circular 1010, series of 2018, and any other circulars and regulations as may be relevant for the transaction, as these may be amended from time to time;
"GROUP"	means the Bank, its subsidiaries, affiliates and entities controlled by the Bank, taken as a whole, and each of them being a member of the Group;
"*INTEREST"*	means the interest payable on the relevant Series or Tranche of the Bonds at the Interest Rate set out in the applicable Pricing Supplement;
"INTEREST PAYMENT DATE"	means the dates specified in the applicable Pricing Supplement on which the Interest on the Bonds are payable. Interest shall be computed based on the outstanding balance of the relevant Series or Tranche of Bonds. If any Interest Payment Date would otherwise fall on a day that is not a Business Day, payments will be made on the subsequent Business Day without adjustment of the amount due.
"INTEREST RATE"	means, in respect of any Series or Tranche of Bonds, the interest rate indicated in the Pricing Supplement, payable in arrears on each Interest Payment Date.
"ISSUE DATE"	means in respect of any Series or Tranche of Bonds, the date of issue and purchase of such Series or Tranche of Bonds, as indicated in the applicable Pricing Supplement;
***"ISSUE PRICE*"**	at par or 100% of face value or, in the case of a zero-coupon Bond, at a discount to the face value thereof, as specified in the applicable Pricing Supplement;

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

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

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

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

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

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

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

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

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

"PDEX TRADING PARTICIPANT" means any person or legal entity qualified to trade on the PDEx Trading System pursuant to the PDEx Rules;

"***PLACEMENT AGREEMENT"*** means the Issue Management and Placement Agreement in respect of a Series or Tranche of Bonds in the agreed form among the Bank, Arranger, and Selling Agents, as may be amended or supplemented from time to time;

"PROGRAMME" means the bond programme approved by the Bank's Board of Directors on August 31, 2018, which, as of the date of the Programme Agreement, is in the amount of up to PhP65.0 Billion;

"PROHIBITED BONDHOLDER" means:

(1) the Bank or any related party over which the Bank exercises control or

significant influence including subsidiaries and affiliates of the Bank, as well as the subsidiaries and affiliates of the Bank's subsidiaries and affiliates, and the wholly- or majority-owned or -controlled entities of such subsidiaries and affiliates except for its trust departments or related trust entities, pursuant to BSP Circular No. 1010, except where the Bank purchases and cancels the Bonds in the open market in accordance with Condition 14; or

(2) such persons who are otherwise not qualified under the Governing Regulations including any other person whose acquisition, holding or Transfer of the Bonds would violate any applicable law or regulation, including but not limited to the rules of the PDEx, BSP, AMLC, or other government regulation in any relevant jurisdiction; or

(3) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time ("FATCA"), which include: (a) a U.S. citizen (including a dual citizen who may have another citizenship besides having a U.S citizenship); (b) a U.S. resident alien for tax purposes, which includes a person who has substantial presence in the U.S. ("substantial presence" is defined as more than 31 days in the current calendar year or a total of 183 days over the previous three years from the current tax year); (c) a U.S. partnership, U.S. corporation, or U.S. entity; (d) a U.S. estate; (e) a U.S. trust if a court within the United States is able to exercise primary supervision over the administration of the trust, or one or more U.S. persons have the authority to control all substantial decisions of the trust; or (f) any other person that is not a non-US person under the FATCA; or

(4) persons classified as a Restricted Party;

"PSE" means The Philippine Stock Exchange, Inc.;

"REGISTRAR" OR ***"PAYING AGENT"*** means the Philippine Depository & Trust Corp. ("PDTC"), a domestic corporation duly registered and licensed as a registrar and paying agent;

"REGISTRY" means the electronic registry book of the Registrar containing the official information on the Bondholders and the amount of Bonds they respectively hold, including all Transfers thereof or any liens or encumbrances thereon;

"REGISTRY CONFIRMATION" means the written advice sent by the Registrar to the Bondholders, confirming the registration in the name of such Bondholder of the specified amount of Bonds issued to or purchased by a Bondholder, in the Registry, and setting forth the declarations required by the BSP;

"RESTRICTED PARTY" means a person that is: (i) listed on, or owned or controlled by a person listed on, or acting on behalf of a person listed on, any Sanctions List; (ii) located in, incorporated under the laws of, or owned or (directly or indirectly) controlled by, or acting on behalf of, a person located in or organized under the laws of a country or territory that is the target of country-wide or territory-wide Sanctions; or (iii) otherwise a target of Sanctions (target of Sanctions signifying a person with whom a US person or other national of a Sanctions Authority would be prohibited or restricted by law from engaging in trade, business or other activities);

"SANCTIONS" means the economic sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by: (i) the Philippines; (ii) the United States government; (iii) the United Nations; (iv) the European Union (v) the United Kingdom; or (vi) the respective governmental institutions and agencies of any of the foregoing, including, without limitation, the Office of Foreign Assets Control of the US Department of Treasury (OFAC), the United States Department of State, and Her

		Majesty's Treasury (HMT) (together the "***Sanctions Authorities***");
	"SANCTIONS LIST"	means the "Specially Designated Nationals and Blocked Persons", "Consolidated Sanctions" and "Sanctions Programs and Country Information" lists maintained by OFAC, the Consolidated List of Financial Sanctions Targets and the Investment Ban List maintained by HMT, or any similar list maintained by, or public announcement of Sanctions designation made by, any of the Sanctions Authorities;
	"SEC"	means the Philippine Securities and Exchange Commission, including all its offices and departments, and its successor agency/ies;
	***"SELLING AGENTS*"**	means the selling agents appointed under the Programme Agreement (and their respective successor entities) and excludes any entity whose appointment has been terminated pursuant to the Programme Agreement, or the relevant selling agent(s) in respect of a Series or Tranche the Bonds appointed from time to time under the Placement Agreement;
	"SERIES"	means a Tranche of Bonds, together with any further Tranche or Tranches of Bonds, as the case may be, which are (a) expressed to be consolidated and form a single series, and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates, and/or Issue Process (and the expressions "**Bonds of the relevant Series", "Bondholders of the relevant series",** and related expressions shall (where appropriate) be construed accordingly);
	***"TERMS AND CONDITIONS*"**	mean these terms and conditions pertaining to the Bonds as may be amended from time to time;
	"TRANCHE"	means one of a number of issuances of Bonds under a specified Series which are identical in all respects, including specific terms and conditions, Issue Date, Interest Commencement Date, Issue Process, listing and admission to trading.
	"TRANSFER"	means the transfer, assignment, or any transaction resulting in change in ownership of, or title to, the Bonds; and
	"*TRUSTEE*"	means the Development Bank of the Philippines – Trust Banking Group, a government financial institution organized and existing pursuant to Executive Order No. 81 dated 3 December 1986, otherwise known as the 1986 Revised Charter of the Development Bank of the Philippines, as amended by Republic Act No. 8523 dated 14 February 1998, duly authorized to perform trust and other fiduciary businesses, with principal office address at 3/F DBP Building, Sen Gil J. Puyat Avenue, Makati City.
2	**PURPOSE OF ISSUANCE/USE OF PROCEEDS**	The net proceeds of the issue are intended to be used to support the Bank's lending activities and diversify funding sources or as may be provided under the applicable Pricing Supplement.
3	**FORM**	The Bonds shall be issued in scripless form. A Bond Certificate representing the relevant Series or Tranche of Bonds shall be issued to, deposited with, and registered in the name of the Trustee, on behalf of and in trust for the relevant Bondholders, with a copy to be lodged with the Registrar.
4	**DENOMINATION**	The Bonds will be offered, sold and traded in the secondary market in such denominations to be indicated in the applicable Pricing Supplement.
5	**TITLE**	Title to the Bonds shall be indicated in the Registry to be maintained by the Registrar for the Bonds. Initial placement of the Bonds and subsequent Transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing at

		such time.
6	**SEC REGISTRATION AND LISTING**	The Bonds have not been and will not be registered with the SEC. Since the Bonds qualify as exempt securities under Section 9.1 (e) of the Philippine Securities Regulation Code, the Bonds may be sold and offered for sale or distribution in the Philippines without registration. The Bonds are intended to be listed for electronic trading and settlement on the PDEx on or about the Issue Date. Trading, Transfer, and/or settlement of the Bonds shall be performed in accordance with the PDEx Rules and the rules and procedures of the Registrar.
7	**ELIGIBLE BONDHOLDERS**	In general, the Bonds may be issued or transferred to any person of legal age, regardless of nationality or residency, any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, except, in each case, to Prohibited Bondholders.
8	**QUALIFICATION DETERMINATION**	Each Selling Agent (in the case of initial issuances of the Bonds) or PDEx Trading Participant (in the case of Transfers of the Bonds) shall verify the identity and relevant details of each proposed Bondholder and ascertain that said prospective Bondholder is an Eligible Bondholder and is not a Prohibited Bondholder. For this purpose, prospective Bondholders shall be required to submit any and all information reasonably required by the Selling Agents or the PDEx Trading Participant, as the case may be. Any unresolved question on a prospective Bondholder's eligibility shall be referred to the Bank for its final determination.
9	**INTEREST ACCRUAL AND PAYMENT**	The Bonds will bear Interest on its principal from and including the Issue Date at the rate indicated in the applicable Pricing Supplement for each Series or Tranche of Bonds. Interest shall be payable on each Interest Payment Date as specified in the applicable Pricing Supplement for such Series or Tranche of Bonds. The determination by the Paying Agent of the amount of Interest payable (in the absence of manifest error) is final and binding upon all parties.
10	**MANNER OF PAYMENT OF INTEREST AND PRINCIPAL**	On each Interest Payment Date and Maturity Date (as applicable), the Bank shall make available good and cleared funds to the Bank's designated Payment Account (as defined in the Registry and Paying Agency Agreement) for disbursement to the Bondholders as shown in the Registry to be maintained by the Registrar.
11	**PRINCIPAL REPAYMENT**	The Bonds shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall be on the immediately succeeding Business Day, without adjustment to interest payable in respect of the Bonds.
12	**FINAL REDEMPTION**	All Bonds outstanding on Maturity Date will be redeemed at par or 100% face value.
13	**PRETERMINATION BY THE BONDHOLDER**	Presentation of the Bonds to the Bank for termination or redemption before the Maturity Date is not allowed, unless there occurs an event under "Events of Default" in these Terms and Conditions or as may be provided under the applicable Pricing Supplement for each Series or Tranche of Bonds. Bondholders may, however, Transfer their Bonds to another holder who is not a Prohibited Bondholder. Such Transfer shall not be considered a pre-termination, subject to Condition 14.

14	**SECONDARY TRADING**	Unless otherwise prohibited under the PDEx Rules (and subject to Condition 15), the Bonds are freely transferable across tax categories. All Transfers of the Bonds shall be traded or coursed through a PDEx Trading Participant, in accordance with the PDEx rules. All trading in the secondary market should be in denominations indicated in the applicable Pricing Supplement. The denominations for trading the Bonds on PDEx will be subject to the PDEx Rules. As a condition precedent for any Transfer of the Bonds, the transferee Bondholder must present to the Registrar, and in such forms as prescribed by the Registrar: (i) the Registry Confirmations of both the transferor and the transferee (if any); (ii) the Trade-Related Transfer Form or Non-Trade Related Transfer Form; (iii) the Investor Registration Form; (iv) Tax Exempt/Treaty Documents, if applicable; (v) written consent of the transferee Bondholder to be bound by the terms of the Bonds and the Registry Rules, in the form agreed upon between the Bank and the Registrar; and (vi) such other documents as may be reasonably required by the Registrar. A service charge shall be imposed for any registration of Transfer of the Bonds, and the Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any Transfer of the Bonds, each for the account of the Bondholder requesting the registration of Transfer of the Bonds. Subject to Conditions 15 and 17 and payment by the relevant Bondholder of the proper fees, if any, to PDEx and/or the Registrar, a Transfer of Bonds may generally be done at any time. The Bank may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders, and the Bondholders shall not be obligated to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. For the avoidance of doubt, the Bank may not directly or indirectly purchase the Bonds in any instance for the purpose of trading or market making.
15	**TRANSFERABILITY**	All Transfers of the Bonds shall be recorded in the Registry. Settlement in respect of such Transfer, including settlement of applicable taxes (subject to Condition 25), if any, arising from such Transfers, assignments or change in title, shall be for the account of the transferee and/or transferor Bondholder. Transfers of the Bonds made in violation of the restrictions on Transfer under these Terms and Conditions, shall be null and void and shall not be registered by the Registrar. Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a Business Day, provided however that Transfers from a Tax-Exempt Category to a Taxable Tax Category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name on PDEx, ensuring that the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of the same tax category as its taxable counterpart for the interest period during which such Transfer occurred. For purposes hereof, "tax categories" refer to the four (4) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities, 25% tax-withheld entities, and 30% tax-withheld entities. This restriction shall be in force until a Non-Restricted Trading & Settlement Environment for Corporate Securities (as defined or specified under PDEx Rules) is implemented.
16	**PLACE OF REGISTRY AND COMPLIANCE WITH**	The Registry shall be kept at the specified office of the Registrar.

	REGISTRY RULES	To the extent not inconsistent with or contrary to these Terms and Conditions, the registry rules of the Registrar (a copy of which shall be separately provided by the Registrar to the Bank and the Bondholders) shall be observed and complied in the implementation of the functions of the Registrar, including, without limit, Transfers of the Bonds.
17	**CLOSING OF REGISTRY**	The Registrar shall not register any Transfer of the Bonds for a period of two (2) Business Days preceding the due date for any payment of Interest on the Bonds, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Bonds, or register the Transfer of any Bonds previously called for redemption or pre-termination ("**Closed Period**"). The Registrar will treat the person in whose name the Bonds is registered at the start of the Closed Period as the Bondholder for the purpose of receiving distributions pursuant to these Terms and Conditions and for all other purposes whatsoever, and the Registrar shall not be affected by any notice to the contrary.
18	**STATUS/RANKING**	The Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Bank and will at all times rank *pari passu* and ratably without any preference or priority among themselves and with all other present and future unsecured and unsubordinated obligations of the Bank, other than obligations preferred by the law.
19	**MANNER OF DISTRIBUTION**	The Bonds shall be offered in a manner as provided in the applicable Pricing Supplement.
20	**REPRESENTATIONS AND WARRANTIES**	The Bank hereby represents and warrants to the Bondholders, as follows: (a) each of the members of the Group is duly incorporated, validly existing and in good standing under the laws of its place of incorporation with full power and authority to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it; (b) except as may be disclosed in the Offering Circular, each of the members of the Group has legal title to all its property in each case free and clear of all liens, encumbrances and defects; and any real property and buildings held under lease by the Group are held by them under valid, subsisting and enforceable leases, except where such a failure would not result in an Adverse Effect; (c) the Bank has the corporate power under the laws of the Republic of the Philippines and its constitutive documents: (i) to issue the Bonds and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the Contracts and these Terms and Conditions; (ii) to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business; and (iii) to incur the indebtedness and other obligations provided for in the Bonds; (d) the Bank (and, if applicable, any person on whose behalf it may act as agent or in a representative capacity) has and will continue to have full capacity and authority to enter into the Contracts and to carry out the transactions contemplated in the Contracts and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery and performance of the Contracts and the issue, offering and distribution of the Bonds; (e) the Contracts have been duly authorized, executed and delivered by the Bank and constitute valid and legally binding obligations of the Bank; (f) the Bonds have been duly authorized by the Bank and, when duly executed,

authenticated, issued and delivered in accordance with the Contracts, will constitute valid and legally binding obligations of the Bank, enforceable in accordance with its terms;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21 COVENANTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22	**EVENTS OF DEFAULT**	The Bank shall be considered in default under the Bonds in case any of the following events shall occur:

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

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

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

(d) The Bank (i) defaults in the repayment of any amount of principal and premium (if any) or interest, in respect of any contract (other than the Bonds) executed by the Bank with any bank, financial institution or other person, corporation or entity for the payment of borrowed money in an aggregate amount exceeding PHP500,000,000.00 or its equivalent which constitutes an event of default, or with the giving of notice or the passage of time would constitute an event of default, under said contract; or (ii) violates any other term or condition of a contract, law, or regulation, which is irremediable or, if remediable, (x) is not remedied by the Bank within 30 days or is otherwise not contested by the Bank, and (y) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity;

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

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

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

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

(i) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of PHP500,000,000.00 or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;

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

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

23 EFFECTS OF EVENTS OF DEFAULT

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

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

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

Any money delivered to the Paying Agent by the Bank pursuant to an Event of Default shall be applied by the Paying Agent in the order of preference as follows: *first,* to the pro-rata payment to the Registrar and Paying Agent and to the Trustee of the costs, expenses, fees, and other charges of collection incurred by them

		respectively without gross negligence or bad faith; to the payment to the Registrar and Paying Agent and to the Trustee of their respective fees, and other outstanding charges due to them; *second,* to the pro-rata payment of all outstanding Interest owing to the Bondholders, including default interest, if any, as specified in this Condition 23, in the order of maturity of such interest; and *third*, to the pro-rata payment of the whole amount then due and unpaid on the Bonds for principal owing to the Bondholders.
24	**WAIVER OF DEFAULT BY THE BONDHOLDERS**	The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of the Bondholders waive any past default, except the events of default defined as a Payment Default, Insolvency Default, or Closure Default, and its consequences. In case of any such waiver, the Bank, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.
25	**TAXATION**	**INTEREST ON THE BONDS IS SUBJECT TO FINAL WITHHOLDING TAX AT A RATE BETWEEN 20% TO 30%, AS MAY BE SUBSEQUENTLY AMENDED BY APPLICABLE LAWS.** **PAYMENTS OF PRINCIPAL AND INTEREST WILL BE MADE FREE AND CLEAR OF ANY DEDUCTIONS OR WITHHOLDING FOR OR ON ACCOUNT OF ANY PRESENT OR FUTURE TAXES, DUTIES OR CHARGES IMPOSED BY OR ON BEHALF OF REPUBLIC OF THE PHILIPPINES. IF SUCH TAXES, DUTIES OR CHARGES ARE IMPOSED, THE SAME SHALL BE FOR THE ACCOUNT OF THE BANK. *PROVIDED, HOWEVER*, THAT THE BANK SHALL NOT BE LIABLE FOR:** (a) any withholding tax on Interest earned on the Bonds as prescribed under Tax Code. A corporate and institutional investor who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit a tax exemption certificate and other applicable documents; (b) Gross Receipts Tax under Section 121 and 122 of the Tax Code; (c) taxes on the overall income of the relevant Arranger, Selling Agent or Bondholder, whether or not subject to withholding; and (d) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code. **DOCUMENTARY STAMP TAX FOR THE PRIMARY ISSUE OF THE BONDS AND THE EXECUTION OF THE CONTRACTS, IF ANY, SHALL BE FOR THE BANK'S ACCOUNT.**
26	**CLAIM OF TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE**	Bondholders who are exempt from or not subject to final withholding tax, or who are entitled to preferential tax rate may avail of such exemption or preferential tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in form and substance prescribed by the Bank, to the Registrar through the Selling Agent (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (a) Proof of Tax Exemption or Entitlement to Preferential Tax Rates ▪ For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof;

- For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;
- For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;
- For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief ("CORTT") Form prescribed under Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and
- Any other document that the Bank or PDTC may require from time to time.

IN ADDITION, UPON THE REQUEST OF THE RELEVANT ARRANGER, SELLING AGENT, THE BANK OR THE REGISTRAR, THE BONDHOLDER SHALL SUBMIT AN UPDATED PART II (A), (B), (C) AND (D) OF THE CORTT FORM.

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

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

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

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

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

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

		The BIR's tax treatment of the fixed rate bonds may vary from the tax treatment described herein. Any adverse tax consequences upon the Bondholder arising from any variance in tax treatment shall be for such Bondholder's sole risk and account. Moreover, the tax treatment of a Bondholder may vary depending upon such person's particular situation and certain Bondholders may be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important and/or relevant to a Bondholder. Bondholders are advised to consult their own tax advisers on the ownership and disposition of the Bonds, including the applicability and effect of any state, local or foreign tax laws.
27	**REDEMPTION FOR CHANGES IN TAX**	If after the Issue Date, (a) payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date, as a result of changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank, the Bank may redeem the Bonds in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days' prior written notice to the Trustee) at par or 100% face value plus accrued Interest.
28	**REDEMPTION FOR CHANGES IN LAW OR CIRCUMSTANCE**	If any provision of the Trust Agreement or any of the related documents is or shall become for any reason, invalid, illegal or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Agreement or any other related documents, such event shall be considered as change in law or circumstance ("**Change in Law**") in reference to the obligations of the Bank and to the rights and interests of the Bondholders under the Trust Agreement and the Bonds. In the event that the Bank shall invoke the foregoing as a Change in Law, the Bank shall provide the Trustee an opinion of legal counsel confirming the foregoing, such legal counsel being reasonably acceptable to the Trustee. Thereupon, the Trustee, upon notice to the Bank, shall declare the principal amount of the Bonds, including all accrued interest and other chargers thereon, if any, to be immediately due and payable, and upon such declaration, the same shall be immediately due and payable without any pre-payment penalty, notwithstanding anything in the Trust Agreement and other related documents to the contrary.
29	**REPLACEMENT REGISTRY CONFIRMATIONS**	In case any Registry Confirmation shall be mutilated, destroyed, lost or stolen, the Registrar upon receipt of a written request in the form specified by the Registrar, shall cause the reprinting and delivery of the Registry Confirmation to the relevant Bondholder, subject to applicable fees.
30	**CHANGE OF TRUSTEE BY THE BONDHOLDERS**	(a) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Bank of the required evidence under the provisions on Evidence Supporting the Action of the Bondholders in the Terms and Conditions of the Bonds. (b) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any provisions of the Trust Agreement shall become effective upon the earlier of: (i) acceptance of appointment by the successor Trustee as provided in the Trust Agreement; or (ii) effectivity of the resignation notice sent by the Trustee under the Trust Agreement; provided however that, until such successor trustee is qualified and appointed, the resigning Trustee shall continue to discharge its duties and responsibilities solely as custodian of records for turnover to the successor trustee promptly upon the appointment

thereof by the Bank; provided finally that, such successor trustee possesses all the qualifications as required by pertinent laws.

31 REPORTS TO THE BONDHOLDERS

(a) The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date until full payment of the Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:

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

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

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

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

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

32 MEETINGS OF THE BONDHOLDERS

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

(a) Notice of Meetings

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

(b) Failure of the Trustee to Call a Meeting

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

(c) Quorum

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

(d) Procedure for Meetings

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

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

(e) Voting Right

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

(f) Voting Requirement

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

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

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

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

7899 Makati Avenue, Makati City
Metro Manila, Philippines

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

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

PHILIPPINE DEPOSITORY & TRUST CORP.
37th FloorTower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City, Metro Manila
Philippines

Telephone no.: (632) 8884-5025
Fax no.: (632) 8230-3346
E-mail: baby_delacruz@pds.com.ph
Attention: Josephine Dela Cruz
Director – Securities Services

Telephone no.: (632) 8884-4413
Fax no.: (632) 8884-5099
E-mail: peachy.garcia@pds.com.ph
Attention: Patricia Camille Garcia
Registry Officer

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

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

Telephone no.: (632) 8818-9511 local 3400
Fax no.: (632) 8893-0942
E-mail: mttatienza@dbp.ph
Attention: Ma. Teresa T. Atienza

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

Such communications will take effect, in the case of a letter, when delivered or, in the case of fax, when dispatched, provided that any communication by fax shall not take effect until 10:00 a.m. on the immediately succeeding Business Day in the place of the recipient, if such communication is received after 5:00 p.m. on a Business Day or is otherwise received on a day which is not a Business Day. Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.

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

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust & investments, investment banking, private banking, cash management, leasing and finance, remittance, insurance, rural banking, stock brokerage, retail cash cards and credit card services. The Bank is the product of a merger between BDO and EPCIB, which took effect on May 31, 2007. As of June 30, 2019, according to the statements of condition submitted by banks to the BSP, the Bank ranked as the number one bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital and total trust funds under management. The Bank's consolidated total assets were ₱2.3 trillion, ₱2.7 trillion, ₱3.0 trillion and ₱3.1 trillion as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively, while total capital funds stood at ₱217.6 billion, ₱298.3 billion, ₱328.1 billion ₱350.8 billion, respectively.

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

As of June 30, 2019, the Bank's network consists of 1,360 domestic branches (including 221 ONB branches), 4,379 ATMs (including 224 ONB ATMs), 511 CDMs, and two full-service branches in Hong Kong and Singapore. As of June 30, 2019, the Bank also has 25 remittance and representative offices across Asia, North America, Europe and the Middle East. As of the same date, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 54.47% of the Bank's issued common shares.

As of June 28, 2019 the Bank had a market capitalization on the PSE of approximately ₱612.8 billion. The Bank's consolidated CET1 ratio, Tier 1 capital adequacy ratio and total capital adequacy ratio were 12.7%, 12.9% and 14.3%, respectively, as of June 30, 2019.

HISTORY

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

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

MERGERS AND ACQUISITIONS

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

- On June 15, 2001, the Bank merged with Dao Heng Bank Philippines, Inc. ("**DHBI**") and acquired DHBI's existing customers and 15 branch licenses.

- In October 2002, the Bank assumed 1st e-Bank Corporation's ("**1st e-Bank**") P10 billion of deposits and other liabilities in exchange for certain assets including 60 branch licenses.
- On August 29, 2003, the Bank acquired Banco Santander Philippines, Inc. ("**BSPI**") while BDO Capital acquired Santander Investment Securities Philippines, Inc. from Santander Central Hispano, S.A. BSPI was renamed BDO Private Bank, Inc. ("**BDO Private Bank**") and provided the Bank with an immediate presence in the private banking sector.
- On December 19, 2005, the Bank acquired United Overseas Bank Philippines' ("**UOBP**") branch banking business and obtained 66 branch licenses.
- On May 31, 2007, the Bank merged with Equitable PCI Bank, Inc. with the Bank as the surviving entity. The merged bank was renamed Banco de Oro – EPCI, Inc. and on February 6, 2008, the Philippine SEC approved the change of name to Banco de Oro Unibank, Inc.
- On October 30, 2007, the Bank acquired American Express Bank Philippines, Inc. ("**AEBP**"), gaining access to American Express Philippines' U.S. dollar and Peso credit card portfolios as well as the consumer banking services of American Express.
- On August 24, 2009, the Bank purchased 98.81% of the issued and outstanding common shares and 100% of the preferred capital stock of GE Money Bank ("**GEMB**"), thereby consolidating GEMB's business including 31 branch licenses into the Bank. GEMB was retained as a separate legal entity and adopted the name BDO Elite Savings Bank, Inc. when it amended its Articles of Incorporation with the Philippine SEC on August 12, 2010.
- In July 2012, the Bank completed its acquisition of the banking business of the Rural Bank of San Juan, a rural bank with 30 additional branch licenses.
- On March 25, 2014, BDO completed the acquisition of Citibank Savings, Inc. (now Banco de Oro Savings Bank, Inc.), a savings bank with ten active branches and whose branches were converted on August 24, 2014.
- On June 2, 2014, BDO acquired the trust business of Deutsche Bank AG's Manila Branch comprising trust, fiduciary and investment management activities.
- On August 8, 2014, the Bank acquired the banking business of The Real Bank (A Thrift Bank), Inc., a thrift bank with a deposit base of ₱6.9 billion and 24 branches operating in Metro Manila and Luzon, to transfer the latter's assets and liabilities to the Bank.
- On December 23, 2014, the Bank disclosed that it entered into an agreement to acquire One Network Bank, Inc. ("**ONB**"), a leading rural bank with 105 branches and micro-banking offices in the Mindanao and Panay areas. The Bangko Sentral ng Pilipinas, in its letter dated March 27, 2015 to BDO Unibank, Inc., approved on March 16, 2015 BDO's acquisition of ONB. On July 20, 2015, the Bank successfully completed its acquisition of ONB.
- On June 9, 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle GPHC, the parent firm of life insurer Generali Pilipinas Life Assurance Company ("**GPLAC**") and non-life insurer Generali Pilipinas Insurance Company ("**GPIC**"). On June 30, 2016, the Bank secured final regulatory approval to acquire full interest in GPHC. With effect from July 1, 2016, the operations of GPLAC have been reorganized, and GPHC and GPLAC were renamed BDO Life Assurance Holdings Corp., and BDO Life Assurance Company Inc., respectively.
- On February 11, 2019, the Bank disclosed that its subsidiary, One Network Bank, Inc. (ONB) had signed an agreement with Rural Bank of Pandi Inc. (RBPI) for the acquisition of the latter's banking business in Bulacan. The transaction is still subject to closing conditions and applicable regulatory approvals.

RECENT OFFERS AND CAPITAL RAISING TRANSACTIONS

On April 6, 2015, the Bank issued ₱7.5 billion of long term negotiable certificates of deposit with a rate of 3.75% per annum which will mature on October 6, 2020.

On August 6, 2015, the Bank announced that it entered into a US$500 million three-year syndicated term loan facility with a group of international banks. The facility is intended to be utilized for the refinancing of an existing term loan and for general banking and corporate purposes.

In August 2016, the Bank announced that the Japan Bank for International Cooperation approved a US$50 million “Green” facility for the Bank to relend to environment related undertakings focusing primarily on renewable energy in the Philippines. The “Green” facility intends to bankroll, under the Global action for Reconciling Economic growth and Environmental preservation (GREEN) operations, environment-related projects, which contribute to lessening greenhouse gas emissions.

On October 24, 2016, the Bank issued Senior Notes under its US$2 billion Medium Term Note Programme with a face value of US$300 million at a price of 99.977%. The Senior Notes will mature on October 24, 2021 and bear a fixed interest rate of 2.625% per annum. The Senior Notes are payable semi-annually every April 24 and October 24, starting in April 2017. The net proceeds from the issuance are for general corporate purposes.

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The fresh capital will support the Parent Bank’s medium-term growth objectives amid the country’s favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

On August 18, 2017, the Bank issued another ₱11.8 billion worth of long term negotiable certificates of deposit with a rate of 3.625% per annum which will mature on February 18, 2023.

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

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

On May 7, 2018, the Bank issued ₱8.2 billion worth of long-term negotiable certificates of deposit with a rate ot 4.375% per annum which will mature on November 7, 2023.

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

On April 12, 2019, the Bank issued ₱7.3 billion worth of long term negotiable certificates of deposit with a rate of 5.375% per annum which will mature on October 12, 2024.

OTHER DEVELOPMENTS

On January 28, 2016, the Bank entered into a joint venture with Mitsubishi Motors Philippines Corporation (“**MMPC**”), Sojitz Corporation (“**SJC**”) and JACCS Co., Ltd. (“**JACCS**”) to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On June 1, 2016, the Bank announced that the Philippine Securities and Exchange Commission approved the incorporation and registration of MMPC Auto Financial Services Corporation (“**MAFSC**”) as a financing company. MAFSC is the joint venture company between BDO Leasing and Finance, Inc. (“**BDOLF**”), a subsidiary of the Bank, with MMPC, SJC and JACCS Co. Ltd. to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On March 7, 2019, BDOLF announced that it is selling its 40% equity interest in MAFSC to JACCS, allowing BDOLF to focus more on its core business of equipment leasing and finance and in line with JACCS’ decision to expand its investment in MAFS to accelerate the growth of its overseas business.

On June 14, 2016, the Bank signed an agreement to acquire SB Cards Corp.’s (“**SB Cards**”) exclusive rights as issuer and acquirer of Diners Club International credit cards in the Philippines. The acquisition, which includes SB Cards’ existing Diners Club portfolio and its cardholder base, was completed on 30 September 2016.

In March 2017, the Bank signed a Memorandum of Understanding with Shinkin Central Bank (“**SCB**”) to develop a business cooperation envisioned to benefit the Japanese bank’s SME clients already operating in the Philippines and those eyeing the country as a potential investment destination. The Bank will potentially provide banking services which may include financial facilities, cash management and payment services, foreign exchange and other treasury products to SCB’s diversified SME clients.

In October 2018, the Bank announced that it entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore) ("**Osmanthus**"), whereby the latter will acquire a 15% stake in the Bank's rural bank subsidiary, One Network Bank Inc. ("**ONB**"). The partnership with Osmanthus is seen to further strengthen the Bank's foothold in the microfinance business. On May 16, 2019, the Bank completed its transaction with Osmanthus for the latter's acquisition of its 15% equity stake in ONB.

COMPETITIVE STRENGTHS

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

Leading brand name and banking franchise in the Philippines

The Bank believes that its combination of scale, reach, business mix, product offerings and brand recognition has made it a leading financial institution in the Philippines. According to statements of condition submitted by banks to the BSP, as of June 30, 2019, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank believes it has one of the widest domestic branch networks in the Philippines spanning all major cities across the country with 1,360 domestic branches (including 221 ONB branches). The Bank believes that all of these factors have helped to develop the BDO brand, which covers the Bank's entire range of banking products and financial services under a single brand name, as one of the most well-known in the domestic market. The Bank's premier branding and market dominance are also reflected in leading market shares across most business segments including corporate banking, retail banking, private banking, investment banking, rural banking, remittances and credit cards. The Bank believes that its scale of operations and brand recognition support the continued growth and diversification of its business, network and product mix.

Diversified business model providing full-service operations

The Bank is a full-service universal bank offering a host of industry-leading banking products and services to serve the retail and corporate markets, including lending products (such as loan products tailored to corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, bancassurance, insurance brokerage and stock brokerage services. *See "Subsidiaries and Affiliates"*. The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products that is expected to increase the recurring fee income contribution to the Bank's operating income. For the year ended December 31, 2018, the Bank's other operating income, mainly comprising non-interest income, increased by 5.2% to ₱49.7 billion, from ₱47.2 billion for the year ended December 31, 2017. For the six months ended June 30, 2019, the Bank's other operating income, mainly comprising non-interest income, increased 29.5% to ₱29.5 billion, from ₱22.8 billion for the six months ended June 30, 2018. Moreover, the Bank believes that it has built a stable earnings base, wherein approximately 90% of its income is from recurring sources, rendering it less susceptible to market and industry volatility.

Customer-centric culture complemented by strategic distribution platform

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

To efficiently serve its customers, the Bank's branch network stretches to cover all major cities in the Philippines, with the Bank often establishing multiple branches in general areas it has identified to have greater potential for business. The Bank believes that this extensive domestic distribution network, including strategic locations within SM malls and other high customer traffic areas, allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As of June 30, 2019, the Bank's network consists of 1,360 domestic branches (including 221 ONB branches), 4,379 ATMs (including 224 ONB ATMs), 511 CDMs and two (2) full-service branches in Hong Kong and Singapore. As of June 30, 2019, the Bank also has 25 remittance and representative offices across Asia, North America, Europe and the Middle East. The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low cost deposit base. Its low cost deposit base (comprising demand and savings deposits) increased from ₱1.544 trillion as of December 31, 2017 to ₱1.686 trillion as of December 31, 2018, representing a growth of 9.2%. As of December 31, 2018, 2017, and 2016, 69.7%, 72.8%, and 72.6%, respectively, of the Bank's total deposit base comprised of low cost CASA deposits compared to 68.4% as of December 31, 2015. As of June 30, 2019, the Bank's low cost CASA deposits stood at ₱1.686 trillion which comprised 70.3% of its total deposit base, representing a growth of 2.9% over its low cost CASA deposit base of ₱1.640 trillion as of June 30, 2018. In addition, the Bank also believes that its branch network and premier customer service has allowed it to actively utilize its branches to expand its loan portfolio and transform its non-interest income franchise, mainly through aggressive cross-selling of loan and other fee income related products and customer referrals across branches to increase the recurring fee income contribution to overall operating income, while reducing reliance on trading and foreign exchange related gains.

Scalable infrastructure platform for sustained growth

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

Strong and experienced management team

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

Synergies with controlling shareholder group

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

BUSINESS STRATEGIES

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

Diversified and sustainable earnings stream

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

The Bank will continue to pursue focused loan growth to achieve a more balanced loan portfolio and more effectively manage its concentration risk. While the Bank believes it already maintains a diversified loan portfolio across various market segments, it intends to increase lending to the more profitable and growing consumer and middle-market segments. The Bank also expects to continue to leverage operating synergies with the SM Group to further diversify its earnings stream through product origination capabilities and fee income sources. In addition, to minimize the volatility of the Bank's income sources, the Bank has gradually built its non-interest earnings by generating increased income from its fee-generating services including, among others, asset/wealth management, electronic banking, insurance, credit cards and investment banking. The Bank has been pro-active in transforming its non-interest earnings sources and has implemented relevant strategies such as the consolidation of BDO Life, increasing capabilities in wealth management and leveraging its distribution network to cross-sell fee income related products, which the Bank believes will increase the contribution of recurring fee income to its operating income. The Bank will also seek to more efficiently manage its resources, such as its securities portfolio, to maximize both accrual and trading income.

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

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

Prudent balance sheet management

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

Further develop operating systems, branch infrastructure and advertising efforts

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

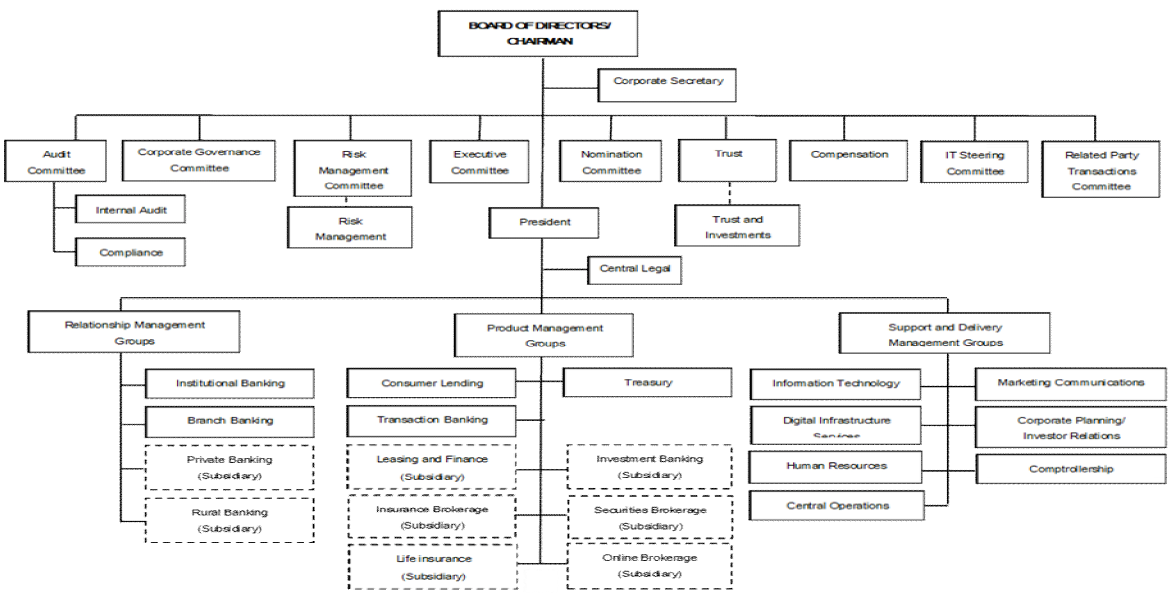
The Bank also intends to maintain its extensive branding campaign to further create customer awareness and market visibility, thus enhancing the potential of its extensive distribution platform across varying media outlets. Accordingly, the Bank intends to implement continuing branch renovations and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

Complement organic growth with mergers/acquisitions

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

ORGANIZATIONAL STRUCTURE

The following chart sets forth the bank's simplified corporate structure, organized by its principal activities as of June 30, 2019.



BUSINESS OF THE BANK

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

RELATIONSHIP MANAGEMENT

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

Institutional Banking Group

The Bank's principal lending business activities are undertaken through the Institutional Banking Group, which is responsible for managing relationships with clients and servicing their loans and other banking requirements. The Institutional Banking Group has the primary responsibility for managing the corporate loan portfolio of the Bank, which accounts for approximately 76.5% of the total loan book as of June 30, 2019, amounting to ₱1.1 trillion, ₱1.4 trillion, ₱1.6 trillion and ₱1.6 trillion, as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively.

A wide range of loan products and services are available to institutional customers, including term loans, revolving credit lines and foreign currency loans (denominated primarily in U.S. dollars). The Bank also offers trade finance-related products and services which include letters of credit, export advances, commercial bill discounting, advising exporters on documentary credits, negotiating bills under documentary credits, trust receipts, inventory financing, and bills collection. Institutional Banking also provides omnibus credit lines for its most significant corporate customers, allowing the customer to draw on such credit lines in the form of short-term loans or to utilize such credit lines for trade financing or other forms of credit.

In addition to corporate and trade-related loans, Institutional Banking also offers other products and services such as investment banking, trust and cash management solutions. It also handles sovereign and specialized lending, which includes developmental funds from international credit agencies such as the World Bank that are channeled to borrowers through Government financing initiatives.

The Institutional Banking Group is composed of Corporate Banking ("**Corbank**"), Commercial Banking ("**Combank**"), Financial Institutions and Wholesale Lending and International Desks ("**WLID**").

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

	As of December 31, (audited) (in ₱ millions)			**As of June 30, (unaudited) (in ₱ millions)**
	2016	2017	2018	2019
Corporate	680,228	815,786	909,223	954,014
Corporate	622,926	752,771	883,085	924,881
Financial institutions	7,191	10,607	7,250	5,995
Wholesale/international desks	50,111	52,408	18,888	23,138
Commercial	458,709	536,151	649,335	609,284
Total	**1,138,938**	**1,351,936**	**1,558,558**	**1,563,298**

Corporate Banking

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

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

As of December 31, 2016, 2017 and 2018, accounts of large corporate customers represented approximately 45.9%, 46.5% and 45.0%, respectively, of the Bank's total loan portfolio. As of June 30, 2019, corporate loans grew by 6.1% year-on-year to ₱954.0 billion, representing 46.7% of the Bank's total loan portfolio of ₱2.043

trillion. Almost all of Corbank's corporate lending is for projects in the Philippines and most of Corbank's corporate lending is undertaken on a non-syndicated basis.

Commercial Banking

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

As of December 31, 2016, 2017 and 2018, Combank's lending to the middle-market segment accounted for approximately 31.0%, 30.6% and 32.1%, respectively, of the Bank's total loan portfolio. As of June 30, 2019 the Bank's commercial loan portfolio totaled ₱609.3 billion, representing 29.8% of the Bank's total loan portfolio.

Financial Institutions

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

Wholesale Lending and International Desks

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

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

Branch Banking

The Bank's branch network is the primary means of offering deposit services to customers, including CASA and time deposits in Pesos, U.S. dollars and other foreign currencies. The Bank's principal depositors are individuals in the Philippines. As of December 31, 2016, 2017, 2018 and June 30, 2019, total deposits were ₱1.905 trillion, ₱2.121 trillion, ₱2.420 trillion and ₱2.400 trillion, respectively, with Peso deposits representing approximately 79.8%, 81.4%, 82.8% and 83.3%, respectively, of the Bank's deposits and the remainder denominated in foreign currencies, principally U.S. dollars. As of June 30, 2019, the Bank had approximately 10.2 million deposit accounts. As of June 30, 2019, the Bank's branch network comprised of 1,360 domestic branches (including 221 ONB branches) and two foreign branches, with 33 more branch licenses available for redeployment. Each of the Bank's branches is connected and networked to the Bank's IT systems and infrastructure and offers full banking services. The Bank is the first bank in the Philippines to offer extended hours of operations at all of its branches, including weekend hours. The Bank believes its longer banking hours allows it to meet the banking needs of its customers more efficiently.

The Bank provides 24-hour banking services through its 4,379 ATM facilities (including 224 ONB ATMs), which are located in branches and at off-site locations, such as shopping malls. Customers are given access to the ATM facilities through BDO International ATM cards, which are issued to check and savings account holders. The Bank is a member of the Expressnet and Megalink ATM consortia, allowing customers to use ATM terminals operated by other banks in the consortia. Clients can also use ATM terminals worldwide that are part of the Cirrus-Maestro network. Branch Banking manages the entire branch network of the Bank. Branch Banking monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Each branch is subject to monthly spot audits, as well as a more comprehensive annual audit. Each of the Bank's branches has electronic security systems and armed guards. All of these services are provided by independent contractors. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorized limits. The Bank continues to maintain adequate insurance coverage for loss and theft.

In 2016 and 2017, the Bank was recognized by The Asian Banker as the Best Retail Bank in the Philippines during its International Excellence in Retail Financial Services Awards. In 2018, the Bank was also recognized as the Best Bank in the Philippines by Alpha Southeast Asia for the eighth time.

Hong Kong Branch Operations

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

Singapore Branch Operations

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

Private Banking

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

As of December 31, 2016, 2017, 2018 and June 30, 2019, BDO Private Bank had ₱62.3 billion, ₱64.5 billion, ₱48.8 billion and ₱45.2 billion in total resources, respectively. Its total Assets Under Management as of December 31, 2016, 2017, 2018 and June 30, 2019 were at ₱350.4 billion, ₱299.5 billion, ₱312.0 billion and ₱347.7 billion, respectively.

As a testament to its pioneering spirit and dominance in the domestic private banking market in terms of market share, performance and recognition, BDO Private Bank's recent awards include Best Private Wealth Management House in the Philippines 2017 (Alpha Southeast Asia; awardee since 2008); Best Private Bank for Asset Management in the Philippines (Euromoney Private Banking Survey 2017); Best Private Bank in the Philippines (Global Finance The World's Best Private Banks); Best Private Bank in the Philippines (The Asset Triple A Private Banking, Wealth Management and Investments Awards 2017); among others.

Rural Banking

Through its rural bank subsidiary, One Network Bank, Inc. ("ONB"), the Bank offers financial products and services including salary loans, deposits, cash management, remittances and bills payments to the unbanked and underserved segments in the provincial areas. In 2018, ONB successfully implemented its Micro, Small and Medium (MSME) roll-out of over 100 sites throughout the country to increase coverage of its target market. ONB has a network of more than 221 branches and banking offices and over 224 automated teller machines (ATMs) across the country.

PRODUCT MANAGEMENT

Product Management is responsible for managing the different product businesses offered to clients. Product Management is composed of Consumer Lending, which is responsible for consumer products and services including the Bank's credit card business; Treasury; Transaction Banking, covering cash management, electronic payments and settlements, and remittances; Investment Banking; Trust and Investments; Leasing and Finance; Life Insurance; Insurance Brokerage; Securities Brokerage; and Online Brokerage.

Consumer Lending

The Bank offers an expanded range of consumer finance products, including residential mortgages, auto loans, personal loans and credit card services. As of December 31, 2016, 2017 and 2018, consumer-related loans comprised approximately 20.3%, 20.5% and 20.8%, respectively, of the Bank's total loans. As of June 30, 2019, BDO's consumer loans increased by 15.1% from ₱386.2 billion as of June 30, 2018 to ₱444.4 billion, contributing 21.8% to BDO's total loan portfolio.

A table showing the Bank's consumer loans by main type is found below.

	As of December 31, (audited) (in ₱ millions)			As of June 30, (unaudited) (in ₱ millions)
	2016	2017	2018	2019
Credit Cards	46,761	61,621	78,738	84,449
Real Estate	156,403	184,793	216,077	226,203
Auto Loans	65,364	80,327	91,980	97,313
Personal Loans	19,543	19,157	16,773	19,132
Business Loans	13,278	14,587	16,345	17,325
Total	**301,349**	**360,485**	**419,913**	**444,422**

Credit Cards

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

The Bank's credit card business remains the industry's leading card issuer and largest merchant acquirer. As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank had combined cards-in-force of 1,716,497, 1,919,663, 2,123,549 and 2,287,615, respectively, and had a receivable portfolio of ₱46.8 billion, ₱61.6 billion, ₱78.7 billion and ₱84.4 billion, respectively.

The Bank currently offers American Express Centurion cards, American Express International Dollar cards and Corporate cards, American Express Cathay Pacific cards, American Express Peso Platinum, Platinum Mastercard, Platinum Visa, Titanium Mastercard, Union Pay Diamond and Gold cards, BDO Shopmore, Diners Club International, and Gold cards under the brands Mastercard, VISA and JCB. Interest charged on outstanding balances ranges between 2.5% and 3.5% per month. Due to increased competition in the market, annual fees are often waived for the first year for new credit cardholders.

Real Estate Mortgages

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

End-buyer tie-ups with reputable real estate developers largely contributed to the Bank's total home mortgage loan portfolio of ₱156.4 billion, ₱184.8 billion, ₱216.1 billion and ₱226.2 billion, respectively, as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively. Through these tie-ups, the Bank also purchases home loan receivables and wholesale real estate portfolios via its Contract to Sell ("**CTS**") Receivables Financing Program from developers that indirectly finance sales to their buyers. These loans usually provide full recourse to the developer. These CTS transactions may be converted into regular end-buyer financing by the Bank upon loan application approval by the Bank. All of the Bank's home mortgage loans are secured by a first ranking legal charge over the property. In the case of loans to certain corporate borrowers, the Bank often requires personal guarantees to be given by appropriate officers of the borrower as additional security. Traditionally, the Bank, as well as other lenders, have required home mortgage borrowers to have an equity interest equal to at least 30.0% of the value of the property. Due to an increase in competition in the mortgage industry, however, many borrowers are now able to secure mortgages for certain types of residential property from lenders, including the Bank, with a 20.0% down payment.

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

Auto Loans

The Bank provides auto financing to individuals for the acquisition of mainly new cars, buses and other types of vehicles. The Bank's retail auto loans are typically between ₱700,000 and ₱1.0 million and for 12- to 60-month terms, with the average tenor being three years. The applicable interest rate is generally fixed with amortizing repayment schedules over the term of the loan.

Continued strategic partnerships with auto dealers remain a competitive advantage of the Bank. As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank's auto loan portfolio stood at ₱65.4 billion, ₱80.3 billion, ₱92.0 billion and ₱97.3 billion, respectively.

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

Personal Loans

The Bank offers unsecured personal loans in amounts from ₱10,000 to ₱1,000,000, although the current average is at ₱257,000. Payment is through a salary deduction for loans to employees of certain corporate customers and post-dated checks, over the counter payments, through electronic channels or automatic debit arrangements for all other customers.

The Bank offers two products: "SuperLite" Installment and salary loans. Introduced in April 2005, the SuperLite Installment is offered to prospective customers who apply on an individual basis, while the Bank offers salary loans through the employees' respective companies. As of December 31, 2016, 2017, 2018 and June 30, 2019, the personal loan portfolio stood at ₱19.5 billion, ₱19.2 billion, ₱16.8 billion and ₱19.1 billion, respectively.

Treasury

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

The Bank believes it is among the top interbank dealers in foreign exchange and government securities in the Philippine financial markets. The Bank has received numerous awards and recognition for its treasury activities, among these are the Best Foreign Exchange Provider in the Philippines for 2017-2018 as awarded by Global Finance, Best FX bank in the 2014 Country Awards for Achievement as awarded by Finance Asia, as well as other awards for its FX activities from Alpha Southeast Asia.

Trading and Investment Securities

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

As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank's net trading and investment securities stood at ₱269.0 billion, ₱332.9 billion, ₱385.2 billion and ₱427.7 billion, respectively, and accounted for 11.6%, 12.5%, 12.7% and 14.0%, respectively, of the Bank's total resources. For the years ended December 31, 2016, 2017, 2018 and for the six months ended June 30, 2019, gross revenues from investment securities stood at ₱8.1 billion, ₱9.7 billion, ₱11.9 billion and ₱7.9 billion, respectively, which represented 7.6%, 7.5%, 8.0% and 9.1%, respectively, of the Bank's total operating income during said periods. As of December 31, 2016, 2017, 2018 and June 30, 2019, approximately 62.8%, 66.9%, 67.6% and 67.9%, respectively, of the Bank's trading and investment securities portfolio were in government securities while the balance was in corporate issue bonds, derivative financial assets and equity securities.

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

	As of December 31, (audited) (in ₱ millions)			As of June 30, (unaudited) (in ₱ millions)
	2016	2017	2018	2019
Government bonds	171,661	224,950	261,516	291,344
Other debt securities [(1)]	75,077	81,432	99,729	109,995
Total debt securities	246,738	306,382	361,245	401,339
Non-debt securities [(2)]	19,777	24,851	19,303	22,476
Derivative financial assets [(3)]	6,845	5,024	6,230	5,423
Total [(4)]	**273,360**	**336,257**	**386,778**	**429,238**

(1) Other debt securities consist mostly of debt securities issued by corporates in the Philippines.

(2) Non-debt securities include shares of stocks and preferred shares.

(3) Derivative financial assets include forwards and swaps.

(4) Gross of allowance.

Derivatives

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

Transaction Banking

The Bank provides a wide range of transaction-based services for both corporate and retail customers through Transaction Banking.

The Bank's goal is for Transaction Banking to build long-term value and consistent earnings growth through multi-product relationships with customers. The Bank expects this will translate into a low-cost and stable source of funds for the Bank that will improve the overall risk-revenue ratio of the Bank's portfolio.

Transaction Banking is divided into corporate and retail market teams to provide a focused market approach in terms of coverage, customized product offerings and service delivery.

Cash Management Services and Electronic Banking Services

Cash Management (Corporate)

The Bank offers high value-added cash management solutions to various market segments, namely: large corporations, financial and foreign institutions (including Government financial institutions and Government-owned and controlled corporations), middle-market, SMEs, and MSMEs. The cash management services offered by the Bank to these institutions include collections, disbursements, liquidity management, account services, electronic banking services and retail payment services. The Bank's corporate transactional banking customer base has grown from 77 in 2002 to over 26,000 corporate customers as of June 30, 2019. The Bank believes this growth in customers was the result of the Bank's innovative product offerings including modern payment services as well as solutions that cater to the customers' specific requirements, such as services for receiving payments from retailers and wholesalers through online banking channels, facilitating cashless transactions at the point-of-sale ("**POS**") terminals and providing safe and efficient services to monitor payments to the customer's suppliers and employees.

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

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

Personal Cash Management

Electronic Banking

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

Online Banking

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

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

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

Phone Banking

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

Mobile Banking

Utilizing both the convenience and reach of mobile devices, the Bank, via its Mobile Banking (MB) app has taken measures to ensure customers are able to manage their accounts anytime, anywhere. Equipped with a complete array of banking services, the Bank's MB app allows the following: account balance/s and transaction history inquiry; send money; pay bills; reload prepaid mobile number; reload cash card; request checkbook; stop payment (check); enroll additional accounts, billers, and pre-paid mobile number; change password and update customer information. Customers are also allowed to lock enrolled debit cards, including an option to change one's password.

Automated Teller Machines (ATM)

BDO's ATMs allow customers to withdraw cash, avail of credit card cash advances, check account balances, transfer money, pay bills, top up prepaid phones, reload cash cards, reorder checkbooks, change personal identification numbers ("PIN") and activate Personal Online Banking enrollment at any of the ATM terminals nationwide which, as of June 30,2019, numbered 4,379 ATMs (including 224 ONB ATMs).

Cash Deposit Machine (CDM)

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

Retail Cards

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

BDO Cash Card

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

As of June 30, 2019, the Bank has over 1.3 million active BDO Cash Cards to more than 4,000 payroll companies and 35 remittance partners, and from retail clients, generating ₱52 billion worth of financial transactions.

BDO ATM Debit Card

The BDO ATM Debit Card is a Peso, US-Dollar or HK Dollar-denominated card linked to a BDO current or savings account. It carries the MasterCard and Visa brands that allow access to cash in over two million Mastercard/Cirrus/Visa/Plus ATMs, cashless shopping in over 40 million establishments worldwide and e-commerce. It allows balance inquiry, cash withdrawal, bills payment, cash card reload, and checkbook reorder. As of June 30, 2019, the Bank has over 6.9 million active cash cards generating a total of around 188 million transactions amounting to ₱640.6 billion worth of financial transactions.

Smart Money Card

The Smart Money Card is a Bank-issued co-branded card with PayMaya Philippines, Inc. The Smart Money Card allows balance inquiry, bills payment, "Smart/Talk N Text" airtime reload, and wallet-to-wallet transfers using a Smart mobile phone. The card may be used for ATM transactions and for purchases in Mastercard establishments worldwide. It is also used by Smart Trade dealers in the buying and selling of airtime load to Smart retailers nationwide. As of June 30, 2019, the Bank had an active cardholder base of over 300,000 accounts generating about 35 million financial transactions worth ₱80.0 billion. Smart Money facilitates sending of money to Smart's subscribers and encashment in cash servicing centers on top of BDO's network and channels.

Remittances

The remittance function involves purchasing foreign exchange for remittance transactions and delivering remittance payments through the Bank's branch network, BDO Remit counters inside SM malls, partner rural banks, pawnshops and courier services. As of June 30, 2019, the Bank has a wide remittance network consisting of 25 remittance and representative offices (including two full-service branches in Hong Kong and Singapore) worldwide. The Bank's remittance network is complemented by relationships with at least 357 remittance/money transfer tie-ups, 353 accredited foreign and local correspondent banks and at least 14 designated agents.

For the years ended December 31, 2016, 2017 and 2018, the Bank's volume of OFW remittances amounted to US$11.4 billion, US$12.5 billion and US$13.2 billion, respectively, representing a 10.1%, 9.2% and 5.8% increase year-on-year, respectively. In the six months ended June 30, 2019, the Bank's volume of OFW remittances was US$6.8 billion, an increase of 2.5% from its volume of OFW remittances for the six months ended June 30, 2018.

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

As of June 30, 2019, the Bank had an approximately 41.6% market share of total remittance volume, based on BSP data on "Overseas Filipinos' Personal Remittances" information.

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

Investment Banking

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

- Equity and Quasi-Equity Underwriting and Management — BDO Capital underwrites and manages public and private equity and quasi-equity transactions, including initial public offerings, follow-on offerings, rights issues, warrants issuances and tender offers. BDO Capital is also involved in quasi-equity transactions such as hybrid securities issuances and preferred shares issuances;

- Fixed Income Underwriting, Packaging and Syndication — BDO Capital offers clients underwriting services in relation to corporate and government bonds, corporate notes and commercial papers. BDO Capital also offers term loan packaging and syndication services;

- Financial Advisory — BDO Capital provides financial advisory services to companies to support their short-, medium- and long-term objectives. Advisory services comprise, among others, corporate and debt restructuring advice, as well as merger and acquisition advisory services;

- Direct Equity Investment — BDO Capital invests directly in existing and start-up enterprises or offers such investment opportunities to other clients; and

- Securitization — BDO Capital acts as underwriter and selling agent for various asset-backed securities issued by special purpose entities.

BDO Capital was involved in major fundraising exercises for the Government via Retail Treasury Bond Issue and private issuers such as MPCALA Holdings Inc., AC Energy Finance International Ltd., Helios Solar Energy Corp., Bloomberry Resorts and Hotels Inc./Sureste Properties Inc., SMC Global Power Holdings Inc., South Luzon Thermal Energy Corp., SM Prime Holdings Inc., Red Planet Holdings Inc., Esquire Financing Inc., Aboitiz Equity Ventures Inc., Arthaland Corp., Solar Philippines Calatagan Power Corp., and Petron Corporation.

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

Trust and Investments Group

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

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

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

The Bank's consolidated trust assets under management reached ₱1.232 trillion as of June 30, 2019, a 19.4% increase from the ₱1.032 trillion managed as of June 30, 2018. The Bank has the largest trust assets business in the Philippines. Similarly, in the UITF business, the Bank also posted the largest fund levels in the industry, at ₱199.2 billion as of June 30, 2019.

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

- 2015 Best Investment Management Company – Philippines by ***World Finance Magazine (London)***
- 2015 Most Trusted Brand – Investment Fund Category by ***Readers' Digest Asia***
- 2015 Rising Star Retail Fund Administrator - Philippines Category by ***The Asset Magazine***
- 2016 Fund House of the Year for the Philippine Market by ***AsianInvestor Magazine***
- 2016 Best Investment Management Company – Philippines by ***World Finance Magazine (London)***
- 2016 Asset Management Company of the Year – Philippines by ***The Asset Magazine***
- 2016 Impact Investor of the Year – Philippines by ***The Asset Magazine***
- 2017-2018 Fund House of the Year for the Philippine Market by ***Asian Investor Magazine***
- 2016-2018 Best Investment Management Company – Philippines by ***World Finance Magazine (London)***
- 2018 Asset Management Company of the Year – Philippines by ***The Asset Magazine***

In September 2016, BDO Trust also became the first institution in the Philippines to be accredited as Personal Equity and Retirement Account ("PERA") Administrator. PERA is the Philippine version of similar laws covering retirement savings vehicles prevalent and long standing in more developed countries such as

IRA and 401K in the United States. PERA establishes the legal and regulatory framework for voluntary personal retirement plans as a means to promote savings mobilization, capital market development and long-term fiscal sustainability. It provides employers with the opportunity to become agents in furthering these objectives and it provides Filipinos a means to supplement their future pension benefits from the Philippine Social Security System and Philippine Government Service Insurance System. BDO Trust also offers the following PERA investment funds: BDO PERA Short Term Fund, BDO PERA Bond Index Fund and BDO PERA Equity Index Fund.

Leasing and Financing

The Bank's leasing and financing entity, BDO Leasing and Finance Inc. ("**BDOLF**"), provides leasing and financing products to commercial clients. BDOLF's leasing products include direct leases, sale and leaseback arrangements, and dollar-denominated leases, while financing products include amortized commercial loans, floor stock financing, and receivables financing (include installment paper purchases and receivables factoring). Assets financed include automobiles, trucks, office equipment, industrial, agricultural and office machinery, real property, and financial assets such as receivables.

Life Insurance

Through its wholly-owned subsidiary, BDO Life Assurance ("**BDO Life**"), the Bank offers life protection plans (whole life insurance and term life insurance); fund accumulation plans specifically designed to provide for children's education; savings and retirement plans (endowment and variable life insurance); and group insurance. BDO Life increased its Financial Advisor ("**FA**") coverage of BDO branches at 92% as of end-2018 from 89% in 2017, allowing it to maintain an annual premium growth of at least 20%. BDO ranks 8th in terms of total premium income, and ranks 3rd in terms of traditional life protection.

Insurance Brokerage

The Bank has a wholly-owned insurance broker, BDO Insurance Brokers, Inc. that offers a diverse portfolio of reputable and financially-sound insurance partners, thus giving customers flexible options that match their needs and financial capabilities. For the years ended December 31, 2016, 2017, 2018, and for the six months ended June 30, 2019, ₱8.7 billion, ₱9.4 billion, ₱10.1 billion and ₱4.5 billion, respectively, of gross insurance premiums were arranged by BDOI. While BDOI has the technical capability to evaluate insurance risks, it does not underwrite or absorb insurance risks. The Bank has a bancassurance license from the BSP which permits the Bank to market and sell both life and non-life insurance products through its branch network. BDO Insurance is the leader in the industry in terms of commissions earned.

Securities Brokerage

Through its subsidiary, BDO Securities Corporation ("**BSC**"), the Bank engages in the stock brokerage business and deals in securities and related-activities. BDO Securities is a trading participant in the Philippine Stock Exchange ("**PSE**").

Online Brokerage

The Bank offers online trading services for local stocks to individual investors through BDO Nomura Securities, Inc., a joint venture between BDO Unibank and Nomura Holdings of Japan. In 2018, BDO Nomura launched a new platform, duly certified by the PSE, that connects seamlessly with client accounts, offering real time deposit and withdrawal facilities, thus allowing clients to respond to market movements quickly. The business also aims to provide stock brokerage services to institutional clients overseas and eventually provide a platform to connect Filipino investors to the international stock markets.

SUPPORT AND DELIVERY MANAGEMENT

Support and Delivery Management ensures that the Bank's operational needs are efficiently met, the Bank's processes aligned with its business objectives and its vision and corporate strategies realized. It is composed of the following: Information Technology, Comptrollership, Human Resources, Marketing Communications, Investor Relations and Corporate Planning, Digital Infrastructure Services and Central Operations. Also functionally grouped under Support and Delivery Management are Risk Management as well as Internal Audit and Compliance, both of which report to their respective Board-level committees, namely, the Risk Management Committee and the Audit Committee.

Information Technology

The Bank's IT Group is responsible for the proper and efficient functioning of the Bank's IT systems and infrastructure. It is organized into two separate but interdependent groups:

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

Comptrollership Group

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

Human Resources Group

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

Marketing Communications Group

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

Investor Relations and Corporate Planning Group

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

Digital Infrastructure Services Group

The Digital Infrastructure Services Group is responsible for the creation, management and governance of a strategic and enterprise-wide infrastructure for a customer data consolidation platform aligned with the bank's digital strategies. The unit maintains enterprise solutions revolving around the consolidated customer data for bankwide consumption. This includes the Big Data management, Biometrics and Customer Information File systems.

Central Operations Group

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

Operations Group ensures that backroom processes are responsive to the customer commitments of the customer-facing business units and that transaction processing systems and other support services are efficiently administered and continuously improved. Further, it is responsible for ensuring that operational risks in its various areas of coverage are properly managed.

Customer Contact Center

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

The Customer Contact Center operates 24 hours a day, seven days a week, with over 872 personnel who are equipped with a customer relationship management system which allows them to deliver personalized customer service and conduct precise cross-selling initiatives. It also enables customer service officers to build customer contact data, which helps them manage and respond to customers' needs more effectively and efficiently.

The Contact Center has two disaster recovery sites located in Makati and Alabang which began operations in March 2011 and April 2018, respectively.

BDO Customer Contact Center's average monthly volume from January to June 2019 was 659,895/month for customer calls and 46,074/month for e-mails and fax correspondence, comprising correspondences from BDO customers and the general public.

CORPORATE SOCIAL RESPONSIBILITY

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

EMPLOYEES

As of June 30, 2019, the Bank employed a total of 37,169 people, 17,610 of whom were engaged in a professional managerial capacity and classified as Bank officers.

Bank staff employees, other than those expressly excluded in the Collective Bargaining Agreement ("**CBA**"), are represented by Banco De Oro Employees Association (the "**Union**"), an affiliate of the Associated Labor Unions (ALU). The Bank's CBA is in effect for a period of five years from November 1, 2015 to October 31, 2020 in so far as the representation aspect is concerned. Negotiation on the economic provisions for the period November 1, 2018 to October 31, 2020 was signed on December 21, 2018. Ratification for the National Capital Region (NCR) was conducted on December 14, 2018 with overwhelming acceptance from the Union members while the ratification in provincial areas was completed on January 2019. The Bank's latest CBA was signed on January 13, 2016 and was unanimously accepted and ratified by its members.

The Bank has not suffered any strikes since it started operations, and the management of the Bank considers its relations with its employees and the Union to be good.

The average age of the Bank's officers and employees is 33 years, and the average Bank-wide tenure is seven years. The mandatory retirement age for the Bank is 60 years.

The aggregate compensation paid to employees by the Bank for the years ended December 31, 2016, 2017, 2018 and for the six months ended June 30, 2019 were ₱24.7 billion, ₱27.4 billion, ₱30.4 billion and ₱15.9 billion, respectively.

The Bank maintains a tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As of December 31, 2018, the fair value of the retirement plan assets of the Bank was ₱24.1 billion and the net present value of the obligation was at ₱28.6 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit liability of ₱4.5 billion of 2018.

Employee Insurance

The Bank provides its employees with Group Life Insurance coverage from BDO Life and CHUBB Insurance (formerly ACE Insurance) for Group Personal Accident Insurance coverage for accidental death and dismemberment in line with good business practice and in accordance with Philippine standards. Insurance premium payments for these policies are paid entirely by the Bank.

LEGAL PROCEEDINGS

Details of material proceedings involving the Bank are set out in Note 27.1 of the notes to the audited financial statements included in this Prospectus. In addition, the Bank may be subject to various legal proceedings and claims that arise in the ordinary course of its operations.

The Bank also believes that it has all material permits and licenses necessary for its business and that these are valid and subsisting.

PEACE Bonds

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

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

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

October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and Bureau of Internal Revenue ("**BIR**") from withholding or collecting the 20% final withholding tax, upon payment at maturity, as well as from enforcing the 2011 ruling.

On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

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

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

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

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

On April 11, 2017, the Bank entered into a Settlement Agreement with the Republic of the Philippines, (acting through the Bureau of Treasury) to settle all claims and put closure to the Peace Bonds case. Under the terms of the Settlement Agreement;

1. The Bureau of Treasury paid the Bank the 20% final withholding tax withheld on the PEACe bonds (amounting to ₱690 million), plus interest of 4% per annum from October 19, 2011 to April 10, 2017 (₱151 million).

2. The payment was made in the form of 3-Year Retail Treasury Bonds, with interest of 4.25 % per annum.

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

Applicability of RR 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 ("**RR 4-2011**") regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and foreign currency deposit unit / expanded foreign currency deposit unit or offshore banking unit.

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

On May 25, 2018, the RTC declared RR-4-2011 as null and void. The writs of preliminary injunction issued by the RTC on April 25, 2015 and February 28, 2018 were also made permanent, thereby enjoining Department of Finance (DOF) and BIR from implementing RR 4-2011 and prohibiting them from issuing a preliminary assessment notice or final assessment notice, or deciding any administrative matter pending before it, according to or in relation to said regulation.

On July 10, 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari ("**Motion for Extension**"). 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 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

On March 27, 2019, the Supreme Court ordered Respondents to file their Comment on the Petition.

The case remains pending as of June 30, 2019.

First e-Bank

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

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

In a judgment dated May 31, 2018, RTC Makati dismissed the complaint, granted BDO's counterclaim and ordered BDO-TIG to immediately release the remaining escrow amount plus interests, to BDO. PDIC filed a Motion for Reconsideration but the same was denied by RTC Makati. PDIC then filed a Notice of Appeal. Case is still pending before the Court of Appeals.

ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following information should be read together with the Bank's financial statements included in this Offering Circular.

FUNDING

Sources of Funding

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

	Audited as of December 31						**Unaudited as of June 30**	
	2016		**2017**		**2018**		**2019**	
	Amount	**Ave Cost**	**Amount**	**Ave Cost**	**Amount**	**Ave Cost**	**Amount**	**Ave Cost**
	(in ₱ millions, except Average Cost, which is in % terms)							
By Type								
Demand	114,284	0.1	134,931	0.1	179,944	0.1	190,520	0.2
Savings	1,267,983	0.3	1,409,256	0.3	1,505,680	0.3	1,495,834	0.3
Time	522,937	1.9	576,825	2.0	734,341	3.0	713,204	4.6
	1,905,204	**0.8**	**2,121,012**	**0.7**	**2,419,965**	**1.1**	**2,399,558**	**1.5**

	Audited as of December 31						Unaudited as of June 30	
	2016		2017		2018		2019	
	Amount	Ave Cost	Amount	Ave Cost	Amount	Ave Cost	Amount	Ave Cost
By currency								
Philippine Peso	1,521,183	0.7	1,725,829	0.6	2,003,582	1.1	1,997,892	1.7
Foreign currency	384,021	1.1	395,183	1.1	416,383	1.0	401,666	1.0
Total deposits	**1,905,204**	**0.8**	**2,121,012**	**0.7**	**2,419,965**	**1.1**	**2,399,558**	**1.5**
Borrowings								
Philippine Peso	34,409	2.6	34,221	3.4	35,866	3.8	61,595	5.2
Foreign currency	76,177	2.7	106,293	2.4	117,787	3.0	115,175	3.2
Total borrowings ..	**110,586**	**2.6**	**140,514**	**2.6**	**153,653**	**3.2**	**176,770**	**4.0**
Total	**2,015,790**	**0.9**	**2,261,526**	**0.8**	**2,573,618**	**1.2**	**2,576,328**	**1.7**

Note:

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

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

Deposits continue to be the Bank's main funding source, accounting for 94.5%, 93.8%, 94.0% and 93.1% of total funding sources as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively. The Bank's deposits grew at an annual compounded average rate of 14.3% from December 31, 2008 to December 31, 2018, reaching ₱1.9 trillion as of December 31, 2016, ₱2.1 trillion as of December 31, 2017 and ₱2.4 trillion as of December 31, 2018. This historical growth was driven by increased marketing efforts by the Bank's branches and the Bank's mergers and acquisitions. As of June 30, 2019, total deposits increased to ₱2.4 trillion, approximately 83.3% of which were denominated in Pesos and mostly in tenors of less than one year, while approximately 16.7% were denominated in foreign currencies, predominantly U.S. dollars. The Bank's foreign currency deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank's foreign currency deposits made up 20.2%, 18.6%, 17.2% and 16.7%, respectively, of its total deposits.

As of December 31, 2016, 2017, 2018 and June 30, 2019, approximately 72.6%, 72.8%, 69.7% and 70.3%, respectively, of the Bank's outstanding deposits were in the form of demand and savings deposits.

The Bank also sources funds through borrowings from local and foreign banks, deposit substitutes and rediscounting facilities booked under bills payable. Bills payable also includes funding from specialized lending programs amounting to ₱8.7 billion, ₱4.7 billion, ₱3.0 billion and nil, respectively, as of December 31, 2016, 2017, 2018 and June 30, 2019.

As of December 31, 2016, 2017 and 2018, the Bank's total bills payable amounted to ₱100.6 billion, ₱130.5 billion and ₱143.6 billion, respectively. Approximately 24.2%, 18.5% and 18.0%, respectively, of bills payable were denominated in Pesos as of December 31, 2016, 2017 and 2018. As of June 30, 2019, the Bank's total bills payable amounted to ₱166.7 billion, of which 36.9% were denominated in Pesos.

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

The Bank's subordinated notes payable amounted to ₱10.0 billion as of December 31, 2016, 2017, 2018 and June 30, 2019.

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

Capital Raising Transactions

Issuance of Global Depositary Receipts

On various dates in 2006, Primebridge Holdings, Inc. ("Primebridge"), a stockholder owning 22.1% of the Bank's total outstanding shares as of December 31, 2005, offered and sold in aggregate 9,399,700 GDRs with each GDR representing 20 shares of the Bank's common stock. The GDRs constitute an offering in the U.S. only to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1993 (the "Securities Act") and an offering outside the United States in reliance on Regulation S under the Securities Act. The offered price for each GDR was US$12.70 on January 25, 2006 and February 14, 2006; and US$14.55 on May 15, 2006. The GDRs were listed and traded at the London Stock Exchange. As part of the offering, Primebridge, while remaining as the registered holder of the Bank shares underlying the GDRs, transferred all rights and interests in the Bank's shares underlying the GDRs to the depository on behalf of the holders of the GDRs and the latter were entitled to receive dividends paid on the shares. However, GDR holders had no voting rights or other direct rights of a shareholder with respect to the Bank's shares.

As of December 31, 2006, 4,724,214 GDRs issued, covering shares originally held by Primebridge, were converted into 94,484,280 shares of the Bank. As of December 31, 2012, 9,600 GDRs equivalent to 192,000 shares of the Bank remained unconverted. On May 13, 2013, the Bank terminated its GDR program in the London Stock Exchange.

Long Term Negotiable Certificates of Deposit

Pursuant to a BSP approval dated January 5, 2005, the Bank issued on June 1, 2005 a total of ₱2.1 billion worth of Floating Rate Long-Term Negotiable Certificates of Deposit which matured on June 2, 2010. The Bank was among the first, if not the first, domestic bank to offer this product. Subsequently, on November 23, 2005, the Bank offered to the public ₱2.9 billion worth of Fixed Rate Long-Term Negotiable Certificates of Deposit which matured on November 24, 2010. Another tranche of Long-Term Negotiable Certificates of Deposit was issued by the Bank in October 2006. The Certificates of Deposit amounted to ₱5 billion and became due in November 2011.

On October 15, 2012, the Bank issued a total of ₱5 billion worth of Fixed Rate Long-Term Negotiable Certificates of Deposit which will mature in October 2019. On March 25, 2013, the Bank issued another ₱5 billion worth of Long Term Negotiable Certificates of Deposit at an effective interest rate of 3.80% which will mature on September 25, 2018. On September 12, 2013, the Bank issued another ₱5 billion worth of Long Term Negotiable Certificates of Deposit at an effective interest rate of 3.50% which will mature on September 12, 2020. The Certificates of Deposit were issued to support the Bank's medium-term growth objectives and help lengthen the maturity profile of its deposit base. On November 4, 2013, the BSP approved the Bank's issuance of ₱5 billion Long-Term Negotiable Certificates of Deposit. The BDO LTNCDs, which will mature on June 11, 2019, were issued on December 11, 2013 at an effective rate of 3.125% per annum. On April 6, 2015, the Bank issued another ₱7.5 billion worth of long term negotiable certificates of deposit with a rate of 3.75% per annum which will mature on October 6, 2020. On August 18, 2017, the Bank issued another ₱11.8 billion worth of long term negotiable certificates of deposit with a rate of 3.625% per annum which will mature on February 18, 2023. On May 7, 2018, the Bank issued ₱8.2 billion worth of long term negotiable certificates of deposit with a rate of 4.375% per annum which will mature on November 7, 2023. On April 12, 2019, the Bank issued ₱7.3 billion worth of long term negotiable certificates of deposit with a rate of 5.375% per annum which will mature on October 12, 2024.

Peso-denominated Bonds

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

Unsecured Subordinated Notes Eligible as Lower Tier 2 Capital

On November 21, 2007, the Bank issued ₱10 billion unsecured subordinated notes eligible as Lower Tier 2 Capital due in 2017, callable with step-up in 2012 pursuant to the authority granted by the BSP to the Bank on October 8, 2007 and BSP Circular No. 280 Series of 2001, as amended. The issuance was approved by the Board in its special meeting held on June 1, 2007. On November 21, 2012, the Bank exercised its option to redeem the notes.

On May 20, 2008, the Bank issued another tranche of ₱10 billion unsecured subordinated notes eligible as Lower Tier 2 Capital due in 2018, callable with step-up in 2013 pursuant to the authority granted by the BSP to the Bank on April 3, 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the Board in its special meeting held on February 23, 2008. On May 31, 2013, the Bank exercised its option to redeem the notes.

On March 20, 2009, the Bank issued the third tranche of unsecured subordinated notes with a face value of ₱3.0 billion qualifying as Lower Tier 2 Capital due in 2019, callable with step-up in 2014 pursuant to the authority granted by the BSP to the Bank on April 3, 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the Board in its special meeting held on January 31, 2009. The Bank exercised its option to redeem the notes on March 21, 2014, the optional redemption date.

On June 27, 2011, the Bank issued the fourth tranche of unsecured subordinated notes with a face value ₱8.5 billion qualifying as Tier 2 Capital due in 2021, callable but with no step-up in 2016 pursuant to the authority granted by the BSP to the Bank on April 7, 2011 and BSP Circular No. 280 Series of 2001, as amended. The Tier 2 Notes were priced at 6.50% p.a. and were to mature on September 27, 2021. The Bank exercised its early redemption option and redeemed the Notes on September 27, 2013.

On October 7, 2011, the Bank issued the fifth tranche of unsecured subordinated notes with a face value ₱6.5 billion qualifying as Tier 2 Capital due in 2022, callable but with no step-up in 2016 pursuant to the authority granted by the BSP to the Bank on April 7, 2011 and BSP Circular No. 280 Series of 2001, as amended. The Tier 2 Notes were priced at 6.375% p.a. and were to mature on January 7, 2022. The Bank exercised its early redemption option and redeemed the Notes on October 7, 2013.

On December 10, 2014, the Bank issued ₱10.0 billion of unsecured subordinated notes qualifying as Tier 2 Capital due in 2025, callable in 2020 pursuant to the authority granted by the BSP to the Bank on October 2, 2014. The Tier 2 Notes were priced at 5.1875% p.a. and will mature on March 10, 2025.

Dollar-Denominated Senior Note Issuance

On October 22, 2010, the Bank issued Senior Notes with a face value of US$300 million at a price of 99.632%. The Senior Notes, which will mature on April 22, 2016, bear a fixed interest rate of 3.875% per annum, with an effective rate of 3.95% per annum, and are payable semi-annually every April 22 and October 22 starting in 2011. The net proceeds from the issuance are in support of the Bank's business expansion plans and for general banking and relending activities.

On February 16, 2012, the Bank issued Senior Notes with a face value of US$300 million at a price of 99.448%. The Senior Notes mature on February 16, 2017 and bear a fixed interest rate of 4.50% per annum, with an effective rate of 4.625% per annum. The Senior Notes are payable semi-annually every August 16 and February 16 starting in August 2012. The net proceeds from the issuance are for general funding and relending purposes.

On December 7, 2012, the Bank established a US$2 billion Medium Term Note Program ("**MTN Program**"). On October 24, 2016, the Bank issued Senior Notes under its MTN Programme with a face value of US$300 million at a price of 99.977%. The Senior Notes will mature on October 24, 2021 and bear a fixed interest rate of 2.625% per annum. The Senior Notes are payable semi-annually every April 24 and October 24, starting in April 2017. The net proceeds from the issuance are for general corporate purposes.

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

Syndicated Term Loan

On August 6, 2015, the Bank announced that it has entered into a US$500 million three-year syndicated term loan facility with a group of international banks. The facility was for the refinancing of an existing term loan and for general banking and corporate purposes.

Green Bond

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

Fixed Rate Bond

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

Capital-Raising Program

On April 26, 2010, the Bank also undertook a US$250 million capital-raising program with the International Finance Corporation ("**IFC**"), IFC Capitalization (Equity) Fund, L.P. and foreign institutional investors to support the Bank's medium-term growth objectives and build a buffer for anticipated Basel III requirements. Subsequent to these capital-raising activities, the Bank's total capital adequacy ratio rose to 13.8% as of December 31, 2010 from 12.2% as of December 31, 2009.

On July 4, 2012, the Bank successfully completed its rights offering of common shares where a total of 895,218,832 Rights Shares were issued at a price of ₱48.60. The Offer, which raised gross proceeds of ₱43.5 billion (equivalent to over US$1 billion), further strengthened the Bank's CET1 Capital.

For its acquisition of 99.59% of the total issued and outstanding capital stock of ONB, on July 20, 2015, the Bank undertook a share swap transaction where the Bank crossed, in favor of the selling shareholders of ONB, and issued an equal number of new shares from its unissued capital stock to Sybase Equity Investments Corp. in exchange for 64,499,890 common shares of the Bank. The acquisition resulted in recognition of additional paid-in capital amounting to ₱6.0 billion.

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

LIQUIDITY

Pursuant to regulations of the BSP, universal and commercial banks are required to maintain a reserve of 16% of Peso demand deposits and deposit substitutes. The required reserves shall be kept in the form of deposits placed in the bank's demand deposit accounts with the BSP. On the FCDU side, the Bank is required to maintain at least 30% of deposit liabilities in liquid assets. The Bank has complied with the reserve requirements for both the Peso and FCDU books.

As of December 31, 2016, 2017 and 2018, the Bank's liquid assets amounted to ₱780.0 billion, ₱844.0 billion and ₱919.6 billion, equal to 33.5%, 31.6% and 30.4%, respectively, of the Bank's total assets. As of June 30, 2019, the Bank's liquid assets were ₱937.3 billion, representing 30.6% of total assets. Liquid assets include cash and other cash items, due from BSP, due from other banks, interbank loan receivables and investment securities. The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	Audited As of December 31			Unaudited As of June 30
	2016	**2017**	**2018**	**2019**
Liquidity Position				
Liquid Assets....................................	780,035	843,980	919,621	937,285

Financial Ratios				
Liquid Assets-to-Total Assets	33.5	31.6	30.4	30.6
Liquid Assets-to-Total Deposits	40.9	39.8	38.0	39.1
Net Loans-to-Total Deposits	76.4	81.3	82.4	84.0

LENDING

As of December 31, 2016, 2017 and 2018, the Bank's total loan portfolio (net of unearned interest or discount) on a consolidated basis amounted to ₱1.5 trillion, ₱1.8 trillion, and ₱2.0 trillion, respectively, representing approximately 63.7%, 65.8%, and 66.8%, respectively, of its total assets as of those dates. As of June 30, 2019, the Bank's total gross loan portfolio, on a consolidated basis, amounted to ₱2.0 trillion, representing approximately 66.7% of its total assets as of that date. The Bank's gross loan portfolio grew at a compounded annual growth rate of 17.8% from December 31, 2008 to December 31, 2018, primarily as a result of acquisitions and mergers and the Bank's efforts to expand its client base and encourage loan utilization of existing clients while managing credit quality, minimizing funding risk and maintaining an appropriate asset mix.

	Audited As of December 31			**Unaudited As of June 30**
	2016	**2017**	**2018**	**2019**
Large Corporates	680,228	815,786	909,223	954,014
Mid-Market	458,709	536,151	649,335	609,284
Consumer	301,349	360,485	419,913	444,421
Others	41,717	42,467	41,591	35,331
Total	**1,482,004**	**1,754,888**	**2,020,062**	**2,043,050**

Industry Concentration

Financial and insurance activities; wholesale and retail trade, repair of motor vehicles and motorcycles; real estate activities; activities of households; electricity, gas, steam and air-conditioning supply; and manufacturing represent the largest sectors of the Bank's loan portfolio, representing 14.5%, 13.6%, 12.0%, 11.6%, 11.0% and 10.6%, respectively, of the Bank's loan portfolio as of December 31, 2018. These sectors represented 11.2%, 13.5%, 12.9%, 10.0%, 11.5% and 10.6%, respectively, of the Bank's loan portfolio as of December 31, 2017. As of June 30, 2019, these sectors represented 14.1%, 13.7%, 12.5%, 12.4%, 10.7% and 10.5% of the Bank's loan portfolio.

Under guidelines established by the BSP, the BSP considers that concentration of credit exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. BSP regulations require banks to allocate 25% of their loanable funds for agricultural credit in general, of which at least 10% shall be made available for agrarian reform credit. In the absence of qualified borrowers, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. As with most banks in the Philippines, the Bank is not in strict compliance with this standard.

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

	Audited As of December 31, 2016		2017		2018		Unaudited As of June 30, 2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)							
Agriculture, Forestry and Fishing	14,054	0.9	13,007	0.7	13,861	0.7	13,561	0.7
Mining and Quarrying	9,632	0.6	25,054	1.4	23,830	1.2	23,592	1.2
Manufacturing	191,720	12.9	186,779	10.6	215,108	10.6	215,305	10.5
Electricity, Gas, Steam and Air-conditioning Supply	137,381	9.3	200,952	11.5	222,305	11.0	218,669	10.7
Water supply, Sewerage, Waste Management and Remediation Activities	12,278	0.8	11,813	0.7	12,567	0.6	12,477	0.6
Construction	29,856	2.0	36,605	2.1	47,797	2.4	59,757	2.9
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycle	206,205	13.9	237,104	13.5	274,443	13.6	279,149	13.7
Transportation and Storage	99,871	6.7	112,307	6.4	114,023	5.6	102,466	5.0
Accommodation and Food Services Activities	43,837	3.0	41,662	2.4	31,465	1.6	32,906	1.6
Information and Communication	27,334	1.8	38,707	2.2	32,530	1.6	28,455	1.4
Financial and Insurance Activities	150,735	10.2	195,923	11.2	292,871	14.5	288,496	14.1
Real Estate Activities	205,376	13.9	227,050	12.9	242,836	12.0	256,310	12.5
Professional, Scientific and Technical Services	11,042	0.7	10,782	0.6	10,980	0.5	10,394	0.5
Administrative and Support Services	8,662	0.6	9,204	0.5	9,517	0.5	9,803	0.5
Public Administrative and Defense; Compulsory Social Security	535	0.0	703	0.0	640	0.0	1,182	0.1
Education	10,840	0.7	13,614	0.8	5,960	0.3	22,968	1.1
Human Health and Social Work Activities	16,282	1.1	16,461	0.9	9,092	0.5	8,976	0.4
Arts, Entertainment and Recreation	54,401	3.7	68,853	3.9	76,366	3.8	74,679	3.7
Other Service Activities	124,661	8.4	134,046	7.6	149,592	7.4	130,627	6.4
Activities of Private Household as Employers and Undifferentiated Goods and Services and Producing Activities of Households for Own Use	127,236	8.6	175,196	10.0	234,238	11.6	253,267	12.4
Activities of Extraterritorial Organizations and Bodies	66	0.0	66	0.0	41	0.0	11	0.0
Total	**1,482,004**	**100.0**	**1,754,888**	**100.0**	**2,020,062**	**100.0**	**2,043,050**	**100.0**

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

Maturity

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

Loans by Maturity	Audited As of December 31						Unaudited As of June 30	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In ₱ millions, except percentages)							
Due within one year	481,382	32.5	482,201	27.5	586,394	29.0	575,446	28.2
Due within one to five years	239,059	16.1	257,864	14.7	266,661	13.2	263,097	12.9
Due beyond five years	761,563	51.4	1,014,823	57.8	1,167,007	57.8	1,204,507	59.0
Total	**1,482,004**	**100.0**	**1,754,888**	**100.0**	**2,020,062**	**100.0**	**2,043,050**	**100.0**

Loan Currencies

As of December 31, 2016, 2017, 2018 and June 30, 2019, 87.3%, 86.2%, 86.8% and 88.3%, respectively, of the Bank's loan portfolio were denominated in Pesos and 12.7%, 13.8%, 13.2% and 11.7%, respectively, were denominated in foreign currency, a substantial proportion of which was denominated in U.S. dollars.

Loans by Currency	Audited As of December 31						Unaudited As of June 30	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In ₱ millions, except percentages)							
Peso	1,293,842	87.3	1,513,164	86.2	1,752,797	86.8	1,803,956	88.3
Foreign								
USD	182,074	12.3	234,366	13.4	257,482	12.7	228,752	11.2
Yen	906	0.1	1,008	0.0	786	0.1	691	0.0
Other Foreign Currency	5,182	0.3	6,350	0.4	8,997	0.4	9,651	0.5
Total	**1,482,004**	**100.0**	**1,754,888**	**100.0**	**2,020,062**	**100.0**	**2,043,050**	**100.0**

Interest Rates

As of June 30, 2019, a substantial portion of the Bank's total loan portfolio was on a floating interest basis. Loan pricing is set by the Bank's asset and liability committee on a weekly basis, and is driven by market factors, the Bank's funding position and the credit risk associated with the relevant borrower. The Bank sets interest rates for Peso-denominated loans based on the Bloomberg Valuation ("**BVAL**") rate and for U.S. dollar-denominated loans based on the U.S. dollar London Interbank Offer Rate. The margins on these interest rates, which range from 1% to 5%, are determined by reference to the credit risk of the relevant borrower.

The Bank's pricing policy with respect to its interest-bearing liabilities is also handled by the Assets and Liabilities Committee (ALCO) during its weekly meetings. CASA deposits typically pay no interest for deposits falling below a minimum maintaining balance. The basic rate of regular Peso savings account deposits that are above the minimum threshold is 0.25% per annum.

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

Size and Concentration of Loans

The BSP imposes a limit on the size of a bank's financial exposure to any single person or group of connected persons to 25% of the bank's net worth (the "Single Borrower 's Limit" or "SBL"). This limit does not apply to the following loans: (a) those secured by obligations of the BSP or of the Government; (b) those fully guaranteed by the Government as to the payment of principal and interest; (c) those secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted credit rating agencies; (d) those to the extent covered by the hold-out or assignment of deposits maintained in the lending bank and held in the Philippines; (e) those under letters of credit to the extent covered by margin deposits; and (f) those which the Monetary Board may, from time to time, specify as non-risk items. As of June 30, 2019, the Bank's SBL was ₱86.7 billion. The Bank has complied with this SBL for all of its loans.

As of December 31, 2016, 2017 and 2018, the Bank's ten largest borrowers accounted for ₱201.4 billion, ₱241.8 billion and ₱263.8 billion, respectively, or 13.5%, 13.8% and 13.1% of the Bank's outstanding loan portfolio of ₱1,482.0 billion, ₱1,754.9 billion and ₱2,020.1 billion (excluding interbank loans). As of June 30, 2019, the Bank's ten largest borrowers accounted for ₱266.2 billion, or 13.0%, of the Bank's loan portfolio.

The following sets forth a breakdown of total loans by principal amount as of June 30, 2019:

Principal amount of loans (in Pesos)	Percentage
Less than 5,000,000	22.3%
5,000,001 to 10,000,000	4.0%
10,000,001 to 15,000,000	2.1%
More than 15,000,000	71.6%
Total	**100.0%**

Secured and Unsecured Loans

The Bank principally focuses on cash flows in assessing the creditworthiness of borrowers. However, it will secondarily seek to minimize credit risk with respect to a loan by requiring borrowers to pledge or mortgage collateral to secure the payment of loans. Where it has determined that collateralization of a loan is desirable, the Bank's policy is to secure the full amount of the loan. As of December 31, 2016, 2017, 2018 and June 30, 2019, approximately 27.8%, 28.2%, 26.0% and 25.1%, respectively, of total loans were extended on a secured basis. Approximately 47.8%, 52.7%, 55.6% and 57.2%, respectively, of these secured loans are backed by real estate mortgages for each period.

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

Credit Rating / Scoring System

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

For all loans of ₱50.0 million or more for corporate borrowers and loans of ₱35.0 million or more for the Bank's middle-market borrowers, the Risk Management Group ("**RMG**") will conduct the credit risk review directly. For those not within their coverage, the credit rating is conducted by the assigned Institutional Banking Group account officer. The Bank updates the rating of an existing loan account at least once a year, which is normally the credit renewal date. However, the Bank may adjust the credit rating within a shorter period if there are identified factors which could affect the borrower's credit quality, or the Bank becomes aware of any adverse development with respect to the borrower or secured collateral.

For the SME borrowers with loan facilities of ₱10.0 million and below, a Credit Scoring System is used to evaluate creditworthiness. It consists of factors related to both customer and collateral.

On the other hand, Application and Behavior scoring models are adopted for the consumer loans unsecured portfolio, namely Credit Card and Personal Loans. The scoring models are used for adjudication of new loan applications as well as in account management such as credit line increases and renewal. Pre-qualification scorecards are likewise used to mine the existing Bank depositors and SM Advantage customers for credit card issuance.

Credit Approval Process

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

The Executive Committee, which includes the Bank's Chairperson, Vice Chairman, the President, a Bank Director and the head of RMG, undertakes the analysis and evaluation of the credit proposal based on the recommendations of the senior credit officers. The Executive Committee deliberates on the viability of the credit proposal in general, but, more particularly, on the appropriateness of the credit extension and risks involved.

Credit Monitoring and Review Process

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

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

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

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

As of December 31, 2016, 2017 and 2018, DOSRI loans accounted for ₱23.2 billion, ₱55.8 billion and ₱54.2 billion, respectively, or approximately 1.6%, 3.2% and 2.7%, respectively, of the Bank's total loans. As of June 30, 2019, DOSRI loans accounted for ₱44.0 billion or approximately 2.2% of the Bank's total loans. Of those amounts, ₱21.8 billion, ₱37.1 billion, ₱34.3 billion and ₱24.8 billion (which includes secured non-risk loans not subject to SBL ceiling), respectively, were accounted for by the SM Group as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively.

Loan Loss Provisioning

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

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

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

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

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

The following is a summary of the risk classification of the Parent Bank's aggregate loan portfolio (as a percentage of total outstanding loans):

	Audited As of December 31						Unaudited As of June 30	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)							
Loans especially mentioned	7,247	0.5	5,369	0.3	2,291	0.1	4,618	0.2
Sub-standard	11,076	0.8	12,118	0.7	6,880	0.4	9,604	0.5
Doubtful	5,097	0.3	5,580	0.4	3,926	0.2	4,150	0.2
Loss	8,322	0.6	8,445	0.5	10,677	0.5	10,841	0.6
Total classified	31,742	2.2	31,512	1.9	23,774	1.2	29,213	1.5
Unclassified	1,387,489	97.8	1,660,212	98.1	1,931,102	98.8	1,944,444	98.5
Total	**1,419,231**	**100.0**	**1,691,724**	**100.0**	**1,954,876**	**100.0**	**1,973,657**	**100.0**

The Bank's allowance for loan impairments is made up of a specific component and a general unallocated component. For corporate loans, the specific component is based on the Bank's classification of individual loans as described above. The general component represents a blanket reserve required by the BSP, equivalent to 1% of the outstanding balance of unclassified loans other than restructured loans less non-risk loans, and 5% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured non-risk loans.

The Board has discretion as to how frequently it writes off its classified loans, provided that these are made against provisions for probable losses or against current operations. Prior BSP approval is required to write off a DOSRI loan account.

Past-due accounts of both Corbank and Combank are initially placed on a "watch list" for closer monitoring and supervision. Past-due loans are then referred to the Bank's Remedial Management Unit if the Bank has determined (i) such loans to be uncollectible, (ii) to terminate its relationship with the borrower or (iii) recovery of such loans will require special management.

Remedial Management

The Remedial Management Unit directly supervises the management of past due loans that are referred to it. For problem loans management, the Bank has two specialized remedial management units to handle corporate/commercial loans and consumer loans. A problem account is assigned to an account officer who evaluates, determines and proposes the appropriate remedial recourse available to the Bank. Commercial solutions instituted include restructuring, payment arrangements, reduction of loan to serviceable level via sale of collateral and/or unencumbered assets or dacion en pago (payment in kind). In case a commercial solution ceases to be feasible, the Bank undertakes legal action, through its legal department, for either foreclosure of loan collateral or criminal/civil collection suits.

Foreclosed assets and assets conveyed to the Bank via dacion en pago goes to Bank's ROPA Management Team which monitors redemption, possession and consolidation of acquired properties. From past due loans, acquired assets are classified as ROPA. Eventually, an acquired property goes up for sale signaling end of the remedial process.

Taking into account cash or non-cash payments that can be derived from the borrower, account officers review and continually assess impaired values of each problem account. Furthermore, they compute for the present value of an account's expected/potential collection to determine any impairment in value. The impaired value is then compared with the credit classification and booked provision. Any adjustment, if necessary, is made accordingly.

All remedial actions require approval of the Bank's Management Credit Committee or Executive Committee depending on the amount of obligation and/or complexity of remedial action. Disposition of the Bank's acquired assets, likewise requires approval of the Executive Committee.

Non-Performing Loans (NPL) and ROPA

The table below sets forth details of the Bank's NPLs, non-accruing loans, ROPA, non-performing assets (as described below), restructured loans and write-offs for loan losses for the specified periods:

	As of December 31,			As of June 30,
	2016	**2017**	**2018**	**2019**
	(in ₱ millions, except ratios, which are in percentages)			
Gross non-performing loans (1)	17,943	19,648	19,977	23,809
Net non-performing loans (1)	5,906	8,108	6,569	8,151
Total loans (1)	1,561,681	1,800,872	2,078,462	2,061,562
Gross non-performing loans to total loans (%)(1)	1.1	1.1	1.0	1.2
Net non-performing loans to total loans (%) (1)	0.4	0.5	0.3	0.4
Non-performing loans (2)	18,775	20,439	20,832	24,651
Total loans	1,482,004	1,754,888	2,020,062	2,043,050
Total non-performing loans to total loans – excluding interbank loans (%) (3)	1.3	1.2	1.0	1.2
Total non-performing loans to total loans – including interbank loans (%) (4)	1.2	1.1	1.0	1.2

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	(in ₱ millions, except ratios, which are in percentages)			
ROPA – net	7,770	9,835	11,102	13,627
Non-performing assets (5)	29,116	32,414	33,844	40,208
Non-performing assets as percentage of total resources (%)	1.3	1.2	1.1	0.0
Allowance for impairment of assets	28,733	32,030	40,051	42,156
Allowance for loan impairments (6)	26,161	29,889	38,141	40,226
Allowance for ROPA impairments	2,571	2,140	1,910	1,930
Allowances for loan impairments as % of total non-performing loans (NPL coverage)	139.3	146.2	183.1	163.2
Allowance for impairment of assets as a % of non-performing assets (%)	98.7	98.8	118.3	104.8
Total restructured loans	1,743	1,686	1,824	1,805
Current	170	144	113	111
Past due	1,521	1,490	1,659	1,642
In-Litigation	52	52	52	52
Restructured loans as % of total loans	0.1	0.1	0.1	0.1
Loans written off	3,313	2,162	2,324	1,008

(1) Per BSP Circular 941
(2) Excludes Receivable from SPVs
(3) Total non-performing loans divided by total loans excluding interbank loans
(4) Total non-performing loans divided by total loans including interbank loans
(5) Non-performing assets comprised of ROPA (gross) and non-performing loans
(6) Starting December 31, 2018, includes amount of appropriation to surplus reserves for general loan loss portfolio

The Bank classifies loans as past due upon the occurrence of certain non-payment events, and then reclassifies such loans as “non-accruing” or “non-performing” upon continuing non-payment or payment default, in accordance with BSP guidelines. In the case of loans requiring repayment of principal at maturity or scheduled payment of principal or interest due quarterly (or longer), failure to make such payment on the due date triggers non-performing classification. In the case of loans requiring payment of principal or interest on a monthly basis, continued failure to make payment for three months from the due date triggers non-performing classification.

As of June 30, 2019, the Bank’s ten largest NPLs amounted to ₱7.3 billion or approximately 0.4% of the Bank’s total loans.

Sectoral Analysis of Non-Performing Loans

The following table sets forth, as of the dates indicated, the Bank's gross NPLs by the respective borrowers' industry or economic activity and a percentage of the Bank's gross NPLs:

	Audited						Unaudited	
	As of December 31,						As of June 30,	
Industry Classifications	**2016**		**2017**		**2018**		**2019**	
	Amount	%	Amount	%	Amount	%	Amount	%
Agriculture, Forestry and Fishing	862	4.6	809	4.0	1,009	4.8	1,004	4.1
Mining and Quarrying	15	0.1	29	0.1	37	0.2	47	0.2
Manufacturing	4,745	25.3	3,963	19.4	3,941	18.9	7,046	28.6
Electricity, Gas, Steam and Air-conditioning Supply	25	0.1	30	0.1	25	0.1	25	0.1
Water supply, Sewerage, Waste Management and Remediation Activities	20	0.1	9	0.0	2	0.0	2	0.0
Construction	244	1.3	295	1.4	343	1.6	398	1.6
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycle	2,642	14.1	2,340	11.4	3,299	15.8	3,142	12.7
Transportation and Storage	122	0.6	125	0.6	159	0.8	201	0.8
Accommodation and Food Services Activities	76	0.4	197	1.0	199	1.0	127	0.5
Information and Communication	104	0.6	296	1.4	272	1.3	273	1.1
Financial and Insurance Activities	132	0.7	78	0.4	73	0.4	83	0.3
Real Estate Activities	487	2.6	512	2.5	240	1.2	255	1.0
Professional, Scientific and Technical Services	137	0.7	130	0.6	107	0.5	158	0.6
Administrative and Support Services	227	1.2	583	2.9	547	2.6	542	2.2
Public Administrative and Defense; Compulsory Social Security	14	0.1	20	0.1	6	0.0	87	0.4
Education	451	2.4	553	2.7	1,871	9.0	1,231	5.0
Human Health and Social Work Activities	78	0.4	85	0.4	35	0.2	95	0.4
Arts, Entertainment and Recreation	5	0.0	48	0.2	41	0.2	3	0.0
Other Service Activities	3,548	18.9	4,635	22.7	2,892	13.9	3,343	13.6
Activities of Private Household as Employers and Undifferentiated Goods and Services and Producing Activities of Households for Own Use	4,837	25.8	5,700	27.9	5,733	27.5	6,589	26.8
Activities of Extraterritorial Organizations and Bodies	2	0.0	1	0.0	1	0.0	1	0.0
Total	**18,775**	**100.0**	**20,438**	**100.0**	**20,832**	**100.0**	**24,651**	**100.0**

Loans that are subsequently foreclosed or transferred to the Bank's ROPA account are removed from the non-performing category. Accrued interest arising from a loan account is classified according to the classification of the corresponding loan account. In accordance with BSP guidelines, loans and other assets in litigation are classified as non-performing assets. The Bank's non-performing assets principally comprise ROPA and NPLs.

Foreclosure and Disposal of Assets

The Bank's preferred strategy for managing its exposure to non-performing loans that are secured is to restructure the payment terms of such loans. The Bank will only foreclose on a non-performing loan if restructuring is not feasible or practical, or if the borrower cannot or will not repay the loan on acceptable terms. In the case of larger loans, the Bank may also consider accepting a dacion en pago arrangement.

In the six months ended June 30, 2019, the Bank sold ₱1.0 billion of acquired assets in ROPA. The Bank had a net ROPA of ₱7.8 billion, ₱9.8 billion and ₱11.1 billion, as of December 31, 2016, 2017 and 2018, respectively, consisting of various real estate properties and shares of stock in several companies. As of June 30, 2019, the Bank's net ROPA amounted to ₱11.7 billion, or 14.6% higher than the ₱10.2 billion as of June 30, 2018.

Under the current regulations, the Bank is required to conduct impairment testing on its acquired assets, which becomes the basis for the provisioning levels. The Bank's valuation reserves on ROPA amounted to ₱2.6 billion, ₱2.1 billion, ₱1.9 billion and ₱1.9 billion, as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively.

Subsidiaries and Affiliates

BDO's diverse subsidiaries and investments in allied undertakings provide an extensive range of banking and other financial services. The table below shows selected subsidiaries and associates of the Bank as of June 30, 2019:

Philippine Subsidiaries	**% Interest Held**
BDO Capital & Investment Corporation	99.88%
BDO Insurance Brokers, Inc.	100%
BDO Private Bank, Inc.	100%
BDO Strategic Holdings, Inc.	100%
BDO Securities	99.88%
BDO Nomura Securities, Inc. (formerly PCIB Securities, Inc.)	51%
BDO Leasing and Finance, Inc.	88.54%
Equimark – NFC Development Corp.	60%
One Network Bank, Inc.	84.87%
BDO Life (formerly Generali Pilipinas Life Assurance Company, Inc.)	100%
Foreign Subsidiaries	**% Interest Held**
BDO Remit (USA), Inc.	100%
Express Padala (Hongkong) Ltd.	100%
BDORO Europe Ltd.	100%
BDO Remit (Canada) Ltd	100%
BDO Remit (Japan) Ltd	100%
Associates	**% Interest Held**

SM Keppel Land, Inc.	50%
Taal Land, Inc.	33.33%
NorthPine Land Incorporated	20%
NLEX Corporation	11.7%
MMPC Auto Financial Services Corporation	34.97%

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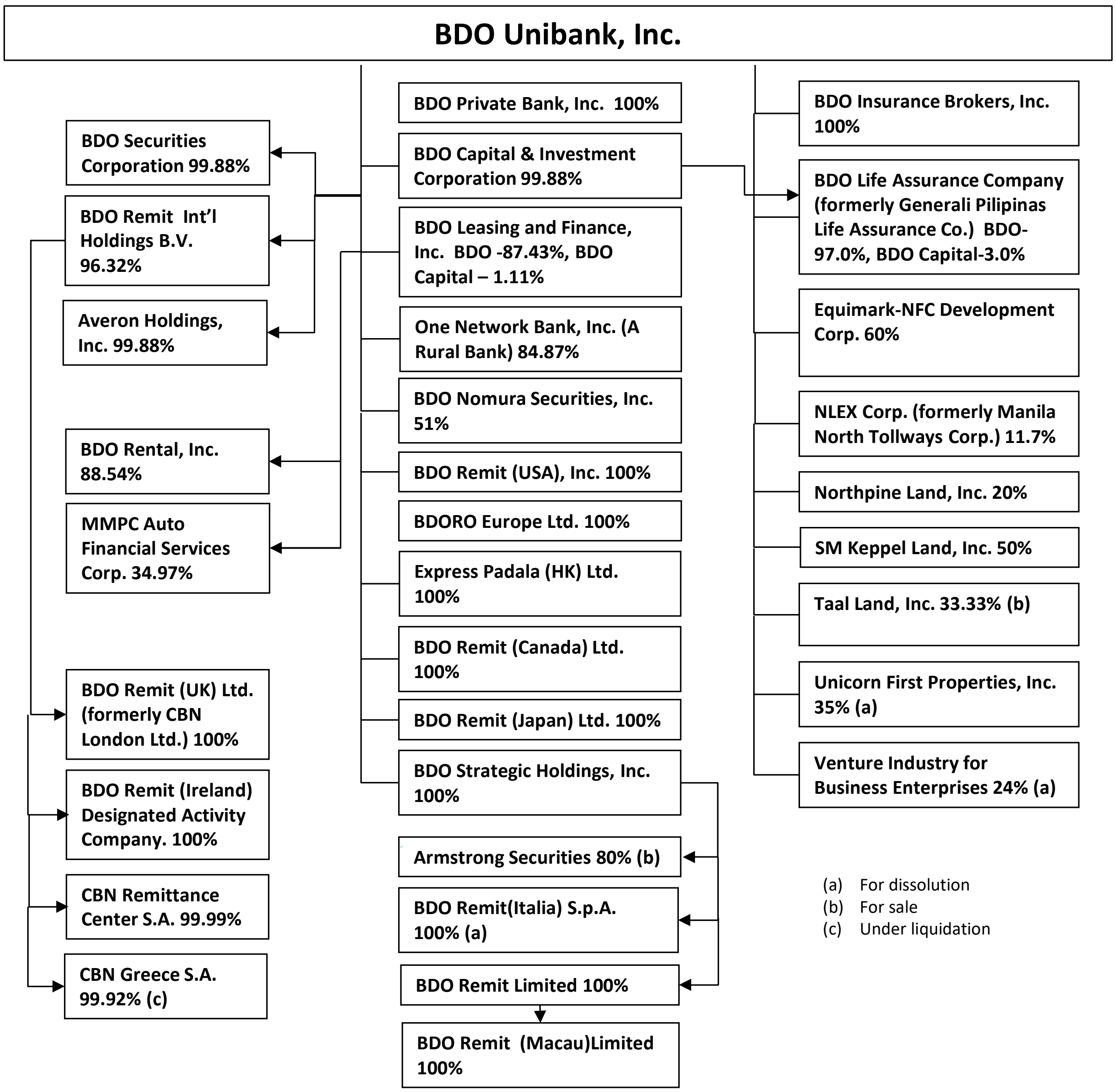
* For dissolution

An organizational chart of BDO's operating subsidiaries and associates as of June 30, 2019 appears below.



SUBSIDIARIES

BDO Capital & Investment Corporation

BDO Capital & Investment Corporation is the Bank's investment banking arm that started operations in March 1999. *See "Business — Product Management — Investment Banking"*.

BDO Insurance Brokers, Inc.

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

BDO Private Bank, Inc.

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

BDO Strategic Holdings, Inc.

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

BDO Securities Corporation

BDO Securities Corporation, ("BSC") was incorporated in the Philippines on September 25, 1995. *See "Business — Product Management — Stock Brokerage"*

BDO Leasing and Finance, Inc.

BDO Leasing and Finance, Inc. was incorporated in 1981 and was listed in the PSE on January 6, 1997. *See "Business — Product Management — Leasing and Financing"*.

Equimark-NFC Development Corporation

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

One Network Bank, Inc.

One Network Bank, Inc. ("ONB") is 84.87% owned by the Bank. *See "Business — Relationship Management — Rural Banking"*.

BDO Nomura Securities, Inc. (formerly PCIB Securities, Inc.)

PCIB Securities, Inc., a wholly-owned subsidiary, was incorporated in the Philippines on June 29, 1994 and was licensed by the SEC primarily to engage as dealer in the business of offering, buying, selling, dealing or trading of securities of all kinds for its own account and as a broker in the purchases, sales or other transactions relating to all kinds of securities of any person, corporation or entity.

On June 29, 2015, the Bank announced that it signed a definitive agreement with Nomura Holdings, Inc. ("Nomura") for a joint investment in PCIB Securities, Inc. The joint venture, which will initially provide online trading services for local stocks to individual investors, will eventually expand its services to include cross-border investment opportunities to a broader range of investors. On January 27, 2016, PCIB Securities, Inc. executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (Nomura Singapore), a wholly-owned subsidiary of Nomura, for the issuance of 336,274 common shares of PCIB Securities, Inc. to Nomura Singapore at ₱370.34 per share. The joint venture was renamed "BDO Nomura Securities, Inc.", with the goal of becoming one of the premier securities brokerage firms in the Philippines by providing online trading services for local stocks to individual investors. The business also aims to provide stock brokerage services to institutional clients overseas and to eventually provide a platform to connect Filipino investors to the international stock markets. The Bank holds a 51% stake in the company while Nomura owns 49%. On October 24, 2016, BDO Nomura Securities, Inc. launched its online trading platform. *See "Business — Product Management — Online Trading"*.

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

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

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

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

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

BDO Remit (USA), Inc.

BDO Remit (USA), Inc., a wholly-owned subsidiary, was incorporated in California on February 15, 1991. It offers a full range of remittance services to the Philippines through its offices in West Covina, Los Angeles and San Francisco, and its agents in California and other states.

Express Padala (Hongkong) Ltd.

Express Padala (Hongkong) Ltd. provides remittance services to the Philippines from Hong Kong. It is wholly-owned by the Bank.

BDORO Europe Ltd.

BDORO Europe Ltd., a wholly owned subsidiary, was formed in London and registered with the Companies House on May 30, 2012. It is now in the process of completing the documents to support its application for a banking license in the United Kingdom. While waiting for the authorization process to be completed and with the acquisition of a real estate property in London, it will initially operate as a property lessor but will eventually provide commercial banking services to the Filipino communities in UK and Europe.

BDO Remit (Canada) Ltd.

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

BDO Remit (Japan) Ltd.

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

ASSOCIATES

SM Keppel Land, Inc.

SM Keppel Land, Inc. is approximately 50% owned by the Bank and 50% owned by the Keppel Group of Singapore. It is a private corporation which owns approximately two hectares of land in the Ortigas district where SM Keppel operates a five-storey retail podium geared towards upper market lifestyle shopping.

NLEX Corporation

NLEX Corporation, where the Bank has an 11.7% ownership, is the builder and concessionaire of the North Luzon Expressway, and is involved in all aspects of tollway operations – from toll collection to traffic management and from motorists' assistance to roadway maintenance. The company's other shareholders are Metro Pacific Tollways Development Corporation, Egis Projects S.A. of France, reputedly the world's biggest tollways operator; Leighton Asia Ltd. of Australia, a civil works specialist with an extensive track record in toll road construction; and Philippine National Construction Corporation, the state-owned company that holds the franchise for the operation of the expressway.

Taal Land, Inc.

Taal Land, Inc. is 33% owned by the Bank. It owns 25% of Jaka Tagaytay, developer of the Splendido resort.

NorthPine Land, Inc.

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

OTHER COMPANIES IN THE BDO GROUP

BDO Remit Limited

BDO Remit Limited ("BDO Remit"), a wholly-owned subsidiary of BDOSHI, was incorporated on September 15, 2004 as BDO Remittance until it changed to its current legal name on August 3, 2009. It offers specialized remittance services to cater to the needs of Filipino workers and migrants in Hong Kong who regularly send money to the Philippines. With its growing network in Hong Kong, BDO Remit offers secure, reliable and convenient remittance service to the Philippines through its offices in Worldwide Plaza and in Tsuen Wan and through its agents in more than 60 other locations all over Hong Kong.

BDO REMIT (ITALIA) SPA

BDO Remit (Italia) SpA, is a company incorporated as a joint stock or limited liability corporation (Societa per Azioni - SpA). It was established under its former name EBC Interlink S.p.A. in Milan, Italy on April 23, 1996. The corporate name was changed to Express Padala (Italia) SpA on January 1, 2000 during the merger between then Equitable Bank and PCIBank. Subsequently, with BDO's acquisition of EPCIB, the remittance company name was changed to BDO Remittance (Italia) SpA on April 28, 2008 and to BDO Remit (Italia) SpA on July 29, 2009.

BDO Remit (Macau) Limited

BDO Remit (Macau) Ltd., a wholly-owned subsidiary of BDO Remit, was incorporated on December 18, 1997 initially under the name of PCI Express Padala. On May 6, 2010, it was incorporated under its current legal name, BDO Remit (Macau) Ltd. The subsidiary office extended its presence by opening its second branch last August 17, 2010. To date, the two offices located in China Plaza offer a full range of remittance services to Overseas Filipino Workers in Macau.

BDO Rental, Inc.

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

Armstrong Securities, Inc.

Armstrong Securities, Inc. ("ASI") is 80% owned by BDOSHI which is a wholly-owned subsidiary of the Bank. ASI is licensed by the SEC as a dealer in securities and is an accredited trading participant of the PSE.

Averon Holdings Corporation

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

BDO Remit International Holdings B.V. (formerly CBN Grupo International Holdings B.V.)

BDO Remit International Holdings B.V. is a remittance company based in Europe which was incorporated in the Netherlands on October 10, 2007. Operating in UK, Ireland, Spain and Greece, CBN Grupo offers door-to-door delivery, bank to bank deposit, Smart Money and BDO Cash Cards and pick up anywhere services.

On June 27, 2015, the Bank's Board of Directors authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued its shares to BDO Capital, which made the latter the owner of approximately 96% of the outstanding capital stock of CBN Grupo. CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered thereafter with The Netherlands Chamber of Commerce on October 24, 2016.

MMPC Auto Financial Services Corporation

MMPC Auto Financial Services Corporation is a joint venture of BDO Leasing and Finance, Inc. ("**BDOLF**"), a subsidiary of the Bank, with Mitsubishi Motors Philippines Corporation ("**MMPC**"), Sojitz Corporation ("**SJC**") and JACCS Co. Ltd. ("**JACCS**"), and was incorporated to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On March 7, 2019, BDOLF announced that it is selling its 40% equity interest in MAFSC to JACCS, allowing BDOLF to focus more on its core business of equipment leasing and finance and in line with JACCS' decision to expand its investment in MAFS as part of JACCS' strategy to accelerate the growth of its overseas business.

RISK MANAGEMENT

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

To manage the financial risks of holding financial assets and liabilities, the Bank operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, market (foreign exchange, interest rate, price, and credit risks) and operational risks. The Bank's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Bank's statements of financial position to optimize the risk-reward balance and maximize return on the Bank's capital. The Bank's Risk Management Committee ("**RMC**") has overall responsibility for the Bank's risk management systems and sets risks management policies across the full range of risks to which the Bank is exposed. Specifically, the Bank's RMC places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Within the Bank's overall risk management system is the ALCO, which is responsible for managing the Bank's statement of financial position, including its 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.

Separately, the Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control and monitor the over-all risk profile of the Bank's activities across the different risk areas (i.e., credit, market, liquidity, and operational) to optimize the risk-reward balance and maximize return on capital.

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

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

Liquidity Risk Management

Liquidity risk is the risk that there could be insufficient funds available to repay depositors, to fulfill commitments to lend, or to meet any other liquidity commitments. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to meet funding requirements, manage liquidity gaps, regular liquidity stress testing, and establishment of a Liquidity Contingency Plan, to ensure adequate liquidity under both business-as-usual and stress conditions.

The Bank's principal source of liquidity is comprised of ₱44.7 billion of cash and ₱2,272.3 billion of short-term deposits with maturities of less than one year as of June 30, 2019. In addition to regulatory reserves, the Bank maintains what it believes to be a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that can be converted to cash quickly. Of a net portfolio of trading and investment securities of ₱269.0 billion, ₱332.9 billion, ₱385.2 billion and ₱427.7 billion, respectively, as of December 31, 2016, 2017, 2018 and June 30, 2019, ₱60.7 billion, ₱30.5 billion, ₱70.6 billion and ₱78.2 billion, respectively, comprised trading and investment securities with remaining maturities of one year or less. The Bank also uses the interbank market as a means of maintaining a sufficient level of liquid assets. It had interbank loan receivables of ₱73.4 billion, ₱37.7 billion, ₱49.3 billion and ₱62.9 billion as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively. In addition, the Bank manages liquidity by maintaining a loan portfolio with a sufficient proportion of short-term loans. As of June 30, 2019, ₱667.7 billion, or 31.5%, of the Bank's loans and other receivables comprised loans with remaining maturities of one year or less, including past-due loans.

Interest Rate Risk Management

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

The following table sets forth the interest rate gap position for the Bank's operations as of June 30, 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**
			(in ₱ millions)			
Resources:						
Cash and other cash items...............................	-	-	-	-	44,718	44,718
Due from BSP/other banks..............................	100,321	2,059	10	-	267,883	370,274
Trading and investment securities	7,689	63,627	192,930	136,480	26,941	427,667
Loans and other receivables	963,256	270,917	660,615	225,132	-	2,119,920
Other resources..............	-	-	-	-	102,707	102,707
Total Resources	**1,071,266**	**336,603**	**853,555**	**361,612**	**442,250**	**3,065,286**
Liabilities and Equity:						
Deposit liabilities.............	576,137	56,309	66,821	25,666	1,674,626	2,399,558
Bills payable and subordinated debt...........	48,911	16,370	102,821	8,071	597	176,770
Insurance contract liabilities…………………..	(375)	(1,125)	826	25,105	11,725	36,156
Other liabilities.................	614	1,100	3,617	7	96,628	101,966
Total Liabilities	625,288	72,653	174,085	58,849	1,783,576	2,714,450
Equity	-	-	-	-	350,836	350,836
Total Liabilities and Equity	**625,288**	**72,653**	**174,085**	**58,849**	**2,134,411**	**3,065,286**
On-book gap	445,978	263,950	679,469	302,764	(1,692,162)	-
Cumulative on-book gap	445,978	709,929	1,389,398	1,692,162	-	-

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

Credit Risk Management

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

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

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

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

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

Market Risk Management

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

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

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

Trading volume — The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk — The RMG computes the earnings-at-risk based on a percentage of projected annual net interest income.

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

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

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

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

Foreign Exchange Risk Management

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

The Bank's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital, or US$50 million, whichever is lower, on the consolidated excess foreign exchange holding of banks in the Philippines. In the case of the Bank, its foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in the Bank's branches as well as foreign exchange trading with corporate accounts and other financial institutions. The Bank, being a major 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 during the day is guided by the limits set forth in the Bank's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the Bank reports to the BSP on its compliance with the mandated foreign currency exposure limits. In addition, it also reports to the BSP on the respective foreign currency positions of its subsidiaries.

As of June 30, 2019, the Bank's net foreign exchange exposure was negative US$0.65 million inclusive of the foreign exchange position of the Bank's subsidiaries.

MANAGEMENT, EMPLOYEES AND SHAREHOLDERS

EMPLOYEES

As at June 30, 2019, the Bank employed a total of 37,169 people, 17,610 of whom were engaged in a professional managerial capacity and classified as Bank officers.

Bank staff employees, other than those expressly excluded in the Collective Bargaining Agreement ("CBA"), are represented by the Banco De Oro Employees Association (the "Union"), an affiliate of the Associated Labor Unions (ALU). The Bank's CBA is in effect for a period of five years from November 1, 2015 to October 31, 2020 in so far as the representation aspect is concerned. Negotiation on the economic provisions for the period November 1, 2018 to October 31, 2020 was signed on December 21, 2018. Ratification for the National Capital Region (NCR) was conducted on December 14, 2018 with overwhelming acceptance from the Union members, while the ratification in provincial areas was completed in January 2019. The Bank's latest CBA was signed on January 13, 2016 and was unanimously accepted and ratified by its members.

The Bank has not suffered any strikes since it started operations, and the management of the Bank considers its relations with its employees and the Union to be good.

The average age of the Bank's officers and employees is 33 years, and the average Bank-wide tenure is seven years. The mandatory retirement age for the Bank is 60 years.

The aggregate compensation paid to employees by the Bank for the years ended December 31, 2016, 2017, 2018 and for the six months ended June 30, 2019 were ₱24.7 billion, ₱27.4 billion, ₱30.4 billion and ₱15.9 billion, respectively.

The Bank maintains a tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As at December 31, 2018, the fair value of the retirement plan assets of the Bank was ₱24.1 billion and the present value of the obligation was at ₱28.6 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit liability of ₱4.5 billion for the year.

MANAGEMENT

BOARD OF DIRECTORS

The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Bank. It is also responsible for the proper administration and management of the Bank's trust business.

The following table sets forth the persons who served as a Director of the Bank as of June 30, 2019:

Name	Position	No. of Years as Director
Teresita T. Sy	Chairperson	41
Jesus A. Jacinto, Jr.	Vice Chairman	22
Christopher A. Bell-Knight	Director	first term: 5; 2nd term: 5
Jose F. Buenaventura	Independent Director	5
Jones M. Castro, Jr.	Lead Independent Director	6
Dioscoro I. Ramos	Independent Director	3
George T. Barcelon	Independent Director	elected April 22, 2019
Josefina N. Tan	Director	first term: 4; second term: 11
Nestor V. Tan	Director/President and CEO	20
Vicente S. Perez, Jr.	Independent Director	elected April 22, 2019
Gilberto C. Teodoro, Jr.	Independent Director	4

Teresita T. Sy, Filipino, has been a member of the Board of Directors of BDO Unibank, Inc. since 1977, and currently serves as the Chairperson of the Board. Concurrently, she serves as Chairperson and/or Director of various subsidiaries and affiliates of BDO: BDO Private Bank, Inc., BDO Leasing & Finance, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). Ms. Sy also serves as Advisor to the Board of Directors of One Network Bank, Inc. (A Rural Bank of BDO).

Ms. Sy is the Vice Chairperson of SM Investments Corporation (PLC) and Advisor to the Board of SM Prime Holdings, Inc. She also sits as Chairperson of the Board of SM Retail, Inc.

Jesus A. Jacinto, Jr., Filipino, was elected to the Board of Directors of BDO Unibank Inc. on May 25, 1996 and has since been Vice Chairman of the Board. He is concurrently the Chairman and President of BDO Insurance Brokers, Inc. He also heads Jaces Corp. as Chairman and President; and Janil Realty, Inc. and JAJ Holdings, Inc., as President. Formerly, he was Director and Executive Vice President of CityTrust Banking Corp.; Director of CityTrust Investments Phil. and CityTrust Finance Corp.; and Vice President and Managing Partner of Citibank N.A.

Nestor V. Tan, Filipino, is the President and CEO of BDO Unibank, Inc. He was elected to the Board of Directors on June 27, 1998. He concurrently holds the chairmanship of the following Bank subsidiaries: BDO Strategic Holdings, Inc. and One Network Bank, Inc. (A Rural Bank of BDO). He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Leasing and Finance, Inc. , BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.), BDO Private Bank, Inc., BDO Remit (USA), Inc., and SM Keppel Land, Inc. He is a Trustee of BDO Foundation, Inc., and Chairman of the Board of Trustees of the De La Salle University and a Director of the Asian School of Business & Technology. 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 Chairman and director of Philippine Dealing System Holding Corporation. Prior to joining BDO Unibank, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them Mellon Bank (now BNY Mellon) in Pittsburgh, PA; Bankers Trust Company (now Deutsche Bank) in New York; and the Barclays Group in New York and London.

George T. Barcelon, Filipino, was elected Independent Director of the Bank on April 22, 2019. He is the visionary behind Integrated Computer Systems, Inc. (ICS), one of the Top 1000 companies based in the Philippines, dedicated to providing effective IT Solutions for small- to large-scale businesses and institutions. For 40 years, ICS has provided its customers with technological expertise and quality services. As the president of a company with 400 employees whose success depends on uncompromising leadership, imagination and careful quality control. Mr. Barcelon seeks to promote the values of integrity, commitment and service quality, the cornerstones upon which ICS was built. Mr. Barcelon is currently the Chairman of the Philippine Chamber of Commerce and Industry (PCCI). He is also a member of the Rotary Club of Makati and a board member of the Cardinal Medical Charities Foundation, Inc.

Christopher A. Bell-Knight, Canadian, was elected to the Board of Directors of BDO Unibank, Inc. on July 27, 2013. Until his election as Director, Mr. Bell-Knight had been acting as Advisor to the Board of BDO Unibank for more than two years. He had also previously served as Director of BDO Unibank from May 2005 until September 2010. He was an Independent Director of Dumaguete City Development Bank Philippines from March 2007 to March 2013, and concurrently serves as an Advisor to the Board. He was formerly a Director of Solidbank Corp. and Vice President and Country Head of the Bank of Nova Scotia. He has had over 40 years of banking experience in England, Canada, and Asia of which thirty-five (35) years were spent in credit and marketing. Mr. Bell-Knight is an Associate of the Chartered Institute of Bankers – British, an Associate of the Institute of Canadian Bankers, and a Fellow of the Institute of Corporate Directors.

Jose F. Buenaventura, Filipino, was elected Independent Director of BDO Unibank on April 19, 2013. Since 1976, he has been a Senior Partner of the Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Offices. He is President and Director of Consolidated Coconut Corporation and Director and Corporate

Secretary of 2B3C Foundation, Inc. and Peter Paul Philippines Corporation. He sits on the Boards of Directors of the following companies: BDO Securities Corporation (Independent Director), Eximious Holdings, Inc., Cebu Air, Inc. , GROW, Inc., GROW Holdings, Inc., Hicap Properties Corporation, Himap Properties Corporation, La Concha Land Investments Corporation, Philippine First Insurance Co., Inc., PhilPlans First, Inc., Techzone Philippines, Inc., Total Consolidated Asset Management, Inc., and Turner Entertainment Manila, Inc.

Jones M. Castro, Jr., Filipino and American, has been an Independent Director of the Bank since April 20, 2012. Mr. Castro has 45 years of banking expertise, with 39 years of international banking experience. From 2009 to 2011, Mr. Castro was the Area Head for South and Southeast Asia of the Wells Fargo Bank, San Francisco. As Area Head, Mr. Castro managed 12 countries, 11 overseas offices, 102 team members and US$3 billion in loans. From 2006 to 2009, Mr. Castro was Regional Head for Latin America, including the Caribbean, of Wachovia Bank, Miami, and managed 25 countries, three overseas offices, 30 team members and a US$1.8 billion loan portfolio. From 2005 to 2006, he was Executive Vice President and International Banking Group Head of the Union Bank of California, San Francisco. From 1990 to 1994, he was Senior Vice President – Controller of Bank of California, San Francisco, and from 1994 to 1997, he was its Senior Vice President of Strategic Planning. Mr. Castro is currently Executive Vice Chairman and Trustee of PhilDev USA and PhilDev S & T, Director of AI Wave Computing, Inc., Adviser of Wave Computing, Inc., and is a Fellow at the Institute of Corporate Directors.

Vicente S. Perez, Jr., Filipino, was elected Independent Director of the Bank on April 22, 2019. He is currently an Independent Director of BDO leasing and Finance, Inc. (BDOLF). He was elected to the Board of Directors of BDOLF on April 7, 2017. He is an independent Director of BDO Capital & Investment Corporation and DoubleDragon Properties Corp. He is also a Non-Executive Director of Singapore technologies Telemedia Pte, Ltd. and STT Communications Ltd. Mr Perez is currently the Chairman of Alternergy and SolarPacific, Philippine renewable power companies in wind, hydro and solar. He was Philippine Energy Secretary from 2001 to 2005. Mr. Perez briefly served in early 2001 as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments. He was Vice Chairman of the National Renewable Energy Board. He is a member of the advisory boards of Bhutan Foundation, the Yale Center for Business & Environment, Geneva-based Pictet Clean Energy Fund, and bio-energy company Roxas Holdings, Inc. Mr Perez is Chairman of the National Advisory Council of WWF-Philippines, a Trustee of WWF-China and a board member of WWF – US.he was a 2005 World Fellow at Yale University where he lectured an MBA class on renewable power at the Yale School of Management.

Dioscoro I. Ramos, Filipino, was elected to the Board of Directors of the Bank in January 2016. Since 2011, Mr. Ramos has been the Chief Investment Officer of RY& S Investments Ltd., Hong Kong. A CPA, he was Head of Asia Financials Investment Research of Goldman Sachs Asia, LLC, Hong Kong from 1994 to 2011 and appointed Managing Director in 1998 and Partner in 2006. Prior to this, he was with Mellon Bank, N.A. with postings in Pittsburgh, Philadelphia, New York, and Hong Kong.

Josefina N. Tan, Filipino, was Director of Banco de Oro Universal Bank (now BDO Unibank, Inc.) from February 3, 2001 to August 2005. She then became a Director of Equitable PCI Bank, Inc. from September 2005 until its merger with BDO Unibank in May 2007. Ms. Tan was re-elected to the Board of Directors of BDO Unibank on July 27, 2007. Concurrently, she is Board Adviser of BDO Private Bank, Inc. She is also the Chairperson of the Board of Miriam College and a Trustee of the Development Center for Finance and the Laura Vicuña Foundation. She served as President and Director of BDO Private Bank, Inc. from August 29, 2003 to April 17, 2017. She was also Executive Vice President of the former Far East Bank & Trust Co.; Director and President of FEB Leasing & Finance Corp.; Executive Director and Trustee of FEB Foundation, Inc.; and Executive Vice President of FEB Investments, Inc. until 2000.

Gilberto C. Teodoro, Jr., Filipino, was elected Independent Director of BDO on April 25, 2014. He is the Chairman of Sagittarius Mines, Inc. and Indophil Resources Philippines, Inc. He was formerly Chairman of Suricon Resources Corporation and PNP Foundation, Inc. He is also a member of the Board of Directors of Philippine Geothermal Production Company, Inc., Alphaland Corporation, and Canlubang Sugar Estate. He served as Secretary of National Defense from 2007 to 2009 and was a member of the Philippine House of Representatives from 1998 to 2007. He continues to advise the public sector agencies and is currently the Chairman of the Philippine Air Force Multi-Sectoral Governance Council and sits in a similar one of the Philippine Navy. He is a recipient of the Philippine Legion of Honor with the rank of Grand Commander. He is well-trained in litigation and was involved in a wide range of issues -- constitutional, corporate, criminal, civil, and administrative -- and in pro-bono work to assist various indigent litigants from 1990 to 1997. He placed first in the Philippine Bar Examinations of 1989 and was admitted to the State Bar of New York.

The following table shows the shareholdings of each current Director in the Bank as of June 30, 2019.

Name	No. of Shares	% of Total Shares
Teresita T. Sy	394,947	0.01%
Jesus A. Jacinto, Jr.	35,502	0.00%
Nestor V. Tan	11,871,794	0.27%
Christopher A. Bell-Knight	123	0.00%
George T. Barcelon (Independent Director)	1,001	0.00%
Jose F. Buenaventura (Independent Director)	1	0.00%
Jones M. Castro, Jr. (Independent Director)	1	0.00%
Vicente S. Perez, Jr. (Independent Director)	5,000	0.00%
Dioscoro I. Ramos (Independent Director)	181,880	0.00%
Josefina N. Tan	596,458	0.01%
Gilberto C. Teodoro, Jr. (Independent Director)	1	0.00%

The aggregate compensation paid by the Bank to its Directors for the years ended December 31, 2016, 2017, 2018 and for the six months ended June 30, 2019 were ₱31.5 million, ₱33.8 million, ₱31.9 million and ₱20.9 million, respectively.

Loans from the Bank to Directors was nil as of December 31, 2016, 2017, 2018 and June 30, 2019. All loans to Directors are made on arm's length commercial terms.

SENIOR MANAGEMENT

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Bank. They are responsible for the implementation of the policies set by the Board of Directors. The following is a list of the Bank's key officers:

Name	Position
Nestor V. Tan	President, CEO and Director
Walter C. Wassmer	Head, Institutional Banking Group
Rolando C. Tanchanco	Head, Consumer Lending Group
Jaime C. Yu	Head, Branch Banking Group
Joseph Albert L. Gotuaco	Head, Central Operations Group
Dalmacio D. Martin	Treasurer
Roberto E. Lapid.	President, BDO Leasing and Finance, Inc.
Eduardo V. Francisco	President, BDO Capital & Investment Corporation
Rafael G. Ayuste	Head, Trust and Investments Group
Albert S. Yeo	President, BDO Private Bank, Inc.
Maria Ophelia L. Camina	Director and Treasurer, BDO Nomura Securities, Inc.
Maria Cecilia G. Fonacier	Head, Marketing Communications Group
Alvin C. Go	Head, Legal Services Group
Edwin Romualdo G. Reyes	Head, Transaction Banking Group
Maria Theresa L. Tan	General Manager, BDO Insurance Brokers, Inc.
Renato A. Vergel de Dios	President and CEO, BDO Life Assurance Company, Inc.

Name	Position
Jesus Antonio S. Itchon……………………..	President, One Network Bank (A Rural Bank of BDO)
Frederic Mark S. Gomez…………………….	Head, Information Technology Group
Myla R. Untalan…………………………….	Head, Digital Infrastructure Services Group
Evelyn L. Villanueva	Head, Risk Management Group
Luis S. Reyes, Jr.	Head, Investor Relations and Corporate Planning
Estrellita V. Ong	Head, Internal Audit Group
Federico P. Tancongco	Chief Compliance Officer
Lucy Co Dy	Comptroller
Evelyn C. Salagubang	Head of Recruitment, Human Resources Group
Grace C. Palomar……………………………..	Head of Training and Organization Development, Human Resources Group
Sixto S. Gaddi………………………………..	Head of Workforce Management and Services, Human Resources Group

INVOLVEMENT IN LEGAL PROCEEDINGS

The Bank is not aware of any of the following events having occurred during the past five years up to the date of this Offering Circular that are material to an evaluation of the ability or integrity of any Director, nominee for election as Director, Senior Management, underwriter or controlling person of the Bank:

(a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(b) any conviction by final judgment, including the nature of the offence, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(c) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;

(d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated; and

(e) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

CORPORATE GOVERNANCE

As part of its increasing focus on corporate governance, the Bank established a number of Board committees.

The Executive Committee. The Executive Committee acts on behalf of the Board as the main approving body for Bank exposures, particularly for the approval/confirmation of credit proposals, investments and disposal of acquired assets and other projects or initiatives to enhance the Bank's operating and service delivery capabilities.. It meets at least once a week. The committee is chaired by Teresita T. Sy. Its other members are Nestor V. Tan, Jesus A. Jacinto, Jr., Josefina N. Tan, Antonio N. Cotoco, Guia C. Lim and Edmundo S. Soriano.

Board Audit Committee. The Audit Committee provides oversight of the internal and external audit functions. It is vested by the Board with the following authority: a) Review and approve the audit scope and frequency, and the annual internal audit plan; b) Provide oversight on the Internal Audit Department and appointment of the Chief Internal Auditor as well as the Bank's independent external auditor, the terms and conditions of its engagement and removal of which only the independent and nonexecutive directors should decide; c) Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system, including financial, operational and compliance controls and risk management annually; d) Receive and review reports of internal and external auditors, the Chief Compliance Officer, and regulatory agencies, where applicable, and shall address all issues and concerns from auditors expeditiously and effectively by ensuring that management is taking appropriate corrective actions in a timely manner and take appropriate corrective actions in addressing control and compliance issues with regulatory agencies; e) Review the Bank's quarterly, semi-annual, and annual financial statements before submission to the Board and ensure that no revisions to the Bank's financial statements are implemented for reasons other than mandated changes in accounting practices; f) Review and update the Audit Committee Charter at least annually, investigate any matter within its term of reference and provide mechanisms for reporting of improprieties and malpractices, independent investigation, follow-up action and subsequent resolution of complaints; g) Ensure that the internal auditors shall have free and full access to all the company's records, properties and personnel relevant to the internal audit activity. The internal audit activity shall be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results. The committee is chaired by Jose F. Buenaventura. Its other members are Jones M. Castro, Jr. and Vicente S. Perez, Jr. with Corazon S. de la Paz-Bernardo, Christopher A. Bell-Knight and Jesus A. Jacinto, Jr. as advisors.

Compensation Committee. The Compensation Committee provides oversight on directors' compensation and remuneration of senior management consistent with the Bank's culture and strategy, effectively aligned with prudent risk taking and commensurate with corporate and individual performance. It also ensures consistency of the compensation policies and practices across the Group. It meets at least once annually. The committee is chaired by Gilberto C. Teodoro, Jr.. Its other members are Jesus A. Jacinto, Jr., Josefina N. Tan and Teresita T. Sy.

Corporate Governance Committee. The Corporate Governance Committee is primarily tasked to assist the Board in formulating the policies and overseeing the implementation of the corporate governance practices of the Bank and its subsidiaries and affiliates. Annually, it conducts the performance self-evaluation of the Board of Directors, its committees, executive management and peer evaluation of directors using the Revised Board of Directors and Peer Evaluation Survey forms. It also oversees the implementation of the Directors Orientation and Continuing Education Policy. The committee is chaired by Gilberto C. Teodoro, Jr. Its other members are Jones M. Castro, Jr. and Vicente S. Perez, Jr..

Nominations Committee. The Nomination Committee leads the process for identifying and makes recommendations to the Board on, candidates for appointment as Directors of the bank as well as those other positions requiring appointment by the Board of Directors, giving full consideration to succession planning and the leadership needs of the Group. In particular, this process includes the profiling of the skills and competencies of the currently serving directors, the gaps in skills and competencies identified and the search for candidates who are aligned with the Bank's directions to fill the gaps. It also makes recommendations to the Board on the composition and chairmanship of the various committees. It keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and makes recommendations to the Board with regard to any changes. The committee is chaired by Vicente S. Perez, Jr. Its other members are Jose F. Buenaventura and Gilberto C. Teodoro, Jr.

Risk Management Committee. The Risk Management Committee is responsible for the development of the Bank's risk policies, defines the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses when they occur. It oversees the implementation and review of the risk management plan on an integrated enterprise-wide basis, system of limits of management's discretionary authority delegated by the Board and takes immediate corrective actions when breached. It is also responsible for reassessing the continued relevance, comprehensiveness and effectiveness of the risk management plan, and revises it when needed. The committee is chaired by Jones M. Castro, Jr., with Nestor V. Tan and Dioscoro I. Ramos as members and Christopher A. Bell-Knight as advisor.

Trust Committee. The Trust Committee reviews and approves transactions between trust and/or fiduciary accounts, to accept and close trust and other fiduciary accounts, and to approve the investment, reinvestment and disposition of funds or property. It evaluates trust and other fiduciary accounts at least once a year. In addition, it also reviews the Trust and Investment Group's overall performance, profile of funds and accountabilities under its management, industry position, and the risk management reports. It also approves offering of new products and services, establishment and renewal of lines and limits with financial institutions, and investment outlets and counterparties. The committee is chaired by Dioscoro I. Ramos. Its other members are Christopher A. Bell-Knight, Josefina N. Tan, Nestor V. Tan and Rafael G. Ayuste, Jr.

Information Technology (IT) Steering Committee. The IT Steering Committee provides oversight and governance over the Bank's IT functions including approvals of information technology-related policies and practices of the Bank and applicable guidelines. It informs the Board of both internal and external IT-related developments and activities, potential challenges and risks, progress versus strategic objectives and major IT projects. It approves and endorses to the Board IT-related best practices, strategic plans, policies and procedures. The committee is chaired by George T. Barcelon. Its other members are, Nestor V. Tan and Frederic Mark S. Gomez.

Related Party Transactions Committee. The Related Party Transactions Committee assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Bank and its stakeholders. It ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote on the Annual Stockholders' meeting the Bank's significant transactions with related parties. The committee is chaired by George T. Barcelon. Its other members are Jones M. Castro, Jr. and Jose F. Buenaventura, with Jesus A. Jacinto, Jr. as advisor.

In 2015, the Bank was among the recipients of the inaugural ASEAN Corporate Governance Awards Top 50 ASEAN Publicly Listed Companies, a recognition given to companies that seriously upholds good corporate governance. Corporate Governance Asia also recognized and included the Bank in its list of Asia's Best CSR, Best Investor Relations Company and Best Environmental Responsibility in its 6th Asian Excellence Awards held in June 2016.

PRINCIPAL SHAREHOLDERS

There has been no material change regarding control of the Bank and its relationship with the SM Group since December 31, 2018, the date of its last audited financial statements. The following table shows the principal shareholders of the Bank, holding at least 5% of the outstanding common shares, as shown in the Bank's share register as at June 30, 2019:

Name of Shareholder	No. of Shares	% of Total Shares
SM Investments Corporation	1,750,930,649	40.00%
Multi-Realty Development Corporation	291,513,036	6.66%
Sybase Equity Investments Corporation	240,010,292	5.48%
TOTAL PRINCIPAL SHAREHOLDERS	**2,282,453,977**	**52.14%**

Other than as specified above, the Bank is not aware of any other person or group of persons, directly or indirectly, with interests of 5% or more of the issued capital stock of the Bank.

The following table contains a summary of the effective holdings of the SM Group as at June 30, 2019:

Name of Shareholder	No. of Shares	% of Total Shares
SM Investments Corporation	1,750,930,649	40.00%
Multi-Realty Development Corporation	291,513,036	6.66%
Sybase Equity Investments Corporation	240,010,292	5.48%
SM Prime Holdings, Inc. (formerly SM Land)	90,024,395	2.06%
Sub-total SM Group corporations	**2,372,478,372**	**54.20%**
Sub-total Sy family members	**1,987,581**	**0.05%**
Other Affiliated Entities	**9,855,661**	**0.22%**
TOTAL SM GROUP	**2,384,321,614**	**54.47%**

PHILIPPINE TAXATION

Following is a general description of certain Philippine tax aspects of investment by prospective Bondholders. This discussion is based upon Philippine tax laws, in particular the Tax Code, its implementing regulations and rulings in effect at the date of this Offering Circular. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to the prospective Bondholders.

The tax treatment of a prospective Bondholder may vary depending on such Bondholder's particular situation and certain prospective Bondholders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a prospective Bondholder.

This general description does not purport to be a comprehensive description of the Philippine tax aspects of investment in the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing the Bonds under applicable tax laws of other jurisdictions and the specific tax consequence in light of particular situations of acquiring, owning, holding and disposing the Bonds in such other jurisdictions.

EACH PROSPECTIVE BONDHOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH BONDHOLDER OF PURCHASING, OWNING AND DISPOSING OF THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic while the term "domestic" when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

TAXATION OF INTEREST INCOME

The Philippine National Internal Revenue Code, as amended by Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion ("**TRAIN**") (the "Tax Code, as amended") provides that interest income on interest-bearing obligations of Philippine residents, such as the Bonds, are Philippine-sourced income subject to Philippine income tax.

The Tax Code defines "deposit substitutes" as an alternative form of obtaining funds from the public, other deposits, through the issuance endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. Obtaining funds from the "public" in this instance means borrowing from twenty (20) or more individual or corporate lenders at any one time. The meaning of "at any one time" with respect to borrowings from twenty (20) or more lenders, would mean every transaction executed in the primary or secondary market in connection with the purchase or sale of securities.

The Bonds may be considered as deposit substitutes issued by Philippine residents with a maturity period of less than five (5) years. As such, interest income arising from the Bonds are considered as Philippine sourced income subject to final withholding tax at the following rates:

Philippine citizens and resident alien individuals –	20%
Non-Resident aliens doing business in the Philippines –	20%
Non-resident aliens not doing business in the Philippines –	25%
Domestic corporations –	20%
Resident foreign corporations –	20%
Non-resident foreign corporation –	30%

The aforementioned final withholding tax rates may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Bondholder. Many tax treaties to which the Philippines is a party provide for a preferential reduced rate of 15% where Philippine sourced interest income is paid to a resident of the other contracting state. However, tax treaties generally provide that the preferential rate will not apply if the recipient carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected to such permanent establishment.

TAX EXEMPT STATUS

Bondholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. Said Bondholder shall submit (i) the following tax documents, in form and substance prescribed by the Issuer, to the Registrar or Selling Agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

(a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non- stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed “valid, current and subsisting” if it has not been more than 3 years since the date of issuance thereof;

(b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder’s current, valid and subsisting Certificate of Accreditation as PERA Administrator;

(c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;

(d) With respect to tax treaty relief, (1) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (“CORTT”) Form prescribed under Revenue Memorandum Order No. 8-2017), and (2) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and

(e) Any other document that the Issuer or PDTC may require from time to time;

(ii) a duly notarized declaration and undertaking, in prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities, or any tax or charge arising from the non-withholding of the required tax; and

(iii) if applicable, such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Issuer to tax- exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent.

Transfers taking place in the Register of Bondholders after the Bonds are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Registrar, together with the supporting documents specified under Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar: (i) a written notification of the sale or purchase, including the tax status of the transferor or transferee, as appropriate; and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Issuer for any tax that may later on be assessed on the Issuer on account of such transfer.

DOCUMENTARY STAMP TAXES

The Tax Code imposes a documentary stamp tax on all bonds, loan agreements and promissory notes at the rate of ₱1.50 on every ₱200, or fractional part thereof, of the face value of such securities provided that, for debt instruments with terms of less than one year, the documentary stamp tax collected shall be proportionate to the ratio of the number of days of the term of the instrument to 365 days. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. The Bank has undertaken to pay the documentary stamp tax on the issuance of the Bonds.

There is currently no documentary stamp tax due on a subsequent sale or disposition of the Bonds.

TAXATION ON GAINS OR LOSSES UPON THE SALE OR OTHER DISPOSITION OF THE BONDS

If the Bonds are considered ordinary assets of individual Bondholders, gains from the sale or disposition of such Bonds are included in the computation of taxable income, which is subject to the following graduated tax rates for Philippine citizens (whether residents or non-residents), or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines effective January 1, 2018 until December 31, 2022:

Not over ₱ 250,000	0%
Over ₱ 250,000 but not over ₱ 400,000	20% of the excess over ₱ 250,000
Over ₱ 400,000 but not over ₱ 800,000	₱ 30,000 + 25% of the excess over ₱ 400,000
Over ₱ 800,000 but not over ₱ 2,000,000	₱ 130,000 + 30% of the excess over ₱ 800,000
Over ₱ 2,000,000 but not over ₱ 8,000,000	₱ 490,000 + 32% of the excess over ₱ 2,000,000
Over ₱ 8,000,000	₱ 2,410,000 + 35% of the excess over ₱ 8,000,000

For non-resident aliens not engaged in trade or business, the gain shall be subject to the 25% final withholding tax.

If the Bonds are considered as capital assets of individual Bondholders, gains from the sale or disposition of the Bonds shall be subject to the same rates of income tax as if the Bonds were held as ordinary assets, except that if the gain is realized by an individual who held the Bonds for a period of more than twelve months prior to the sale, only 50% of the gain will be recognized and included in the computation of taxable income. If the Bonds were held by an individual for a period of 12 months or less, 100% of the gain will be included in the computation of the taxable income.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the Bonds are included in the computation of taxable income which is subject to a 30% income tax. Gains derived by non-resident foreign corporations on the sale or other disposition of the Bonds shall form part of their gross income which is subject to a 30% final withholding tax unless a preferential rate is allowed under a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax under an applicable tax treaty subject to such other documentary requirements as may be reasonably required under the rules and regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

VALUE-ADDED TAX AND GROSS RECEIPTS TAX

Gross receipts derived by dealers in securities from the sale of the Bonds in the Philippines shall be subject to value-added tax ("VAT") of 12%. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold. For purposes of this section, dealers in securities are merchants of stocks or securities, whether individual, partnership, or corporations, with an established place of business, regularly engaged in the purchase of securities and their resale to customers.

ESTATE AND DONOR'S TAX

Beginning 1 January 2018, the transfer of Bonds upon the death of an individual Bondholder to his or her heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine estate tax at the rate of 6% based on the value of the decedent's net estate.

Moreover, beginning 1 January 2018, individual and corporate Bondholders, whether or not citizens or residents of the Philippines, who transfer the Bonds by way of gift or donation are liable to pay Philippine donors' tax on such transfer at the rate of 6% computed on the basis of the total gifts in excess of ₱ 250,000.00 made during the calendar year.

The estate tax as well as the donor's tax in respect of the Bonds shall not be collected (a) if the deceased at the time of his death or the donor at the time of his donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may, unless made in the ordinary course of business (i.e., a transaction which is bona fide, at arms' length, and free from any donative intent), be deemed a gift and may be subject to donor's taxes.

TAXATION OUTSIDE THE PHILIPPINES

The tax treatment of non-resident Bondholders in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Offering Circular does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines

PHILIPPINE BANKING INDUSTRY

The following description is a summary of certain sector specific laws and regulations in the Philippines which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The cited regulations may not be exhaustive, and are intended to provide a general background and information to the investors, and are not intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks and cooperative banks, and subsidiaries and branches of foreign banks.

Based on BSP data as of June 30, 2019, the commercial banking sector, comprising universal and commercial banks, consisted of 46 banks, of which 21 were universal banks and 25 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 25 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 18 were branches of foreign banks.

Commercial banks are organized primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, receive deposits, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly-listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with capital loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for small and medium-sized enterprises and individuals. As at June 30, 2019, there were 51 thrift banks.

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As at June 30, 2019, there were 457 rural and cooperative banks.

During the past decade, the Philippine banking industry has been marked by two major trends – the liberalization of the industry, and mergers and consolidation.

Foreign bank entry was liberalized in 1994, by virtue of RA 7721 (An Act Liberalizing The Entry And Scope of Operations of Foreign Banks in the Philippines and for Other Purposes), allowing foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority.

In 2014, Republic Act No. 10641 (An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose RA 7721) was enacted, granting power to the Monetary Board to authorize foreign banks to acquire up to 100% of the voting stock of one domestic bank. Any foreign bank which invested up to 60% of the voting stock of a domestic bank prior to the effectivity of RA 10641, may further acquire voting shares in such domestic bank to the extent necessary for it to own 100% of the voting stock thereof.

Pursuant to RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system though any one of the following modes of entry: (a) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. The BSP has since offered various incentives to merging or consolidating banks, the most recent of which is Memorandum No. M-2016-023 dated 21 December 2016, providing the following list of sample incentives:

a. Revaluation of premises, improvements and equipment;
b. Staggered booking of unbooked valuation reserves over a maximum period of 5 years;
c. Temporary relief from compliance with CAR and/or maximum period for amortization of goodwill;
d. Conversion/upgrading of head offices, branches, and other offices;
e. Condonation of liquidated damages/penalties on loan arrearages to the BSP;
f. Relocation of branches/offices within 1 year in cases of duplication of branches in certain areas;
g. Installment payment of outstanding penalties in legal reserve deficiencies and interest on overdrafts with the BSP over a 1-year period;
h. Reasonable period to comply with real estate loan limits;
i. Restructuring past due obligations with BSP over a 10-year period;
j. Concurrent officership between a merged or consolidated bank or financial institution (FI) and another bank/FI, and concurrent directorship between banks; and
k. Continued effectivity of right or privilege under a rehabilitation program or any special authority granted by the Monetary Board.

Based on BSP data, since the first package of incentives took effect in September 1998, there have been at least 49 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies show that they were not enough to pose a threat to the overall competition levels in the industry since market share is still well dispersed among the remaining players.

The following table sets out a comparison, based on consolidated quarterly reports filed with the Philippine SEC, of the five leading private domestic commercial banks in the Philippines as at June 30, 2019:

Name	Market Capitalization[1]	Total Capital[2]	Total Resources[2]	Loans and Receivables-net[2]	Customer deposits[2]	No. of Branches[3]
			(in ₱ millions)			
BDO Unibank, Inc.	612,813	350,836	3,065,286	2,119,920	2,399,558	1,362
Metropolitan Bank & Trust Co.	283,576	305,189	2,278,162	1,446,905	1,623,554	957
Bank of the Philippine Islands	353,795	263,142	2,134,745	1,383,066	1,658,450	1,092
Philippine National Bank	61,520	136,003	1,087,424	658,479	775,120	712
China Banking Corp.	73,728	90,416	908,221	538,187	750,137	621

Notes:
1 Market Capitalization as at June 28, 2019.
2 Financial data taken from each bank's respective financial statements as at 30 June 2019. Includes interests in subsidiaries and allied undertakings.
3 Number of branches was provided by each of the respective banks as at 30 June 2019.

According to a quarterly Senior Bank Loan Officers' Survey conducted by BSP, local banks implemented stricter credit standards on commercial real estate loans in the first quarter of 2019. The net tightening of overall credit standards for commercial real estate loans was attributed by the banks to stricter oversight of banks' real estate exposure along with banks' reduced tolerance for risk. In particular, banks reported wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, shortened loan maturities, and increased use of interest rate floors.[1]

The BSP issued Circular No. 839 Series of 2014 dated 27 June 2014 which adopts a prudential real estate stress test (REST) limit for U/KBs, TBs on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST limits which shall be complied with at all times by UBs/KBs are 6% of Common Equity Tier 1 (CET1) capital ratio and 10% of risk based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For TBs, the prudential REST limits which shall be complied with at all times are 6% of CET1 capital, for TBs that are subsidiaries of UBs/KBs, 6% of Tier 1 capital, for stand-alone TBs, and 10% of risk-based capital adequacy ratio for all TBs.

The BSP issued Circular No. 989 dated January 4, 2018 which imposed the Guidelines on the Conduct of Stress Testing Exercises. The BSP issued the stress testing guidelines as part of its continuing initiatives to further strengthen risk governance and contribute to the sustained safety and soundness of the Philippine banking industry. Circular No. 989 provides that the bank's board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of D-SIBs, in developing recovery plans. Banks are expected to employ a combination of different approaches for stress testing. Methodologies may range from simple sensitivity analysis to the more complex tools, such as scenario analysis and reverse stress testing. The guidelines are applicable to all types of banks on both a standalone and consolidated basis. Banks that are part of group structures should conduct stress testing exercises on a consolidated basis or at the parent bank's level, covering all institutions considered as material entities in the banking group. The BSP has provided banks a period of two years from the effectivity date of Circular No. 989 to progress from their existing stress testing practices to the standards expected under Circular No. 989.

On 29 October 2014, the BSP issued Circular No. 854 which increased the minimum capital requirement for all bank categories, namely, universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

Bank Category/Network Size	Existing Minimum Capitalization	Reviewed Minimum Capitalization
Universal Banks	₱ 4.95 billion**	
Head Office only		₱ 3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
Commercial Banks	2.40 billion**	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion
Thrift Banks		
Head Office in:		
Metro Manila	1.00 billion**	

[1] http://www.bsp.gov.ph/publications/media.asp?id=5006&yr=2019

Bank Category/Network Size	Existing Minimum Capitalization	Reviewed Minimum Capitalization
Cebu and Davao cities	500 million**	
Other Areas	250 million**	
Head Office in the National Capital Region (NCR)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
Rural and Cooperative Banks		
Head Office in:		
Metro Manila	100 million**	
Cebu and Davao cities	50 million**	
Other cities	25 million**	
1st to 4th class municipalities	10 million**	
5th to 6th class municipalities	5 million**	
Head Office in NCR		
Head Office only		50 million
Up to 10 branches*		75 million
11 to 50 branches*		100 million
More than 50 branches*		200 million
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		
Head Office only		20 million
Up to 10 branches*		30 million
11 to 50 branches*		40 million
More than 50 branches*		80 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		
Head Office only		10 million
Up to 10 branches*		15 million
11 to 50 branches*		20 million
More than 50 branches*		40 million

* Inclusive of Head Office
** With no distinction for network size

BANKING REGULATION AND SUPERVISION

The following description is a summary of certain sector specific laws and regulations in the Philippines which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations may not be exhaustive, and are intended to provide a general background and information to the investors, and are not intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

General

The New Central Banking Act of 1993 (Republic Act No. 7653) and the General Banking Law of 2000 (Republic Act No. 8791) vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board of the BSP.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or quasi-bank or which is related or linked or such other factors as determined by the Monetary Board.

The power of supervision of the BSP under the General Banking Law includes the issuance of rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, to oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The BSP may compel any officer, owner, agent, manager or officer-in-charge of an institution subject to its supervision or examination to present books, documents, papers or records necessary in its judgment to ascertain the facts relative to the true condition of the institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, to the extent permitted by law. In addition to the general laws such as the General Banking Law and Republic Act No. 9160 or the Anti-Money Laundering Act of 2001, as amended ("AMLA"), among others, banks must likewise comply with letters, circulars and memoranda issued by the BSP some of which are contained in the New Digital Manual of Regulations for Banks ("MORB").

On 19 December 2018, the Monetary Board adopted the MORB as of 31 December 2017. The MORB, a codification of regulations which govern banks under BSP supervision, is the principal source of rules and regulations that must be complied with by banks in the Philippines. The MORB is the principal source of rules and regulations that must be complied with by banks in the Philippines. The MORB contains regulations applicable to universal banks, commercial banks, thrift banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organization, management and administration, deposit and borrowing operations, loans, treasury and money market operations, and trust and other fiduciary functions. Supplementing the Manual are rules and regulations disseminated through various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The MORB and other Regulations are principally implemented by the Financial Supervision Sector (the "FSS") of the BSP. The FSS is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government banks and their subsidiaries and affiliates, non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under the Savings and Loan Association Act (Republic Act No. 3779), and pawnshops under the Pawnshop Regulation Act (Presidential Decree No. 114).

PERMITTED ACTIVITIES

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100.0% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100.0% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorized by the General Banking Law and the MORB, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business. Financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings (applicable only to universal banks), or both.

Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage/securities dealership and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank. Net worth is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP.

REGULATIONS

The MORB and various BSP regulations impose the following restrictions on commercial, universal and savings banks.

Minimum Capitalization

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The SEC will not register the incorporation documents of any bank or any amendments thereto without a Certificate of Authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorised by the Monetary Board. Any stock so purchased or acquired must be sold within six months from the time of its purchase or acquisition.

Under BSP Circular No. 854 dated 29 October 2014, universal banks are required to have capital accounts of at least ₱3 billion for head office only, ₱6 billion for head office with up to 10 branches, ₱15 billion for head office with 11 to 100 branches,and those with more than 100 branches are required to have capital accounts of at least ₱20.0 billion. Commercial banks are required to have capital accounts of at least ₱2 billion for head office only, ₱4 billion for head office with up to 10 branches, ₱10 billion for head office with 11 to 100 branches, and those with more than 100 branches, such as the Bank, are required to have capital accounts of at least ₱15.0 billion, while thrift banks with a head office in Metro Manila are required to have capital accounts of at least ₱500 million for head office only, ₱750 million for head office with up to 10 branches, ₱1 billion for head office with 11 to 100 branches, and those with more than 50 branches are required to have capital accounts of at least ₱2.0 billion. These minimum levels of capitalization may be changed by the Monetary Board of the BSP from time to time.

On 28 December 2018, the BSP issued Circular No. 1027 approving the amendments to the guidelines on the computation of required capital for banks and non-bank financial institutions. Under the revised guidelines, capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the unimpaired paid-in capital, surplus, and undivided profits. Deposits for stock subscription recognized as equity pursuant to Section X128 of the MORB shall be added to capital. The following on the other hand shall be deducted from capital: (1) treasury stock; (2) unbooked allowance for probable losses; (3) total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders, and their related interests (DOSRI) granted by the bank proper; (4) total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries; (5) total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the BSP; (6) deferred tax assets that rely on future profitability of the bank to be realized, net of any (a) allowance for impairment and (b) associated deferred tax liability, if the conditions cited in PAS 12 on Income Taxes are met: Provided, that of the resulting figure is a net deferred tax liability, such excess cannot be added to net worth; (f) reciprocal investment in equity of other bank/enterprises, whether foreign or domestic, the deduction shall be lower of the investment of the bank or the reciprocal investment of the other bank or enterprise; and (8) in the case of rural banks/cooperative banks, the Government counterpart equity, except those arising from conversion of arrears under the BSP rehabilitation programme.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends, unless at the time of declaration, it has complied with the following:

(a) Clearing account with BSP is not overdrawn;

(b) Liquidity floor for government funds;

(c) Minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;

(d) Capital conservation buffer requirement as defined in Appendix 59, Part III of the MORB, for UBs/KBs, and their subsidiary banks for QBs;

(e) Higher loss absorbency (HLA) requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with D-SIB Framework as provided under Subsec.X128 of the MORB, for UB/KBs, and their subsidiary banks and QBs that are identified as D-SIBs; or

(f) Has not committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by BSP to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor, of the appropriate sector, as may be applicable, upon recommendation of the appropriate supervising department of the BSP. For this purpose, "Major acts or omissions" is defined as bank individual failure to comply with the requirements of banking laws, rules and regulations as well as Monetary Board directives having material impact on bank capital, solvency, liquidity or profitability, and/or those violations classified as major offenses under the Report of Examination, except those classified under unsafe or unsound practice.

Amount available for dividend declaration shall be the amount of unrestricted or free retained earnings and undivided profits reported in the financial reporting package as of calendar/fiscal year-end immediately preceding the date of dividend declaration. Declaration of dividends shall be reported by the bank concerned to the appropriate department of the FSS within 10 banking days. Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

Capital Adequacy Requirements

In July 2001, the Philippines adopted capital requirements based on the Basel Capital Accord. BSP Circular No. 538, which took effect on 1 July 2007, serves as the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

Basel II (the Revised International Convergence of Capital Measurement and Capital Standards) was issued on 26 June 2004 by the Basel Committee on Banking Supervision, an international committee of banking supervisory authorities, to replace Basel I, which was issued in 1988 and amended in 1996. On 2 June 2006, the Monetary Board of the BSP approved the guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II, for implementation on 1 July 2007. On 16 December 2010 and on 13 January 2011, the Basel Committee issued its most recent guidelines on Basel III, a series of amendments to the Basel II framework.

The Basel Committee's package of reforms includes increasing the minimum common equity (or equivalent) requirement from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments). The total Tier I capital requirement will increase from 4% to 6%. In addition, banks will be required to maintain, in the form of common equity (or its equivalent), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity (or equivalent) requirement to 7%, the total Tier 1 requirement to 8.5%, and the total capital requirement (which remains unchanged at 8%, before the additional buffer) to 10.5%.

If there is excess credit growth in any given country resulting in a system-wide buildup of risk, a countercyclical buffer within a range of 0% to 2.5% of common equity (or other fully loss absorbing capital) is to be applied as an extension of the capital conservation buffer. The BSP is set to specify further capital requirements for Systemically Important Financial Institutions ("SIFI's") in due time. These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a SIFI.

The Basel III regulations also include more stringent definitions of Tier 1 capital and Tier 2 capital instruments relating to their ability to absorb losses, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.

The impact of these reforms, if implemented fully per the Basel Committee's guidance, will be to increase the minimum quantity and quality of capital which the Bank will be obliged to maintain. The reforms are expected to be implemented beginning in 1 January 2014.

To align with the international standards, the BSP has adopted the BCBS' eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 issued on 10 January 2011.

On 15 January 2013, the BSP published Circular No. 781, and on 6 December 2018, Circular 1024, which prescribed the implementing guidelines on the risk-based capital adequacy framework and the adoption of a countercyclical capital buffer, in accordance with the Basel III standards. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be not less than 10% on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 capital ratio of 6.0% and 7.5%, respectively. A capital conversion buffer of 2.5% and a countercyclical capital buffer of 0%, subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant, but not to exceed 2.5%,shall also apply. Any increase to the countercyclical buffer shall have a preannouncement period of twelve months, while any reductions on such buffer are to take effect immediately.

On 15 February 2013, BSP Circular No. 786 was issued, which prescribed risk disclosure requirements on loss absorbency features of capital instruments. Later, through BSP Memorandum No. M-2013-008, the BSP clarified that such requirements apply in relation to all prospective investors.

BSP Circular No. 826, which was passed on 14 February 2014, amended BSP Circular No. 786 by providing for separate provisions for capital instruments marketed, sold, and/or distributed in the Philippines, and capital investments issued offshore. Through the aforementioned issuances, the BSP aimed to uphold investor protection through enhanced disclosure and transparency through the following requirements imposed upon the banks/quasi-banks for Additional Tier 1 and Tier 2 capital investments issued or to be issued in the Philippines: (i) subjecting investors to a client suitability test, (ii) providing the appropriate risk disclosure statement for the issuance of the capital instruments; (iii) securing written certifications from the investors; and (iv) making these available to the BSP, as may be required. For offshore issuances of Additional Tier 1 and Tier 2 capital investments, the risk disclosure requirements will be governed by the applicable rules and regulations of the country where the instruments were issued. However, for the subsequent sale and/or distribution of Additional Tier 1 and Tier 2 capital instruments in the Philippines originally issued overseas, the risk disclosure requirements for issuance in the Philippines will apply.

On 29 October 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Bank under Basel III". Under the Circular, the BSP adopts policy measures for domestic systematically important banks ("D-SIBs"), which are essentially aligned with the documents issued by the BCBS on global systematically important banks and D-SIBs. The policy aims to reduce the probability of failure of D-SIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of D-SIBs on the domestic/real economy. This is an added effort to further strengthen the domestic financial market and to remove the possibility that publicly funded bailouts will be required in the future to save the D-SIBs from insolvency.

The categories for D-SIBs are measured in terms of the domestic bank's or financial institution's size interconnectedness, substitutability or financial institution infrastructure and its complexity. Banks that are identified as D-SIBs are required to have higher loss absorbency ("HLA"). The HLA requirement for D-SIBs is to be met with CET1 capital and is in addition to the capital conservation buffer requirement under BSP Circular No. 781, and the countercyclical capital buffer under BSP Circular No. 1024..

D-SIBs shall be initially allocated into two buckets with different level of HLA requirements ranging from 1.5% to 2.5% of risk-weighted assets, depending on their degree of systemic importance. An initial empty bucket shall be added on top of the highest-numbered populated bucket to provide incentives for banks to avoid becoming more systematically important. If the empty bucket becomes populated in the future, a new empty bucket shall be added with a required higher additional loss absorbency level which shall increase in increments of 1.0% of risk-weighted assets. Under BSP Circular No. 1024, the BSP provided for sample total CET1 capital requirements for D-SIBs when the countercyclical capital buffer at 0% and at 2.5%. It further provided for restrictions on distributions, dependent on bucket, and countercyclical capital buffer rate.

The magnitude of additional loss absorbency for the higher populated bucket (Score Range of A-B) shall be 2.5% of risk-weighted assets at all times, with the initial empty bucket (Score Range of B-C) at 3.5% of risk-weighted assets. The magnitude of additional loss absorbency for the lower bucket (Cut off point – A) shall be 1.5% of risk-weighted assets. The new regulations on D-SIBs apply on a consolidated basis to all universal and commercial banks, including branches of foreign banks established under Republic Act No. 7721. Submission of data requirements for identification of D-SIBs took effect starting with 2014 data, while compliance with the additional HLA requirements shall be phased-in from 1 January 2017 with full implementation by 1 January 2019.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratios (calculated by dividing banks' Tier 1 capital over its total on-book and off-book exposure). On 9 June 2015, the BSP issued Circular No. 881, or the "Implementing Guidelines on the Basel III Leverage Ratio Framework." Under the Circular, the BSP sets forth guidelines for a supplementary measure to the risk-based capital requirements in order to control the build-up of leverage in the banking sector. The Basel III leverage ratio is defined as Tier 1 Capital divided by a BSP-prescribed Exposure Measure. On both a solo and consolidated basis, this ratio should not be less than 5% for universal and commercial banks, as well as their subsidiary banks/quasi-banks. The monitoring period for the Leverage Ratio is from 31 December 2014 to 31 December 2016. On 22 January 2018, however, the BSP issued Circular No. 990, which extended the monitoring period up to 30 June 2018. By 1 July 2018, the leverage ratio became a Pillar 1 requirement.

On 10 March 2016, the BSP issued Circular No. 905, or the "Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards." Under the circular, the BSP adopted liquidity standards consistent with the Basel III framework. Banks are now required to maintain, over a 30-calendar day horizon, an adequate level of unencumbered high quality liquid assets (HQLAs) that consist of cash or assets that can be converted into cash at little or no loss of value in private markets, to offset the net cash outflows it could encounter under a liquidity stress scenario. Banks are also required to publicly disclose information related to the Liquidity Coverage Ratio, which is the ratio of HQLAs to total net cash outflows. Mandatory compliance with these minimum requirements commenced on 1 January 2018 as well. The prescribed minimum was set at 90% for 2018, and rose to the minimum required level of 100% on 1 January 2019.

On 6 June 2018, the BSP issued Circular No. 1007, which imposed a net stable funding ratio ("NSFR") framework on all universal and commercial banks, including their subsidiary banks and quasi-banks, on both a solo and consolidated basis. The NSFR framework seeks to limit overreliance on short-term wholesale funding and to promote enhanced assessment of funding risk across all on- and off- balance sheet accounts. Said covered entities are required to maintain an NSFR, defined as available stable funding divided by required stable funding, of at least 100% at all times. This must be reported in a single currency. Actual implementation began on 1 January 2019, pursuant to BSP Circular No. 1034 issued on 15 March 2019.

On 15 March 2019, the BSP issued Circular No. 1035, which approved among others, the extension of the observation period of the minimum Basel lll Liquidity Coverage Ratio (LCR) requirement to 31 December 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (U/KBs), and the adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period. The said circular also introduced amendments to the LCR framework and amendments in the formula of the Minimum Liquidity Ratio.

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

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

As of 26 July 2019, BSP Circular No. 1041 (2019), requires universal / commercial banks (including the Bank) are required to maintain regular reserves of (a) 16% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad, effective 26 July 2019, (b) 4.0% against long-term negotiable certificate of time deposits ("LTNCDs"), (c) 0% against deposit substitutes evidenced by repo agreements, inter-bank call loans (Sec. 315), and basic deposit accounts (as defined in Sec. X222 of the MORB), and (d) 6.0% against bonds.

Liquidity reserves are no longer required pursuant to BSP Circular No. 753 issued in 2012.

Regulations on Minimum Leverage Ratio Requirement

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure). On 9 June 2015, the BSP issued Circular No. 881 on the implementing guidelines, which provide for a monitoring period up to end-2016 during which banks are required to submit periodic reports.

In January 2018, the Monetary Board approved the adoption of a minimum leverage ratio requirement for universal banks, commercial banks and their subsidiary banks and quasi-banks. Beginning on July 1, 2018, covered institutions must maintain a leverage ratio of no lower than 5%. The leverage ratio is a non-risk based measure, which serves as a backstop to the Capital Adequacy Ratio ("CAR").

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations and guarantees, except as prescribed by the Monetary Board for reasons of national interest, the total amount of loans, credit accommodations and guarantees, as may be determined on the total credit commitment, that may be extended by a bank to any borrower shall at no time exceed 25% of the net worth of such bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board of the BSP from time to time. Pursuant to BSP Circular No. 425 (2004), as amended by BSP Circular No. 779 (2013), the applicable ceiling is 25.0%.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower. Except as specifically provided in the MORB, total credit commitment is determined on a credit risk-weighted basis consistent with existing regulations. Other credit accommodations refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments. Pursuant to BSP Circular No. 425 (2004), as amended by BSP Circular No. 779 (2013), the applicable ceiling is 25% but may be increased provided the conditions are complied with: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under PDP/PIP; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from 6 December 2010; and (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation.

The SBL limitations shall not apply to: (a) loans and other credit accommodations secured by obligations of the BSP or of the Government, (b) loans and other credit accommodations fully guaranteed by the Government as to payment of principal and interest, (c) loans and other credit accommodations secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies, (d) loans and other credit accommodations to the extent covered by hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines, (e) loans, credit accommodations and acceptances under LCs to the extent covered by margin deposits and (f) other loans or credit accommodations which the Monetary Board of the BSP may from time to time specify as non-risk items.

On 5 July 2017, the BSP issued BSP Circular No. 965 approving the guidelines on the exclusion from the single borrower's limit of banks' and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions pertaining to fund transfer services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions.

On 30 April 2018, the BSP issued BSP Circular No. 1001 which provided for a separate individual limit of 25.0% of the net worth of the lending bank for loans, credit accommodations and guarantees granted by a bank to an entity for the purpose of project finance. The applicability of the separate individual limit shall be subject to the following conditions: (a) the unsecured portion shall not exceed 12.5% of the net worth of the lending bank when the project is already operational; (b) such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government; (c) the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project document; (d) the lending bank shall consider its total project finance exposures in complying with the guidelines in managing large exposures and credit risk concentrations; (e) the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending bank; and (f) the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions.

On November 31, 2014, the BSP issued BSP Circular No. 858 which also provides that foreign bank branches existing as of the effectivity of RA 10641 shall be given until December 31, 2019 to use twice the level of capital as net worth as reference point for determining the single borrower's limit.

Trust Regulation

The MORB contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the MORB. The Bank may, under its Articles, accept and manage trust funds and properties and carry on the business of a trust corporation.

Regulations on Competition

Republic Act No. 10667 (the Philippine Competition Act) was signed into law on 21 July 2015 and took effect on 8 August 2015. This Act aims to codify anti-trust laws in the Philippines and it provides the competition framework in the country. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry, and all commercial economic activities.

To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (the PCC), an independent quasi-judicial agency to be composed of five commissioners. Among the PCC's powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitions, and mergers and acquisitions which have the object or effect of substantially preventing, restricting, or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

The Philippine Competition Act also introduces the pre-notification regime for mergers and acquisitions, which requires covered transactions to be notified to the PCC for its approval.

On June 3, 2016, the PCC issued the implementing rules and regulations of the Philippine Competition Act ("**IRR**"). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1.0 billion; (Size of Party) and (b) the value of the transaction exceeds ₱1.0 billion, as determined in the IRR (Size of Transaction); while Parties to a joint venture transaction shall also be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1.0 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1.0 billion.

The PCC also has released its "Guidelines on the Computation of Merger Notification Thresholds", providing the method for calculation of the aggregate value of assets and gross revenues from sales for the purposes of determining whether a proposed merger or acquisition is notifiable to the PCC.

On March 1, 2018, the PCC issued Memorandum Circular No. 18-001 (MC No. 18-001) to amend Section 3 Rule 4 IRR to increase the initial thresholds. Under MC No. 18-001, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5 billion; and (b) the value of the transaction exceeds ₱2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2 billion;

or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2 billion. As provided in MC No. 18-001, the thresholds shall be automatically adjusted commencing on 1 March 2019 and on March 1st of every succeeding year, using as index the Philippine Statistics Authority's official estimate of the nominal gross domestic product growth of the previous calendar year rounded up to the nearest hundred million. The revised thresholds, however, shall not apply to mergers or acquisitions pending review by the PCC; notifiable transactions consummated before the effectivity of the memorandum circular; and transactions already subject of a decision by the PCC.

The PCC issued PCC Advisory 2019-001, effective 1 March 2019, amending the IRR. It again increased the thresholds to ₱5.6 billion for the Size of Person and ₱2.2 Billion for the Size of Transaction, as defined in the IRR. As to joint venture transactions, notification is mandatory if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion; or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion. The revised thresholds under PCC Advisory 2019-001 shall not apply to mergers or acquisitions pending review by the PCC; notifiable transactions consummated before the effectivity of PCC Advisory 2019-001 (i.e. 1 March 2019); and, transactions which are already subject of a decision by the PCC.

Violations of the Philippine Competition Act and its IRR carry administrative and criminal penalties. A transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1 to 5% of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50.0 million but not more than ₱250.0 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100.0 million to ₱250.0 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC published the 2017 Rules of Procedure ("**Rules**") which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On 23 November 2017, the PCC issued its Rules on Merger Procedure ("**Merger Rules**"). These Rules provide the procedure for the review or investigation of mergers and acquisitions by the PCC pursuant to the Philippine Competition Act. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within 30 days from signing of definitive agreements relating to the merger.

Regulations Governing the Derivatives Activities of Banks

In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks. Furthermore, Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk weighted assets for banks that will engage in derivatives activities as end-users for hedging purposes and/or under limited-use authority.

In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives shall be subject to margin requirements pursuant to the policy framework adopted by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in time of stress. Variation margin requirements are being phased in from 1 September 2016 to 1 March 2017 while initial margin requirements are being phased in from 1 September 2017 to 1 September 2020. As an initial step, banks and quasi-banks should make a determination of the transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements.

Foreign Currency Deposit System

Only a bank with authority to operate a foreign currency deposit unit ("**FCDU**") or an expanded foreign currency deposit unit ("**EFCDU**") under R.A. No. 6426, as amended, may accept foreign currency-denominated trust, other fiduciary or IMAs.

An FCDU is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorized to operate an expanded FCDU. Thrift banks with a net worth or combined capital accounts of at least ₱ 1.0 billion if they are located in Metro Manila, and ₱ 250.0 million if they are located outside Metro Manila, may be authorized to operate FCDUs.

In general, FCDUs of such banks may, in any acceptable foreign currency (a) accept deposits and trust accounts from residents and non-residents; (b) deposit with foreign banks abroad, offshore banking units ("OBUs") and other FCDUs; (c) invest in foreign currency-denominated debt instruments; (d) grant foreign currency loans as may be allowed by the BSP; (e) borrow from other FCDUs/EFCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings; (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs; (g) engage in securities lending activities as lender, subject to conditions; (h) engage in repurchase agreements involving foreign currency denominated government securities; (i) purchase foreign currency denominated securities under resale agreements from other banks' FCDU/EFCDU, non-resident financial institutions and OBUs; (j) issue Hybrid Tier 1 ("HT1") capital instruments subject to the requirements under existing regulations; and (k) engage in USD-denominated repurchase agreements with the BSP. In addition to the foregoing, commercial banks and universal banks may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading; (b) on request/instruction from its foreign correspondent banks. Provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU: (i) issue LCs for a non-resident importer in favor of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the letter of credit, and (iii) make payment to the order of the non-resident exporter; (c) engage in direct purchase of export bills of resident exporters subject to conditions; and (d) invest in foreign currency denominated structured products issued by banks and special purpose vehicles ("SPVs") of high credit quality, subject to the provisions of the MORB. FCDUs are required to maintain a 100.0% cover for their foreign currency liabilities, except for USD-denominated repurchase agreements with the BSP, and at least 30.0% of the cover requirement for foreign currency liabilities shall be in the form of liquid assets. The 100.0% asset cover and 30.0% to be held in the form of liquid assets shall be unencumbered, except as otherwise provided in the Manual of Regulations for Foreign Exchange Transactions.

FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign exchange cover. In 2017, BSP Circular No. 946 was issued providing that, effective 1 January 2018, the liquid asset cover requirement for FCDU/EFCDU liabilities shall be 0% for universal and commercial banks, and 30.0% for thrift, rural, and cooperative banks.

Lending Policies, Secured and Unsecured Lending

Banks are generally required to ascertain the purpose of a proposed loan, and the proceeds of the loan are to be used for that purpose only. Under existing regulations, commercial and universal banks are generally prohibited from extending loans and other credit accommodations against real estate in an amount exceeding

60.0% of the appraised value of the real estate security, plus 60.0% of the appraisal value of the insured improvements, except for (i) residential loans in an amount not exceeding ₱ 3.5 million; (ii) housing loans extended by or guaranteed under the Government's "National Shelter Programme", which shall be allowed a maximum value of 70.0% of the appraisal value of the insured improvements; and (iii) subject to certain conditions, loans for house-building and subdivision development for low- and middle-income families and other housing loans, which shall be allowed a maximum value of 80.0% of the appraised value of the real estate security. Similarly, loans and other credit accommodations on security of chattels and intangible properties shall not exceed 75.0% of the appraisal value of the security.

On 29 October 2014, the BSP issued BSP Circular No. 855 regarding guidelines on sound credit risk management practices, including the amendment on provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. According to the BSP, "this principle-based definition creates greater flexibility in accepting a broader range of assets as possible collateral." Under the new rules, however, the maximum collateral value for real estate collateral is set at 60.0% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, "the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed" according to the BSP.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value (LTV) ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20.0% under current industry practice). Under the enhanced guidelines of the BSP, however, the bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any lending should be only for a time period essential for completion of the operations to be financed.

On 27 June 2014, the BSP issued BSP Circular No. 839 adopting a prudential real estate stress test (REST) limit for universal, commercial, and thrift banks on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines a macroprudential overlay of a severe test scenario, the principal of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Real estate exposures are those defined in Memorandum No M-2012-046 and include other real estate property of the banks such as those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale. For purposes of the circular, a stress test will be undertaken on a bank's Real Estate Exposure and other real estate property under an assumed write-off rate of 25%.

For universal and commercial banks, the prudential REST limits are 6% of Common Equity Tier 1 (CET 1) capital ratio and 10% of risk-based capital adequacy ratio, on a solo and consolidated basis under the prescribed write-off rate.

Mandatory Lending Requirements

BSP regulations currently provide that commercial banks should set aside 25.0% of loanable funds for loans to the agricultural sector in general, with 10.0% of such funds being made available exclusively to agrarian reform beneficiaries. Loanable funds are defined to include the net increase in a bank's funds from 20 April 2010 in accordance to Subsections X341.6 and X341.7of the MORB. Alternatively, banks can buy Government securities which proceeds shall be used for lending to the agriculture and agrarian reform sectors, open special deposit accounts with accredited rural financial institutions, provide rediscounting on eligible agriculture, fisheries and agrarian credits, and provide lending for construction and upgrading of infrastructure including farm-to-market roads. The BSP shall impose administrative sanctions and penalties of 0.5% of the total amount of its non-compliance and under-compliance.

Republic Act No. 9501 provides that for a period of 10 years from 17 June 2008, all lending institutions shall set aside at least 8.0% for loans to micro and small enterprises and at least 2.0% for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter and make it available for lending to such enterprises. Investments in Government securities will not satisfy such obligation.

In addition, branches or agencies of commercial banks located within certain geographical groupings outside Metro Manila must lend at least 75.0% of total deposits, net of required reserves and total cash in vault, at such branches to businesses in their locality. This policy is deemed to be complied with if, in the relevant geographical grouping, the bank's total lending for the financing of agricultural and export industries constitutes 60.0% of its deposits. However, for the purposes of compliance with this requirement, loans granted at the head office or other offices to customers in that area may be assigned to the branch in the geographic area in which the customer is located.

With the enactment of Barangay Micro Business Enterprises ("BMBEs") Act or Republic Act No. 9178, private banking and other financial institutions were encouraged to lend to BMBEs. Among the incentives of the law is that all loans granted to BMBEs shall be considered as part of alternative compliance to the rules on reservation of funds for the agricultural sector and small- and medium-sized enterprises.

Banks may be allowed to report compliance on a group-wide basis (i.e. on a parent-subsidiary consolidated basis), so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group, provided that the subsidiary bank(s) is at least majority-owned by the parent bank, and provided further that the parent bank shall be held responsible for the compliance of the group.

Under the Agri-Agra Reform Credit Act, or Republic Act No. 10000, all banks are required to set aside at least 25.0% of their total loanable funds for agriculture and fisheries credit in general, of which at least ten percent (10.0%) of the loanable funds should be made available for agrarian reform beneficiaries mentioned in the law. Non-compliance is subject to administrative sanctions and penalties imposed by the BSP.

Qualifications of Directors and Officers

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

On 22 August 2017, BSP issued Circular No. 969, providing for revisions to guidelines in strengthening corporate governance in BSP-supervised financial institutions. The BSP, through such circular, aimed to align its existing regulations with the Code of Corporate Governance for Publicly-listed Companies issued by the SEC. Pursuant to such Circular, directors have the burden of proving that they possess all the minimum qualifications and none of the disqualifications listed in the MORB. Such director must submit proof to the BSP of his qualification. An elected director must be fit and proper for the position, taking into consideration his integrity/probity, physical/mental fitness, educational/financial literacy/training, and other competencies relevant to the job. Each director must also have attended a seminar on corporate governance, subject to certain exemptions. Members of the board of directors may not be appointed as corporate secretary or chief compliance officer of the institution.

Such Circulars also required the appointment of a Chief Risk Officer ("CRO") in universal and commercial banks to head the risk management function. In addition to overseeing the risk management function, the CRO shall also support the board of directors in the development of the risk appetite of the BSFI and for translating the risk appetite into a risk limits structure. The appointment, dismissal and other changes to the CRO requires the prior approval of the board of directors.

The BSP also issued Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer ("CCO"). The CCO is tasked to oversee the identification and management of the BSFI's compliance risk and shall supervise the compliance function staff. Additionally, the board of directors should ensure that a compliance program is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance program.

Certain persons are permanently disqualified from acting as bank directors, including (a) persons who have been convicted by final judgment of a court for offenses involving dishonesty, such as but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, and others; (b) persons who have been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years; (c) persons who have been convicted by final judgement of the court for violation of banking laws, rules, and regulations; (d) persons who have been judicially declared insolvent, spendthrift, or incapacitated to contract; (e) directors, officers, or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board; (f) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; and (g) directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

Under the MORB, the board of directors of a bank must have at least five and a maximum of 15 members. In case of merged or consolidated banks, the number of directors shall not exceed twenty-one (21). BSP Circular No. 969 further provided for the composition of the Board of Directors. At least one-third but not less than 2 members of the Board must be independent directors, rounded up to the nearest whole number. Meanwhile, according to the RA No. 11232, or the Revised Corporation Code, the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests. Non-Filipino citizens are allowed to become members of the Board to the extent of the foreign participation in the equity of the institution.

On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of DSIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.

BSP Circular No. 969 further provided for the composition of the Board of Directors. At least one-third but not less than 2 members of the Board must be independent directors, rounded up to the nearest whole number. Non-Filipino citizens are allowed to become members of the Board to the extent of the foreign participation in the equity of the institution.

Loans to DOSRI

No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the Board of Directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act. The DOSRI account shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. The limitation excludes loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

The amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and book value of their paid-in capital contribution in the bank. On 23 June 2016, as provided under Circular No. 914, the Monetary Board approved the revisions to prudential policy on loans, other credit accommodations, and guarantees granted to DOSRIs. The Monetary Board approved the exclusion of loans, other credit accommodation and guarantees granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided, that the bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI should not exceed 100% of the bank's net worth or 15% of the total loan portfolio of the bank, whichever is lower, unless the Monetary Board approves. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30% of the aggregate ceiling or of their outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit guarantees and guarantees every week. On the other hand, the amount of individual outstanding loans, other credit and accommodations granted to subsidiaries and affiliates, of which at least 85.0% must be secured, should not exceed 10.0% of the net worth of the lending bank, provided that the unsecured loans, other credit accommodations, and guarantees to each of the said subsidiaries and affiliates shall not exceed 5% of such net worth.

Under BSP Circular No. 914, loans, other accommodations and guarantees granted by a bank to its DOSRI, subsidiaries and affiliates. BSP Circular No. 914 has raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programs particularly infrastructure projects under the Philippine Development Plan/Public Investment Program ("PDP/PIP") needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and pre-empt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

Valuation Reserves for Credit Losses Against Loans

BSP regulations allow loans and advances to be written-off as bad debts only if it can be justified to be uncollectible or worthless. The board of directors of the bank has discretion in accordance with defined policies, and upon incorporation, at a minimum, of a well-defined criteria under which the credit exposures may be written off. The prior approval of the Monetary Board of the BSP is required to write off loans to the bank's directors, officers, stockholders, and their related interests.

In accordance with BSP Circular No. 941 dated January 20, 2017, loans, investments, receivables, or any financial asset, including restructured loans, as a general rule shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSFIs may provide a cure period on a credit product-specific basis, not to exceed 30 calendar days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays.

The observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness(es), and the BSP-supervised financial institutions are mandated to regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed 10 calendar days. Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies and shall incorporate well-defined criteria under which credit exposure may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies. Policies shall define and establish the reasonable period of time within which to write off loans already classified as "loss". BSP regulations allow loans and advances to be written-off as bad debts only if it can be justified to be uncollectible. The board of directors of the bank has discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to the DOSRI.

On January 26, 2003, the Special Purpose Vehicle (“SPV”) Act came into force. The SPV Act provides the legal framework for the creation of SPVs that will acquire non-performing loans, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. Congress passed the SPV Act’s implementing rules and regulations on March 19, 2003 and they came into force on April 12, 2003. On April 24, 2006, the Philippine president signed into law an amendment to the SPV Act, extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after the amended SPV Act takes effect or until November 14, 2007. The amendatory law also extended the tax exemption and fee privileges of SPVs to those transactions that occur up to May 14, 2008. The extension expired on July 14, 2008.

In accordance with BSP Circular No. 941 dated 20 January 2017, loans, investments, receivables, or any financial asset, including restructured loans, as a general rule shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSP-supervised financial institutions may provide a cure period on a credit product-specific basis, not to exceed 30 calendar days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays.

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On 29 October 2014, the BSP issued BSP Circular No. 855 on “Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions. The Circular, which was further enhanced by BSP Circular No. 1046 (2019), prescribes, among others, guidelines in setting up of allowance for credit losses.

On August 14, 2018, the BSP issued BSP Circular No. 1011 on “Guidelines on the Adoption of the Philippine Financial Reporting Standard (PFRS) 9 – Financial Instruments”. The policy sets out the supervisory expectations in classifying and measuring financial instruments and in recognizing impairment to promote prudence and transparency in financial reporting.

Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses shall also be set up as follows: (i) 5.0% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1.0% of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws and regulations.

Restrictions on Branch Opening

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board of the BSP, to use any or all of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch should be opened within six months from the date of approval (extendible for another six-month period, upon the presentation of justification therefor). Branching policy and guidelines under the MORB were amended by BSP Circular No. 759, issued on 30 May 2012, providing, among others that banks may establish as many branches as its Qualifying Capital can support taking into account any approved but unopened branch/es outstanding at the time of application. Approved branches shall be opened within one year from the date of approval thereof, subject to extension on a case-to-case basis, but in no case to exceed three years, while approved while approved Other Banking Offices ("OBOs") shall be opened within one year from date of approval thereof, which shall not be subject to any extension. Requirements for opening of branches / OBOs were also rationalized.

Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks were allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Parañaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. Note, however, that under BSP Circular No. 728 (2011), the restrictions on establishment of branches have been fully lifted as of 1 July 2014, subject to certain requirements. BSP Circular No. 759 liberalized its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank. It permitted a bank to establish as many branches as its qualifying capital can support in accordance with existing rules. In BSP Circular No. 987 Series of 2017, the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the MORB. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Under the first phase, second-tier universal and commercial banks with capital accounts of at least ₽ 10 billion and thrift banks with capital of at least ₽ 3 billion that have less than 200 branches in restricted areas as of December 2010 were allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalization approach, which started on 1 July 2014 wherein branching in the restricted areas was opened up to all banks except rural and cooperative banks that are not allowed to establish branches in Metro Manila. Currently, in accordance with BSP Circular No. 932 (2016), as a general rule, all banks, including rural and cooperative banks, are allowed to establish branches anywhere in the Philippines, including in cities previously considered as restricted areas.

BSP Circular No. 728 provides that under the first phase, second-tier universal and commercial banks with capital accounts of at least ₱10.00 billion and thrift banks with capital of at least ₱3.00 billion that have less than 200 branches in restricted areas as of December 2010 would be allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalization approach started on 1 July 2014 wherein branching in the restricted areas will be opened up to all banks except rural and cooperative banks that are not allowed to establish branches in Metro Manila.

At present, pursuant to BSP Circular No. 932 (2016), all banks, including rural and cooperative banks, as a general rule are now allowed to establish branches anywhere in the Philippines, including in cities previously considered as restricted areas.

Branches of microfinance-orientated banks, microfinance-orientated branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under the Barangay Micro Business Enterprises Act of 2002 (R.A. No. 9178) may be established anywhere upon the fulfilment of certain conditions.

Establishment of Branch-lite Units

In order to promote greater access to efficient and competitive banking services through the adoption of proportionate regulatory framework that provides banks with flexibility to execute their strategies and enables them to innovate in line with their business model, the BSP issued BSP Circular No. 987 (s. 2017), which provides for the guidelines on the establishment relocation, voluntary closure, and sale of branch-lite units of domestic banks, including locally incorporated subsidiaries of foreign banks. A branch-life unit refers to any permanent office or place of business of a bank, other than its head office or a branch. A branch-lite unit performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of the bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

On September 1, 2006, the BSP released new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank's board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness program for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and € the development of complaint resolution procedure for unauthorized transactions in electronic banking.

Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa (EMV) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. As of 1 January 2017, all cards issued and card-accepting devices should now be EMV-compliant. Prior to full compliance, failure on the part of the BSFI to submit and implement their EMV migration plan shall be subject to additional enforcement actions. . However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSP-supervised financial institutions are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offense and will subject these institutions to monetary sanctions provided under relevant provision of the MORB.

On 22 February 2019, the BSP issued Circular No. 1033, Series of 2019, which amended the MORB on electronic banking services and other electronic operations. The amendments mainly take into account the developments in electronic payment and financial service (EPFS).

Anti-Money Laundering Law

The Anti-Money Laundering Act ("**AMLA**") was passed on 29 September 2001 and was amended on 23 March 2003. Under its provisions, as amended, certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Insurance Commission, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱ 0.5 million within one banking day.

Republic Act. 10167 has expanded the coverage of the AMLC to enable inquiries into so-called “related accounts,” defined as: “funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)." the high threshold level for covered transactions, the coverage of "covered institutions" and the existing Bank Secrecy Law, the amendments to the AMLA were signed into law on 7 March 2003 under Rep. Act No. 9194. The amendments included the following: (i) lowering the threshold for covered transactions from ₱ 4.0 million to ₱ 500,000; (ii) authorizing the BSP to inquire or examine any deposit or investment with any banking institution without court order in the course of a periodic or special It also addressed concerns such as examination; and (iii) removing the provision prohibiting the retroactivity of the law.

These institutions are also required to submit a “suspicious” transaction report if there is reasonable ground to believe that any amounts processed are the proceeds of money laundering activities. Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- there is no underlying legal or trade obligation, purpose or economic justification;
- the customer or client is not properly identified;
- the amount involved is not commensurate with the business or financial capacity of the client;
- the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- there is a deviation from the client’s profile or past transaction;
- the transaction is related to an unlawful activity or offence under the AMLA;
- similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00. Malicious reporting of completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

- transacts said monetary instrument or property;
- converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
- conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
- attempts or conspires to commit money laundering offenses referred to in paragraphs (a), (b) or (c);
- aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (a), (b) or (c) above; and
- performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in paragraphs (a), (b) or (c) above.

Money laundering is also committed by any covered person who, knowing that a covered or suspicious transaction is required under this Act to be reported to the Anti-Money Laundering Council, fails to do so. BSP Circular No. 495 (2005) as amended by BSP Circular No. 527 (2006) requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank’s attention, transactions and/or accounts that qualify either as “covered transactions” or “suspicious transactions” as defined under the Anti-Money Laundering Act.

These transactions are reported to the AMLC created under the law within ten banking days of discovery of that transaction by the covered institution. The Court of Appeals, upon application by the AMLC, has the authority to issue freeze orders on any accounts which is suspected as being used for money laundering to be frozen. BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the Anti-Money Laundering Risk Rating System (ARRS), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient Board of Directors and senior management oversight; (b) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the Board of Directors; (c) robust internal controls and audit; and (d) effective implementation. BSP Circular No. 950, further provides for specific requirements on having a risk-based approach to customer identification by covered institutions, an ongoing monitoring of customers, accounts, and transactions, and a policy of non-discrimination against certain types of customers.

Institutions that are subject to the Act are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for at least five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In 2012, two amendments to the Philippines' AML regime came into effect, R.A. No. 10167 and R.A. No. 10168. R.A. No. 10167 amended Section 10 of the AMLA, which require that a petition to the Court of Appeals for an order to freeze accounts be verified. Furthermore, the Court of Appeals has to act on the petition within a period of 24 hours of filing. The affected depositor's remedy, then, is to file a motion to lift, which the Court of Appeals must resolve within the 20-day freeze period.

Section 11 of the AMLA was likewise amended. Section 11 now provides that the AMLC is authorised to examine bank accounts "upon order of any competent court based on an ex parte application". However, the same provision sets out additional instances when no court application is required – that is, for activities involving kidnapping for ransom, violations of the Dangerous Drugs Act, hijacking and other violations under Republic Act No. 6235, destructive arson and murder, and terrorism and/or conspiracy to commit terrorism as defined under Republic Act No. 9372, as amended.

Further to the above, an order to examine bank accounts receives the same treatment by the Court of Appeals as an order to freeze accounts. Now, the Court of Appeals is compelled to act on such applications within 24 hours of filing.

R.A. No. 10167 has expanded the coverage of AMLC to enable inquiries into so-called "related accounts," defined as: "funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)."

R.A. No. 10168 defined the crime of financing of terrorism, in accordance with the state policy to protect life, liberty and property from acts of terrorism. The offense is committed by one who "directly or indirectly, willfully and without lawful excuse, possesses, provides, collects, or uses property or funds or makes available property, funds or financial services or other related services, by any means, with the unlawful and willful intention that they should be used or with the knowledge that they are to be used, in full and in part: (a) to carry out or facilitate the commission of any terrorist act; (b) by a terrorist organization, association, or group, or (c) by an individual terrorist." BSP Circular No. 950 (2017) was issued in order to effectively implement this law and the revised IRR of the AMLA that took effect on 7 January 2017. The amendments emphasized the importance of a sound money laundering/terrorism financing risk assessment in banks.

The AMLC plays a central role in the enforcement of this law as the AMLC, *motu propio* or at the request of the Anti-Terrorism Council, is authorized to investigate in order for it to ascertain that there is probable cause that the financing of terrorism is being conducted, planned or facilitated. When the AMLC is satisfied that funds are for terrorist funding, it can issue an *ex parte* order to freeze, without delay, funds which it has "determined to be related to financing of terrorism or acts of terrorism" or, where there is probable cause to believe that funds are to be used in connection with terrorist activities.

BSP Circular No. 706 dated 5 January 2012, is the Updated AML Rules and Regulations ("UARR") that was issued for the purpose of consolidating all existing BSP circulars, circular letters and other issuances related to

AML. The UARR applies to all covered institutions supervised and regulated by the BSP including Banks, Offshore banking units, quasi banks, trust entities, non-stock savings and loan associations, pawnshops, foreign exchange dealers, money changers and remittance agents, electronic money issuers including their subsidiaries and affiliates wherever they may be located. In addition to the usual provisions on customer identification/KYC, covered and suspicious transaction reporting and record keeping and retention requirements that are found in the AMLA-RIRR, the UARR emphasizes the incorporation of a sound risk management system to ensure that risks associated with money laundering and terrorist financing are identified, assessed, monitored, mitigated and controlled by covered institutions. A sound risk management system includes adequate and active Board and Senior Management oversight, acceptable policies and procedures embodied in a Money Laundering and Terrorist Financing Prevention Program ("MLPP"), appropriate monitoring and Management Information System and comprehensive internal controls and audit.

UARR further provides that any violations of existing provisions thereof shall constitute a major violation that may subject the bank, its directors, officers and staff to enforcement actions such as monetary and non-monetary penalties. The enforcement actions shall may be imposed on the basis of the overall assessment of a covered institution's AML compliance system, and if found to be grossly inadequate, such may be considered as unsafe and unsound banking practice that may warrant initiation of prompt corrective action.

BSP Circular No. 495 (2005) as amended by BSP Circular No. 527 (2006) requires all universal and commercial banks to adopt an electronic or manual system of flagging, monitoring and reporting of transactions that qualify as suspicious transactions, regardless of amount or that will raise a "red flag" for purposes of conducting further verification or investigation, or transactions involving amounts below the threshold to facilitate the process of aggregating them for purposes of future reporting of such transactions to the AMLC when their aggregated amounts breach the threshold.

BSP Memorandum No. M2012-017 (April 2012) adopted the AML Risk Rating System ("ARRS"), an internal rating system that aims to understand whether the risk management policies and practices as well as internal controls of Banks and NBFIs to prevent money laundering and terrorist financing are in place, well disseminated and effectively implemented.

ARRS is an effective supervisory tool that undertakes to ensure that all covered institutions as defined under Circular No. 706 are assessed in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on entities exhibiting inefficiencies in Board of Directors and Senior Management oversight and monitoring, inadequacies in their AML framework, weaknesses in internal controls and audit and defective implementation of internal policies and procedures. Under ARRS, each institution is rated based on the following factors: (i) efficient Board of Directors and senior management oversight; (ii) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the Board of Directors; (iii) robust internal controls and audit; and (iv) effective implementation.

Covered institutions are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for at least five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

On 15 February 2013, Republic Act No. 10365 was approved. This amendment expanded the coverage of the AMLA, which now talks about "covered persons, natural or juridical." Additions to the enumeration of covered persons include jewelry dealers for transactions in excess of one million Pesos (₱ 1,000,000); company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organize funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities.

In 2016, the AMLC approved the Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP Circular No. 950 which further expanded "covered persons" to include company service providers, people who manage their client's money, security or other assets, manage bank or securities accounts, organize funds for the creation, operation, or management of companies, create, operate, or manage entities or relationships, or who buy and sell business entities.

On 19 July 2017, a further amendment to the AMLA was signed into law. Rep. Act No. 10927 amends the AMLA to include casinos under its coverage. The measure sets the threshold amount at ₱ 5,000,000.00, as against the usual ₱ 500,000.00, that would require casinos to report suspicious transactions to the AMLC. This amendment was one of the recommendations of the Financial Action Task Force (FATF), a global anti-money laundering and anti-terrorism watchdog.

In 2018, the AMLC issued Resolution Nos. 149 and 191, which provided guidelines on the digitization of customer records and on identifying beneficial ownership, respectively. Section 3 of Resolution No. 149 provides the specific duties of covered persons which Bangko Sentral-supervised financial institutions (BSFIs) should observe in digitizing its customers' records and ensuring the security and integrity of the customers' records database. Non-compliance with the guidelines is considered a grave violation of the AMLC's Rules on Imposition of Administrative Sanctions ("**RIAS**"). Resolution No. 191, on the other hand, requires BSFIs to: 1) update their Money Laundering and Terrorist Financing Prevention Program (MTPP), 2) identify and record the beneficial ownership information of all existing customers, within 6 months and 1 year, respectively, from its date of effectivity.

On 27 November 2018, the 2018 Implementing Rules and Regulations of the AMLA took effect. This incorporated the amendments under Republic Act No. 10972, which included casinos as covered persons. However, implementation by casinos of AMLA will continue to be governed by the existing Casino Implementing Rules and Regulations. These implementing rules and regulations feature new rules on the AMLC's coordination with law enforcement agencies, beneficial ownership, customer due diligence, and national risk management and assessment, among others.

The SEC likewise issued Memorandum Circular No. 16, s. 2018 requiring all covered institutions to amend their respective Money Laundering and Terrorist Financing Prevention Program to conform with the Anti-Money Laundering and Combating the Financing of Terrorism regimes. BSP also issued BSP Circular No. 1022 which required institutions to comply with relevant resolutions made by the United Nations Security Council in conducting due diligence among customers, especially on the prevention, suppression and disruption of the use of weapons of mass destruction and its financing.

On April 20, 2018, the AMLC issued AMLC Letter No. AMLET-18-03, providing for Operational Guidelines in the Conduct of the 2018 Third Round Mutual Evaluation of the Philippines (the Guidelines). The Guidelines aim to (a) create an inter-agency Mutual Evaluation Working Group and sub-working groups; (b) enumerate the functions and obligations of the member-agencies with respect to the Mutual Evaluation process; (c) outline the Mutual Evaluation process and provide guidance as to the different components of the process; (d) provide timelines for the Mutual Evaluation process and Mutual Evaluation-related activities; (e) enumerate effects of a "non-compliant" or "poor" Mutual Evaluation; and (f) lay down the framework towards the adoption of a national anti-money laundering/counter-financing of terrorism ("**AML/CFT**") Strategy. The Guidelines are addressed to all participating government agencies and other entities.

The Mutual Evaluation is a government-wide concern as what will be assessed is the compliance of the Philippines with the Financial Action Task Force Forty Recommendations and the effectiveness of its AML/CFT regime. The entire Mutual Evaluation process spans two years, and will require the support and active participation of various government agencies and public and private stakeholders. The Philippines will be evaluated by a pool of experts from Financial Intelligence Units from other member-jurisdictions of the Asia-Pacific Group on Money Laundering ("**APG**"), pursuant to the APG's membership rules.

Further Liberalization of Foreign Banks

On 15 July 2014, President Benigno Aquino, III signed into law Republic Act No. 10641 or "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721" ("Rep. Act No. 10641"). Under Rep. Act No. 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorized to do banking business in the Philippines under Rep. Act No. 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under Rep. Act No. 10641 shall have the same branching privileges as domestic banks of the same category.

Among the key amendments of the law were the removal of the ranking requirement for foreign banks and the addition of the applicant banks being widely owned and publicly listed in the country of its origin. In addition, the law now allows authorized foreign banks to participate in the bidding and foreclosure sales of mortgaged real property (including lands) as well as to avail of the enforcement and other proceedings and even take possession (but not title) to such mortgaged property for a period of five years. The foreign bank must, however, transfer its rights over the mortgaged property to a qualified Philippine national within the period of five years.

Under Republic Act No. 10641, the Monetary Board was authorized to issue such rules and regulations as may be needed to implement the provisions of Republic Act No. 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of Republic Act No. 10641 and on 2 November 2014, the BSP issued Circular No. 858, amending the relevant provisions of the MORB, accordingly.

In the exercise of the authority to approve entry applications, under Republic Act No. 10641, the Monetary Board shall adopt such measures as may be necessary to ensure that the control of at least 60.0% of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos. Based on BSP Circular No. 858, such measures may include (a) suspension of entry of additional foreign bank subsidiaries and branches; and (b) suspension of license upgrade or conversion to subsidiary of existing foreign bank branches. Other measures may also be implemented by the Monetary Board, provided that such measures (a) shall be consistent with Republic Act No. 7721, as amended by Republic Act No. 10641, and (b) shall consider vested rights and non-impairment of contracts.

Related Party Transactions

On 1 December 2015, the BSP announced that it approved guidelines strengthening oversight and control standards for managing related party transactions. This was further strengthened through the issuance of BSP Circular No. 969. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher degree of standards should be applied to protect the interest of all stakeholders. It is emphasized that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the BSP Circular No. 969, a universal or commercial bank which is part of a conglomerate shall constitute a Related Party Transactions Committee ("**RPT Committee**"), composed of at least three members of the Board of Directors, two of whom must be independent directors, including the chairperson. The committee may not contain non-executive directors, and independent directors must always comprise a majority of the Committee. The RPT Committee has the duty to ensure that all related parties are continuously identified, related party transactions are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice-versa) are captured. It is also responsible for evaluating all material related party transactions to ensure that these are not undertaken on more favorable economic terms, and for ensuring that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the institution's related party transaction exposures. The RPT Committee must also prepare a report to the board on a regular basis, on the status and aggregate exposures to each related party, as well as to all related parties. Lastly, they are tasked with overseeing the implementation of the system for identifying, monitoring, measuring, controlling, and reporting related party transactions, including the periodic review of related party transaction policies and procedures.

In addition, the SEC has issued SEC Memorandum No. 10 (2019), which requires publicly-listed companies, such as the Bank, to submit a policy on material related party transactions within six (6) months from effectivity of the Memorandum. It regulates material related party transactions, defined as related party transactions, either individually, or in aggregate over a twelve-month period with the same related parties, amounting to ten percent (10%) or higher of a company's total assets. All material related party transactions must be approved by at least two-thirds of vote of the board of directors, with at least majority of the independent directors voting to approve the material related party transaction. Failure to secure the independent directors' vote, the Memorandum mandates ratification by at least two-thirds of the stockholders owning the outstanding capital stock. The term covers related parties – defined as the company's directors, officers, substantial stockholders (including beneficial owners, direct or indirect, of more than ten percent of any class of equity security), and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law. It likewise covers the company's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture, or entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

Other Regulations

In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates shall be used.

On 14 August 2015, the BSP issued Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Under the Circular, banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.

The BSP also issued Circular No. 891 on 9 November 2015 amending the sales and marketing guidelines for derivatives under the MORB. Under the Circular, banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitization structures, and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank's standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees.

On 18 August 2016, the BSP issued Circular No. 920 allowing for the creation of the Personal Management Trust (PMT), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third-party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual's financial affairs. Upon the effectivity of the circular, all Living Trust Accounts (LTAs) were discontinued and all those that remained valid were automatically considered as PMT.

On 7 September 2016, the BSP issued Circular No. 924, amending the MORB in view of the clearing of checks via electronic presentment, which shall be implemented by the Philippine Clearing House Corporation (PCHC). On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information shall be required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.

On 26 June 2017, the BSP amended the MORB again through Circular No. 963, series of 2017. The issuance instituted governance processes in accordance with the BSP's expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must be comply with those standards prescribed by the BSP, and those banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provides that banks have until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision, with its full implementation slated for 1 January 2018.

On 22 August 2017, the BSP issued Circular No. 971, prescribing the Guidelines on Risk Governance for BSP Supervised Financial Institutions (“BSFIs”), and requiring the appointment of a Chief Risk Officer (“CRO”) in universal and commercial banks to head the risk management function. In addition to overseeing the risk management function, the CRO shall also support the board of directors in the development of the risk appetite of the BSFI and for translating the risk appetite into a risk limits structure. The appointment, dismissal and other changes to the CRO requires the prior approval of the board of directors.

On the same date, the BSP also issued Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer (“CCO”). The CCO is tasked to oversee the identification and management of the BSFI’s compliance risk and shall supervise the compliance function staff. Additionally, the board of directors should ensure that a compliance program is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance program.

On 3 November 2017, the BSP issued Circular No. 981, amending the guidelines on liquidity risk management and the related amendments to the MORB. Among the highlights of the said changes were the additional guidelines relative to Foreign Currency Management, Intraday Liquidity Management, Intragroup Liquidity Management, Collateral Management, Liquidity Stress Testing, Contingency Funding Plans, Factors to Consider in Developing a Funding Strategy, and Factors to Consider in Developing Cash Flow Projections. Banks shall have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that they complete a gap analysis of the requirements of the said BSP Circular vis-a-vis their existing risk management systems by 31 March 2018.

On 6 November 2017, in line with BSP’s adoption of the NRPS framework consistent with its regulations on risk management, the BSP issued Circular No. 980, which requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management and effective and efficient interoperability. The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. Under this framework, sound governance shall be performed by a payment system management body ("PSMB"), which is duly recognized and overseen by BSP. In the absence of a PSMB, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by BSP.

On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management ("ISRM") of BSFIs in view of the rapidly evolving technology and cyber- threat landscape in which they operate. The amendments highlight the role of the BSFIs’ board and senior management in spearheading sound information security governance and strong security culture within their respective networks. Likewise, BSFIs are mandated to manage information security risks and exposures within acceptable levels through a dynamic interplay of people, policies, processes, and technologies following a continuing cycle (i.e. identify, prevent, detect, respond, recover and test phases). The new guidelines also recognize that BSFIs are at varying levels of cyber-maturity and cyber-risk exposures which may render certain requirements restrictive and costly vis-à-vis expected benefits. Thus, the IT profile classification has been expanded from two to three, namely: "Complex," "Moderate" and "Simple" to provide greater flexibility in complying with the requirements.

On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of DSIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.

On 1 February 2018, BSP issued Circular No. 992, which set out the framework for banks to offer a basic deposit account to promote account ownership among the unbanked. The minimum key features of the account include: simplified KYC requirements; an opening amount of less than ₱100.00; no minimum maintaining balance; and no dormancy charges. To prevent misuse of the basic deposit account, its maximum balance is set at ₱50,000.00. As an incentive for banks, the basic deposit account is granted a preferential 0.00% reserve requirement which lowers their account maintenance cost.

On 1 March 2018, the BSP issued Circular No. 998, clarifying the guidelines on the basic security deposit requirements. The circular provides that, as security for the faithful performance of its trust and other fiduciary duties, the basic security deposit shall be at least one percent of the book value of the total trust, other fiduciary and investment management assets, and at no time shall be less than ₽ 500,000.00; further, as security for the faithful performance of its investment management activities, the basic security deposit shall be at least one percent of the book value of the total investment management assets, and at no time less than ₱500,000.00. On 15 February 2019, BSP issued Circular No. 1032 which amended Circular No. 998 and modified the prescribed methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, the compliance period to require banks, that are authorized to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis, as well as, at the time of withdrawal, replacement or redemption of the government securities deposited with the BSP within the quarter period.

On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:

(1) The bank must have a CAMELS composite rating of at least “3” and a “Management” rating of not lower than “3”.
(2) The bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
(3) The bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
(4) The bonds issued are enrolled and/or traded in a market which is organized in accordance with the SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank’s listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, shall be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option are allowed or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provide that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:

(1) in preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of PAS 28.

(2) In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

(3) banks shall recognize adequate and timely allowance for credit losses at all times. In this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP Manual.

On 6 September 2019, the BSP issued Circular No. 1048 which contained the Guidelines and Procedures Governing the Consumer Assistance and Management System. The Circular provides that BSFI should have Consumer Protection Risk Management System (CPRMS) which should include the governance structure, policies, processes, measurement and control procedures to ensure that consumer protection risks are identified, measured, monitored, and mitigated. The Circular further empowered the BSP to deploy enforcement actions to ensure compliance with BSP Regulations on Financial Consumer Protection.

On 26 October 2018, the BSP issued Circular No. 1019 which amended the covering technology and cyber-risk reporting and notification requirements of BSFIs. The Circular provides that BSFIs are now required to report major cyber-related incidents and disruptions of financial services and operations within two (2) hours from discovery of the incident. After initial notification, affected BSFIs are mandated to submit a follow-up report within twenty-four (24) hours from the incident containing information such as the manner and time of initial detection, impact of the incident, and initial remedial response. The BSP shall closely monitor the situation, coordinate with the concerned BSFI, and undertake appropriate supervisory actions if warranted, until full resolution of the incident. Noncompliance with the prescribed procedure may result in "High" penalty level monetary sanctions for the covered institutions.

Revised Corporation Code

Republic Act No. 11232 or the Revised Corporation Code ("Code") was signed into law on 20 February 2019 and became effective on 8 March 2019. Among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Securities and Exchange Commission (Commission) that it elects to retain its specific corporate term under its current Articles of Incorporation.

- A corporation vested with public interest must submit to its shareholders and to the Commission an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.

- Banks, quasi-banks, pawnshops, non-stock savings and loan associations (NSSLA), and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least twenty percent (20%) independent directors in the Board, in accordance with the Securities and Regulation Code. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Commission.

- The Code allows the creation of a "One Person Corporation". However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly-listed companies, among others, from being incorporated as such. This restriction also applies with respect incorporations as Close Corporation.

- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.

- The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.

- As to amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.

- A favorable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Commission approves any merger or consolidation; or any voluntary dissolution.

- In case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

DISTRIBUTION AND SALE

Methods of Distribution

The Bonds under the Programme will be issued pursuant to BSP Circular No. 1010 (Series of 2018) and other related circulars and issuances of the BSP (the "BSP Rules"). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The Sole Arranger and the Arrangers for each issuance under the Programme are required to comply with all laws, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the Bonds and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Arranger in connection therewith. The Arranger for each issuance under the Programme shall be a third-party in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine the objective conduct of due diligence on Bank. The Registrar and Paying Agent and Trustee are likewise third-parties in relation to Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; (ii) they are not related in any manner to Bank as would undermine their independence.

Applications to Purchase the Bonds during the Offer Period

Applicants may purchase the Bonds under the Programme during the relevant Offer Period for each Series or Tranche by submitting fully and duly accomplished Applications to Purchase the Bonds, in quadruplicate together with all the required attachments and the corresponding payments to the Selling Agent from whom such application was obtained no later than 5:00 p.m. of the last day of the relevant Offer Period. Applications received after said date or without the required attachments will be rejected. The Issuer and the Arranger reserve the right to adjust the Offer Period as needed.

If the Applicant is an individual, the following documents must also be submitted:

a. A clear copy of at least one (1) valid photo-bearing identification document issued by an official authority in accordance with BSP Circular No. 608 (2008) as may be amended from time to time, and documents as may be required by to the Registrar and/or Selling Agent concerned;

b. Two (2) fully executed signature cards in the form attached to the application; and

c. For aliens residing in the Philippines or non-residents engaged in trade or business in the Philippines, consularized proof of tax domicile issued by the relevant tax authority of the Applicant.

If the Applicant is a corporation, partnership, trust, association or institution, the following documents must also be submitted:

a. SEC-certified or Corporate Secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-Laws or such other relevant organizational or charter documents;

b. Original or Corporate Secretary-certified true copy of the duly notarized certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the Bonds and specifying the authorized signatories; and

c. Two (2) fully executed signature cards duly authenticated by the Corporate Secretary, in the form attached to the application.

Corporate applicants who are claiming tax exemption must also submit the following:

a. Certified true copy of a tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue no more than one year prior to the date of submission of the same to the Selling Agent or Limited Selling Agent;

b. Original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax-exempt status and agreeing to indemnify and hold the Issuer and the

Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and

c. Such other documentary requirements as may be required by the Registrar as proof of the Applicant's tax-exempt status.

Allocation and Issue of the Bonds

Applications to Purchase the Bonds shall be subject to the availability of the Bonds and acceptance by the Issuer. The Arranger, in consultation with the Issuer, reserves the right to accept, reject, scale down or reallocate any Application to purchase the Bonds applied for under the relevant Series or Tranche of Bonds.

In the event that payment supporting any Application is returned by the drawee bank for any reason whatsoever, the Application shall be automatically cancelled and any prior acceptance of the Application shall be deemed revoked. If any Application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent.

On the relevant Issue Date, the Selling Agent shall, on behalf of the Issuer, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall ipso facto convert such Application to Purchase into a purchase agreement between the Issuer and the relevant Bondholder.

Upon confirmation by the Issuer of acceptance of the relevant Applications and the respective amount of Bonds, the Registrar and Paying Agent shall issue the relevant registry confirmation (the "Registry Confirmation") to successful applicants confirming the acceptance of their purchase of the Bonds and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies to the Issuer.

The Registrar shall be entitled to rely solely on the Final Sales Reports submitted by the Selling Agent to the Registrar. Where PDTC discovers, after Issue Date, any inconsistency between the Final Sales Report and the Application to Purchase submitted by the Bondholder, PDTC reserves the right to rely subsidiarily on the Applications to Purchase, to the extent that the information in the Final Sales Report is noted to be inconsistent with the Application to Purchase. Within seven (7) Banking Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the Bondholders in the mode elected by the Bondholder as indicated in the Application to Purchase.

Transactions in the Secondary Market

All secondary trading of the Bonds shall be coursed the trading facilities of PDEx, as applicable, subject to the payment by the Bondholder of fees to the connection with trading on PDEx, and the Registrar. Transfers shall be subject to the procedures of the BSP, the Registrar and PDEx, including but not limited to the guidelines on minimum trading lots, minimum holding denominations, and record dates.

The Bank shall list the Bonds under the Programme in PDEx for secondary market trading. Upon listing of the Bonds with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of the Bonds in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. Transactions on the Bonds on PDEx will be subject to the duly approved and relevant rules of the exchange, including guidelines on minimum trading lots and other guidelines for holding and trading of the Bonds as may be prescribed by the BSP.

For the avoidance of doubt, the minimum denomination for the Bonds as prescribed by the BSP or as may be provided in the relevant Pricing Supplement must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining Bondholder of the Bonds will hold less than the minimum denomination as prescribed or approved by the BSP or as stated in the relevant Pricing Supplement.

No transfers will be effected for a period of two (2) Business Days preceding the due date for any payment of interest on the Bonds, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Bonds

The Registrar shall register any transfer of the Bonds upon presentation to it of the following documents in form and substance acceptable to it:

- The relevant Trade- Related Transfer Form or Non-Trade Transfer Form as the case may be, duly accomplished by the transferor Bondholder and endorsed by the PDEx Trading Participant;
- the relevant Purchase Advice of the buyer/transferee (with the information provided therein duly set forth in typewritten form);
- duly accomplished Investor Registration Form of the buyer/transferee as prescribed by the Registrar as well as all supporting documents described for the original issuance of the Bonds as described above (in case of a new holder);
- proof of the qualified tax-exempt status of the transferee, if applicable, and the covering Affidavit of Undertaking;
- the original duly endorsed signature cards of the buyer/transferee and such other original or certified true copies of other documents submitted by the buyer/transferee in support of the transfer or assignment of the Bonds in its favor;
- the appropriate secretary's certificate attesting to the board resolutions authorizing the transfers and acceptances as well as designating the authorized signatories, together with specimen signature cards duly signed by the parties, and duly authenticated by each party's corporate secretary; and
- such other documents that may be required by the Registrar, including those for Non-Trade Transactions.

Transfers of the Bonds made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar.

Interest and Principal Payment

On the relevant Payment Date, the Registrar shall, upon receipt of the corresponding funds from the Issuer, make available to the Bondholders the amounts due under the Bonds, net of taxes and fees (if any), by way of credits to the bank accounts identified by the Bondholders in the Applications to Purchase.

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AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 2018, 2017 AND 2016

UNAUDITED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018.

AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 2018, 2017 AND 2016

P&A Grant Thornton

An instinct for growth™

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288

Report of Independent Auditors

The Board of Directors and Stockholders
BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Unibank, Inc. and subsidiaries (collectively referred to as the BDO Unibank Group) and of BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the BDO Unibank Group and of the Parent Bank as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the BDO Unibank Group and of the Parent Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

I. Key Audit Matters Applicable to the BDO Unibank Group and the Parent Bank Financial Statements

(a) Adoption of PFRS 9, Financial Instruments

Description of the Matter

Effective January 1, 2018, the BDO Unibank Group and the Parent Bank adopted PFRS 9, *Financial Instruments*, (PFRS 9) which replaced PAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of this new standard, which primarily affected the BDO Unibank Group's and Parent Bank's classification and measurement of their financial assets and impairment of financial instruments using the expected credit losses, is considered significant in our audit due to the complexity of the accounting requirements and the significant judgement required in determining assumptions to be used in applying the standard.

The impact of the adoption of PFRS 9, and the related changes in accounting policies, basis of judgement and estimates, and risk management are disclosed in Notes 2, 3 and 4 to the financial statements.

How the Matter was Addressed in the Audit

We have obtained an understanding of the BDO Unibank Group's and the Parent Bank's implementation process of PFRS 9, including the changes to the BDO Unibank Group's and the Parent Bank's policies and Information Technology systems and processes. Our audit procedures for each of the new requirements of the PFRS 9 are the following:

(i) Classification and Measurement

- Evaluating the appropriateness of the BDO Unibank Group's and the Parent Bank's policy for classification and measurement of financial instruments based on the requirements of PFRS 9.
- Reviewing the sufficiency and appropriateness of the business model assessment and contractual cash flows characteristics assessment (i.e., testing if the cash flows arising relate solely to payment of principal and interest) performed by the BDO Unibank Group and the Parent Bank on their financial assets.
- Reviewing the classification and measurement analysis done by the BDO Unibank Group and the Parent Bank regarding the classification of financial assets into fair value through profit or loss, amortized cost and fair value through other comprehensive income (FVOCI).
- Evaluating the appropriateness of transition adjustments as a result of the adoption of PFRS 9 on classification and measurement of financial assets, and determining the adequacy of related financial statement disclosures, including changes in accounting policies and basis of judgement and estimates.

(ii) Impairment

- Evaluating the appropriateness of the impairment policies, particularly those requiring the exercise of judgement such as when a credit exposure has experienced a significant increase in credit risk.

- Understanding and assessing appropriateness of expected credit loss (ECL) models used, including reasonableness of overlays or forward looking information.

- Assessing completeness, accuracy, relevance and reliability of inputs in the ECL models, including historical information sourced outside of the controllership function or obtained from the third party sources.

- Reviewing the assessment done by the BDO Unibank Group and the Parent Bank regarding appropriateness of the ECL models and assumptions and estimates used and reasonableness of computed impairment loss.

- Evaluating appropriateness of the impairment adjustments resulting in the transition to PFRS 9, including completeness and reasonableness of related ECL disclosures.

(b) Proper Valuation of Loans and Other Receivables

Description of the Matter

The BDO Unibank Group and the Parent Bank had loans and other receivables that are subject to impairment. As of December 31, 2018, the BDO Unibank Group and the Parent Bank had loans and other receivables amounting to P2,071,834 million and P2,019,153 million, respectively, net of allowance for impairment of P29,045 million and P26,197 million, respectively. Loans and other receivables are the most significant resources of the BDO Unibank Group and the Parent Bank which account for 69% and 70% of the BDO Unibank Group's and the Parent Bank's total resources, respectively.

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

As discussed in item I(a) above, on January 1, 2018, the BDO Unibank Group and the Parent Bank adopted PFRS 9, which introduced the ECL model in determining impairment of financial assets. Accordingly, the BDO Unibank Group and the Parent Bank used the ECL model in determining impairment of their loans and other receivables. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated loss ratios and of default correlations between counterparties. Furthermore, the BDO Unibank Group and the Parent Bank incorporated forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement of ECL. The BDO Unibank Group and the Parent 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 disclosures of the BDO Unibank Group and the Parent Bank on the allowance for impairment of loans and other receivables, and the related credit risk are included in Notes 4 and 10 to the financial statements.

How the Matter was Addressed in the Audit

In addition to the procedures performed in I(a), our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of loans and other receivables, which were considered to be a significant risk, included:

- testing the design and operating effectiveness of key controls across the processes, as assisted by our own Information Technology specialists, over the loan classification into stages, and the calculation and recognition of the allowance for impairment;

- evaluating appropriateness of BDO Unibank Group's and the Parent Bank's credit policy and loan impairment process as approved by the Board of Directors;

- verifying that the loans are allocated to the appropriate stage, and challenging the criteria used to categorize the loan to Stage 1, 2 or 3 in accordance with PFRS 9;

- on a sample basis, evaluating the appropriateness of the credit risk ratings of performing Stage 1 loans to assess appropriateness of credit risk monitoring;

- evaluating the inputs and assumptions, as well as the formulas used in the development of the ECL models for each of their loan portfolio. This includes assessing the appropriateness of design of the ECL impairment model and formula used in determining the probability of default, loss given default and exposure at default;

- for forward-looking information used, evaluating whether the forecasted macro-economic factors, which generally include but not limited to Gross Domestic Product growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates, were appropriate. In addition, assessing the level of significance of correlation of selected macro-economic factors to the default rates as well as the impact of these variables to the ECL;

- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts; and,

- on selected non-performing loan accounts, evaluating the management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery from other sources of collection.

(c) Valuation of Financial Instruments

Description of the Matter

The fair valuation of financial instruments of the BDO Unibank Group and the Parent Bank is considered a key area of focus in our audit due to the use of inputs from external sources in computing the market value of these financial instruments. For some financial instruments such as derivatives, the determination of fair value includes the use of estimates by the management. The fair value of derivative financial instruments is determined using the net present value computation. 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.

As of December 31, 2018, the financial assets and financial liabilities of the BDO Unibank Group that are carried at fair value amounted to P140,697 million and P4,497 million, respectively, while that of the Parent Bank amounted to P81,372 million and P1,680 million, respectively.

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

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

- evaluating whether fair value prices used were appropriate by testing the inputs against reliable market sources, such as Philippine Dealing & Exchange Corp., Bloomberg and Philippine Stock Exchange;

- recomputing the fair values based on the inputs and compared with the market values used by the BDO Unibank Group and the Parent Bank;

- testing of controls over the valuation process of the BDO Unibank Group and the Parent Bank on financial instruments, particularly the measurement of derivative valuation adjustments; and,

- reviewing the formulas used in fair market valuation.

II. Key Audit Matter Applicable to the BDO Unibank Group Financial Statements

Carrying Value of Goodwill

Description of the Matter

BDO Unibank Group has goodwill of P4,435 million as of December 31, 2018, and the significant portion of which relates to the acquisition of One Network Bank (ONB) in prior years.

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

The BDO Unibank Group's disclosures about goodwill are included in Notes 2 and 13 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to impairment of goodwill included, among others, evaluating the appropriateness of assumptions and methodologies used by the management, in particular, those relating to the forecasted statement of financial position and statement of income as well as the discount rate used. We have involved our Firm valuation specialist to assist in evaluating the appropriateness of assumptions used in estimating the recoverable amount of CGUs. In addition, our audit of the financial statements of ONB as of and for the year ended December 31, 2018 did not identify events or conditions that may cast significant doubt on ONB's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in the BDO Unibank Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BDO Unibank Group's and the Parent Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BDO Unibank Group's and the Parent Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the BDO Unibank Group and the Parent Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the BDO Unibank Group and the Parent Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 29 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. 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 Securities Regulation Code Rule 68, as amended, of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Leonardo D. Cuaresma, Jr.

PUNONGBAYAN & ARAULLO

By: **Leonardo D. Cuaresma, Jr.**
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 7333690, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-5 (until July 9, 2021)
Firm - No. 0002-FR-5 (until March 26, 2021)
BIR AN 08-002511-7-2017 (until June 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until July 24, 2021)

February 23, 2019

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
RESOURCES					
CASH AND OTHER CASH ITEMS	7	**P 53,749**	P 45,006	**P 52,492**	P 43,882
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**354,132**	353,308	**349,017**	340,596
DUE FROM OTHER BANKS	8	**55,292**	51,479	**48,780**	41,088
TRADING AND INVESTMENT SECURITIES	9	**385,197**	332,927	**304,281**	258,214
LOANS AND OTHER RECEIVABLES - Net	10	**2,071,834**	1,791,786	**2,019,153**	1,730,732
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**33,660**	29,346	**29,272**	24,917
INVESTMENT PROPERTIES - Net	12	**19,785**	18,040	**15,426**	14,496
OTHER RESOURCES - Net	13	**48,598**	46,212	**73,391**	70,700
TOTAL RESOURCES		**P 3,022,247**	P 2,668,104	**P 2,891,812**	P 2,524,625
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	**P 2,419,965**	P 2,121,012	**P 2,362,302**	P 2,045,321
BILLS PAYABLE	16	**143,623**	130,484	**117,693**	105,623
SUBORDINATED NOTES PAYABLE	17	**10,030**	10,030	**10,030**	10,030
INSURANCE CONTRACT LIABILITIES	18	**28,506**	25,986	**-**	-
OTHER LIABILITIES	19	**91,974**	82,252	**74,166**	65,990
Total Liabilities		**2,694,098**	2,369,764	**2,564,191**	2,226,964
EQUITY	20				
Attributable to:					
Shareholders of the Parent Bank		**327,372**	297,488	**327,621**	297,661
Non-controlling Interests		**777**	852	**-**	-
		328,149	298,340	**327,621**	297,661
TOTAL LIABILITIES AND EQUITY		**P 3,022,247**	P 2,668,104	**P 2,891,812**	P 2,524,625

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos Except Per Share Data)

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	BDO Unibank Group 2016	Parent Bank 2018	Parent Bank 2017	Parent Bank 2016
INTEREST INCOME	21	**P 129,040**	P 99,795	P 82,037	**P 122,615**	P 93,786	P 76,647
INTEREST EXPENSE	22	**30,748**	18,042	16,413	**28,720**	16,434	14,989
NET INTEREST INCOME		**98,292**	81,753	65,624	**93,895**	77,352	61,658
IMPAIRMENT LOSSES - Net	9, 13, 14	**6,286**	6,537	3,815	**5,700**	5,809	3,003
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**92,006**	75,216	61,809	**88,195**	71,543	58,655
OTHER OPERATING INCOME	23	**49,674**	47,206	41,613	**35,823**	33,633	27,494
OTHER OPERATING EXPENSES	23	**98,034**	84,865	69,988	**81,794**	68,929	56,379
PROFIT BEFORE PRE-ACQUISITION INCOME		**43,646**	37,557	33,434	**42,224**	36,247	29,770
PRE-ACQUISITION INCOME	28	**-**	-	(391)	**-**	-	-
PROFIT BEFORE TAX		**43,646**	37,557	33,043	**42,224**	36,247	29,770
TAX EXPENSE	29	**11,007**	9,452	6,797	**9,512**	8,241	5,713
NET PROFIT		**P 32,639**	P 28,105	P 26,246	**P 32,712**	P 28,006	P 24,057
Attributable to:							
Shareholders of the Parent Bank		**P 32,708**	P 28,070	P 26,234			
Non-controlling Interests		**(69)**	35	12			
		P 32,639	P 28,105	P 26,246			
Earnings Per Share:	30						
Basic		**P 7.40**	P 6.42	P 6.81	**P 7.40**	P 6.40	P 6.23
Diluted		**P 7.40**	P 6.42	P 6.81	**P 7.40**	P 6.40	P 6.23

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group			Parent Bank		
	Notes	**2018**	2017	2016	**2018**	2017	2016
NET PROFIT		**P 32,639**	P 28,105	P 26,246	**P 32,712**	P 28,006	P 24,057
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that are or will be reclassified subsequently to profit or loss:							
Net unrealized losses on debt investments at fair value through other comprehensive income (FVOCI), net of tax	9	**(4,984)**	-	-	**(2,475)**	-	-
Transfer of realized gains on disposed debt investments at FVOCI to statements of income, net of tax	9	**(143)**	-	-	**(11)**	-	-
Impairment losses on debt investments at FVOCI	9	**18**	-	-	**5**	-	-
Unrealized gains (losses) on available-for-sale (AFS) securities, net of tax	9	**-**	622	(943)	**-**	255	899
Transfer of amortized unrealized fair value losses on reclassified AFS securities to held-to-maturity investments to statements of income	9	**-**	621	275	**-**	288	292
Transfer of realized losses on impaired AFS securities to statements of income, net of tax	9	**-**	139	346	**-**	-	-
Transfer of realized gains on disposed AFS securities to statements of income, net of tax	9	**-**	(1,474)	(2,959)	**-**	(58)	(2,355)
Net losses on FVOCI securities, net of tax		**(5,109)**	-	-	**(2,481)**	-	-
Net gains (losses) on AFS securities, net of tax		**-**	(92)	(3,281)	**-**	485	(1,164)
Translation adjustment related to foreign operations		**34**	(8)	78	**1**	(14)	2
		(5,075)	(100)	(3,203)	**(2,480)**	471	(1,162)
Items that will not be reclassified to profit or loss:							
Remeasurement on life insurance reserves		**3,655**	785	(324)	**-**	-	-
Actuarial losses on remeasurement of retirement benefit obligation, net of tax	24	**(2,088)**	(2,550)	(645)	**(2,052)**	(2,445)	(516)
Unrealized gains (losses) on equity investments at FVOCI, net of tax	9	**(1,210)**	-	-	**54**	-	-
		357	(1,765)	(969)	**(1,998)**	(2,445)	(516)
Share in other comprehensive income (loss) of subsidiaries and associates accounted for under equity method	13	**(9)**	(3)	1	**(220)**	1,702	(2,413)
Other Comprehensive Loss, net of tax		**(4,727)**	(1,868)	(4,171)	**(4,698)**	(272)	(4,091)
TOTAL COMPREHENSIVE INCOME		**P 27,912**	P 26,237	P 22,075	**P 28,014**	P 27,734	P 19,966
Attributable to:							
Shareholders of the Parent Bank		**P 28,025**	P 26,226	P 22,016			
Non-controlling Interests		**(113)**	11	59			
		P 27,912	P 26,237	P 22,075			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group														
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Losses	Revaluation Increment	Remeasurement on Life Insurance Reserves	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2018																
As previously stated		P 43,690	P 5,150	P 122,966	P 3,354	P 11	P 133,529	(P 3,991)	(P 6,805)	P 1,008	(P 1,398)	(P 21)	(P 5)	P 297,488	P 852	P 298,340
Effect of adoption of PFRS 9	2	-	-	-	9,520	-	(2,010)	(529)	-	-	-	-	-	6,981	17	6,998
As restated		43,690	5,150	122,966	12,874	11	131,519	(4,520)	(6,805)	1,008	(1,398)	(21)	(5)	304,469	869	305,338
Transactions with owners	20															
Issuance of shares during the year		50	-	411	-	-	-	-	-	-	-	-	-	461	-	461
Cash dividends		-	-	-	-	-	(5,585)	-	-	-	-	-	-	(5,585)	(27)	(5,612)
		50	-	411	-	-	(5,585)	-	-	-	-	-	-	(5,124)	(27)	(5,151)
Total comprehensive income (loss)		-	-	-	-	-	32,708	(6,275)	(2,088)	-	3,655	34	(9)	28,025	(113)	27,912
Transfer from Surplus Free																
Trust reserve	20, 26	-	-	-	251	-	(251)	-	-	-	-	-	-	-	-	-
Reversal of appropriations during the period		-	-	-	(207)	-	207	-	-	-	-	-	-	-	-	-
Other reserves	20	-	-	-	1,870	-	(1,870)	-	-	-	-	-	-	-	-	-
		-	-	-	1,914	-	(1,914)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	-	(401)	405	-	-	-	-	-	4	-	4
Other adjustments	28															
Additional capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	49	49
Change in ownership interest in subsidiaries		-	-	-	-	(2)	-	-	-	-	-	-	-	(2)	(1)	(3)
		-	-	-	-	(2)	-	-	-	-	-	-	-	(2)	48	46
BALANCE AT DECEMBER 31, 2018		**P 43,740**	**P 5,150**	**P 123,377**	**P 14,788**	**P 9**	**P 156,327**	**(P 10,390)**	**(P 8,893)**	**P 1,008**	**P 2,257**	**P 13**	**(P 14)**	**P 327,372**	**P 777**	**P 328,149**
BALANCE AT JANUARY 1, 2017		P 36,500	P 5,150	P 70,127	P 2,972	P 12	P 111,423	(P 3,919)	(P 4,259)	P 1,008	(P 2,183)	(P 13)	(P 2)	P 216,816	P 743	P 217,559
Transactions with owners	20															
Stock rights issuance		7,164	-	52,662	-	-	-	-	-	-	-	-	-	59,826	-	59,826
Issuance of shares during the year		26	-	177	-	-	-	-	-	-	-	-	-	203	-	203
Cash dividends		-	-	-	-	-	(5,582)	-	-	-	-	-	-	(5,582)	(50)	(5,632)
		7,190	-	52,839	-	-	(5,582)	-	-	-	-	-	-	54,447	(50)	54,397
Total comprehensive income (loss)		-	-	-	-	-	28,070	(72)	(2,546)	-	785	(8)	(3)	26,226	11	26,237
Transfer from Surplus Free																
Appropriations during the year	20	-	-	-	126	-	(126)	-	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	256	-	(256)	-	-	-	-	-	-	-	-	-
		-	-	-	382	-	(382)	-	-	-	-	-	-	-	-	-
Other adjustments	20, 28															
Additional capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	147	147
Change in ownership interest in subsidiaries		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	1	-
		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	148	147
BALANCE AT DECEMBER 31, 2017		P 43,690	P 5,150	P 122,966	P 3,354	P 11	P 133,529	(P 3,991)	(P 6,805)	P 1,008	(P 1,398)	(P 21)	(P 5)	P 297,488	P 852	P 298,340
BALANCE AT JANUARY 1, 2016		P 36,453	P 5,150	P 69,936	P 2,696	P 12	P 88,884	(P 622)	(P 3,614)	P 1,008	P -	(P 60)	(P 748)	P 199,095	P 623	P 199,718
Transactions with owners	20															
Issuance of shares during the year		47	-	191	-	-	-	-	-	-	-	-	-	238	-	238
Cash dividends		-	-	-	-	-	(4,716)	-	-	-	-	-	-	(4,716)	(50)	(4,766)
		47	-	191	-	-	(4,716)	-	-	-	-	-	-	(4,478)	(50)	(4,528)
Total comprehensive income (loss)		-	-	-	-	-	26,234	(3,297)	(645)	-	(324)	47	1	22,016	59	22,075
Transfer from Surplus Free																
Appropriations during the year	20	-	-	-	36	-	(36)	-	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	240	-	(240)	-	-	-	-	-	-	-	-	-
		-	-	-	276	-	(276)	-	-	-	-	-	-	-	-	-
Other adjustments																
Effect of restatement on a subsidiary previously classified as an associate		-	-	-	-	-	1,297	-	-	-	(1,859)	-	661	99	111	210
Consolidation of a new subsidiary	20, 28	-	-	-	-	-	-	-	-	-	-	-	84	84	-	84
		-	-	-	-	-	1,297	-	-	-	(1,859)	-	745	183	111	294
BALANCE AT DECEMBER 31, 2016		P 36,500	P 5,150	P 70,127	P 2,972	P 12	P 111,423	(P 3,919)	(P 4,259)	P 1,008	(P 2,183)	(P 13)	(P 2)	P 216,816	P 743	P 217,559

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

	Notes	Parent Bank: Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity
BALANCE AT JANUARY 1, 2018												
As previously stated		P 43,690	P 5,150	P 122,947	P 2,524	P 132,625	(P 1,203)	(P 6,452)	P 1,005	(P 2)	(P 2,623)	P 297,661
Effect of adoption of PFRS 9	2	-	-	-	9,356	(1,846)	(653)	-	-	-	126	6,983
As restated		43,690	5,150	122,947	11,880	130,779	(1,856)	(6,452)	1,005	(2)	(2,497)	304,644
Transactions with owners	20											
Issuance of shares during the year		50	-	411	-	-	-	-	-	-	-	461
Cash dividends		-	-	-	-	(5,585)	-	-	-	-	-	(5,585)
		50	-	411	-	(5,585)	-	-	-	-	-	(5,124)
Total comprehensive income (loss)		-	-	-	-	32,712	(2,427)	(2,052)	-	1	(220)	28,014
Transfer from Surplus Free												
Trust reserve	20, 26	-	-	-	181	(181)	-	-	-	-	-	-
Other reserves	20	-	-	-	1,824	(1,824)	-	-	-	-	-	-
		-	-	-	2,005	(2,005)	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	(401)	2	-	-	-	403	4
Other adjustment	28											
Change in ownership interest in subsidiaries		-	-	-	-	83	-	-	-	-	-	83
		-	-	-	-	83	-	-	-	-	-	83
BALANCE AT DECEMBER 31, 2018		**P 43,740**	**P 5,150**	**P 123,358**	**P 13,885**	**P 155,583**	**(P 4,281)**	**(P 8,504)**	**P 1,005**	**(P 1)**	**(P 2,314)**	**P 327,621**
BALANCE AT JANUARY 1, 2017		P 36,500	P 5,150	P 70,108	P 2,238	P 110,564	(P 1,688)	(P 4,007)	P 1,005	P 12	(P 4,325)	P 215,557
Transactions with owners	20											
Stock rights issuance		7,164	-	52,662	-	-	-	-	-	-	-	59,826
Issuance of shares during the year		26	-	177	-	-	-	-	-	-	-	203
Cash dividends		-	-	-	-	(5,582)	-	-	-	-	-	(5,582)
		7,190	-	52,839	-	(5,582)	-	-	-	-	-	54,447
Total comprehensive income (loss)		-	-	-	-	28,006	485	(2,445)	-	(14)	1,702	27,734
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	96	(96)	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	190	(190)	-	-	-	-	-	-
		-	-	-	286	(286)	-	-	-	-	-	-
Other adjustment												
Change in ownership interest in subsidiaries	28	-	-	-	-	(77)	-	-	-	-	-	(77)
BALANCE AT DECEMBER 31, 2017		P 43,690	P 5,150	P 122,947	P 2,524	P 132,625	(P 1,203)	(P 6,452)	P 1,005	(P 2)	(P 2,623)	P 297,661
BALANCE AT JANUARY 1, 2016		P 36,453	P 5,150	P 69,917	P 2,028	P 89,533	(P 524)	(P 3,491)	P 1,005	P 10	(P 718)	P 199,363
Transactions with owners	20											
Issuance of shares during the year		47	-	191	-	-	-	-	-	-	-	238
Cash dividends		-	-	-	-	(4,716)	-	-	-	-	-	(4,716)
		47	-	191	-	(4,716)	-	-	-	-	-	(4,478)
Total comprehensive income (loss)		-	-	-	-	24,057	(1,164)	(516)	-	2	(2,413)	19,966
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	28	(28)	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	182	(182)	-	-	-	-	-	-
		-	-	-	210	(210)	-	-	-	-	-	-
Other adjustment												
Effect of restatement on a subsidiary previously classified as an associate		-	-	-	-	1,900	-	-	-	-	(1,194)	706
BALANCE AT DECEMBER 31, 2016		P 36,500	P 5,150	P 70,108	P 2,238	P 110,564	(P 1,688)	(P 4,007)	P 1,005	P 12	(P 4,325)	P 215,557

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group			Parent Bank		
	Notes	**2018**	2017	2016	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 43,646**	P 37,557	P 33,043	**P 42,224**	P 36,247	P 29,770
Adjustments for:							
Interest income	21	**(129,040)**	(99,795)	(82,037)	**(122,615)**	(93,786)	(76,647)
Interest received		**125,410**	97,862	80,887	**119,115**	91,455	75,720
Interest expense	22	**30,748**	18,042	16,413	**28,720**	16,434	14,989
Interest paid		**(23,833)**	(17,650)	(12,488)	**(21,948)**	(16,085)	(11,117)
Impairment losses	9, 13, 14	**6,286**	6,537	3,815	**5,700**	5,809	3,003
Depreciation and amortization	11, 12, 13	**5,776**	5,172	4,782	**4,555**	3,958	3,668
Fair value losses (gains)	9	**672**	(199)	(96)	**(476)**	(67)	45
Share in net profit of subsidiaries and associates	13	**(631)**	(612)	(481)	**(2,740)**	(4,312)	(3,657)
Income from acquisition of a subsidiary	28	**-**	-	(2,214)	**-**	-	-
Operating profit before changes in operating resources and liabilities		**59,034**	46,914	41,624	**52,535**	39,653	35,774
Decrease (increase) in financial assets at fair value through profit or loss		**1,048**	(1,048)	1,988	**487**	(32)	1,076
Increase in loans and other receivables		**(265,648)**	(259,476)	(226,766)	**(266,500)**	(255,626)	(219,711)
Increase in investment properties		**(2,113)**	(3,573)	(794)	**(2,107)**	(3,389)	(624)
Decrease (increase) in other resources		**(13,823)**	(17,395)	(3,612)	**(8,121)**	(16,848)	2,722
Increase in deposit liabilities		**297,683**	215,758	241,312	**315,718**	212,278	229,972
Increase in insurance contract liabilities		**6,175**	6,206	2,486	**-**	-	-
Increase in other liabilities		**18,587**	18,631	13,005	**13,935**	17,244	10,423
Cash generated from (used in) operations		**100,943**	6,017	69,243	**105,947**	(6,720)	59,632
Cash paid for income tax		**(10,631)**	(8,836)	(6,528)	**(9,087)**	(7,552)	(5,342)
Net Cash From (Used in) Operating Activities		**90,312**	(2,819)	62,715	**96,860**	(14,272)	54,290
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of investment securities at amortized cost	9	**(87,158)**	-	-	**(60,406)**	-	-
Maturities of investment securities at amortized cost		**54,036**	-	-	**26,154**	-	-
Acquisitions of securities at fair value through other comprehensive income (FVOCI)	9	**(40,130)**	-	-	**(17,629)**	-	-
Proceeds from disposals of securities at FVOCI		**24,417**	-	-	**8,387**	-	-
Acquisitions of premises, furniture, fixtures and equipment	11	**(8,135)**	(6,158)	(5,537)	**(6,920)**	(4,989)	(3,811)
Proceeds from disposals of premises, furniture, fixtures and equipment		**230**	113	144	**125**	17	30
Acquisitions of held-to-maturity (HTM) investments	9	**-**	(83,061)	(49,939)	**-**	(74,111)	(48,139)
Acqusitions of available-for-sale (AFS) securities	9	**-**	(59,161)	(77,520)	**-**	(26,052)	(40,953)
Proceeds from disposals of AFS securities		**-**	46,033	92,532	**-**	17,816	63,539
Maturities of HTM investments		**-**	34,503	13,194	**-**	33,013	12,832
Acquisition of a subsidiary	28	**-**	-	(2,298)	**-**	-	(2,298)
Net Cash Used in Investing Activities		**(56,740)**	(67,731)	(29,424)	**(50,289)**	(54,306)	(18,800)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from bills payable	16	**297,475**	342,828	246,547	**116,744**	172,575	93,177
Payments of bills payable	16	**(289,925)**	(313,242)	(247,420)	**(110,166)**	(143,071)	(98,122)
Dividends paid	20	**(5,612)**	(5,632)	(4,766)	**(5,585)**	(5,582)	(4,716)
Proceeds from issuance of common stock	20	**461**	203	238	**461**	203	238
Net proceeds from issuance of stock rights	20	**-**	59,826	-	**-**	59,826	-
Net Cash From (Used in) Financing Activities		**2,399**	83,983	(5,401)	**1,454**	83,951	(9,423)
NET INCREASE IN CASH AND CASH EQUIVALENTS ***(Carried Forward)***		**P 35,971**	P 13,433	P 27,890	**P 48,025**	P 15,373	P 26,067

	Notes	BDO Unibank Group 2018	2017	2016	Parent Bank 2018	2017	2016
NET INCREASE IN CASH AND CASH EQUIVALENTS *(Brought Forward)*		**P 35,971**	P 13,433	P 27,890	**P 48,025**	P 15,373	P 26,067
CASH AND CASH EQUIVALENTS ACQUIRED FROM NEW SUBSIDIARY	28	**-**	-	851	**-**	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**45,006**	40,909	42,729	**43,882**	39,813	41,767
Due from Bangko Sentral ng Pilipinas	7	**353,308**	318,002	271,808	**340,596**	304,285	260,841
Due from other banks	8	**51,479**	41,794	24,837	**41,088**	33,463	20,944
Investment securities at amortized cost	9	**2,097**	-	-	**2,097**	-	-
HTM securities	9	**-**	894	-	**-**	894	-
Securities purchased under reverse repurchase agreement (SPURRA)	10	**18,260**	14,302	69,490	**14,872**	7,891	58,431
Interbank loans receivables	10	**31,576**	72,749	51,139	**31,576**	72,749	51,139
Foreign currency notes and coins (FCNC)	13	**3,695**	3,338	3,244	**3,694**	3,337	3,243
		505,421	491,988	463,247	**477,805**	462,432	436,365
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**53,749**	45,006	40,909	**52,492**	43,882	39,813
Due from Bangko Sentral ng Pilipinas	7	**354,132**	353,308	318,002	**349,017**	340,596	304,285
Due from other banks	8	**55,292**	51,479	41,794	**48,780**	41,088	33,463
Investment securities at amortized cost	9	**9,168**	-	-	**6,490**	-	-
HTM securities	9	**-**	2,097	894	**-**	2,097	894
SPURRA	10	**22,009**	18,260	14,302	**22,009**	14,872	7,891
Interbank loans receivables	10	**42,214**	31,576	72,749	**42,214**	31,576	72,749
FCNC	13	**4,828**	3,695	3,338	**4,828**	3,694	3,337
		P 541,392	P 505,421	P 491,988	**P 525,830**	P 477,805	P 462,432

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

a. On June 30, 2016, the BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life Assurance Holdings Corp. (BDO Life) from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. As of the date of acquisition, the fair value of previously-held interest of the Parent Bank, total resources and total liabilities of BDO Life amounted to P2,549, P27,454 and P21,083, respectively. The transaction resulted in the recognition in 2016 of gain on fair valuation of previously-held interest and gain on bargain purchase or negative goodwill amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214 (see Note 28).

b. On July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of One Network Bank, Inc. (ONB) in exchange for 64,499,890 common shares of the Parent Bank equivalent to P6,685. The acquisition resulted to recognition of additional paid-in capital amounting to P6,028. Goodwill amounted to P2,903 and non-controlling share in equity totalled P14 at the date the Parent Bank's control was established. As of the date of acquisition, total resources and total liabilities of ONB amounted to P28,196 and P24,398, respectively. In 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. Total additional goodwill recognized in 2016 amounted to P4 (see Note 28).

c. The BDO Unibank Group and the Parent Bank foreclosed real and other properties totalling to P13,032 and P12,834, respectively, in 2018, P11,975 and P11,784, respectively, in 2017, P10,342 and P10,074, respectively, in 2016, in settlement of certain loan accounts (see Note 12).

Other Information

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

BDO Unibank, Inc. (BDO Unibank, BDO or the Parent Bank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Philippine Securities and Exchange Commission (SEC) granted the Parent Bank extension of its corporate term for another 50 years from December 20, 2017 until December 20, 2067. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private, insurance and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, life insurance and insurance brokerage, credit card services, stock brokerage, trust and others.

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

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2018, BDO Unibank Group had 1,309 branches (including two foreign branches), 2,347 on-site and 1,978 off-site automated teller machines (ATMs) and 484 cash accept machines (CAMs). As of December 31, 2018, the Parent Bank had 1,126 branches (including two foreign branches), 2,167 on-site and 1,930 off-site ATMs and 484 CAMs. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and the United States. These foreign operations accounted for 1.3%, 1.2% and 1.1% of BDO Unibank Group's total revenues in 2018, 2017 and 2016, respectively, and 1.4% of BDO Unibank Group's total resources both as of December 31, 2018 and 2017. BDO Unibank Group's subsidiaries and associates are shown in Notes 2.3 and 13.1.

1.2 Approval of Financial Statements

The financial statements of the BDO Unibank Group and the Parent Bank as of and for the year ended December 31, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 23, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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

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

(b) Presentation of Financial Statements

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

The BDO Unibank Group and the Parent 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.

In 2018, the BDO Unibank Group and the Parent Bank adopted PFRS 9, *Financial Instruments,* which was applied using the transitional relief allowed by the standard. This allows BDO Unibank Group and Parent Bank not to restate its prior periods' financial statements. Accordingly, the adoption of this new accounting standards did not require BDO Unibank Group and Parent Bank to present its third statement of financial position. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Surplus Free or other components of equity in the current year [see table in the next page and Note 2.2(a)(iv)].

The table below shows the impact of the adoption of PFRS 9 to the total equity as at January 1, 2018.

BDO Unibank Group:

	Surplus Free	Surplus Reserve	Effects on Net Unrealized Loss on FVOCI	Non-Controlling Interest	Total Equity
Balance at December 31, 2017 under PAS 39	P 133,529	P 3,354	(P 3,991)	P 852	P 298,340
Impact of PFRS 9 [see Note 2.2(a)(iv)]					
Effect of reclassifications and remeasurements of financial assets	915	-	(598)	1	318
Decrease in allowance for impairment on loans and other receivables	6,792	-	-	16	6,808
Recognition of allowance for impairment on debt securities:					
At amortized cost	(128)	-	-	-	(128)
At fair value through other comprehensive income (FVOCI)	(69)	-	69	-	-
Appropriation of surplus free for general loan loss provision per BSP requirements	(9,520)	9,520	-	-	-
Total impact of PFRS 9	(2,010)	9,520	(529)	17	6,998
Balance at January 1, 2018 under PFRS 9	**P 131,519**	**P 12,874**	**(P 4,520)**	**P 869**	**P 305,338**

Parent Bank

	Surplus Free	Surplus Reserve	Effects on Net Unrealized Loss on FVOCI	Accumulated Share in Other Comprehensive Income (Loss)	Total Equity
Balance at December 31, 2017 under PAS 39	P 132,625	P 2,524	(P 1,203)	(P 2,623)	P 297,661
Impact of PFRS 9 [see Note 2.2(a)(iv)]					
Effect of reclassifications and remeasurements of financial assets	881	-	(715)	126	292
Decrease in allowance for impairment on loans and other receivables	6,806	-	-	-	6,806
Recognition of allowance for impairment on debt securities:					
At amortized cost	(115)	-	-	-	(115)
At FVOCI	(62)	-	62	-	-
Appropriation of surplus free for general loan loss provision per BSP requirements	(9,356)	9,356	-	-	-
Total impact of PFRS 9	(1,846)	9,356	(653)	126	6,983
Balance at January 1, 2018 under PFRS 9	**P 130,779**	**P 11,880**	**(P 1,856)**	**(P 2,497)**	**P 304,644**

The impact of PFRS 9 has no effects in deferred tax asset since the BDO Unibank Group and the Parent Bank opted not to recognize deferred tax effect of the foregoing allowance for impairment.

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to BDO Unibank Group

BDO Unibank Group and the Parent Bank adopted for the first time the following new PFRS, amendments to PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4, *Insurance Contracts*
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle) PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value through Profit or Loss Classification

Discussed below are the relevant information about these new standards, amendments, interpretation and improvements.

(i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provided a non-exhaustive list of examples constituting change in use. The application of these amendments has no significant impact on BDO Unibank Group's financial statements.

(ii) PFRS 2 (Amendments), *Share-based Payment – Classification and Measurement of Share-based Transactions.* The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The application of these amendments has no significant impact on BDO Unibank Group's financial statements.

(iii) PFRS 4 (Amendments), *Insurance Contracts – Applying PFRS 9 with PFRS 4.* The amendments address the temporary accounting consequences of the different effective dates of PFRS 9, and the anticipated new insurance contracts standard by introducing the following options: (a) overlay approach, which is an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; or, (b) an optional temporary exemption from applying PFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of PAS 39, *Financial Measurements: Recognition and Measurement.* The application of these amendments has no significant impact on BDO Unibank Group's financial statements.

(iv) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments i.e., financial asset at amortized cost, at fair value through profit or loss (FVTPL), and at FVOCI;

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The new accounting policies relative to the adoption of PFRS 9 are fully disclosed in Notes 2.5, 2.6 and 2.15

The following table shows the effects of the adoption of PFRS 9 in the carrying amounts (CA) and presentation of the categories of the affected financial asset accounts in the statement of financial position as at January 1, 2018:

BDO Unibank Group

	Notes	CA, PAS 39 December 31, 2017	Reclassification	Remeasurement	CA, PFRS 9 January 1, 2018
Financial assets at FVTPL		P 14,710	P -	P -	P 14,710
Reclassification from AFS securities	a	-	7,321	-	7,321
Reclassification to:					
Investment securities at amortized cost	b	-	(34)	-	(34)
Financial assets at FVOCI	c	-	(13)	-	(13)
Financial assets at FVTPL		**P 14,710**	**P 7,274**	**P -**	**P 21,984**
Financial assets at FVOCI		P -	P -	P -	P -
Reclassification from:					
AFS securities	d	-	106,704	-	106,704
HTM investments	e	-	4,073	9	4,082
Financial assets at FVTPL	c	-	13	-	13
Financial assets at FVOCI		**P -**	**P 110,790**	**P 9**	**P 110,799**
AFS securities		P 121,019	P -	P -	P 121,019
Reclassification to:					
Financial assets at FVOCI	d	-	(106,704)	-	(106,704)
Financial assets at FVTPL	a	-	(7,321)	-	(7,321)
Investment securities at amortized cost	f	-	(6,945)	-	(6,945)
Other resources	g	-	(49)	-	(49)
AFS Securities		**P 121,019**	**(P 121,019)**	**P -**	**P -**
Investment securities at amortized cost					
Reclassification from:					
HTM investments	h	P -	P 193,125	P 191	P 193,316
AFS securities	f	-	6,945	111	7,056
Loans and other receivables	i	-	3,486	-	3,486
Financial assets at FVTPL	b	-	34	-	34
Allowance for impairment	j	-	-	(128)	(128)
Investment securities at amortized cost		**P -**	**P 203,590**	**P 174**	**P 203,764**
HTM investments		P 197,198	P -	P -	P 197,198
Reclassification to:					
Investment securities at amortized cost	h	-	(193,125)	-	(193,125)
Financial assets at FVOCI	e	-	(4,073)	-	(4,073)
HTM investments		**P 197,198**	**(P 197,198)**	**P -**	**P -**
Loans and other receivables		P 1,791,786	P -	P -	P 1,791,786
Reclassification to investment securities at amortized cost	i	-	(3,486)	-	(3,486)
Remeasurement of allowance for impairment	k	-	-	6,808	6,808
Loans and Other receivables		**P 1,791,786**	**(P 3,486)**	**P 6,808**	**P 1,795,108**
Other resources		P 5,555	P -	P -	P 5,555
Reclassification from AFS securities	g	-	49	-	49
Remeasurement of equity investments in associate		-	-	7	7
Other resources		**P 5,555**	**P 49**	**P 7**	**P 5,611**

Parent Bank

	Notes	CA, PAS 39 December 31, 2017	Reclassification	Remeasurement	CA, PFRS 9 January 1, 2018
Financial assets at FVTPL		P 4,260	P -	P -	P 4,260
Reclassification from AFS securities	a	-	1	-	1
Financial assets at FVTPL		**P 4,260**	**P 1**	**P -**	**P 4,261**
Financial assets at FVOCI	d	**P -**	**P 70,188**	**P -**	**P 70,188**
AFS securities		P 70,232	P -	P -	P 70,232
Reclassification to:					
Financial assets at FVOCI	d	-	(70,188)	-	(70,188)
Financial assets at FVTPL	a	-	(1)	-	(1)
Other resources	g	-	(43)	-	(43)
AFS Securities		**P 70,232**	**(P 70,232)**	**P -**	**P -**
Investment securities at amortized cost					
Reclassification from:					
HTM investments	h	P -	P 183,722	P 191	P 183,913
Loans and other receivables	i	-	7	-	7
Allowance for impairment	j	-	-	(115)	(115)
Investment securities at amortized cost		**P -**	**P 183,729**	**P 76**	**P 183,805**
HTM investments		P 183,722	P -	P -	P 183,722
Reclassification to investment securities at amortized cost	h	-	(183,722)	-	(183,722)
HTM investments		**P 183,722**	**(P 183,722)**	**P -**	**P -**
Loans and other receivables		P 1,730,732	P -	P -	P 1,730,732
Reclassification to investment securities at amortized cost	i	-	(7)	-	(7)
Remeasurement of allowance for impairment	k	-	-	6,806	6,806
Loans and other receivables		**P 1,730,732**	**(P 7)**	**P 6,806**	**P 1,737,531**
Other resources		P 4,241	P -	P -	P 4,241
Reclassification from AFS securities	g	-	43	-	43
Remeasurement of equity investments in subsidiaries and associates		-	-	101	101
Other resources		**P 4,241**	**P 43**	**P 101**	**P 4,385**

a. *Equity Securities Reclassified from AFS Securities to FVTPL*

The BDO Unibank Group and Parent Bank reclassified to FVTPL certain equity securities previously classified as AFS securities with fair value of P7,321 and P1, respectively, as these financial assets are now held with the objective of selling them in the short to medium term.

b. *Debt Instruments Reclassified from FVTPL to Investment Securities at Amortized Cost*

BDO Unibank Group reclassified certain government debt securities from FVTPL to Investment securities at amortized cost since the Bank Unibank Group determined that the objective of the business model is to hold these investments to collect the contractual cash flows, wherein said cash flows pertain solely to payment of principal and interest. As a result, these securities with fair value of P34 were reclassified to amortized cost wherein the fair value becomes the new gross carrying amount.

c. *Equity Securities Reclassified from FVTPL to FVOCI*

Certain equity securities which were previously classified as FVTPL were reclassified by the BDO Unibank Group as FVOCI because the Group irrevocably elected to hold these securities for long-term strategic investments and are not expected to provide the Group with short-to-medium term profit other than dividends.

d. *Financial Assets Reclassified from AFS Securities to FVOCI*

Certain debt securities which were previously classified as AFS securities were classified by BDO Unibank Group and Parent Bank as financial assets at FVOCI because these securities were determined that the investment objective of the business model is to hold these investments to collect the contractual cash flows, and sell but are held for long-term strategic investment and are not expected to be traded in the short-to-medium term. Consequently, the Group and the Parent Bank made an assessment whether these securities are impaired based on the ECL model developed by the Group [see Note 2.2 (a)(iv)j]. Furthermore, certain equity securities which were previously classified as AFS securities were designated as financial assets at FVOCI because the Group irrevocably elected to hold these securities for long-term strategic investments and does not expect to obtain profit through short-to-medium term trading other than dividends.

e. *Debt Instruments Reclassified from HTM Investments to FVOCI*

The BDO Unibank Group reclassified certain government and corporate debt securities under HTM investments to financial assets at FVOCI since it was determined that the investment objective of the business model is to hold these investments to collect the contractual cash flows, and sell but are held for long-term strategic investment and are not expected to be traded in the short-to-medium term. As a result, these securities valued at amortized cost are remeasured at fair value at the reclassification date. The BDO Unibank Group recognized an accumulated net unrealized fair value gain on FVOCI securities amounting to P9, which was adjusted to the opening balance of Net Unrealized Fair Value Gains/Losses (NUGL) on FVOCI account as at January 1, 2018. In addition, the BDO Unibank Group determined whether these securities are impaired based on the ECL model developed by the Group [(see Note 2.2(a)(iv)j].

f. *Debt Instruments Reclassified from AFS Securities to Investment Securities at Amortized Cost*

There are certain investments in debt instruments previously classified as AFS securities that met the criteria to be classified as financial assets at amortized cost under PFRS 9 because the business model is to hold these debt instruments in order to collect contractual cash flows. Accordingly, the accumulated net unrealized fair value losses on AFS securities amounting to P111 was adjusted to the opening balance of NUGL on FVOCI account as of January 1, 2018. Also, the BDO Unibank Group determined whether these securities are impaired based on the ECL model developed by the Group [(see Note 2.2(a)(iv)j].

g. Unquoted Equity Securities Reclassified from AFS Securities to Other Resources

The BDO Unibank Group and Parent Bank reclassified unquoted equity securities amounting to P49 and P43, respectively, previously classified as AFS securities to Other Resources account since the BDO Unibank Group and Parent Bank is not entitled to a contractual right to receive cash but for a privilege to use the facilities and services of the issuing corporation.

h. Debt Instruments Reclassified from HTM Investments to Investment Securities at Amortized Cost

The BDO Unibank Group and Parent Bank reclassified certain government and corporate debt securities under HTM investments as investment securities at amortized cost with the objective of holding these investments to collect the contractual cash flows, wherein said cash flows pertain solely to payment of principal and interest. Portion of these securities represents government and corporate debt securities that were previously subjected to tainting provision of PAS 39 (see Note 9.4). Under PFRS 9, these securities are no longer subject to the previous tainting rule but any disposal shall be within the context of permitted sales as defined by its business model. Moreover, the Group determined whether these securities are impaired based on the ECL model developed by the Group [see Note 2.2(a)(iv)j].

i. Unquoted Debt Securities Reclassified from Loans and Receivable to Investment Securities Amortized Cost

The BDO Unibank Group and Parent Bank reclassified unquoted debt securities previously classified under loans and other receivables to investment securities at amortized cost that meet the criteria set by the business model for investment securities at amortized cost. Furthermore, the Bank determined whether these securities are impaired based on the expected credit model developed [see Note 2.2 (a)(iv)j].

j. Credit Losses on Investment in Debt Securities

All of the BDO Unibank Group's and Parent Bank's investments in debt securities classified at amortized cost and FVOCI are considered to have low credit risk, and the loss allowance recognized was therefore limited to 12-month expected credit loss. Management considers 'low credit risk' for debt securities issued by listed companies and the government that has an investment grade credit rating with at least one reputable rating agency. Other instruments are considered to have low credit risk when they have a low probability of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The application of the ECL model developed by the Group resulted in the recognition of allowance for impairment in investment securities at amortized cost amounting to P128 and P115 and were adjusted against the opening balance of Surplus Free account [see Note 2.1(b)] in the BDO Unibank Group's and Parent Bank's financial statements, respectively. The Group and the Parent Bank also recognized allowance for impairment on debt securities at FVOCI amounting to P69 and P62 and were adjusted against the opening balance of NUGL [see Note 2.1(b)] in the BDO Unibank Group's and Parent Bank's financial statement's, respectively.

k. Credit Losses on Loans and Receivables

The application of the ECL methodology based on the stages of impairment assessment for loans and receivables resulted in the reversal of allowance for impairment amounting to P6,808 and P6,806, with adjustment charged against the opening balance of Surplus Free and Non-Controlling Interest accounts in the BDO Unibank Group's financial statements and Surplus Free account in the Parent Bank's financial statements [see Note 2.1(b)]. Also, in 2018, a general loan loss provision amounting to P9,520 and P9,356, which represents the excess of the 1% required allowance of the BSP over the computed allowance for ECL, was recognized by the Group and reported as part of Surplus Reserves account in the BDO Unibank Group's and Parent Bank's statement of changes in equity, respectively.

The reconciliation of the prior year's closing allowance for impairment measured in accordance with PAS 39 incurred loss model to the new impairment allowance measured in accordance with PFRS 9 ECL is presented in Note 4.3.5.

(v) PFRS 15, *Revenue from Contract with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The BDO Unibank Group and the Parent Bank's significant sources of revenue pertain to its lending activities which generate interest income, service charges, fees and commissions. Except for service charges, fees and commissions, significant amount of the Bank's revenues are out of scope of PFRS 15. Recognition and measurement of revenue streams within the scope of PFRS 15 did not vary from PAS 18.

The adoption of PFRS 15 has resulted in changes in the Group's accounting policies (see Note 2.18). The Group has applied the new standard retrospectively without restatement, with the cumulative effect of initial application, if any, recognized as an adjustment to the opening balance of Surplus Free at January 1, 2018. However, the adoption of this standard has no significant impact on the financial statements. Accordingly, no remeasurements nor reclassifications were recognized by the BDO Unibank Group and the Parent Bank at the date of initial application.

(vi) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no impact on the BDO Unibank Group financial statements.

(vii) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* is relevant to the Group and the Parent Bank. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. The application of this improvement has no impact on the BDO Unibank Group's financial statements.

(b) Effective in 2018 that are not Relevant to the Group and the Parent Bank

The annual improvements to PFRS (2014-2016 Cycle), PFRS 1 (Amendments): *First-time adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions* are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's financial statements.

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, interpretation, annual improvements to PFRS and amendments to existing standards effective for annual periods subsequent to 2018, 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 Group and the Parent Bank's financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

(ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the solely for payment of principal and interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. Management initially assessed that these amendments will not affect the Group and the Parent Bank's financial statements since it has no financial instruments having prepayment features with negative compensation.

(iv) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the partial retrospective application of PFRS 16. The Group and the Parent Bank will elect to apply the standard to contracts that were previously identified as leases applying PAS 17.

(v) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The 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 Group and the Parent 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 Group and the Parent 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.

(vi) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(vii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group and the Parent Bank but had no material impact on the Group and the Parent Bank's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group and the Parent Bank obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group and the Parent Bank obtains joint control of the business.

2.3 Basis of Consolidation

The BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Company, and its subsidiaries as enumerated in Notes 2.3(c) and 13.1, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the BDO Unibank Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

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

(a) Investments in Subsidiaries

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

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

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

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

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

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

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

(b) Investment in Associates

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

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

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 13.1).

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

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

(c) *Transactions with Non-controlling Interests*

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

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

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

The BDO Unibank Group holds interests in the following subsidiaries:

	Percentage of Ownership		
Subsidiaries	**2018**	2017	2016
Rural Bank			
One Network Bank, Inc. (A Rural Bank of BDO) (ONB)	**99.86%**	99.79%	99.76%
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**99.88%**	99.88%	99.88%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	**100%**	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	**88.54%**	88.54%	88.54%
Averon Holdings Corporation (Averon)	**99.88%**	99.88%	99.88%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%	88.54%
Securities Companies			
BDO Securities Corporation (BDO Securities)	**99.88%**	99.88%	99.88%
BDO Nomura [previously PCIB Securities, Inc. (PCIB Securities)]	**51%**	51%	51%
Armstrong Securities, Inc. (ASI)	**80%**	80%	80%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%	100%
Equimark-NFC Development Corporation (Equimark)	**60%**	60%	60%

Subsidiaries	Percentage of Ownership 2018	2017	2016
Insurance Companies			
BDO Life Assurance Company Inc., (BDO Life) [previously Generali Pilipinas Life Assurance Company, Inc. (GPLAC)]	**100%**	100%	100%
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	**-**	-	100%
BDO Life Assurance Holdings Corp. (BDO Life Holdings) [previously Generali Pilipinas Holdings Company, Inc. (GPHCI)]	**-**	-	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
Express Padala (Hongkong), Ltd.	**100%**	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	100%	100%
BDO Remit (Canada) Ltd.	**100%**	100%	100%
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
BDO Remit International Holdings B.V. (BDO RIH) [previously CBN Grupo International Holdings B.V. (CBN Grupo)]	**96.32%**	96.32%	96.32%
PCIB Europe S.p.A.	**-**	100%	100%
Others			
PCI Realty Corporation	**100%**	100%	100%

Non-controlling interests in 2018 and 2017 represent the interests not held by BDO Unibank Group in ONB, BDO Capital, BDO Leasing, Averon, BDO Rental, BDO Securities, BDO Nomura, ASI, Equimark and BDO RIH.

On July 31, 2016, BDO Capital, BDO Elite and BDO Savings consummated a three-way merger transaction with BDO Capital as the surviving entity (see Note 28.3).

On September 4, 2017, a downstream merger occurred between BDO Life and BDO Life Holdings resulting in the dissolution of the latter (see Note 28.4).

In 2018 and 2017, the Parent Bank subscribed to additional shares of ONB (see Note 28.6).

In 2018, PCIB Europe S.p.A. has been dissolved after the liquidation proceeding was completed.

(d) *Business Combination*

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

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

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

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

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

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

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

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

2.4 Segment Reporting

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

In identifying its operating segments, management generally follows BDO Unibank Group's products and services as disclosed in Note 5, which represent the main products and services provided by BDO Unibank Group.

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

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

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

There have been significant changes from prior periods in the measurement methods used to determine reported segment information.

2.5 Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

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

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Under PFRS 9, 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 below and in the succeeding pages.

(i) Financial Assets at Amortized Cost

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

- the asset is held within BDO Unibank Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("held to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

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

Where the business model is to hold assets to collect contractual cash flows, BDO Unibank Group and the Parent Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, BDO Unibank Group and the Parent 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.

BDO Unibank Group and the Parent Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Loans and Other receivables, Investment securities at amortized cost and certain accounts under Other Resources account in the statement of financial position.

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of income as part of Interest Income.

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

BDO Unibank Group 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, BDO Unibank Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the BDO Unibank Group for trading or as mandatorily required to be classified as FVTPL. The BDO Unibank Group has designated equity instruments as at FVOCI on initial application of PFRS 9.

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 NUGL account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the NUGL account is not reclassified to profit or loss but is reclassified directly to Surplus Free account except for those debt securities classified as FVOCI wherein fair value changes are recycled back to profit or loss.

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

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

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The BDO Unibank Group's financial assets at FVTPL include equity securities which are held for trading purposes 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 Gain – net under Other Operating Income in the statements of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using valuation technique when no active market exists.

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

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

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

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

(b) *Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39*

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS securities.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

A more detailed description of the four categories of financial assets is as follows:

(i) *Financial Assets at FVTPL*

This category includes derivative financial instruments and financial assets that are either classified as held for trading (HFT) or that meet certain conditions and are designated by BDO Unibank Group to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as HFT unless they are designated and effective as hedging instrument. Financial assets at FVTPL include derivatives, quoted equity securities, government bonds and other debt securities.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category, on rare circumstance, if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the BDO Unibank Group provides money, goods or services directly to the debtor with no intention of trading the receivables.

BDO Unibank Group's financial assets categorized as loans and receivables are presented as Cash and cash equivalents, Loans and Other Receivables and certain accounts under Other Resources in the statement of financial position. Cash and cash equivalents consist of cash and other cash items, due from BSP and amounts due from other banks. Loans and other receivables also include receivables from customers and other receivables. Loans and other receivables also includes the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, FCNC, SPURRA, certain interbank bank loans receivables and HTM securities with original maturities of three months or less from placement date.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in the value of loans and receivables is recognized in profit or loss, except for reclassified financial assets under PAS 39 and PFRS 7, *Financial Instruments: Disclosures*. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. SPURRA, wherein BDO Unibank Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP, are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight-line method.

(iii) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that BDO Unibank Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included under this category.

HTM investments consists of government and other debt securities. If BDO Unibank Group were to sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; *(ii)* occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group. Upon tainting, BDO Unibank Group shall not classify any financial assets as HTM investments for the next two reporting periods after the year of tainting.

Subsequent to initial recognition, HTM investments are measured at amortized costs using effective interest method, less impairment losses, if any.

(iv) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. BDO Unibank Group's AFS securities include government and corporate bonds, equity securities and golf club shares.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes, except for interest and dividend income, impairment loss and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, that is when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

Non-derivative financial assets classified as AFS securities may be reclassified to loans and receivable category if that financial asset would have met the definition of loans and receivable and if there is an intention and ability to hold that financial asset for the foreseeable future or until maturity.

If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available or because the two preceding financial years' of tainting have passed, it becomes appropriate to carry a financial asset at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable. Any previous gain or loss that has been recognized in other comprehensive income shall be accounted for depending on whether the financial asset is with or without fixed maturity.

Previous gain or loss on reclassified AFS securities that has been recognized in other comprehensive income shall be accounted for as follows:

- In the case of a financial asset with a fixed maturity, the gain or loss shall be amortized to profit or loss over the remaining life of the HTM investment using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

- In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

A financial asset is reclassified out of the FVTPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term under rare circumstances. A financial asset that is reclassified out of the FVTPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(c) Effective Interest Rate Method and Interest Income

Under both PFRS 9 and PAS 39, interest income is recognized using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under PFRS 9, similar to interest bearing financial assets classified as AFS or HTM under PAS 39, 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. BDO Unibank Group and the Parent 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 statements of income.

BDO Unibank Group and the Parent 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 [see Note 2.5(d)], 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.

(d) Impairment of Financial Assets Under PFRS 9

From January 1, 2018, BDO Unibank Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost, debt instruments measured at FVOCI and other contingent accounts. No impairment loss is recognized on equity investments. Recognition of credit losses or impairment is no longer dependent on the Company's identification of a credit loss event. Instead, BDO Unibank Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

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

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

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). 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 over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- *Loss Given Default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those BDO Unibank Group and the Parent 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 impairment calculation; hence, this is the amount that the Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Group 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 expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

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

(e) *Impairment of Financial Assets under PAS 39*

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of BDO Unibank Group about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

BDO Unibank Group recognizes impairment loss based on the category of financial assets as follows:

(i) *Carried at Amortized Cost – Loans and Receivables and HTM Investments*

BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets either individually or collectively. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, BDO Unibank Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, BDO Unibank Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of BDO Unibank Group's or BSP's grading process that considers asset type, industry, collateral type, status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by BDO Unibank Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income, which is reported as part of Miscellaneous – net under Other Operating Income account in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

When possible, BDO Unibank Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the carrying value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses account.

In addition, under Section 9(f) of the Rules and Regulations to implement the provisions of RA No. 8556, *The Financing Company Act of 1998*, a 100% allowance is also set up by BDO Leasing, a subsidiary, for the following:

- clean loans and advances past due for a period of more than six months;
- past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;
- past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
- when the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
- accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,
- accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by BDO Unibank Group in the determination of impairment loss provision on assets carried at amortized cost particularly on receivables related to financing.

Moreover, BDO Unibank Group also considers the requirements of BSP Circular No. 855, *Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions*, wherein for those loans where objective evidence of impairment does not exist, whether individually or collectively assessed for impairment, an impairment loss is recognized equivalent to the amount of expected loss computed using the loan loss methodology of BDO Unibank Group. Expected loss is computed by considering the PD, LGD and EAD of each loan.

(ii) Carried at Cost – AFS Securities

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(iii) Carried at Fair Value – AFS Securities

In the case of investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(f) Derecognition of Financial Assets

(i) Modification of Loans

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

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

(ii) Derecognition of Financial Assets Other than Through Modification

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

(g) Classification and Measurement of Financial Liabilities

As the accounting for financial liabilities remains largely the same under PFRS 9 compared to PAS 39, the BDO Unibank Group and the Parent Bank's financial liabilities were not impacted by the adoption of PFRS 9. However, for completeness, the accounting policy is disclosed below.

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

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

- *Bills payable and subordinated notes payable* are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

- *Derivatives with negative fair values* are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

- *Lease deposits from operating and finance leases* (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day-one gain and is included as part of Miscellaneous – net under Other Operating Income account in the statement of income. Meanwhile, interest expense on the subsequent amortization of the lease deposits is accrued using the effective interest method and is included as part of Interest Expense account in the statement of income.

- *Dividend distributions to shareholders* are recognized as financial liabilities when the dividends are declared by BDO Unibank Group and subject to the requirements of BSP Circular 888, .

(b) Derecognition of Financial Liabilities

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

2.6 Derivative Financial Instruments

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

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

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

For more complex instruments, BDO Unibank Group uses 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 in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

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

Prior to 2018, under PAS 39, certain derivatives embedded in other financial instruments are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. Accordingly, these embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

With the adoption of PFRS 9, financial assets are no longer bifurcated; instead, the whole instrument (including the host contract) is measured at FVTPL.

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

2.7 Premises, Furniture, Fixtures and Equipment

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

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

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

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

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

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

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

An item of premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and any impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

2.8 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable costs incurred. This also includes land and building acquired by BDO Unibank Group from defaulting borrowers not held for sale in the next 12 months. For these properties, the cost is recognized initially at fair value. Investment properties, except land, are depreciated on a straight-line basis over a period of 10 to 25 years.

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Notes 2.7 and 2.21).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 23).

2.9 Real Properties for Development and Sale

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

Real properties for development and sale are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of these properties is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 23).

2.10 Non-current Assets Held for Sale

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

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

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The BDO Unibank Group shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

If BDO Unibank Group has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the BDO Unibank Group shall cease to classify the asset as held for sale.

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in the statement of income (see Note 23).

2.11 Equity Investments

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

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

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

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

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

2.12 Other Resources

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

2.13 Intangible Assets

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

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

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

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

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

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

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

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

2.14 Insurance Contracts

Insurance contract liabilities arose from the following types of insurance contract:

- *Life insurance contract*

  Liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method and assumptions subject to the provisions of the Insurance Code (the Code) and guidelines set by the IC. The movement in legal policy reserves at each reporting period, except for movements due to the change in valuation discount rate, is recognized in profit or loss.

- *Insurance contracts with fixed and guaranteed terms*

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

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

- *Variable unit-linked insurance contracts.*

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

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

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

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

- *Insurance premiums*

  Premiums from life insurance contracts are recognized as revenue when payable by the policyholders. For single premium contracts, revenue is recognized upon the effective date of the policy. For regular premium contracts, revenues are recorded at the date when payments are due.

- *Insurance benefits and claims*

  Life insurance benefits and claims include the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Maturities are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

2.15 Offsetting Financial Instruments

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

2.16 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus reserves pertain to reserve for trust business representing the accumulated amount set aside by BDO Unibank Group and the Parent 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 the regulatory capital and, to the appropriation for general loan loss provision as prescribed by BSP. Surplus reserves also consist of reserve for insurance fund and additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 20).

Other reserves pertain to amount recognized from increase in percentage of ownership to any of the subsidiaries of BDO Unibank Group.

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 BDO Unibank Group, reduced by the amounts of dividends declared, if any.

Net unrealized fair value gains (losses) on FVOCI compose of cumulative mark-to-market valuation of outstanding securities and accumulated impairment on debt securities classified as FVOCI.

Accumulated actuarial gains (losses) results from the remeasurements of post-employment defined benefit plan.

Revaluation increment pertains to gains from the revaluation of land under premises, furniture, fixtures and equipment, which is now treated as part of the deemed cost of the assets (see Note 2.7).

Remeasurement on life insurance reserves pertains arises from the increase or decrease of the reserves brought about by changes in discount rates.

Accumulated translation adjustment pertains to foreign exchange differences arising on translation of the resources and liabilities of foreign branch and subsidiaries that are taken up in other comprehensive income (see Note 2.22).

Accumulated share in other comprehensive income (loss) of subsidiaries and associates pertains to changes resulting from the BDO Unibank Group's and the Parent Bank's share in other comprehensive income (loss) of subsidiaries and associates or items recognized directly in the subsidiaries' and associates' equity.

Non-controlling interests represent the portion of the net resources and profit or loss not attributable to BDO Unibank Group, which are presented separately in BDO Unibank Group's statement of income, statement of comprehensive income and within the equity in BDO Unibank Group's statement of financial position and changes in equity.

2.17 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with BDO Unibank Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of BDO Unibank Group that gives them significant influence over BDO Unibank Group and close members of the family of any such individual; and, (d) BDO Unibank Group's retirement plan (see Note 24.2).

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

2.18 Other Income and Expense Recognition

In 2017 and prior years, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the BDO Unibank Group; and the expenses and costs incurred and to be incurred can be measured reliably. In 2018, revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Group's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

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

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

(a) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. These include the following accounts:

   (i) *Commission and fees* arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

   (ii) *Loan syndication fees* are recognized as revenue when the syndication has been completed and that BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

   (iii) *Arranger fees* arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the completion of the underlying assumptions.

(iv) *Portfolio and other management advisory and service fees* are recognized based on the applicable service contracts, usually on a time-proportionate basis.

(b) *Trust fees* – Trust fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(c) *Income/loss from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income account.

Collections from accounts, which did not qualify from revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

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

2.19 Provisions and Contingencies

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

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

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

The Group offers monetized rewards to active cardholders in relation to its credit card business' rewards program. Provisions for rewards are recognized at a certain rate of cardholders' credit card availments, determined by management based on redeemable amounts.

2.20 Leases

BDO Unibank Group accounts for its leases as follows:

(a) BDO Unibank Group as Lessor

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

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

(b) BDO Unibank Group as Lessee

Leases, which do not transfer to BDO Unibank Group 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.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
- there is a substantial change to the asset.

The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. The residual value of the leased asset at the end of the lease term is generally applied against the guaranty deposit of the lessee.

2.21 Impairment of Non-financial Assets

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

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

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

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

2.22 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

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

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

Changes in the fair value of monetary financial assets denominated in foreign currency classified as FVOCI securities (AFS securities in 2017) are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

(b) Foreign Currency Translation

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

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

(i) Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

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

2.23 Compensation and Benefits Expense

BDO Unibank Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits, which are recognized as follows (see Note 24):

(a) *Post-employment Defined Benefit*

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

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

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest expense on bills payable and other liabilities under Interest Expense account (see Note 22) in the statement of income.

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

(b) *Post-employment Defined Contribution Plan*

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

(c) *Termination Benefits*

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

(d) *Bonus Plans*

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

(e) *Employee Stock Option Plan*

BDO Unibank Group has an employee stock option plan (ESOP) for its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock options allocated to the qualified officers is based on the performance of the individual officers as determined by management and it requires a vesting period of five years. These are adjusted accordingly for any resignation or disqualification. The vested options may be exercised within three years from vesting date. The cost of ESOP is amortized over five years (vesting period) starting from the approval of the BOD. The annual amortization of stock options is included in Compensation and benefits under the Other Operating Expenses account in the statement of income.

(f) *Unavailed Leaves*

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

2.24 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 period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority (see Note 29.1).

2.25 Earnings Per Share

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

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

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

2.26 Trust Activities

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

2.27 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

BDO Unibank Group and the Parent Bank's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI (2018)

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

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

(b) Evaluation of Business Model Applied in Managing Financial Instruments (2018)

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

Upon adoption of PFRS 9, BDO Unibank Group developed business models which reflect how it manages its portfolio of financial instruments. BDO Unibank Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by BDO Unibank Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, BDO Unibank Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by BDO Unibank Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to BDO Unibank Group's investment, trading and lending strategies.

(c) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model (2018)*

In determining the classification of financial assets under PFRS 9, BDO Unibank Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, BDO Unibank Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, BDO Unibank Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, BDO Unibank Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if BDO Unibank Group can explain the reasons for those sales and why those sales do not reflect a change in BDO Unibank Group's objective for the business model.

(d) *Classification of Financial Assets as HTM Investments (2017)*

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, BDO Unibank Group evaluates its intention and ability to hold such investments up to maturity. If BDO Unibank Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

In 2016, after the end of the two-year tainting period, BDO Unibank Group and the Parent Bank reclassified AFS securities with a carrying value of P107,362 and P103,014, respectively, to HTM investments (see Note 9.4).

(e) Impairment of AFS Securities (2017)

BDO Unibank Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, BDO Unibank Group evaluates, among other factors, the significant or prolonged decline in the fair value of an investment below its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy or financial distress, BDO Unibank Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quote prices for distressed securities) since current bid prices are no longer available.

Based on the recent evaluation of information and circumstances affecting the BDO Unibank Group and the Parent Bank's AFS securities, management has recognized impairment loss on certain AFS securities in 2017 as disclosed in Note 9.2. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(f) Distinction Between Investment Properties and Owner-occupied Properties

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

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

(g) Distinction Between Operating and Finance Leases

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

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

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, chattels as Non-current assets held for sale (presented under Other Resources account) if expected to be recovered through sale rather than use, real properties as Investment Properties if intended to be held for capital appreciation or lease, as Financial Assets if qualified as such in accordance with PFRS 9/PAS 39 or as Other properties (presented under Other Resources account) if held for sale but the depreciable properties (other than building) are not yet disposed within three years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties. The Group's methodology in determining the fair value of acquired properties are further discussed in Note 6.5.

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

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

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

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

(j) *Determination of Timing of Satisfaction of Performance Obligations (2018)*

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

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

(k) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.19 and relevant disclosures are presented in Note 33.

3.2 Key Sources of Estimation Uncertainty

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

(a) Estimation of Allowance for ECL (2018)

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.

The carrying value of financial assets at FVOCI, Investments securities at amortized cost and Loans and Other Receivables and, the analysis of the allowance for impairment on such financial assets, are shown in Notes 9.2, 9.3, 10, and 14 respectively.

(b) Estimation of Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables) (2017)

BDO Unibank Group reviews its AFS securities [see also Note 3.1 (e)], HTM investments and Loans and Other Receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 14.

(c) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. The BDO Unibank Group and the Parent 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 BDO Unibank Group and the Parent Bank's financial assets at FVTPL and financial assets at FVOCI (previously as AFS securities) and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 9.1 and 9.2, 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.

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

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

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties, including trademark, based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties, including trademark, 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.

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other resources, including trademark, are analyzed in Notes 12 and 13, respectively.

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

Investment properties are measured using the cost model. The fair value disclosed in Note 12 to the financial statements as determined by BDO Unibank Group and the Parent Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition (see Note 6.5).

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(g) Determination of Realizable Amount of Deferred Tax Assets

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2018 and 2017 is disclosed in Note 29.1.

(h) Impairment of Non-financial Assets

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

Impairment losses recognized in profit or loss are disclosed in Note 14.

(i) Valuation of Post-employment Defined Benefit

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24.2 and include, among others, discount rates, expected rate of return on plan asset and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 24.2.

(j) Recognition of Reward Points

BDO Unibank Group provides rewards points to its banking clients and customers each time they avail of the pre-identified products and services of the Parent Bank and the companies which the Parent Bank has identified as partners in the rewards program. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

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

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

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank is presented as part of Accrued expenses under Other Liabilities account in the statements of financial position as disclosed in Note 19.

(k) Valuation of Legal Policy Reserves

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

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

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

4. RISK MANAGEMENT

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

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

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

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

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

BDO Unibank Group operates an 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 Group'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 Group is exposed. RMG functionally reports to the RMC.

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

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to repay depositors, to fulfill commitments to lend, or to meet any other liquidity commitments. BDO Unibank Group manages liquidity risk by holding sufficient liquid assets of appropriate quality to meet funding requirements, manage liquidity gaps, regular liquidity stress testing, and establishment of a Liquidity Contingency Plan, to ensure adequate liquidity under both business-as-usual and stress conditions.

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2018 and 2017 in accordance with account classification of the BSP is presented in the succeeding pages. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2018				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Three Years**	**More Than Three Years**	**Total**
Resources:					
Cash and other cash items	P 53,749	P -	P -	P -	P 53,749
Due from BSP and other banks	130,290	1,570	782	276,782	409,424
Loans and other receivables - net	463,437	201,081	349,271	1,058,045	2,071,834
Trading and investment securities	13,825	56,729	98,227	216,416	385,197
Other resources - net*	216	61	-	101,766	102,043
Total Resources	661,517	259,441	448,280	1,653,009	3,022,247
Liabilities and Equity:					
Deposit liabilities	448,970	24,151	18,963	1,927,881	2,419,965
Bills and subordinated notes payable	31,674	21,458	59,258	41,263	153,653
Insurance contract liabilities**	125	(1,078)	984	28,475	28,506
Other liabilities	27,564	2,739	4,712	56,959	91,974
Total Liabilities	508,333	47,270	83,917	2,054,578	2,694,098
Equity	-	-	-	328,149	328,149
Total Liabilities and Equity	508,333	47,270	83,917	2,382,727	3,022,247
On-book gap	153,184	212,171	364,363	(729,718)	-
Cumulative on-book gap	153,184	365,355	729,718	-	-
Contingent assets	178,126	47,437	15,049	6,978	247,590
Contingent liabilities	216,731	49,330	15,131	6,872	288,064
Off-book gap	(38,605)	(1,893)	(82)	106	(40,474)
Net Periodic Gap	114,579	210,278	364,281	(729,612)	40,474
Cumulative Total Gap	P 114,579	P 324,857	P 689,138	(P 40,474)	P -

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

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

BDO Unibank Group

	2017				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 45,006	P -	P -	P -	P 45,006
Due from BSP and other banks	398,616	49	-	6,122	404,787
Loans and other receivables - net	408,844	167,513	270,974	944,455	1,791,786
Trading and investment securities	13,356	17,175	99,965	202,431	332,927
Other resources - net*	1	50	236	93,311	93,598
Total Resources	865,823	184,787	371,175	1,246,319	2,668,104
Liabilities and Equity:					
Deposit liabilities	326,951	17,092	31,229	1,745,740	2,121,012
Bills and subordinated notes payable	60,982	3,739	32,589	43,204	140,514
Insurance contract liabilities**	(91)	(943)	(1,001)	28,021	25,986
Other liabilities	25,663	3,421	4,044	49,124	82,252
Total Liabilities	413,505	23,309	66,861	1,866,089	2,369,764
Equity	-	-	-	298,340	298,340
Total Liabilities and Equity	413,505	23,309	66,861	2,164,429	2,668,104
On-book gap	452,318	161,478	304,314	(918,110)	-
Cumulative on-book gap	452,318	613,796	918,110	-	-
Contingent assets	180,924	20,609	28,751	8,947	239,231
Contingent liabilities	240,663	21,653	28,292	8,824	299,432
Off-book gap	(59,739)	(1,044)	459	123	(60,201)
Net Periodic Gap	392,579	160,434	304,773	(917,987)	60,201
Cumulative Total Gap	P 392,579	P 553,013	P 857,786	(P 60,201)	P -

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

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

Parent Bank

	2018				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 52,492	P -	P -	P -	P 52,492
Due from BSP and other banks	125,574	-	-	272,223	397,797
Loans and other receivables - net	451,821	185,561	325,786	1,055,985	2,019,153
Trading and investment securities	9,197	51,017	85,021	159,046	304,281
Other resources - net*	-	-	-	118,089	118,089
Total Resources	639,084	236,578	410,807	1,605,343	2,891,812
Liabilities and Equity:					
Deposit liabilities	467,983	20,164	18,261	1,855,894	2,362,302
Bills and subordinated notes payable	13,092	17,756	52,833	44,042	127,723
Other liabilities	23,876	-	-	50,290	74,166
Total Liabilities	504,951	37,920	71,094	1,950,226	2,564,191
Equity	-	-	-	327,621	327,621
Total Liabilities and Equity	504,951	37,920	71,094	2,277,847	2,891,812
On-book gap	134,133	198,658	339,713	(672,504)	-
Cumulative on-book gap	134,133	332,791	672,504	-	-
Contingent assets	172,428	30,373	4,148	1,054	208,003
Contingent liabilities	211,162	32,551	4,418	1,044	249,175
Off-book gap	(38,734)	(2,178)	(270)	10	(41,172)
Net Periodic Gap	95,399	196,480	339,443	(672,494)	41,172
Cumulative Total Gap	P 95,399	P 291,879	P 631,322	(P 41,172)	P -

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

Parent Bank

	2017				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 43,882	P -	P -	P -	P 43,882
Due from BSP and other banks	381,681	-	-	3	381,684
Loans and other receivables - net	384,751	151,588	246,066	948,327	1,730,732
Trading and investment securities	4,164	13,773	88,021	152,256	258,214
Other resources - net*	-	-	-	110,113	110,113
Total Resources	814,478	165,361	334,087	1,210,699	2,524,625
Liabilities and Equity:					
Deposit liabilities	311,235	15,948	29,734	1,688,404	2,045,321
Bills and subordinated notes payable	39,966	2,411	23,031	50,245	115,653
Other liabilities	22,399	749	-	42,842	65,990
Total Liabilities	373,600	19,108	52,765	1,781,491	2,226,964
Equity	-	-	-	297,661	297,661
Total Liabilities and Equity	373,600	19,108	52,765	2,079,152	2,524,625
On-book gap	440,878	146,253	281,322	(868,453)	-
Cumulative on-book gap	440,878	587,131	868,453	-	-
Contingent assets	175,855	17,901	7,009	715	201,480
Contingent liabilities	235,649	19,086	6,917	697	262,349
Off-book gap	(59,794)	(1,185)	92	18	(60,869)
Net Periodic Gap	381,084	145,068	281,414	(868,435)	60,869
Cumulative Total Gap	P 381,084	P 526,152	P 807,566	(P 60,869)	P -

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

4.2 Market Risk

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

4.2.1 Foreign Exchange Risk

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

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

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

The breakdown of the financial assets and financial liabilities as to foreign and peso-denominated balances as of December 31, 2018 and 2017 follows:

BDO Unibank Group

	2018			2017		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P 152**	**P 407,729**	**P 407,881**	P 222	P 398,092	P 398,314
Due from other banks	**52,953**	**2,339**	**55,292**	50,499	980	51,479
Trading and investment securities:						
At FVTPL	**4,093**	**16,215**	**20,308**	5,181	9,529	14,710
At FVOCI	**75,464**	**44,925**	**120,389**	-	-	-
At amortized cost	**138,103**	**106,397**	**244,500**	-	-	-
AFS securities	**-**	**-**	**-**	72,443	48,576	121,019
HTM investments	**-**	**-**	**-**	119,011	78,187	197,198
Loans and other receivables	**305,505**	**1,766,329**	**2,071,834**	277,416	1,514,370	1,791,786
Other resources	**5,029**	**2,041**	**7,070**	4,997	558	5,555
	P 581,299	**P 2,345,975**	**P 2,927,274**	P 529,769	P 2,050,292	P 2,580,061
Liabilities:						
Deposit liabilities	**P 416,383**	**P 2,003,582**	**P 2,419,965**	P 395,183	P 1,725,829	P 2,121,012
Bills payable	**117,787**	**25,836**	**143,623**	106,293	24,191	130,484
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Insurance contract liabilities	**7,283**	**21,223**	**28,506**	7,081	18,905	25,986
Other liabilities	**5,439**	**75,635**	**81,074**	6,387	66,978	73,365
	P 546,892	**P 2,136,306**	**P 2,683,198**	P 514,944	P 1,845,933	P 2,360,877

Parent Bank

	2018			2017		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P 36**	**P 401,473**	**P 401,509**	P 50	P 384,428	P 384,478
Due from other banks	**48,729**	**51**	**48,780**	41,031	57	41,088
Trading and investment securities:						
At FVTPL	**2,880**	**1,377**	**4,257**	3,689	571	4,260
At FVOCI	**61,026**	**16,089**	**77,115**	-	-	-
At amortized cost	**130,830**	**92,079**	**222,909**	-	-	-
AFS securities	**-**	**-**	**-**	57,078	13,154	70,232
HTM investments	**-**	**-**	**-**	116,987	66,735	183,722
Loans and other receivables	**307,567**	**1,711,586**	**2,019,153**	275,362	1,455,370	1,730,732
Other resources	**5,001**	**1**	**5,002**	3,969	272	4,241
	P 556,069	**P 2,222,656**	**P 2,778,725**	P 498,166	P 1,920,587	P 2,418,753
Liabilities:						
Deposit liabilities	**P 398,841**	**P 1,963,461**	**P 2,362,302**	P 373,386	P 1,671,935	P 2,045,321
Bills payable	**117,693**	**-**	**117,693**	105,623	-	105,623
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Other liabilities	**4,755**	**59,998**	**64,753**	6,078	52,554	58,632
	P 521,289	**P 2,033,489**	**P 2,554,778**	P 485,087	P 1,734,519	P 2,219,606

4.2.2 Interest Rate Risk

BDO Unibank Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all resources and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2018 and 2017 based on the expected interest realization or recognition are shown in the succeeding pages.

BDO Unibank Group

	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:						
Cash and other cash items	P -	P -	P -	P -	P 53,749	P 53,749
Due from BSP and other banks	23,248	-	-	-	386,176	409,424
Loans and other receivables - net	1,025,682	189,261	620,802	236,089	-	2,071,834
Trading and investment securities	11,664	56,431	178,738	118,056	20,308	385,197
Other resources - net*	-	-	-	-	102,043	102,043
Total Resources	1,060,594	245,692	799,540	354,145	562,276	3,022,247
Liabilities and Equity:						
Deposit liabilities	608,569	71,985	75,763	16,766	1,646,882	2,419,965
Bills and subordinated notes payable	48,967	21,429	78,898	3,861	498	153,653
Insurance contract liabilities**	(405)	(1,270)	1,082	19,494	9,605	28,506
Other liabilities	-	1,072	4,742	93	86,067	91,974
Total Liabilities	657,131	93,216	160,485	40,214	1,743,052	2,694,098
Equity	-	-	-	-	328,149	328,149
Total Liabilities and Equity	657,131	93,216	160,485	40,214	2,071,201	3,022,247
On-book gap	403,463	152,476	639,055	313,931	(1,508,925)	-
Cumulative on-book gap	403,463	555,939	1,194,994	1,508,925	-	-
Contingent assets	10,835	1,618	-	-	-	12,453
Contingent liabilities	4,943	1,577	-	-	-	6,520
Off-book gap	5,892	41	-	-	-	5,933
Net Periodic Gap	409,355	152,517	639,055	313,931	(1,508,925)	(5,933)
Cumulative Total Gap	P 409,355	P 561,872	P 1,200,927	P 1,514,858	P 5,933	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*
** *Insurance Contract Liabilities with maturity of one month to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

BDO Unibank Group

	2017					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 45,006	P 45,006
Due from BSP and other banks	24,454	-	-	-	380,333	404,787
Loans and other receivables - net	934,347	168,161	476,642	212,636	-	1,791,786
Trading and investment securities	6,373	17,422	177,254	117,167	14,711	332,927
Other resources - net*	-	-	-	-	93,598	93,598
Total Resources	965,174	185,583	653,896	329,803	533,648	2,668,104
Liabilities and Equity:						
Deposit liabilities	431,836	71,020	90,666	26,796	1,500,694	2,121,012
Bills and subordinated notes payable	74,537	2,874	34,805	27,998	300	140,514
Insurance contract liabilities**	(360)	(1,074)	(21)	21,256	6,185	25,986
Other liabilities	1,272	2,044	4,013	74	74,849	82,252
Total Liabilities	507,285	74,864	129,463	76,124	1,582,028	2,369,764
Equity	-	-	-	-	298,340	298,340
Total Liabilities and Equity	507,285	74,864	129,463	76,124	1,880,368	2,668,104
On-book gap	457,889	110,719	524,433	253,679	(1,346,720)	-
Cumulative on-book gap	457,889	568,608	1,093,041	1,346,720	-	-
Contingent assets	8,134	777	-	-	-	8,911
Contingent liabilities	8,023	749	-	-	-	8,772
Off-book gap	111	28	-	-	-	139
Net Periodic Gap	458,000	110,747	524,433	253,679	(1,346,720)	(139)
Cumulative Total Gap	P 458,000	P 568,747	P 1,093,180	P 1,346,859	P 139	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*
** *Insurance Contract Liabilities with maturity of one month to five years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

Parent Bank

	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:						
Cash and other cash items	**P -**	**P -**	**P -**	**P -**	**P 52,492**	**P 52,492**
Due from BSP and other banks	**22,000**	**-**	**-**	**-**	**375,797**	**397,797**
Loans and other receivables - net	**1,015,170**	**166,254**	**597,213**	**240,516**	**-**	**2,019,153**
Trading and investment securities	**7,586**	**51,017**	**155,786**	**85,635**	**4,257**	**304,281**
Other resources - net*	**-**	**-**	**-**	**-**	**118,089**	**118,089**
Total Resources	**1,044,756**	**217,271**	**752,999**	**326,151**	**550,635**	**2,891,812**
Liabilities and Equity:						
Deposit liabilities	**583,500**	**67,010**	**73,865**	**20,936**	**1,616,991**	**2,362,302**
Bills and subordinated notes payable	**26,492**	**17,756**	**74,931**	**8,544**	**-**	**127,723**
Other liabilities	**-**	**-**	**-**	**-**	**74,166**	**74,166**
Total Liabilities	**609,992**	**84,766**	**148,796**	**29,480**	**1,691,157**	**2,564,191**
Equity	**-**	**-**	**-**	**-**	**327,621**	**327,621**
Total Liabilities and Equity	**609,992**	**84,766**	**148,796**	**29,480**	**2,018,778**	**2,891,812**
On-book gap	**434,764**	**132,505**	**604,203**	**296,671**	**(1,468,143)**	**-**
Cumulative on-book gap	**434,764**	**567,269**	**1,171,472**	**1,468,143**	**-**	**-**
Contingent assets	**5,784**	**-**	**-**	**-**	**-**	**5,784**
Contingent liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Off-book gap	**5,784**	**-**	**-**	**-**	**-**	**5,784**
Net Periodic Gap	**440,548**	**132,505**	**604,203**	**296,671**	**(1,468,143)**	**(5,784)**
Cumulative Total Gap	**P 440,548**	**P 573,053**	**P 1,177,256**	**P 1,473,927**	**P 5,784**	**P -**

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

Parent Bank

	2017					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 43,882	P 43,882
Due from BSP and other banks	22,869	-	-	-	358,815	381,684
Loans and other receivables - net	908,641	143,781	452,603	225,707	-	1,730,732
Trading and investment securities	1,506	14,020	155,250	83,178	4,260	258,214
Other resources - net*	-	-	-	-	110,113	110,113
Total Resources	933,016	157,801	607,853	308,885	517,070	2,524,625
Liabilities and Equity:						
Deposit liabilities	395,423	65,866	84,701	30,546	1,468,785	2,045,321
Bills and subordinated notes payable	46,639	1,273	32,471	35,270	-	115,653
Other liabilities	-	749	-	-	65,241	65,990
Total Liabilities	442,062	67,888	117,172	65,816	1,534,026	2,226,964
Equity	-	-	-	-	297,661	297,661
Total Liabilities and Equity	442,062	67,888	117,172	65,816	1,831,687	2,524,625
On-book gap	490,954	89,913	490,681	243,069	(1,314,617)	-
Cumulative on-book gap	490,954	580,867	1,071,548	1,314,617	-	-
Contingent assets	3,779	-	-	-	-	3,779
Contingent liabilities	3,779	-	-	-	-	3,779
Off-book gap	-	-	-	-	-	-
Net Periodic Gap	490,954	89,913	490,681	243,069	(1,314,617)	-
Cumulative Total Gap	P 490,954	P 580,867	P 1,071,548	P 1,314,617	P -	P -

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

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

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level, which is a percentage of projected earnings. The BDO Unibank Group and the Parent Bank uses the VaR model to estimate the daily potential loss that the BDO Unibank Group and the Parent Bank can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over limits should only arise in very exceptional circumstances.

- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.

- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

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

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

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,

- The VaR measure is dependent upon the BDO Unibank Group and the Parent Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice-versa.

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

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

BDO Unibank Group

	2018		2017	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 27)**	**(P 401)**	(P 11)	(P 217)
Interest rate risk – Peso	**(71)**	**(754)**	(59)	(651)
Interest rate risk – USD	**(4)**	**(125)**	(15)	(489)
	(P 102)	**(P 1,280)**	(P 85)	(P 1,357)

Parent Bank

	2018		2017	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 25)**	**(P 367)**	(P 9)	(P 191)
Interest rate risk – Peso	**(47)**	**(348)**	(19)	(241)
Interest rate risk – USD	**(2)**	**(65)**	(11)	(340)
	(P 74)	**(P 780)**	(P 39)	(P 772)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2018 and 2017 is shown below.

BDO Unibank Group

	2018			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 4,533)**	**P 4,533**	**(P 2,266)**	**P 2,266**
As a percentage of the BDO Unibank Group's net interest income for 2018	**(4.60%)**	**4.60%**	**(2.30%)**	**2.30%**
Earnings-at-risk	**P 5,104**			

	2017			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 4,719)	P 4,719	(P 2,360)	P 2,360
As a percentage of the BDO Unibank Group's net interest income for 2017	(6.00%)	6.00%	(3.00%)	3.00%
Earnings-at-risk	P 8,972			

Parent Bank

	2018			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 4,715)**	**P 4,715**	**(P 2,358)**	**P 2,358**
As a percentage of the Parent Bank's net interest income for 2018	**(5.00%)**	**5.00%**	**(2.50%)**	**2.50%**
Earnings-at-risk	**P 5,715**			

	2017			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 4,966)	P 4,996	(P 2,483)	P 2,483
As a percentage of the Parent Bank's net interest income for 2017	(6.00%)	6.00%	(3.00%)	3.00%
Earnings-at-risk	P 9,528			

4.2.3 Price Risk

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

The table below summarizes the impact of equity prices on listed equity securities classified as HFT securities or financial assets at FVTPL and financial assets at FVOCI/AFS securities on BDO Unibank Group and Parent Bank's net profit after tax and equity as of December 31, 2018 and 2017. The results are based on the volatility assumption of the benchmark equity index, which was 2.28% and 2.04% in 2018 and 2017, respectively for securities classified as HFT securities or financial assets at FVTPL and FVOCI/AFS securities with all other variables held constant and all the BDO Unibank Group and the Parent Bank's equity instruments moved according to the historical correlation with the index.

BDO Unibank Group

	Impact on Net Profit After Tax Increase			Impact on Other Comprehensive Income Increase		
	2018	2017	2016	**2018**	2017	2016
HFT securities or financial assets at FVTPL	**P 194**	P 93	P 75	**P -**	P -	P -
AFS securities or financial assets at FVOCI	**-**	-	-	**136**	861	414
	P 194	P 93	P 75	**P 136**	P 861	P 414

Parent Bank

	Impact on Net Profit After Tax Increase			Impact on Other Comprehensive Income Increase		
	2018	2017	2016	**2018**	2017	2016
AFS securities or financial assets at FVOCI	**P -**	P -	P -	**P 2**	P 55	P 93

4.3 Credit Risk

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

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

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

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

4.3.1 Exposure to Credit Risk

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

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

- Current/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) Loans Especially Mentioned (LEM)

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

(ii) Substandard

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

(iii) Doubtful

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

(iv) Loss

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

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

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

4.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, financial assets measured at amortized cost (2018), HTM investments (2017), FVOCI debt investments (2018) and AFS debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts for loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2018 and 2017, there are no purchased or originated credit impaired financial assets in both BDO Unibank Group and Parent Bank financial statements.

The following table shows the exposure to credit risk as of December 31, 2018 and 2017 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

		2018				2017
		Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers - corporate						
Grades AAA to B	: Current	P 1,531,995	P -	P 89	P 1,532,084	P 1,416,795
Grade B-	: Watchlisted	29,445	4,940	22	34,407	260
Grade C	: LEM	-	797	297	1,094	4,383
Grade D	: Substandard	-	4,299	1,749	6,048	5,346
Grade E	: Doubtful	-	-	1,468	1,468	4,270
Grade F	: Loss	-	-	4,764	4,764	3,720
		1,561,440	10,036	8,389	1,579,865	1,434,774
Expected credit loss allowance		(6,630)	(1,972)	(6,243)	(14,845)	(18,600)
Carrying amount		P 1,554,810	P 8,064	P 2,146	P 1,565,020	P 1,416,174
Receivables from customers - consumer						
Grades AAA to B	: Current	P 425,608	P -	P 37	P 425,645	P 299,430
Grade B-	: Watchlisted	146	12	13	171	-
Grade C	: LEM	-	1,446	84	1,530	3,489
Grade D	: Substandard	-	867	766	1,633	7,496
Grade E	: Doubtful	-	-	2,558	2,558	3,209
Grade F	: Loss	-	-	8,660	8,660	6,490
		425,754	2,325	12,118	440,197	320,114
Expected credit loss allowance		(3,794)	(572)	(7,550)	(11,916)	(11,292)
Carrying amount		P 421,960	P 1,753	P 4,568	P 428,281	P 308,822
Other receivables						
Grades AAA to B	: Current	P 77,857	P -	P -	P 77,857	P 65,681
Grade C	: LEM	-	24	77	101	-
Grade D	: Substandard	-	490	288	778	1,220
Grade E	: Doubtful	-	-	609	609	612
Grade F	: Loss	-	-	1,472	1,472	2,442
		77,857	514	2,446	80,817	69,955
Expected credit loss allowance		(235)	(37)	(2,012)	(2,284)	(3,165)
Carrying amount		P 77,622	P 477	P 434	P 78,533	P 66,790

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Debt investment securities at amortized Cost/HTM securities					
Grades AAA to B : Current	**P 244,635**	**P -**	**P -**	**P 244,635**	P 197,198
Grade F : Loss	**-**	**-**	**1,446**	**1,446**	-
	244,635	**-**	**1,446**	**246,081**	197,198
Expected credit loss allowance	**(135)**	**-**	**(1,446)**	**(1,581)**	-
Carrying amount	**P 244,500**	**P -**	**P -**	**P 244,500**	P 197,198
Debt investment securities at FVOCI/ AFS securities					
Grades AAA to B : Current	**P 110,150**	**P -**	**P -**	**P 110,150**	P 103,931
Loan commitments and other contingent accounts					
Grades AAA to B : Current	**P 73,120**	**P -**	**P -**	**P 73,120**	P 70,016
Grade B- : Watchlisted	**447**	**155**	**-**	**602**	-
	73,567	**155**	**-**	**73,722**	70,016
Expected credit loss allowance	**(202)**	**(4)**	**-**	**(206)**	-
Carrying amount	**P 73,365**	**P 151**	**P -**	**P 73,516**	P 70,016

The following table sets out the credit quality of trading debt securities measured at FVTPL (see Note 9.1).

	2018	2017
Grade:		
AAA	**P 2,037**	P 1,692
AA+ to AA	**129**	246
A+ to A-	**341**	522
BBB+ to BBB-	**2,493**	2,793
BB+ to BB-	**14**	-
	P 5,014	P 5,253

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.

	Total		Exchange-traded		Over-the-counter: Central counterparties		Over-the-counter: Other bilateral collateralized	
	Notional Amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
2018								
Derivative assets	**P 169,103**	**P 6,230**	**P -**	**P -**	**P 138,743**	**P 2,621**	**P 30,360**	**P 3,609**
Derivative liabilities	**133,144**	**4,497**	**-**	**-**	**105,775**	**1,680**	**27,369**	**2,817**
2017								
Derivative assets	P 157,023	P 5,024	P 604	P 1	P 131,418	P 2,279	P 25,001	P 2,744
Derivative liabilities	157,248	3,750	-	-	133,797	1,798	23,451	1,952

As of December 31, 2018 and 2017, the BDO Unibank Group held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P463,173 and P449,793, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

Parent Bank

			2018				2017
			Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers – corporate							
Grades AAA to B	:	Current	P 1,507,824	P -	P 56	P 1,507,880	P 1,391,703
Grade B-	:	Watchlisted	28,873	4,907	-	33,780	-
Grade C	:	LEM	-	462	264	726	3,974
Grade D	:	Substandard	-	4,298	1,542	5,840	5,128
Grade E	:	Doubtful	-	-	1,184	1,184	4,096
Grade F	:	Loss	-	-	4,450	4,450	3,487
			1,536,697	9,667	7,496	1,553,860	1,408,388
Expected credit loss allowance			(6,506)	(1,968)	(5,893)	(14,367)	(17,960)
Carrying amount			P 1,530,191	P 7,699	P 1,603	P 1,539,493	P 1,390,428
Receivables from customers - consumer							
Grades AAA to B	:	Current	P 401,136	P -	P -	P 401,136	P 273,607
Grade B-	:	Watchlisted	146	12	13	171	-
Grade C	:	LEM	-	1,307	65	1,372	3,419
Grade D	:	Substandard	-	438	701	1,139	7,303
Grade E	:	Doubtful	-	-	2,131	2,131	2,895
Grade F	:	Loss	-	-	6,693	6,693	5,287
			401,282	1,757	9,603	412,642	292,511
Expected credit loss allowance			(3,545)	(429)	(5,805)	(9,779)	(9,867)
Carrying amount			P 397,737	P 1,328	P 3,798	P 402,863	P 282,644
Other receivables							
Grades AAA to B	:	Current	P 76,116	P -	P -	P 76,116	P 56,568
Grade D	:	Substandard	-	477	283	760	1,209
Grade E	:	Doubtful	-	-	601	601	480
Grade F	:	Loss	-	-	1,371	1,371	2,343
			76,116	477	2,255	78,848	60,600
Expected credit loss allowance			(83)	(37)	(1,931)	(2,051)	(2,940)
Carrying amount			P 76,033	P 440	P 324	P 76,797	P 57,660
Debt investment securities at amortized Cost/HTM securities							
Grades AAA to B	:	Current	P 223,032	P -	P -	P 223,032	P 183,722
Grade F	:	Loss	-	-	1,446	1,446	-
			223,032	-	1,446	224,478	183,722
Expected credit loss allowance			(123)	-	(1,446)	(1,569)	-
Carrying amount			P 222,909	P -	P -	P 222,909	P 183,722
Debt investment securities at FVOCI/ AFS securities							
Grades AAA to B	:	Current	P 73,741	P -	P -	P 73,741	P 66,465
Loan commitments and other contingent accounts							
Grades AAA to B	:	Current	P 73,120	P -	P -	P 73,120	P 70,016
Grade B-	:	Watchlisted	447	155	-	602	-
			73,567	155	-	73,722	70,016
Expected credit loss allowance			(202)	(4)	-	(206)	-
Carrying amount			P 73,365	P 151	P -	P 73,516	P 70,016

The following table sets out the credit quality of trading debt securities measured at FVTPL (see Note 9.1).

		2018		2017
Grade:				
AAA	**P**	**1,277**	P	493
AA+ to AA		**4**		2
BB+ to BB-		**354**		1,486
	P	**1,635**	P	1,981

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

	Total		Exchange-traded		Over-the-counter: Central counterparties		Over-the-counter: Other bilateral collateralized	
	Notional Amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
2018								
Derivative assets	**P 138,743**	**P 2,621**	**P -**	**P -**	**P 138,743**	**P 2,621**	**P -**	**P -**
Derivative liabilities	**105,775**	**1,680**	**-**	**-**	**105,775**	**1,680**	**-**	**-**
2017								
Derivative assets	P 131,418	P 2,279	P -	P -	P 131,418	P 2,279	P -	P -
Derivative liabilities	133,797	1,798	-	-	133,797	1,798	-	-

As of December 31, 2018 and 2017, the Parent Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totalling to P450,289 and P425,566, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

4.3.3 Concentrations of Credit Risk

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

BDO Unibank Group

	2018						2017					
	Cash and Cash Equivalents*		**Receivables from Customers****		**Trading and Investment Securities**		Cash and Cash Equivalents*		Receivables from Customers**		Trading and Investment Securities	
Concentration by sector:												
Financial and insurance activities	**P**	**536,426**	**P**	**292,871**	**P**	**228,301**	P	504,779	P	195,923	P	212,314
Wholesale and retail trade		**-**		**274,443**		**1,085**		-		237,104		1,336
Real estate activities		**-**		**242,836**		**22,080**		1		227,050		22,426
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use		**-**		**234,238**		**-**		-		175,196		-
Electricity, gas, steam and and air-conditioning supply		**-**		**222,305**		**-**		-		200,952		-
Manufacturing		**-**		**215,108**		**13,940**		-		186,779		12,509
Transportation and storage		**-**		**114,023**		**3,333**		-		112,307		2,719
Arts, entertainment and recreation		**-**		**76,366**		**-**		-		68,853		-
Construction		**-**		**47,797**		**-**		-		36,605		-
Information and communication		**-**		**32,530**		**-**		-		38,707		-
Accommodation and food service activities		**-**		**31,465**		**-**		-		41,662		-
Mining and quarrying		**-**		**23,830**		**-**		-		24,054		-
Agriculture, forestry and fishing		**-**		**13,861**		**-**		-		13,007		-
Water supply, sewerage waste management and remediation activities		**-**		**12,567**		**-**		-		11,813		-
Professional, scientific and technical services		**-**		**10,980**		**-**		-		10,782		-
Administrative and support services		**-**		**9,517**		**-**		-		9,204		-
Human health and social work activities		**-**		**9,092**		**-**		-		16,461		-
Education		**-**		**5,960**		**-**		-		13,614		-
Public administrative and defense; compulsory social security		**-**		**640**		**-**		-		703		-
Activities of extraterritorial and organizations and bodies		**-**		**41**		**-**		-		66		-
Other service activities		**4,994**		**149,592**		**89,562**		641		134,046		58,005
	P	**541,420**	**P**	**2,020,062**	**P**	**358,301**	P	505,421	P	1,754,888	P	309,309
Concentration by location:												
Philippines	**P**	**448,131**	**P**	**1,891,447**	**P**	**279,391**	P	425,617	P	1,631,084	P	241,154
Others		**93,289**		**128,615**		**78,910**		79,804		123,804		68,155
	P	**541,420**	**P**	**2,020,062**	**P**	**358,301**	P	505,421	P	1,754,888	P	309,309

* *Cash and cash equivalents include cash and other cash items, due from BSP and other banks, SPURRA, FCNC, certain interbank loans receivables and HTM securities (see Note 2.5).*

***Receivables from customers are reported net of unearned interests or discounts.*

Parent Bank

	2018			2017		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities**	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities
Concentration by sector:						
Financial and insurance activities	**P 525,857**	**P 290,365**	**P 212,182**	P 477,805	P 191,194	P 181,378
Wholesale and retail traded	**-**	**267,923**	**1,030**	-	231,386	1,281
Real estate activities	**-**	**241,272**	**17,701**	-	223,746	17,910
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**225,550**	**-**	-	168,423	-
Electricity, gas, steam and air-conditioning supply	**-**	**221,533**	**-**	-	200,106	-
Manufacturing	**-**	**211,264**	**12,481**	-	183,382	9,903
Transportation and storage	**-**	**109,997**	**2,571**	-	108,496	2,403
Arts, entertainment and recreation	**-**	**75,000**	**-**	-	66,040	-
Construction	**-**	**42,900**	**-**	-	32,032	-
Information and communication	**-**	**32,072**	**-**	-	38,081	-
Accommodation and food service activities	**-**	**31,298**	**-**	-	41,307	-
Mining and quarrying	**-**	**22,434**	**-**	-	22,344	-
Agriculture, forestry and fishing	**-**	**13,043**	**-**	-	11,342	-
Water supply, sewerage waste management and remediation activities	**-**	**12,317**	**-**	-	11,286	-
Professional, scientific and technical services	**-**	**10,738**	**-**	-	10,517	-
Human health and social work activities	**-**	**8,235**	**-**	-	15,724	-
Administrative and support services	**-**	**8,131**	**-**	-	7,867	-
Education	**-**	**5,411**	**-**	-	5,201	-
Public administrative and defense; compulsory social security	**-**	**629**	**-**	-	639	-
Activities of extraterritorial and organizations bodies	**-**	**38**	**-**	-	66	-
Other service activities	**-**	**136,352**	**50,015**	-	131,720	39,475
	P 525,857	**P 1,966,502**	**P 295,980**	P 477,805	P 1,700,899	P 252,350
Concentration by location						
Philippines	**P 438,835**	**P 1,845,037**	**P 224,717**	P 406,394	P 1,579,763	P 190,008
Others	**87,022**	**121,465**	**71,263**	71,411	121,136	62,342
	P 525,857	**P 1,966,502**	**P 295,980**	P 477,805	P 1,700,899	P 252,350

** Cash and cash equivalents include cash and other cash items, due from BSP and other banks, SPURRA, FCNC, certain interbank loans receivables and HTM investments (see Note 2.5).*

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

4.3.4 Collateral Held as Security and Other Credit Enhancements

BDO Unibank Group and the Parent Bank hold collateral against credit exposures from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically, e.g., annually for real estate properties, as provided in the Parent Bank's Credit Policy Manual. 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 activity. The BDO Unibank Group and the Parent Bank hold collateral against credit exposures in the form of property, debt securities, equity securities, holdout deposits and others.

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

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Receivable from customers – corporate				
Property	**P 497,150**	P 446,998	**P 460,617**	P 393,555
Equity securities	**131,529**	162,284	**131,529**	162,284
Hold-out deposits	**141,806**	172,764	**141,806**	172,764
Debt securities	**5,147**	3,532	**5,109**	3,482
Others	**220,603**	238,732	**210,049**	236,008
	996,235	1,024,310	**949,110**	968,093
Receivable from customers – consumer				
Property	**286,512**	238,025	**278,268**	222,692
Equity securities	**171**	100	**171**	100
Hold-out deposits	**3,950**	3,973	**3,881**	3,893
Debt securities	**849**	713	**571**	232
Others	**170,747**	117,433	**159,536**	116,432
	462,229	360,244	**442,427**	343,349
Other receivables:				
Property	**2,139**	1,529	**2,139**	1,529
Debt securities	**-**	18	**-**	18
Others	**72,053**	53,126	**71,805**	52,861
	74,192	54,673	**73,944**	54,408
	P 1,532,656	P 1,439,227	**P 1,465,481**	P 1,365,850

As of December 31, 2018 and 2017, no collateral is held for due from other banks and trading and investment securities.

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

(a) Receivable from Customers - Corporate

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

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

The net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables to corporate customers amounted to P10,210 and P9,618 as of December 31, 2018 and 2017, respectively, for the Group and P9,302 and P8,046 as of December 31, 2018 and 2017, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P996,235 and P1,024,310 as of December 31, 2018 and 2017, respectively, for the Group and P949,110 and P968,093 as of December 31, 2018 and 2017, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(b) Receivable from Customers - Consumer

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

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

The net carrying amount of credit-impaired receivables to individual customers amounted to P6,321 and P12,789 as of December 31, 2018 and 2017, respectively, for the Group and P5,126 and P11,701 as of December 31, 2018 and 2017, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P462,229 and P360,244 as of December 31, 2018 and 2017, respectively, for the Group and P442,427 and P343,349 as of December 31, 2018 and 2017, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(c) Other Receivables

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

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

The net carrying amount of credit-impaired receivables to corporate customers amounted to P911 and P1,706 as of December 31, 2018 and 2017, respectively, for the Group and P764 and P1,480 as of December 31, 2018 and 2017, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P74,192 and P54,673 as of December 31, 2018 and 2017, respectively, for the Group and P73,944 and P54,408 as of December 31, 2018 and 2017, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(d) Debt Investment Securities

The maximum exposure to credit risk of the investment securities at amortized cost/HTM investments, FVOCI/AFS securities and FVTPL are their carrying amounts of P244,500, P110,150 and P5,014, respectively, as of December 31, 2018, and P197,198, P103,931 and P5,253, respectively, as of December 31, 2017 for the Group. Meanwhile, maximum exposure to credit risk of the investment securities at amortized cost, FVOCI/ AFS securities and FVTPL their carrying amounts of P222,909, P73,741 and P1,635, respectively, as of December 31, 2018, and P183,722, P66,465 and P1,981, respectively, as of December 31, 2017 for the Group.

4.3.5 Amounts Arising from Expected Credit Losses

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

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group 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 Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group'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 Group 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, intermittent delays in payment or restructuring;

(i) Credit risk grading

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit 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 Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used.

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

(iii) Determining whether credit risk has significantly increased

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

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as 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 Group considers a financial asset to be in default when:

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

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

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

(c) Forward-looking Information (FLI)

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

The relevant macro-economic variables for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth, 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 Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Group'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. Consumer and corporate loans and credit card receivables are subject to restructuring. The Group's Credit Committee regularly reviews reports on restructured activities.

For financial assets modified as part of the Group's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar action. As part of this process, the Group 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 (see Note 4.3.2). A customer needs to demonstrate consistently good payment behavior 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 above under the heading 'Generating the term structure of PD'.

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

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

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group 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 Group has limited historical data, external benchmark information (e.g. PD from external credit rating agencies, Basel LGD) issued to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

(f) Loss Allowance

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under PAS 39.

BDO Unibank Group

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Receivables from customers – corporate					
Balance at January 1	P 6,684	P 455	P 5,209	P 12,348	P 16,638
Transfers to:					
Stage 1	7	(7)	-	-	-
Stage 2	(28)	28	-	-	-
Stage 3	(25)	(2)	27	-	-
Net remeasurement of loss allowance	(676)	1,554	1,174	2,052	(4,800)
New financial assets originated or purchased	3,058	-	-	3,058	7,507
Derecognition of financial assets	(2,396)	(60)	(137)	(2,593)	(242)
Write-offs	-	-	(31)	(31)	(512)
Foreign exchange	6	4	1	11	9
Balance at December 31	P 6,630	P 1,972	P 6,243	P 14,845	P 18,600
Receivables from customers – consumer					
Balance at January 1	P 3,787	P 505	P 6,147	P 10,439	P 9,592
Transfers to:					
Stage 1	416	(148)	(268)	-	-
Stage 2	(64)	94	(30)	-	-
Stage 3	(332)	(167)	499	-	-
Net remeasurement of loss allowance	(877)	468	5,243	4,834	3,824
New financial assets originated or purchased	1,382	-	-	1,382	1,748
Derecognition of financial assets	(521)	(180)	(2,215)	(2,916)	(1,893)
Write-offs	-	-	(1,830)	(1,830)	(2,000)
Foreign exchange	3	-	4	7	-
Others	-	-	-	-	21
Balance at December 31	P 3,794	P 572	P 7,550	P 11,916	P 11,292
Other receivables					
Balance at January 1	P 205	P 32	P 2,928	P 3,165	P 1,927
Transfers to:					
Stage 1	24	(1)	(23)	-	-
Stage 2	-	2	(2)	-	-
Stage 3	(1)	(1)	2	-	-
Net remeasurement of loss allowance	(33)	11	1,081	1,059	897
New financial assets originated or purchased	61	-	-	61	501
Derecognition of financial assets	(17)	(6)	(1,516)	(1,539)	(72)
Write-offs	(4)	-	(459)	(463)	(88)
Foreign exchange	-	-	1	1	-
Balance at December 31	P 235	P 37	P 2,012	P 2,284	P 3,165
Debt investment securities at FVOCI (2018) /AFS securities (2017)					
Balance at January 1	P 69	P -	P -	P 69	P -
Net remeasurement of loss allowance	13	-	-	13	-
New financial assets originated or purchased	6	-	-	6	-
Derecognition of financial assets	(1)	-	-	(1)	-
Balance at December 31	P 87	P -	P -	P 87	P -

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Debt investment securities at amortized cost (2018)/HTM securities (2017)					
Balance at January 1	P 128	P -	P 1,387	P 1,515	P -
Net remeasurement of loss allowance	(15)	-	-	(15)	-
New financial assets originated or purchased	21	-	-	21	-
Foreign exchange	6	-	61	67	-
Derecognition of financial assets	(5)	-	(2)	(7)	-
Balance at December 31	P 135	P -	P 1,446	P 1,581	P -
Loan commitments and other contingent accounts					
Balance at January 1	P 329	P 2	P -	P 331	-
Net remeasurement of loss allowance	(96)	3	-	(93)	-
New financial assets originated or purchased	83	-	-	83	-
Derecognition of financial assets	(114)	(1)	-	(115)	-
Foreign exchange	-	-	-	-	-
Balance at December 31	P 202	P 4	P -	P 206	P -

Parent Bank

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Receivables from customers – corporate					
Balance at January 1	P 6,537	P 433	P 4,865	P 11,835	P 15,995
Transfers to:					
Stage 1	7	(7)	-	-	-
Stage 2	(28)	28	-	-	-
Stage 3	(6)	(2)	8	-	-
Net remeasurement of loss allowance	(662)	1,565	1,158	2,061	(4,800)
New financial assets originated or purchased	3,007	-	-	3,007	7,482
Derecognition of financial assets	(2,355)	(53)	(109)	(2,517)	(214)
Write-offs	-	-	(30)	(30)	(512)
Foreign exchange	6	4	1	11	9
Balance at December 31	P 6,506	P 1,968	P 5,893	P 14,367	P 17,960
Receivables from customers – consumer					
Balance at January 1	P 3,311	P 459	P 5,259	P 9,029	P 8,703
Transfers to:					
Stage 1	199	(130)	(69)	-	-
Stage 2	(60)	71	(11)	-	-
Stage 3	(297)	(138)	435	-	-
Net remeasurement of loss allowance	(504)	327	4,082	3,905	3,176
New financial assets originated or purchased	1,287	-	-	1,287	1,654
Derecognition of financial assets	(394)	(160)	(2,065)	(2,619)	(1,736)
Write-offs	-	-	(1,830)	(1,830)	(1,951)
Foreign exchange	3	-	4	7	-
Others	-	-	-	-	21
Balance at December 31	P 3,545	P 429	P 5,805	P 9,779	P 9,867

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Other receivables					
Balance at January 1	**P 54**	**P 32**	**P 2,853**	**P 2,940**	P 1,713
Transfers to:					
Stage 1	**24**	**(1)**	**(23)**	**-**	-
Stage 2	**-**	**2**	**(2)**	**-**	-
Stage 3	**(1)**	**(1)**	**2**	**-**	-
Net remeasurement of loss allowance	**(37)**	**11**	**1,066**	**1,040**	862
New financial assets originated or purchased	**60**	**-**	**-**	**60**	497
Derecognition of financial assets	**(17)**	**(6)**	**(1,508)**	**(1,531)**	(72)
Write-offs	**-**	**-**	**(459)**	**(459)**	(60)
Foreign exchange	**-**	**-**	**1**	**1**	-
Balance at December 31	**P 83**	**P 37**	**P 1,931**	**P 2,051**	P 2,940
Debt investment securities at amortized cost/HTM securities (2017)					
Balance at January 1	**P 115**	**P -**	**P 1,387**	**P 1,502**	P -
Net remeasurement of loss allowance	**(11)**	**-**	**-**	**(11)**	-
New financial assets originated or purchased	**14**	**-**	**-**	**14**	-
Foreign exchange	**6**	**-**	**61**	**67**	-
Derecognition of financial assets	**(1)**	**-**	**(2)**	**(3)**	-
Balance at December 31	**P 123**	**P -**	**P 1,446**	**P 1,569**	P -
Debt investment securities at FVOCI/ AFS securities (2017)					
Balance at January 1	**P 62**	**P -**	**P -**	**P 62**	P -
Net remeasurement of loss allowance	**1**	**-**	**-**	**1**	-
New financial assets originated or purchased	**5**	**-**	**-**	**5**	-
Derecognition of financial assets	**(1)**	**-**	**-**	**(1)**	-
Balance at December 31	**P 67**	**P -**	**P -**	**P 67**	P -
Loan commitments and other contingent accounts					
Balance at January 1	**P 329**	**P 2**	**P -**	**P 331**	-
Net remeasurement of loss allowance	**(96)**	**3**	**-**	**(93)**	-
New financial assets originated or purchased	**83**	**-**	**-**	**83**	-
Derecognition of financial assets	**(114)**	**(1)**	**-**	**(115)**	-
Foreign exchange	**-**	**-**	**-**	**-**	-
Balance at December 31	**P 202**	**P 4**	**P -**	**P 206**	P -

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at January 1	**P 27,867**	P 28,157	**P 25,699**	P 26,411
Net remeasurement of loss allowance	**7,850**	(79)	**6,903**	(762)
New financial assets originated or purchased	**4,611**	9,756	**4,456**	9,633
Derecognition of financial assets	**(7,171)**	(2,186)	**(6,786)**	(2,001)
Write-offs	**(2,324)**	(2,600)	**(2,319)**	(2,523)
Foreign exchange	**86**	9	**86**	9
Balance at December 31	**P 30,919**	P 33,057	**P 28,039**	P 30,767

4.3.6 Impaired Financial Assets – Comparative Information Under PAS 39

The BDO Unibank Group and the Parent Bank hold collateral against loans and receivables from customers in the form of mortgage interests over property and other registered securities.

BDO Unibank Group

	2017		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,791,786	P 51,479	P 311,163
Individually Impaired			
Unclassified	P 717	P -	P -
Grade B: Watchlisted	253	-	-
Grade C: LEM	4,351	-	-
Grade D: Substandard	5,345	-	-
Grade E: Doubtful	4,270	-	-
Grade F: Loss	3,680	-	243
Gross amount	18,616	-	243
Allowance for impairment	(7,653)	-	(243)
Carrying amount	10,963	-	-
Collectively Impaired			
Unclassified	1,098	-	-
Grade C: LEM	4,162	-	-
Grade D: Substandard	7,436	-	-
Grade E: Doubtful	3,134	-	-
Grade F: Loss	6,248	-	-
Gross amount	22,078	-	-
Allowance for impairment	(8,927)	-	-
Carrying amount	13,151	-	-
Past Due But Not Impaired			
Unclassified	1,501	-	-
Neither Past Due Nor Impaired			
Unclassified	1,766,171	51,479	311,163
Total Carrying Amount	P 1,791,786	P 51,479	P 311,163

**Trading and Investment Securities do not include equity securities.*

An aging of past due but not impaired accounts of BDO Unibank Group reckoned from the past due date per BSP definition follows:

	Loans and Other Receivables: Past due not impaired	Loans and Other Receivables: Neither past due nor impaired
Up to 30 days	P 362	P 1,746,777
31 to 60 days	115	6,051
61 to 90 days	130	1,803
91 to 180 days	70	11,540
More than 180 days	824	-
	P 1,501	P 1,766,171

Parent Bank

	2017		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,730,732	P 41,088	P 254,204
Individually Impaired			
Unclassified	P -	P -	P -
Grade C: LEM	3,974	-	-
Grade D: Substandard	5,128	-	-
Grade E: Doubtful	4,096	-	-
Grade F: Loss	3,487	-	243
Gross amount	16,685	-	243
Allowance for impairment	(7,295)	-	(243)
Carrying amount	9,390	-	-
Collectively Impaired			
Grade C: LEM	3,419	-	-
Grade D: Substandard	7,303	-	-
Grade E: Doubtful	2,895	-	-
Grade F: Loss	5,287	-	-
Gross amount	18,904	-	-
Allowance for impairment	(7,067)	-	-
Carrying amount	11,837	-	-
Past Due But Not Impaired			
Unclassified	439	-	-
Neither Past Due Nor Impaired			
Unclassified	1,709,066	41,088	254,204
Total Carrying Amount	P 1,730,732	P 41,088	P 254,204

**Trading and Investment Securities do not include equity securities.*

An aging of past due but not impaired accounts of the Parent Bank reckoned from past due date per BSP definition as follows:

	Loans and Other Receivables	
	Past due not impaired	Neither past due nor impaired
Up to 30 days	P 104	P 1,706,565
31 to 60 days	115	2,416
61 to 90 days	24	85
91 to 180 days	70	-
More than 180 days	126	-
	P 439	P 1,709,066

4.4 Operational Risk

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

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

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

Framework

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

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

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

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

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

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

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

5. SEGMENT REPORTING

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

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

(a) ***Commercial banking*** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;

(b) ***Investment banking*** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, financial advisory services, and securities brokerage;

(c) ***Private banking*** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts;

(d) ***Leasing and financing*** – provides direct leases, sale and leaseback arrangements and real estate leases;

(e) ***Insurance*** – engages in insurance brokerage and life insurance business by providing protection, education, savings, retirement and estate planning solutions to individual and corporate clients through life insurance products and services; and,

(f) ***Others*** – includes asset management, realty management, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

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

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

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

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

Segment information (by service lines) as of and for the years ended December 31, 2018, 2017 and 2016 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2018								
Statement of Income								
Total interest income								
External	P 124,190	P 35	P 1,703	P 1,960	P 1,140	P 12	P -	P 129,040
Intersegment	248	9	1	-	30	36	(324)	-
	124,438	44	1,704	1,960	1,170	48	(324)	129,040
Total interest expense								
External	28,840	2	815	1,008	82	1	-	30,748
Intersegment	42	55	2	155	-	70	(324)	-
	28,882	57	817	1,163	82	71	(324)	30,748
Net interest income	95,556	(13)	887	797	1,088	(23)	-	98,292
Other operating income								
Investment banking fees	-	1,081	-	-	-	-	-	1,081
Others	36,702	324	1,004	1,254	11,956	594	(3,241)	48,593
	36,702	1,405	1,004	1,254	11,956	594	(3,241)	49,674
Other operating expenses								
Impairment losses	6,266	2	(2)	1	18	1	-	6,286
Depreciation and amortization	4,747	54	33	881	37	24	-	5,776
Others	79,574	981	1,359	748	10,330	378	(1,112)	92,258
	90,587	1,037	1,390	1,630	10,385	403	(1,112)	104,320
Profit before tax	41,671	355	501	421	2,659	168	(2,129)	43,646
Tax expense	9,363	161	200	90	1,151	42	-	11,007
Net profit	P 32,308	P 194	P 301	P 331	P 1,508	P 126	(P 2,129)	P 32,639
Statement of Financial Position								
Total resources								
Segment assets	P 2,905,520	P 5,745	P 48,802	P 41,382	P 43,167	P 5,486	(P 44,591)	P 3,005,511
Intangible assets	5,223	207	17	15	54	1	2,907	8,424
Deferred tax assets (liabilities) - net	8,319	(181)	29	126	34	(15)	-	8,312
	P 2,919,062	P 5,771	P 48,848	P 41,523	P 43,255	P 5,472	(P 41,684)	P 3,022,247
Total liabilities	P 2,586,747	P 2,075	P 43,711	P 36,180	P 34,746	P 2,375	(P 11,736)	P 2,694,098

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
Other segment information								
Capital expenditures	P 9,791	P 37	P 26	P 986	P 75	P 27	P -	P 10,942
Investment in associates under equity method	P 4,846	P -	P -	P 235	P -	P -	P -	P 5,081
Share in the profit of associates	P 662	P -	P -	(P 31)	P -	P -	P -	P 631
December 31, 2017								
Statement of Income								
Total interest income								
External	P 95,224	P 62	P 1,779	P 1,913	P 806	P 11	P -	P 99,795
Intersegment	232	5	-	1	16	14	(268)	-
	95,456	67	1,779	1,914	822	25	(268)	99,795
Total interest expense								
External	16,686	-	599	690	65	2	-	18,042
Intersegment	23	48	-	154	-	43	(268)	-
	16,709	48	599	844	65	45	(268)	18,042
Net interest income	78,747	19	1,180	1,070	757	(20)	-	81,753
Other operating income								
Investment banking fees	-	1,766	-	-	-	-	-	1,766
Others	34,646	412	855	1,242	12,642	457	(4,814)	45,440
	34,646	2,178	855	1,242	12,642	457	(4,814)	47,206
Other operating expenses								
Impairment losses	6,332	3	2	64	136	-	-	6,537
Depreciation and amortization	4,171	61	29	836	49	26	-	5,172
Others	67,025	897	1,367	693	10,389	349	(1,027)	79,693
	77,528	961	1,398	1,593	10,574	375	(1,027)	91,402
Profit before tax	35,865	1,236	637	719	2,825	62	(3,787)	37,557
Tax expense	8,138	340	223	148	587	16	-	9,452
Net profit	P 27,727	P 896	P 414	P 571	P 2,238	P 46	(P 3,787)	P 28,105
Statement of Financial Position								
Total resources								
Segment assets	P 2,540,028	P 7,153	P 64,439	P 42,676	P 38,454	P 5,486	(P 46,038)	P 2,652,198
Intangible assets	5,374	134	26	29	32	1	2,907	8,503
Deferred tax assets (liabilities) - net	7,441	(182)	31	111	26	(24)	-	7,403
	P 2,552,843	P 7,105	P 64,496	P 42,816	P 38,512	P 5,463	(P 43,131)	P 2,668,104
Total liabilities	P 2,250,781	P 2,690	P 59,147	P 37,374	P 31,391	P 2,292	(P 13,911)	P 2,369,764
Other segment information								
Capital expenditures	P 9,414	P 42	P 18	P 788	P 26	P 386	P -	P 10,674
Investment in associates under equity method	P 4,678	P -	P -	P 267	P -	P -	P -	P 4,945
Share in the profit of associates	P 626	P -	P -	(P 14)	P -	P -	P -	P 612

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2016								
Statement of Income								
Total interest income								
External	P 78,062	P 88	P 1,434	P 1,751	P 691	P 11	P -	P 82,037
Intersegment	127	3	-	1	8	1	(140)	-
	78,189	91	1,434	1,752	699	12	(140)	82,037
Total interest expense								
External	15,278	1	436	627	71	-	-	16,413
Intersegment	14	51	-	38	-	38	(141)	-
	15,292	52	436	665	71	38	(141)	16,413
Net interest income	62,897	39	998	1,087	628	(26)	1	65,624
Other operating income								
Investment banking fees	-	1,215	-	-	-	-	-	1,215
Others	28,643	297	1,181	1,100	10,138	585	(1,546)	40,398
	28,643	1,512	1,181	1,100	10,138	585	(1,546)	41,613
Other operating expenses								
Depreciation and amortization	3,880	56	24	738	65	19	-	4,782
Impairment losses	3,367	158	-	50	240	-	-	3,815
Others	54,409	817	1,254	647	8,269	287	(477)	65,206
	61,656	1,031	1,278	1,435	8,574	306	(477)	73,803
Profit before pre-acquisition	29,884	520	901	752	2,192	253	(1,068)	33,434
Pre-acquisition income	-	-	-	-	-	-	(391)	(391)
Profit before tax	29,884	520	901	752	2,192	253	(1,459)	33,043
Tax expense	5,759	201	219	181	429	8	-	6,797
Net profit	P 24,125	P 319	P 682	P 571	P 1,763	P 245	(P 1,459)	P 26,246
Statement of Financial Position								
Total resources								
Segment assets	P 2,205,184	P 5,794	P 62,258	P 38,802	P 30,087	P 5,270	(P 37,100)	P 2,310,295
Intangible assets	5,212	135	26	43	46	1	2,907	8,370
Deferred tax assets (liability) - net	6,455	(184)	37	41	11	(26)	-	6,334
	P 2,216,851	P 5,745	P 62,321	P 38,886	P 30,144	P 5,245	(P 34,193)	P 2,324,999
Total liabilities	P 1,997,541	P 2,378	P 57,064	P 33,536	P 24,747	P 1,968	(P 9,794)	P 2,107,440
Other segment information								
Capital expenditures	P 5,808	P 22	P 24	P 941	P 95	P 264	P -	P 7,154
Investment in associates under equity method	P 4,169	P -	P -	P 280	P -	P -	P -	P 4,449
Share in the profit of associates	P 501	P -	P -	(P 20)	P -	P -	P -	P 481

Currently, BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and holding Company in Europe and various remittance subsidiaries operating in Asia, Europe, Canada and United States. Geographical segment information is not presented as these foreign operations accounted for only 1.3%, 1.2% and 1.1% of BDO Unibank Group's total revenues in 2018, 2017 and 2016, respectively, and 1.4% of BDO Unibank Group's total resources both as of December 31, 2018 and 2017, respectively (see Note 1.1).

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

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

BDO Unibank Group

	2018			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
At amortized cost:				
Cash and other cash items	P 53,749	P -	P 53,749	P 53,749
Due from BSP	354,132	-	354,132	354,132
Due from other banks	55,292	-	55,292	55,292
Loans and other receivables	2,071,834	-	2,071,834	2,056,012
Other resources	7,070	-	7,070	7,070
Financial assets at FVTPL	-	20,308	20,308	20,308
Financial assets at FVOCI	-	120,389	120,389	120,389
Investment securities at amortized cost	244,500	-	244,500	234,973
	P 2,786,577	P 140,697	P 2,927,274	P 2,901,925
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,419,965	P -	P 2,419,965	P 2,462,134
Bills payable	143,623	-	143,623	138,501
Subordinated notes payable	10,030	-	10,030	9,757
Insurance contract liabilities	28,506	-	28,506	28,506
Other liabilities	76,577	-	76,577	76,577
At fair value –				
Other liabilities	-	4,497	4,497	4,497
	P 2,678,701	P 4,497	P 2,683,198	P 2,719,972

BDO Unibank Group

	2017			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 45,006	P -	P 45,006	P 45,006
Due from BSP	353,308	-	353,308	353,308
Due from other banks	51,479	-	51,479	51,479
Loans and other receivables	1,791,786	-	1,791,786	1,806,119
Other resources	5,555	-	5,555	5,955
Financial assets at FVTPL	-	14,710	14,710	14,710
AFS securities*	-	119,387	119,387	119,387
HTM investments	197,198	-	197,198	197,211
	P 2,444,332	P 134,097	P 2,578,429	P 2,593,175
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,121,012	P -	P 2,121,012	P 2,135,373
Bills payable	130,484	-	130,484	129,802
Subordinated notes payable	10,030	-	10,030	9,996
Insurance contract liabilities	25,986	-	25,986	25,986
Other liabilities	69,615	-	69,615	69,615
At fair value –				
Other liabilities	-	3,750	3,750	3,750
	P 2,357,127	P 3,750	P 2,360,877	P 2,374,522

** Unquoted AFS securities (amounting to P1,632 for BDO Unibank Group and P183 for the Parent Bank in 2017) have no available fair value data, hence, are excluded for the purpose of this disclosure.*

Parent Bank

	2018			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
At amortized cost:				
Cash and other cash items	**P 52,492**	**P -**	**P 52,492**	**P 52,492**
Due from BSP	**349,017**	**-**	**349,017**	**349,017**
Due from other banks	**48,780**	**-**	**48,780**	**48,780**
Loans and other receivables	**2,019,153**	**-**	**2,019,153**	**2,004,881**
Other resources	**5,002**	**-**	**5,002**	**5,002**
Financial assets at FVTPL	**-**	**4,257**	**4,257**	**4,257**
Financial assets at FVOCI	**-**	**77,115**	**77,115**	**77,115**
Investment securities at amortized cost	**222,909**	**-**	**222,909**	**215,659**
	P 2,697,353	**P 81,372**	**P 2,778,725**	**P 2,757,203**

	2018							
	Classes							
	At Amortized Cost		**At Fair Value**		**Carrying Amount**		**Fair Value**	
Financial liabilities								
At amortized cost:								
Deposit liabilities	**P**	**2,362,302**	**P**	**-**	**P**	**2,362,302**	**P**	**2,399,846**
Bills payable		**117,693**		**-**		**117,693**		**115,373**
Subordinated notes payable		**10,030**		**-**		**10,030**		**9,757**
Other liabilities		**63,073**		**-**		**63,073**		**63,073**
At fair value –								
Other liabilities		**-**		**1,680**		**1,680**		**1,680**
	P	**2,553,098**	**P**	**1,680**	**P**	**2,554,778**	**P**	**2,589,729**

Parent Bank

	2017							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial assets								
Loans and receivables:								
Cash and other cash items	P	43,882	P	-	P	43,882	P	43,882
Due from BSP		340,596		-		340,596		340,596
Due from other banks		41,088		-		41,088		41,088
Loans and other receivables		1,730,732		-		1,730,732		1,746,202
Other resources		4,241		-		4,241		4,641
Financial assets at FVTPL		-		4,260		4,260		4,260
AFS securities*		-		70,049		70,049		70,049
HTM investments		183,722		-		183,722		183,918
	P	2,344,261	P	74,309	P	2,418,570	P	2,434,636
Financial liabilities								
At amortized cost:								
Deposit liabilities	P	2,045,321	P	-	P	2,045,321	P	2,055,400
Bills payable		105,623		-		105,623		105,141
Subordinated notes payable		10,030		-		10,030		9,996
Other liabilities		56,834		-		56,834		56,834
At fair value –								
Other liabilities		-		1,798		1,798		1,798
	P	2,217,808	P	1,798	P	2,219,606	P	2,229,169

** Unquoted AFS securities (amounting to P1,632 for BDO Unibank Group and P183 for the Parent Bank in 2017) have no available fair value data, hence, are excluded for the purpose of this disclosure.*

6.2 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2018 and 2017 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted debt and equity securities classified as AFS securities amounting to P1,632 and P183 as of December 31, 2017 (nil for 2018) in BDO Unibank Group and Parent Bank's financial statements, respectively, are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2018					
Resources:					
Financial assets at FVTPL:	9.1				
Equity securities – quoted		P 9,049	P 15	P -	P 9,064
Derivative financial assets		-	6,230	-	6,230
Government bonds		2,347	-	-	2,347
Corporate debt securities		204	2,463	-	2,667
		11,600	8,708	-	20,308
Financial assets at FVOCI:	9.2				
Government debt securities		60,165	-	-	60,165
Corporate debt securities		49,985	-	-	49,985
Equity securities – quoted		8,563	237	-	8,800
Equity securities – not quoted		-	-	1,439	1,439
		118,713	237	1,439	120,389
		P 130,313	P 8,945	P 1,439	P 140,697
Liabilities –					
Derivatives with negative fair values	19	P 79	P 4,418	P -	P 4,497

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2017					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 5,024	P -	P 5,024
Equity securities – quoted		4,433	-	-	4,433
Government bonds		3,139	-	-	3,139
Corporate debt securities		469	1,645	-	2,114
		8,041	6,669	-	14,710
AFS securities – net:	9.2				
Government debt securities		55,529	-	-	55,529
Corporate debt securities		48,159	-	-	48,159
Equity securities – quoted		15,543	156	-	15,699
		119,231	156	-	119,387
		P 127,272	P 6,825	P -	P 134,097
Liabilities –					
Derivatives with negative fair values	19	P 38	P 3,712	P -	P 3,750

Parent Bank

	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2018					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P -**	**P 2,621**	**P -**	**P 2,621**
Government bonds		**1,616**	**-**	**-**	**1,616**
Corporate debt securities		**19**	**-**	**-**	**19**
Equity securities – quoted		**1**	**-**	**-**	**1**
		1,636	**2,621**	**-**	**4,257**
Financial assets at FVOCI:	9.2				
Government debt securities		**36,865**	**-**	**-**	**36,865**
Corporate debt securities		**36,876**	**-**	**-**	**36,876**
Equity securities – quoted		**2,974**	**233**	**-**	**3,207**
Equity securities – not quoted		**-**	**-**	**167**	**167**
		76,715	**233**	**167**	**77,115**
		P 78,351	**P 2,854**	**P 167**	**P 81,372**
Liabilities:					
Derivatives with negative fair values	19	**P 79**	**P 1,601**	**P -**	**P 1,680**

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2017					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 2,279	P -	P 2,279
Government bonds		1,976	-	-	1,976
Corporate debt securities		5	-	-	5
		1,981	2,279	-	4,260
AFS securities – net:	9.2				
Government debt securities		31,938	-	-	31,938
Corporate debt securities		34,285	-	-	34,285
Equity securities – quoted		3,673	153	-	3,826
		69,896	153	-	70,049
		P 71,877	P 2,432	P -	P 74,309
Liabilities:					
Derivatives with negative fair values	19	P 38	P 1,760	P -	P 1,798

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

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

(a) Equity securities

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

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

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

(ii) For unquoted equity securities classified as financial assets at FVOCI/AFS securities, the fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values. These instruments are included in Level 3.

(b) Debt securities

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

(i) In 2018, fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables. In 2017, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals, the simple average of all firm bids per benchmark tenor or interpolated yields. This is consistent with BSP Circular No. 813, *Amendment on Market Valuation of Government Securities,* issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(ii) For other quoted debt securities, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(c) Derivatives

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

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

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

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Resources:				
Cash and other cash items	P 53,749	P -	P -	P 53,749
Due from BSP	354,132	-	-	354,132
Due from other banks	55,292	-	-	55,292
Loans and other receivable	-	-	2,056,012	2,056,012
Investment securities at amortized cost	233,974	-	999	234,973
Other resources	6,742	-	328	7,070
	P 703,889	P -	P 2,057,339	P 2,761,228
Liabilities:				
Deposit liabilities	P 2,358,509	P 103,625	P -	P 2,462,134
Bills payable	-	115,680	22,821	138,501
Insurance contract liabilities	-	-	28,506	28,506
Subordinated notes payable	-	9,757	-	9,757
Other liabilities	-	-	76,577	76,577
	P 2,358,509	P 229,062	P 127,904	P 2,715,475

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Resources:				
Cash and other cash items	P 45,006	P -	P -	P 45,006
Due from BSP	353,308	-	-	353,308
Due from other banks	51,479	-	-	51,479
Loans and other receivable	-	-	1,806,119	1,806,119
HTM investments	197,211	-	-	197,211
Other resources	4,961	-	994	5,955
	P 651,965	P -	P 1,807,113	P 2,459,078
Liabilities:				
Deposit liabilities	P 2,014,201	P 121,172	P -	P 2,135,373
Bills payable	-	129,802	-	129,802
Insurance contract liabilities	-	-	25,986	25,986
Subordinated notes payable	-	9,996	-	9,996
Other liabilities	-	-	69,615	69,615
	P 2,014,201	P 260,970	P 95,601	P 2,370,772

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Resources:				
Cash and other cash items	**P 52,492**	**P -**	**P -**	**P 52,492**
Due from BSP	**349,017**	**-**	**-**	**349,017**
Due from other banks	**48,780**	**-**	**-**	**48,780**
Investment securities at amortized cost	**215,659**	**-**	**-**	**215,659**
Loans and other receivables	**-**	**-**	**2,004,881**	**2,004,881**
Other resources	**5,002**	**-**	**-**	**5,002**
	P 670,950	**P -**	**P 2,004,881**	**P 2,675,831**
Liabilities:				
Deposit liabilities	**P 2,309,333**	**P 90,513**	**P -**	**P 2,399,846**
Bills payable	**-**	**115,373**	**-**	**115,373**
Subordinated notes payable	**-**	**9,757**	**-**	**9,757**
Other liabilities	**-**	**-**	**63,073**	**63,073**
	P 2,309,333	**P 215,643**	**P 63,073**	**P 2,588,049**
December 31, 2017				
Resources:				
Cash and other cash items	P 43,882	P -	P -	P 43,882
Due from BSP	340,596	-	-	340,596
Due from other banks	41,088	-	-	41,088
HTM investments	183,918	-	-	183,918
Loans and other receivables	-	-	1,746,202	1,746,202
Other resources	3,970	-	671	4,641
	P 613,454	P -	P 1,746,873	P 2,360,327
Liabilities:				
Deposit liabilities	P 1,944,020	P 111,380	P -	P 2,055,400
Bills payable	-	105,141	-	105,141
Subordinated notes payable	-	9,996	-	9,996
Other liabilities	-	-	56,834	56,834
	P 1,944,020	P 226,517	P 56,834	P 2,227,371

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

(a) Due from BSP and Other Banks

Due from BSP pertains to deposits made by BDO Unibank Group to the BSP for clearing and reserve requirements. Due from other banks includes 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 approximate the nominal value.

(b) Investment Securities at Amortized Cost (2018)/HTM investments (2017)

The fair value of investment securities at amortized cost/ HTM investments (2017) are determined by direct reference to published price quoted in an active market for traded debt and equity securities.

BDO Unibank 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

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

(d) Deposits and Borrowings

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of Senior Notes presented as part of Bills Payable account in the statements of financial position is computed based on the average of ask and bid prices as appearing on Bloomberg. For Bills Payable categorized within Level 3, BDO Unibank Group and the Parent Bank classify financial instruments that have no quoted prices or observable market data where reference of fair value can be derived; hence, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(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.

6.5 Fair Value Measurement for Non-financial Assets

Details of BDO Unibank Group and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2018 and 2017 are shown below.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Investment properties				
Land	**P -**	**P -**	**P 22,585**	**P 22,585**
Building and improvements	**-**	**-**	**16,096**	**16,096**
Non-current assets held for sale	**-**	**-**	**722**	**722**
	P -	**P -**	**P 39,403**	**P 39,403**
December 31, 2017				
Investment properties				
Land	P -	P -	P 17,544	P 17,544
Building and improvements	-	-	13,917	13,917
Non-current assets held for sale	-	-	672	672
	P -	P -	P 32,133	P 32,133

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Investment properties				
Land	**P -**	**P -**	**P 17,644**	**P 17,644**
Building and improvements	**-**	**-**	**12,318**	**12,318**
Non-current assets held for sale	**-**	**-**	**711**	**711**
	P -	**P -**	**P 30,673**	**P 30,673**
December 31, 2017				
Investment properties				
Land	P -	P -	P 15,774	P 15,774
Building and improvements	-	-	11,492	11,492
Non-current assets held for sale	-	-	661	661
	P -	P -	P 27,927	P 27,927

The fair value of the investment properties of the BDO Unibank Group and the Parent Bank as of December 31, 2018 and 2017 (see Note 12) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of the BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers were used by the BDO Unibank Group and the Parent Bank in determining the fair value of discounted cash flows of the Investment Properties.

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

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning and accessibility.

(b) Fair Value Measurement for Buildings and Improvements

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

(c) Fair Value Measurement for Assets Held for Sale

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

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Further, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.

6.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2018 and 2017 are subject to offsetting, enforceable master netting arrangements and similar agreements:

BDO Unibank Group

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2018				
Financial assets at FVOCI	**P 1,232**	**P 196**	**P -**	**P 1,036**
Financial assets at FVTPL:				
Currency swaps	**322**	**296**	**-**	**26**
Interest rate swaps	**130**	**65**	**-**	**65**
Loans and receivables –				
Receivables from customers	**51,202**	**30**	**50,835**	**337**
	P 52,886	**P 587**	**P 50,835**	**P 1,464**
December 31, 2017				
AFS securities	P 1,912	P 857	P -	P 1,055
HTM investments	1,075	907	-	168
Financial assets at FVTPL:				
Currency swaps	310	282	-	28
Interest rate swaps	90	35	-	55
Loans and receivables –				
Receivables from customers	65,327	558	63,950	819
	P 68,714	P 2,639	P 63,950	P 2,125

Parent Bank

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2018				
Financial assets at FVTPL:				
Interest rate swaps	**P 65**	**P -**	**P -**	**P 65**
Loans and receivables –				
Receivables from customers	**50,779**	**-**	**50,779**	**-**
	P 50,844	**P -**	**P 50,779**	**P 65**
December 31, 2017				
HTM investments	P 1,075	P 907	P -	P 168
Financial assets at FVTPL:				
Interest rate swaps	55	-	-	55
Loans and receivables –				
Receivables from customers	63,864	-	63,864	-
	P 64,994	P 907	P 63,864	P 223

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

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

BDO Unibank Group

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2018				
Deposit liabilities	**P 274,740**	**P 50,835**	**P -**	**P 223,905**
Bills payable	**226**	**-**	**226**	**-**
Derivatives with negative fair values:				
Currency swaps	**2,028**	**296**	**1,732**	**-**
Interest rate swaps	**158**	**65**	**-**	**93**
	P 277,152	**P 51,196**	**P 1,958**	**P 223,998**

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2017				
Deposit liabilities	P 165,234	P 63,950	P -	P 101,284
Bills payable	2,322	-	2,322	-
Derivatives with negative fair values:				
Currency swaps	1,267	282	985	-
Interest rate swaps	95	35	-	60
	P 168,918	P 64,267	P 3,307	P 101,344

Parent Bank

	Financial Liabilities	**Financial Assets Available for Set-off**	**Collateral Given**	**Net Amount**
December 31, 2018				
Deposit liabilities	**P 274,683**	**P 50,778**	**P -**	**P 223,905**
Bills payable	**-**	**-**	**-**	**-**
Derivatives with negative fair values –				
Interest rate swaps	**90**	**-**	**-**	**90**
	P 274,773	**P 50,778**	**P -**	**P 223,995**
December 31, 2017				
Deposit liabilities	P 165,147	P 63,864	P -	P 101,283
Bills payable	907	-	907	-
Derivatives with negative fair values:				
Interest rate swaps	51	-	-	51
	P 166,105	P 63,864	P 907	P 101,334

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

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Cash and other cash items	**P 53,749**	P 45,006	**P 52,492**	P 43,882
Due from BSP:				
Mandatory reserves	**347,260**	333,302	**342,145**	324,794
Other than mandatory reserves	**6,872**	20,006	**6,872**	15,802
	354,132	353,308	**349,017**	340,596
	P 407,881	P 398,314	**P 401,509**	P 384,478

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims (see Note 15). Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate ranging from 2.5% to 5.3% in 2018, from 2.5% to 3.5% in 2017 and annual interest rate of 2.5% in 2016. Total interest income earned amounted to P899, P1,441 and P564 in 2018, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P785, P1,165 and P474 in 2018, 2017 and 2016, respectively, in the Parent Bank's financial statements (see Note 21).

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

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Foreign banks	**P 51,537**	P 48,740	**P 48,117**	P 39,969
Local banks	**3,755**	2,739	**663**	1,119
	P 55,292	P 51,479	**P 48,780**	P 41,088

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
U.S. dollars	**P 37,669**	P 38,049	**P 34,924**	P 29,620
Philippine pesos	**2,339**	980	**51**	57
Other foreign currencies	**15,284**	12,450	**13,805**	11,411
	P 55,292	P 51,479	**P 48,780**	P 41,088

Annual interest rates on these deposits range from 0.00% to 2.45% in 2018, from 0.00% to 3.00% in 2017, and from 0.01% to 2.38% in 2016 in BDO Unibank Group's financial statements, and from 0.00% to 2.45% in 2018, from 0.00% to 1.35% in 2017, and from 0.01% to 1.05% in 2016 in the Parent Bank's financial statements. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to P834, P301, and P132 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements, and P661, P234, and P91 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements (see Note 21).

Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2018**	2017	**2018**	2017
Financial assets at FVTPL	9.1	**P 20,308**	P 14,710	**P 4,257**	P 4,260
Financial assets at FVOCI	9.2	**120,389**	-	**77,115**	-
Investment securities at amortized cost – net	9.3	**244,500**	-	**222,909**	-
AFS securities – net	9.2	**-**	121,019	**-**	70,232
HTM investments	9.3	**-**	197,198	**-**	183,722
		P 385,197	P 332,927	**P 304,281**	P 258,214

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Derivative financial assets	**P 6,230**	P 5,024	**P 2,621**	P 2,279
Government bonds	**2,347**	3,139	**1,616**	1,976
Corporate debt securities	**2,667**	2,114	**19**	5
	11,244	10,277	**4,256**	4,260
Equity securities – quoted	**9,064**	4,433	**1**	-
	P 20,308	P 14,710	**P 4,257**	P 4,260

All financial assets at FVTPL are held for trading. For government bonds and corporate debt securities, the amounts presented have been determined either directly or indirectly by reference to published prices quoted in an active market. On the other hand, the fair value of certain derivative financial assets is determined through valuation technique using net present value of future cash flows method.

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

	Notes	BDO Unibank Group 2018	2017	2016
Interest income	21	**P 72**	P 162	P 201
Trading gain (loss) – net	23	**(1,863)**	202	(536)
Dividend income	23	**87**	3	3
Foreign exchange gain	23	**137**	147	52
Total other income (loss)		**(1,639)**	352	(481)
Total other expenses		**10**	1	1
Net income (loss)		**(P 1,577)**	P 513	(P 281)

	Notes	Parent Bank 2018	2017	2016
Interest income	21	**P 51**	P 116	P 142
Trading loss – net	23	**(126)**	(51)	(901)
Net income (loss)		**(P 75)**	P 65	(P 759)

The BDO Unibank Group's government bonds and other debt securities earn interest at annual rates ranging from 2.75% to 10.63%, from 0.00% to 10.63% and from 0.09% to 10.63% in 2018, 2017 and 2016, respectively, while the Parent Bank's government bonds and other debt securities earn interest at annual rates ranging from 2.75% to 10.63% in 2018, from 0.38% to 10.63% in 2017 and 2016, respectively.

Foreign currency-denominated securities amounted to P4,093 and P5,181 as of December 31, 2018 and 2017, respectively, in BDO Unibank Group's financial statements and P2,880 and P3,689 as of December 31, 2018 and 2017, respectively, in the Parent Bank's financial statements.

Derivative instruments used by BDO Unibank Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Foreign currency and interest rate forwards/futures represent commitments to purchase/sell or contractual obligations to receive or pay a new amount based on changes in currency rates or interest rates on a future date at a specified price. Foreign currency and interest rate swaps are commitments to exchange one set of cash flows for another.

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and financial liabilities are shown below [see Notes 19 and 25(d)(i)(4)].

BDO Unibank Group

	2018			**2017**		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 220,114**	**P 1,884**	**P 1,020**	P 234,561	P 1,868	P 1,433
Cross currency swaps	**35,255**	**4,037**	**3,083**	31,123	2,987	2,144
Interest rate swaps	**38,403**	**309**	**315**	32,962	169	135
Republic of the Philippines (ROP) warrants	**8,475**	**-**	**79**	15,021	-	38
Others	**-**	**-**	**-**	604	-	-
	P 302,247	**P 6,230**	**P 4,497**	P 314,271	P 5,024	P 3,750

Parent Bank

	2018			**2017**		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 213,708**	**P 1,769**	**P 1,020**	P 229,429	P 1,741	P 1,433
Cross currency swaps	**10,379**	**787**	**491**	8,239	483	276
Interest rate swaps	**11,956**	**65**	**90**	12,526	55	51
ROP warrants	**8,475**	**-**	**79**	15,021	-	38
	P 244,518	**P 2,621**	**P 1,680**	P 265,215	P 2,279	P 1,798

9.2 Financial Assets at FVOCI (2018)/AFS Securities (2017)

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

		BDO Unibank Group		**Parent Bank**	
	Note	**2018**	2017	**2018**	2017
Government debt securities		**P 60,165**	P 55,529	**P 36,865**	P 31,937
Corporate debt securities:					
Quoted		**49,985**	48,159	**36,876**	34,285
Not quoted		**-**	243	**-**	243
Equity securities:					
Quoted		**8,800**	18,291	**3,207**	5,858
Not quoted		**1,439**	2,127	**167**	559
		120,389	124,349	**77,115**	72,882
Allowance for impairment	14	**-**	(3,330)	**-**	(2,650)
		P 120,389	P 121,019	**P 77,115**	P 70,232

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Foreign currencies	**P 75,464**	P 72,443	**P 61,026**	P 57,078
Philippine peso	**44,925**	48,576	**16,089**	13,154
	P 120,389	P 121,019	**P 77,115**	P 70,232

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 1.8% to 12.1% in 2018, from 0.0% to 12.1% in 2017 and from 2.0% to 12.1% in 2016 for BDO Unibank Group's financial statements while from 2.4% to 10.6% in 2018, from 2.1% to 10.6% in 2017, and from 2.0% to 10.6% in 2016 in the Parent Bank's financial statements (see Note 21).

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

The fair values of government debt, equity and other debt securities have been determined directly by reference to published prices generated in an active market (see Note 6.3).

The reconciliation of the carrying amounts of financial assets at FVOCI (2018)/AFS securities (2017) is as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year				
As previously stated	**P -**	P 108,132	**P -**	P 62,637
Effect of adoption of PFRS 9 [see Note 2.2(a)(i)(iv)]				
Reclassifications from:				
AFS securities	**106,704**	-	**70,188**	-
HTM investments	**4,082**	-	**-**	-
FVTPL	**13**	-	**-**	-
As restated	**110,799**	108,132	**70,188**	62,637
Additions	**40,130**	59,161	**17,629**	26,052
Disposals	**(28,550)**	(46,167)	**(11,305)**	(18,999)
Unrealized fair value gains (losses)	**(6,194)**	622	**(2,421)**	255
Foreign currency revaluation	**4,215**	(575)	**3,024**	290
Deferred tax liability	**(11)**	-	**-**	-
Impairment loss – net	**-**	(154)	**-**	(3)
Balance at end of year	**P 120,389**	P 121,019	**P 77,115**	P 70,232

Government securities of BDO Unibank Group and the Parent Bank with an aggregate principal amount of P1,232 and nil, respectively, as of December 31, 2018 and P1,912 and nil, respectively, as of December 31, 2017 were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 31).

In 2018, impairment losses recognized for FVOCI debt securities presented in NUGL amounted to P18 and P5 for BDO Unibank Group and the Parent Bank, respectively. Total accumulated impairment losses presented in NUGL amounted to P87 and P67 for the BDO Unibank Group and the Parent Bank, respectively, as of December 31, 2018 (see Note 4.3.5). No similar amounts were recognized in 2017 and 2016 since the Group and the Parent Bank applied the transitional relief allowed by the new standard (see Note 2.2).

In 2017, BDO Unibank Group has determined that there is an objective evidence that certain equity securities have shown significant or prolonged decline. Accordingly, BDO Unibank Group and Parent Bank recognized impairment loss amounting to P139 and nil, respectively. This is presented as part of Impairment Loss in the statements of income and under items that are reclassified subsequently to profit or loss in the statements of comprehensive income (see Note 14).

9.3 Investment Securities at Amortized Cost (2018)/HTM Investments (2017)

This account consists of:

		BDO Unibank Group		Parent Bank	
		2018	2017	**2018**	2017
Government debt securities		**P 199,004**	P 166,282	**P 182,861**	P 153,362
Other debt securities:					
Quoted		**44,240**	30,360	**40,369**	30,360
Not quoted		**2,837**	556	**1,248**	-
		246,081	197,198	**224,478**	183,722
Allowance for impairment	14	**(1,581)**	-	**(1,569)**	-
		P 244,500	P 197,198	**P 222,909**	P 183,722

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Foreign currencies	**P 138,103**	P 119,011	**P 130,830**	P 116,987
Philippine peso	**106,397**	78,187	**92,079**	66,735
	P 244,500	P 197,198	**P 222,909**	P 183,722

The reconciliation of the carrying amounts of investment securities at amortized cost in 2018 and HTM investments in 2017 is as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year				
As previously stated	**P -**	P 146,886	**P -**	P 140,951
Effect of adoption of PFRS 9 [see Note 2.2(a)(i)(iv)]				
Reclassifications from:				
HTM investments	**193,316**	-	**183,913**	-
AFS securities	**7,056**	-	**-**	-
Loans and other receivables	**3,486**	-	**7**	-
FVTPL	**34**	-	**-**	-
Allowance for impairment	**(128)**	-	**(115)**	-
As restated	**203,764**	146,886	**183,805**	140,951
Additions	**87,158**	83,061	**60,406**	74,111
Maturities	**(52,687)**	(33,169)	**(27,459)**	(31,745)
Foreign currency gains – net	**6,264**	420	**6,157**	405
Impairment gain	**1**	-	**-**	-
Balance at end of year	**P 244,500**	P 197,198	**P 222,909**	P 183,722

Annual coupon interest rates on government and other debt securities range from 1.40% to 15.00% in 2018 and from 0.00% to 10.63% in 2017 for BDO Unibank Group's financial statements while from 2.38% to 15.00% in 2018 and from 0.00% to 10.63% in 2017 for the Parent Bank's financial statements (see Note 21).

Government securities with an aggregate principal amount of nil for both BDO Unibank Group and the Parent Bank as of December 31, 2018 were pledged as collateral for bills payable under repurchase agreements (see Notes 16 and 31).

As mentioned in Note 26, certain government debt securities are deposited with the BSP.

9.4 Reclassification of Investment Securities

In 2016, after the end of the two-year tainting period, provision of PAS 39 [see Note 3.1(d)], BDO Unibank Group and the Parent Bank reclassified certain government securities from AFS securities to HTM investments. The carrying value of the securities reclassified to HTM investments from AFS securities of BDO Unibank Group and the Parent Bank amounted to P86,027 and P81,766, respectively, as of December 31, 2017, with related unamortized fair value losses of BDO Unibank Group and the Parent Bank amounted to P1,746 and P1,690, respectively. As part of the BDO Unibank Group and the Parent Bank transition to PFRS 9, the HTM investments were further reclassified to measurement categories according to the business model for managing these financial assets. As a result, these HTM investments that were previously subjected to tainting provisions were reclassified as Investment securities at amortized cost which should be remeasured at amortized cost, taking into consideration their related unamortized fair value losses. However, as it is no longer practical to determine the effective interest rate and other related information during the dates these securities were purchased due to voluminous transactions and lapse of time, the appropriate amortized cost of these securities could no longer be determined. Accordingly, as allowed under the transition provision of PFRS 9, the fair value of the financial assets at the date of initial application was considered as the new gross carrying amount, hence, the remaining unamortized fair value losses were charged to the opening balance of Surplus Free amount as at January 1, 2018 (see Note 2.2).

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Receivables from customers:					
Loans and discounts	25	**P 1,847,364**	P 1,631,280	**P 1,792,227**	P 1,575,990
Customers' liabilities under letters of credit and trust receipts		**79,476**	53,246	**79,476**	53,246
Credit card receivables		**78,738**	61,621	**78,738**	61,621
Bills purchased		**16,641**	10,156	**16,632**	10,144
		2,022,219	1,756,303	**1,967,073**	1,701,001
Unearned interests or discounts		**(2,157)**	(1,415)	**(571)**	(102)
Allowance for impairment	14	**(26,761)**	(29,892)	**(24,146)**	(27,827)
		(28,918)	(31,307)	**(24,717)**	(27,929)
		1,993,301	1,724,996	**1,942,356**	1,673,072
Other receivables:					
Interbank loans receivables		**49,264**	37,733	**49,264**	37,733
SPURRA		**22,009**	18,260	**22,009**	14,872
Accounts receivable	25	**7,698**	7,038	**6,550**	5,459
Unquoted debt securities classified as loans (UDSCL)		**-**	5,267	-	1,332
Sales contract receivables		**1,150**	1,327	**1,025**	1,204
Others		**696**	330	**-**	-
		80,817	69,955	**78,848**	60,600
Allowance for impairment	14	**(2,284)**	(3,165)	**(2,051)**	(2,940)
		78,533	66,790	**76,797**	57,660
		P 2,071,834	P 1,791,786	**P 2,019,153**	P 1,730,732

Non-performing loans (NPL) included in the total loan portfolio of BDO Unibank Group and the Parent Bank as of December 31, 2018 and 2017 are presented below as net of specific allowance for impairment in compliance with BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans.*

	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
NPL	**P 19,977**	P 19,648	**P 17,108**	P 17,044
Allowance for impairment	**(13,408)**	(11,540)	**(11,346)**	(10,352)
	P 6,569	P 8,108	**P 5,762**	P 6,692

Per MORB, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The credit concentration of receivables from customers (net of unearned interests or discounts) as to industry follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Financial and insurance activities	**P 292,871**	P 195,923	**P 290,365**	P 191,194
Wholesale and retail trade	**274,443**	237,104	**267,923**	231,386
Real estate activities	**242,836**	227,050	**241,272**	223,746
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**234,238**	175,196	**225,550**	168,423
Electricity, gas, steam and air-conditioning supply	**222,305**	200,952	**221,533**	200,106
Manufacturing	**215,108**	186,779	**211,264**	183,382
Transportation and storage	**114,023**	112,307	**109,997**	108,496
Arts, entertainment and recreation	**76,366**	68,853	**75,000**	66,040
Construction	**47,797**	36,605	**42,900**	32,032
Information and communication	**32,530**	38,707	**32,072**	38,081
Accommodation and food service activities	**31,465**	41,662	**31,298**	41,307
Mining and quarrying	**23,830**	24,054	**22,434**	22,344
Agriculture, forestry and fishing	**13,861**	13,007	**13,043**	11,342
Water supply, sewerage, waste management and remediation activities	**12,567**	11,813	**12,317**	11,286
Professional, scientific and technical services	**10,980**	10,782	**10,738**	10,517
Administrative and support services	**9,517**	9,204	**8,131**	7,867
Human health and social work activities	**9,092**	16,461	**8,235**	15,724
Education	**5,960**	13,614	**5,411**	5,201
Public administrative and defense; compulsory social security	**640**	703	**629**	639
Activities of extraterritorial organizations and bodies	**41**	66	**38**	66
Other service activities	**149,592**	134,046	**136,352**	131,720
	P 2,020,062	P 1,754,888	**P 1,966,502**	P 1,700,899

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to secured and unsecured follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Secured:				
Real estate mortgage	**P 292,723**	P 260,645	**P 288,276**	P 255,029
Chattel mortgage	**113,812**	97,013	**90,928**	76,144
Other securities	**119,541**	137,233	**118,422**	136,063
	526,076	494,891	**497,626**	467,236
Unsecured	**1,493,986**	1,259,997	**1,468,876**	1,233,663
	P 2,020,062	P 1,754,888	**P 1,966,502**	P 1,700,899

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

	BDO Unibank Group				Parent Bank			
	2018		2017		**2018**		2017	
Variable interest rates	**P**	**1,596,046**	P	1,366,610	**P**	**1,569,277**	P	1,335,078
Fixed interest rates		**424,016**		388,278		**397,225**		365,821
	P	**2,020,062**	P	1,754,888	**P**	**1,966,502**	P	1,700,899

Loans and receivables bear annual interest rates of 0.0% (e.g. non-performing loans and zero percent credit card installment program) to 4.1% per month in 2018, 0.0% to 4.1% per month in 2017 and 0.0% to 4.0% per month in 2016 (see Note 21).

The BDO Unibank Group's and the Parent Bank's receivables from customers amounting to P269 and nil, respectively, as of December 31, 2018 and P1,046 and nil, respectively, as of December 31, 2017 are pledged as collaterals to secure borrowings under rediscounting privileges (see Notes 16 and 31).

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2018						
Cost	**P 6,199**	**P 25,976**	**P 20,017**	**P 7,086**	**P 985**	**P 60,263**
Accumulated depreciation and amortization	**-**	**(15,267)**	**(5,939)**	**(4,882)**	**-**	**(26,088)**
Allowance for impairment (see Note 14)	**(140)**	**-**	**(375)**	**-**	**-**	**(515)**
Net carrying amount	**P 6,059**	**P 10,709**	**P 13,703**	**P 2,204**	**P 985**	**P 33,660**
December 31, 2017						
Cost	P 6,155	P 24,452	P 16,744	P 6,201	P 711	P 54,263
Accumulated depreciation and amortization	-	(14,837)	(5,368)	(4,197)	-	(24,402)
Allowance for impairment (see Note 14)	(140)	-	(375)	-	-	(515)
Net carrying amount	P 6,015	P 9,615	P 11,001	P 2,004	P 711	P 29,346
January 1, 2017						
Cost	P 6,118	P 21,051	P 15,739	P 5,512	P 289	P 48,709
Accumulated depreciation and amortization	-	(12,947)	(4,749)	(3,589)	-	(21,285)
Allowance for impairment (see Note 14)	(137)	-	(375)	-	-	(512)
Net carrying amount	P 5,981	P 8,104	P 10,615	P 1,923	P 289	P 26,912

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2018						
Cost	**P 5,458**	**P 19,723**	**P 18,829**	**P 6,504**	**P 984**	**P 51,498**
Accumulated depreciation and amortization	**-**	**(11,714)**	**(5,546)**	**(4,470)**	**-**	**(21,730)**
Allowance for impairment (see Note 14)	**(125)**	**-**	**(371)**	**-**	**-**	**(496)**
Net carrying amount	**P 5,333**	**P 8,009**	**P 12,912**	**P 2,034**	**P 984**	**P 29,272**
December 31, 2017						
Cost	P 5,414	P 18,395	P 15,588	P 5,659	P 711	P 45,767
Accumulated depreciation and amortization	-	(11,461)	(5,043)	(3,850)	-	(20,354)
Allowance for impairment (see Note 14)	(125)	-	(371)	-	-	(496)
Net carrying amount	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P 24,917
January 1, 2017						
Cost	P 5,378	P 15,448	P 14,752	P 5,037	P 265	P 40,880
Accumulated depreciation and amortization	-	(10,158)	(4,494)	(3,304)	-	(17,956)
Allowance for impairment (see Note 14)	(123)	-	(371)	-	-	(494)
Net carrying amount	P 5,255	P 5,290	P 9,887	P 1,733	P 265	P 22,430

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017 of premises, furniture, fixtures and equipment is shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
Balance at January 1, 2018, net of accumulated depreciation, amortization and impairment	**P 6,015**	**P 9,615**	**P 11,001**	**P 2,004**	**P 711**	**P 29,346**
Additions	**69**	**3,833**	**3,082**	**615**	**536**	**8,135**
Disposals	**-**	**(160)**	**-**	**(9)**	**(71)**	**(240)**
Reclassifications	**(25)**	**28**	**191**	**361**	**(191)**	**364**
Revaluation	**-**	**-**	**6**	**4**	**-**	**10**
Depreciation and amortization charges for the year	**-**	**(2,607)**	**(577)**	**(771)**	**-**	**(3,955)**
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	**P 6,059**	**P 10,709**	**P 13,703**	**P 2,204**	**P 985**	**P 33,660**
Balance at January 1, 2017, net of accumulated depreciation, amortization and impairment	P 5,981	P 8,104	P 10,615	P 1,923	P 289	P 26,912
Additions	-	4,336	659	508	655	6,158
Disposals	-	(110)	-	(7)	-	(117)
Reclassifications	34	9	302	270	(233)	382
Depreciation and amortization charges for the year	-	(2,724)	(575)	(690)	-	(3,989)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	P 6,015	P 9,615	P 11,001	P 2,004	P 711	P 29,346

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
Balance at January 1, 2018, net of accumulated depreciation, amortization and impairment	**P 5,289**	**P 6,934**	**P 10,174**	**P 1,809**	**P 711**	**P 24,917**
Additions	**69**	**2,686**	**3,056**	**573**	**536**	**6,920**
Disposals	**-**	**(48)**	**-**	**(7)**	**(71)**	**(126)**
Reclassifications	**(25)**	**30**	**191**	**364**	**(192)**	**368**
Revaluation	-	-	-	**1**	-	**1**
Depreciation and amortization charges for the year	**-**	**(1,593)**	**(509)**	**(706)**	**-**	**(2,808)**
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	**P 5,333**	**P 8,009**	**P 12,912**	**P 2,034**	**P 984**	**P 29,272**
Balance at January 1, 2017, net of accumulated depreciation, amortization and impairment	P 5,255	P 5,290	P 9,887	P 1,733	P 265	P 22,430
Additions	-	3,375	526	444	644	4,989
Disposals	-	(14)	-	(6)	-	(20)
Reclassifications	34	20	266	261	(198)	383
Depreciation and amortization charges for the year	-	(1,737)	(505)	(623)	-	(2,865)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P 24,917

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2018 and 2017, BDO Unibank Group and the Parent Bank has complied with this requirement.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2018 and 2017 are still being used in operations with acquisition costs amounting to P7,619 and P6,846, respectively, in the BDO Unibank Group's financial statements and P6,885 and P6,696, respectively, in the Parent Bank's financial statements.

12. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P381 and P87 in 2018, P290 and P71 in 2017, P247 and P70 in 2016 in BDO Unibank Group and Parent Bank's financial statements, respectively, and are presented as part of Rental under Other Operating Income account (see Note 23). Direct expenses incurred from these properties such as taxes and licenses amounted to P5 and P2 in 2018, P19 and P2 in 2017, and P55 and P2 in 2016 in BDO Unibank Group's and Parent Bank's financial statements, respectively, and are presented as part of Taxes and licenses under Other Operating Expenses account in the Unibank Group and Parent Bank's financial statements, respectively (see Note 23).

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2018 and 2017 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Buildings	Total
December 31, 2018			
Cost	**P 11,094**	**P 14,768**	**P 25,862**
Accumulated depreciation	**-**	**(4,190)**	**(4,190)**
Allowance for impairment (see Note 14)	**(1,783)**	**(104)**	**(1,887)**
Net carrying amount	**P 9,311**	**P 10,474**	**P 19,785**
December 31, 2017			
Cost	P 9,429	P 13,471	P 22,900
Accumulated depreciation	-	(3,217)	(3,217)
Allowance for impairment (see Note 14)	(1,539)	(104)	(1,643)
Net carrying amount	P 7,890	P 10,150	P 18,040
January 1, 2017			
Cost	P 9,923	P 10,227	P 20,150
Accumulated depreciation	-	(2,893)	(2,893)
Allowance for impairment (see Note 14)	(1,962)	(107)	(2,069)
Net carrying amount	P 7,961	P 7,227	P 15,188

Parent Bank

	Land	Buildings	Total
December 31, 2018			
Cost	**P 8,693**	**P 12,182**	**P 20,875**
Accumulated depreciation	**-**	**(3,913)**	**(3,913)**
Allowance for impairment (see Note 14)	**(1,479)**	**(57)**	**(1,536)**
Net carrying amount	**P 7,214**	**P 8,212**	**P 15,426**
December 31, 2017			
Cost	P 8,129	P 10,874	P 19,003
Accumulated depreciation	-	(2,943)	(2,943)
Allowance for impairment (see Note 14)	(1,504)	(60)	(1,564)
Net carrying amount	P 6,625	P 7,871	P 14,496

Parent Bank

	Land		Buildings		Total	
January 1, 2017						
Cost	P	8,533	P	7,855	P	16,388
Accumulated depreciation		-	(	2,630)	(	2,630)
Allowance for impairment (see Note 14)	(	1,911)	(	63)	(	1,974)
Net carrying amount	P	6,622	P	5,162	P	11,784

A reconciliation of the carrying amounts, at the beginning and end of 2018 and 2017, of investment properties is shown below and in the succeeding page.

BDO Unibank Group

	Land		**Buildings**		**Total**	
Balance at January 1, 2018, net of accumulated depreciation and impairment	**P**	**7,890**	**P**	**10,150**	**P**	**18,040**
Additions		**916**		**1,891**		**2,807**
Reclassifications		**898**		**3**		**901**
Disposals	**(**	**400)**	**(**	**281)**	**(**	**681)**
Revaluation		**7**	**(**	**21)**	**(**	**14**
Depreciation for the year		**-**	**(**	**1,268)**	**(**	**1,268)**
Balance at December 31, 2018, net of accumulated depreciation and impairment	**P**	**9,311**	**P**	**10,474**	**P**	**19,785**
Balance at January 1, 2017, net of accumulated depreciation and impairment	P	7,961	P	7,227	P	15,188
Additions		623		3,893		4,516
Disposals	(	676)	(	268)	(	944)
Reclassifications	(	18)	(	82)	(	100)
Depreciation for the year		-	(	620)	(	620)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P	7,890	P	10,150	P	18,040

Parent Bank

	Land	Buildings	Total
Balance at January 1, 2018, net of accumulated depreciation and impairment	**P 6,625**	**P 7,871**	**P 14,496**
Additions	**915**	**1,851**	**2,766**
Disposals	**(386)**	**(280)**	**(666)**
Reclassifications	**53**	**-**	**53**
Revaluation	**7**	**-**	**7**
Depreciation for the year	**-**	**(1,230)**	**(1,230)**
Balance at December 31, 2018, net of accumulated depreciation and impairment	**P 7,214**	**P 8,212**	**P 15,426**
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 6,622	P 5,162	P 11,784
Additions	621	3,623	4,244
Disposals	(583)	(268)	(851)
Reclassifications	(35)	(65)	(100)
Depreciation for the year	-	(581)	(581)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P 6,625	P 7,871	P 14,496

The fair value of investment properties as of December 31, 2018 and 2017, determined using observable recent prices of the reference properties and replacement cost approach, amounted to P38,681 and P31,461, respectively, for BDO Unibank Group's financial statements and P29,962 and P27,266, respectively, for the Parent Bank's financial statements. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.5.

The recoverable amount of impaired investment properties as of December 31, 2018 and 2017 was based on value in use computed through discounted cash flows method at an effective rate of 2.63% and 1.39% in 2018 and 2017, respectively.

BDO Unibank Group has no contractual obligations to purchase, construct or develop investment properties, or to repair, neither maintain or enhance the same nor are there any restrictions on the future use or realizability of the investment properties.

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, financial assets at FVOCI (previously AFS investments), other resource or non-current assets held for sale. As of December 31, 2018 and 2017, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Investment properties	**P 11,581**	P 10,357	**P 11,389**	P 10,182
Financial assets at FVOCI	**687**	-	**687**	-
Non-current assets held for sale	**764**	700	**758**	684
AFS securities	**-**	918	**-**	918
	P 13,032	P 11,975	**P 12,834**	P 11,784

13. OTHER RESOURCES

The components of this account are shown below.

	Notes	BDO Unibank Group		Parent Bank	
		2018	2017	**2018**	2017
Deferred tax assets – net	29.1	**P 8,312**	P 7,403	**P 7,608**	P 6,927
Deferred charges		**7,926**	6,260	**7,925**	6,259
Credit card acquiring		**6,182**	7,857	**6,182**	7,857
Equity investments	13.1	**5,081**	4,945	**36,919**	36,611
Foreign currency notes and coins on hand		**4,828**	3,695	**4,828**	3,694
Goodwill	13.3, 28.1, 28.6	**4,435**	4,435	**1,391**	1,391
Branch licenses	13.4	**3,020**	3,020	**3,020**	3,020
Margin deposits		**2,279**	1,265	**173**	276
Computer software – net		**1,953**	1,817	**1,776**	1,713
Prepaid documentary stamps		**956**	358	**923**	326
Non-current assets held for sale	13.5	**764**	700	**758**	684
Customer lists – net	13.7	**487**	487	**487**	487
Real properties for development and sale		**382**	1,631	**-**	-
Returned checks and other cash items		**361**	165	**360**	162
Trademark – net	13.6, 28.2	**91**	124	**91**	124
Dividend receivable		**54**	76	**-**	-
Deposits under escrow	13.2	**-**	672	**-**	672
Others	13.7, 18	**3,808**	3,964	**3,034**	2,636
		50,919	48,874	**75,475**	72,839
Allowance for impairment	14	**(2,321)**	(2,662)	**(2,084)**	(2,139)
		P 48,598	P 46,212	**P 73,391**	P 70,700

13.1 Equity Investments

Equity investments consist of the following:

	Held	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Acquisition costs:					
Philippine subsidiaries					
ONB	99.86%	**P -**	P -	**P 8,700**	P 7,696
BDOSHI	100%	**-**	-	**5,684**	5,684
BDO Life**	97%	**-**	-	**3,403**	3,403
BDO Private	100%	**-**	-	**2,579**	2,579
BDO Leasing	87.43%	**-**	-	**1,878**	1,878
BDO Capital	99.88%	**-**	-	**1,878**	1,878
BDO Nomura	51%	**-**	-	**243**	39
PCI Realty Corporation	100%	**-**	-	**34**	34
BDOI	100%	**-**	-	**11**	11
Equimark	60%	**-**	-	**4**	4
		-	-	**24,414**	23,206
Foreign subsidiaries					
BDORO	100%	**-**	-	**169**	169
BDO Remit (Japan) Ltd.	100%	**-**	-	**92**	92
BDO Remit (Canada) Ltd.	100%	**-**	-	**50**	42
Express Padala (Hongkong), Ltd.	100%	**-**	-	**28**	28
BDO Remit (USA), Inc.	100%	**-**	-	**26**	26
PCIB Europe S.p.A.	100%	**-**	-	**-**	1
		-	-	**365**	358
Associates					
SM Keppel Land, Inc. (SM Keppel)	50%	**1,658**	1,658	**1,658**	1,658
NLEX Corporation	12.40%	**1,405**	1,405	**1,405**	1,405
MMPC Auto-Financial Services Corporation (MAFSC)	34.97%	**300**	300	**-**	-
Northpine Land Incorporated	20%	**232**	232	**232**	232
Taal Land, Inc.	33.33%	**170**	170	**170**	170
Others	*	**5**	5	**5**	5
		3,770	3,770	**3,470**	3,470
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**1,182**	674	**9,397**	8,050
Equity in net profit		**631**	612	**2,740**	4,312
Equity in other comprehensive income (loss)		**(17)**	(3)	**(92)**	1,702
Dividends		**(485)**	(224)	**(3,458)**	(1,876)
Reclassifications***		**-**	116	**-**	(2,687)
Change in percentage ownership in subsidiaries		**-**	-	**83**	(77)
BDO Life step-up acquisition**		**-**	-	**-**	-
Balance at end of year		**1,311**	1,175	**8,670**	9,424
Deposit for future stock subscription on BDO Nomura****		**-**	-	-	153
Net investments in associates/subsidiaries		**5,081**	4,945	**36,919**	36,611
Allowance for impairment		**(155)**	(155)	**(155)**	(155)
		P 4,926	P 4,790	**P 36,764**	P 36,456

** This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*

*** BDO Life is an associate of BDO Unibank Group and the Parent Bank in 2015. It became a subsidiary when the Parent Bank acquired full ownership in 2016 (see Note 28.3).*

**** This relates to the reclassification of previously recognized impairment losses to accumulated equity in total comprehensive income.*

***** This pertains to additional capital infusion of the Parent Bank on BDO Nomura (see Note 28.4).*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2018 and 2017, except for BDO Leasing, which is at 88.54% respectively in BDO Unibank Group (see Note 2.3) and 87.43% in the Parent Bank, and as discussed above, in both years.

The fair value of BDO Leasing amounts to P4,193 and P7,314 in 2018 and 2017, respectively, which had been determined directly by reference to published prices quoted in an active market. The fair value of the remaining equity investments is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

BDO Unibank Group's subsidiaries as of December 31, 2018 are all incorporated in the Philippines, except for the following:

Foreign Subsidiaries	Country of Incorporation
Express Padala (Hongkong), Ltd.	Hong Kong
BDO Remit (USA), Inc.	United States of America
BDORO	United Kingdom
BDO Remit International Holdings B.V**	Netherlands
BDO Remit UK, Ltd. **	United Kingdom
BDO Remit (Ireland) Designated Activity Company**	Ireland
CBN Remittance Centre S.A. **	Spain
CBN Greece S.A. **	Greece
BDO Remit (Italia) S.p.A*	Italy
BDO Remit (Japan) Ltd.	Japan
BDO Remit (Canada) Ltd.	Canada
BDO Remit Limited*	Hongkong
BDO Remit (Macau) Ltd.*	Macau

**Wholly-owned subsidiaries of BDOSHI.*
***Subsidiaries of BDO Capital*

On May 30, 2012, BDORO was registered with the Registrar of Companies for England and Wales (UK) as a private limited company with registered office at the 5th floor, 6 St. Andrew Street, London. BDORO will provide commercial banking services in UK and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. In 2012, BDORO applied for a banking license in the UK, but the approval is still pending as of December 31, 2018. In 2012, the Parent Bank has an outstanding investment in BDORO amounting to P133 (absolute amount) representing the minimal capitalization of 2 GBP as an initial contribution to incorporate BDORO. Starting in 2013, the Parent Bank's outstanding investment in BDORO increased to P169.

In May 2013, BDO Capital obtained control over CBN Grupo through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established. In October 2016, BDO Capital acquired additional shares in CBN Grupo, which increased its ownership interest to 96.32%. Additional goodwill acquired amounted to P32 (see Note 28.1).

On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon, a company engaged primarily in the leasing business.

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.995% of the total issued and outstanding capital of BDO Savings (formerly Citibank Savings, Inc.), a thrift bank registered in the Philippines resulting to recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively (see Note 13.4).

On January 30, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Japan) Ltd., in Tokyo, Japan, to operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on October 10, 2013 and was incorporated on August 6, 2014. In April 2016, BDO Remit (Japan) Ltd. started its operations. The Parent Bank paid P62 and P30 as capital contribution in 2016 and 2015, respectively.

On March 23, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Canada) Ltd., in Vancouver, Canada. BDO Remit (Canada) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on November 28, 2013 and was incorporated on June 23, 2014. In 2015, the Parent Bank paid CND500,000 for the subscribed shares. On October 29, 2016, the Parent Bank's BOD approved an increase in the capitalization of BDO Remit (Canada) Ltd. by an amount of CND600,000, which was later approved by the BSP on December 23, 2016. On February 22, 2017, the Parent Bank paid CND600,000 for the subscribed shares.

On January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.81%.

On January 23, 2018 and December 27, 2018, the Parent Bank subscribed to an additional 124,275 and 14,276 shares, respectively, from ONB's total issued and outstanding capital stock thereby increasing its shareholdings in ONB to 99.86%

BDO Unibank Group includes one subsidiary, BDO Leasing, with significant NCI:

	Proportion of Ownership Interest and Voting Rights Held by NCI		Profit Allocated to NCI		Accumulated NCI	
Name	**2018**	2017	**2018**	2017	**2018**	2017
BDO Leasing	**11.46%**	11.46 %	**P 38**	P 65	**P 612**	P 624

The registered office and principal place of business of BDO Leasing is located at 39th Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

Dividends amounting to P25 and P50 were paid to the NCI in 2018 and 2017, respectively (see Note 20.4).

Summarized consolidated financial information of BDO Leasing, before intragroup eliminations, follows:

	2018	2017
Statements of financial position:		
Total resources	P 41,549	P 42,842
Total liabilities	36,206	37,400
Equity attributable to owners of the parent	4,731	4,818
Non-controlling interest	612	624
Statements of comprehensive income:		
Total interest income	1,960	1,914
Total other operating income	1,254	1,242
Profit attributable to owners of the parent	293	506
Profit attributable to NCI	38	65
Profit	331	571
Total comprehensive income attributable to owners of the parent	31	465
Total comprehensive income attributable to NCI	4	60
Total comprehensive income	P 35	P 525

	2018	2017
Statements of cash flows:		
Net cash from (used in) operating activities	P 1,401	(P 889)
Net cash used in investing activities	133	(1,710)
Net cash from (used in) financing activities	(1,717)	2,686
Net cash inflow (outflow)	(P 183)	P 87

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2018, 2017 and 2016:

	NLEX Corporation	SM Keppel	Others	Total
December 31, 2018 (Unaudited)				
Assets	P 43,003	P 9,475	P 3,526	P 56,004
Liabilities	29,210	7,299	1,474	37,983
Equity	13,793	2,176	2,052	18,021
Revenues	12,161	269	1,257	13,687
Net profit (loss)	5,208	(155)	163	5,216
December 31, 2017 (Audited)				
Assets	P 40,146	P 9,270	P 2,506	P 51,922
Liabilities	29,490	6,941	564	36,995
Equity	10,656	2,329	1,942	14,927
Revenues	11,880	191	1,099	13,170
Net profit	4,644	32	153	4,829

	NLEX Corporation	SM Keppel	Others	Total
December 31, 2016 (Audited)				
Assets	P 35,289	P 5,406	P 2,472	P 43,167
Liabilities	25,677	3,109	626	29,412
Equity	9,612	2,297	1,846	13,755
Revenues	10,769	156	697	11,622
Net profit	4,087	23	98	4,208

13.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by the Parent Bank in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by the Parent Bank with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement. On August 26, 2016, the Parent Bank received an amount of P4,650 for the partial termination of escrow. As of December 31, 2017, BDO Unibank Group provided an allowance for impairment amounting to P400. Thereafter, on June 18, 2018, the Parent Bank received an amount of P1,243 for the full termination of escrow. As of December 31, 2018, the difference between the amount received and the balance of the amount in escrow is presented as part of Miscellaneous Liability under Others of Other Liabilities account, pending the resolution of the Motion for Reconsideration filed by the counterparty (see Note 19).

13.3 Goodwill

Goodwill represents the excess of the cost of acquisition of the Parent Bank over the fair value of the net assets acquired at the date of acquisition and relates mainly to business synergy for economics of scale and scope. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines (UOBP), American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc., Rural Bank of San Enrique, Inc., BDO RIH, BDO Savings and ONB, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015 and 2016, respectively (see Note 28).

The Parent Bank recognized impairment loss of nil, P2 and P4 in 2018, 2017, and 2016, respectively, to write-down the value of the goodwill to their recoverable amount (see Note 14). The Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. There is no impairment loss recognized on the goodwill at the BDO Unibank Group's financial statements, except those related to the Parent Bank.

13.4 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Bank to establish certain number of branches as an incentive in acquiring The Real Bank (A Thrift Bank), Inc. [TRB] and BDO Savings in addition to the current branches of the acquired banks (see Note 13.1). In 2018, allowance on impairment loss was recognized on branch licenses at the BDO Unibank Group's financial statements amounting to P80 for possible unutilized branch licenses upon the expiry of the term in 2019 given by the BSP to the Parent Bank in establishing certain number of branches.

13.5 Non-current Assets Held for Sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group and the Parent Bank intends to sell within one year from the date of classification as held for sale. No impairment loss was recognized in 2016 to 2018 in both BDO Unibank Group and Parent Bank's financial statements.

13.6 Trademark

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio (see Note 28.2) both amounted to P33 in 2018 and 2017 and P8 in 2016. This is recorded under Miscellaneous under Other Operating Expenses account in the statements of income (see Note 23).

13.7 Others

Amortization expense on computer software licenses amounted to P516, P528 and P436 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P480, P477 and P372 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 23).

Depreciation expense on certain assets amounting to P4, P2 and P10 in 2018, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P4, P2 and P9 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 23).

In 2016, the Parent Bank recognized impairment loss amounting to P15 (nil in 2017 and 2018), respectively, to write-down the value of customer list to its recoverable amount. The impairment provision was recognized through direct write-off of the cost of the asset. The customer list was recognized as a result of the Parent Bank's acquisition of a trust business in 2014 (see Note 28.7).

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Balance at beginning of year:					
Investment securities at amortized cost (AC)	9.3	**P -**	P -	**P -**	P -
Debt securities at FVOCI	9.2	**-**	-	**-**	-
AFS securities	9.2	**3,330**	4,318	**2,650**	3,788
Loans and other receivables	10	**33,057**	28,087	**30,767**	26,314
Bank premises	11	**515**	512	**496**	494
Investment properties	12	**1,643**	2,069	**1,564**	1,974
Other resources	13	**2,662**	2,566	**2,139**	4,845
Balance before adoption of PFRS 9		**41,207**	37,552	**37,616**	37,415
Effect of adoption of PFRS 9		**(9,409)**	-	**(9,100)**	-
Balance as restated		**31,798**	37,552	**28,516**	37,415
Impairment losses - net		**6,243**	6,537	**5,670**	5,809
Write-offs		**(2,325)**	(3,013)	**(2,320)**	(2,927)
Reversals		**(379)**	(3)	**-**	(8)
Foreign currency revaluation		**244**	13	**243**	14
Reclassification		**(226)**	-	**(226)**	-
Adjustments		**(6)**	121	**(1)**	(2,687)
		P 35,349	P 41,207	**P 31,882**	P 37,616
Balance at end of year:					
Investment securities at AC	9.3	**P 1,581**	P -	**P 1,569**	P -
AFS securities	9.2	**-**	3,330	**-**	2,650
Loans and other receivables	10	**29,045**	33,057	**26,197**	30,767
Bank premises	11	**515**	515	**496**	496
Investment properties	12	**1,887**	1,643	**1,536**	1,564
Other resources	13	**2,321**	2,662	**2,084**	2,139
		P 35,349	P 41,207	**P 31,882**	P 37,616

In 2018, BDO Unibank Group and the Parent Bank provide impairment loss on debt securities measured as FVOCI amounting to P18 and P5, respectively. The impairment losses on debt securities classified as FVOCI are recognized as part of items that are or will be reclassified subsequently to profit or loss in the statement of comprehensive income (see Note 9.2). Moreover, in 2018, BDO Unibank Group and the Parent Bank provide impairment loss on loan commitments and other contingent accounts amounting to P25 which is recognized as Provision – Others under Other Liabilities in the statement of financial position (see Note 19).

Total impairment losses on certain financial assets amounted to P6,141, P6,531, and P3,789 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P5,569, P5,807 and P3,029 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements.

Total impairment losses (recoveries) on non-financial assets amounted to P102, P6, and P26 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P101, P2, and (P26) in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements.

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Demand	**P 179,944**	P 134,931	**P 151,492**	P 91,592
Savings	**1,505,680**	1,409,256	**1,490,664**	1,396,404
Time	**734,341**	576,825	**720,146**	557,325
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

This account is composed of the following (by counterparties):

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Due to other banks:				
Demand	**P 2,282**	P 1,395	**P 2,271**	P 1,395
Savings	**7,647**	7,469	**7,636**	7,465
Time	**2,159**	4,281	**2,154**	3,973
	12,088	13,145	**12,061**	12,833
Due to customers:				
Demand	**177,662**	133,536	**149,221**	90,197
Savings	**1,498,033**	1,401,787	**1,483,028**	1,388,939
Time	**732,182**	572,544	**717,992**	553,352
	2,407,877	2,107,867	**2,350,241**	2,032,488
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

The breakdown of deposit liabilities as to currency is as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Philippine pesos	**P 2,003,582**	P 1,725,829	**P 1,963,461**	P 1,671,935
Foreign currencies	**416,383**	395,183	**398,841**	373,386
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Less than one year	**P 2,279,536**	P 1,976,582	**P 2,223,549**	P 1,906,842
One to five years	**45,420**	48,379	**43,744**	42,428
Beyond five years	**95,009**	96,051	**95,009**	96,051
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

The BDO Unibank Group's and Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates ranging from 0.0% to 6.8% in 2018, and 0.0% to 5.3% 2017 and 2016. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 22).

The BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Deposits (LTNCD) as of December 31, 2018 and 2017 as follows:

BSP Approval	Effective Rate	Outstanding Balance 2018	Outstanding Balance 2017	Issue Date	Maturity Date
June 23, 2017	4.375%	**P 8,200**	P -	May 7, 2018	November 7, 2023
June 23, 2017	3.625%	**11,800**	11,800	August 18, 2017	February 18, 2023
July 10, 2014	3.75%	**7,500**	7,500	April 6, 2015	October 6, 2020
October 25, 2013	3.125%	**5,000**	5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.50%	**5,000**	5,000	September 12, 2013	September 12, 2020
May 3, 2012	5.25%	**5,000**	5,000	October 15, 2012	October 15, 2019
January 31, 2013	3.80%	**-**	5,000	March 25, 2013	September 25, 2018
		P 42,500	P 39,300		

The net proceeds from the issuance of LTNCD are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

Effective June 1, 2018, Philippine Peso deposit liabilities, LTNCD under Circular No. 824 and LTNCD under Circular No. 304 of BDO Unibank Group are subject to a reserve requirement of 18%, 7% and 4%, respectively, in compliance with the BSP Circular No.1004 issued on May 24, 2018 (see Note 7).

16. BILLS PAYABLE

This account is composed of the following borrowings from:

	Note	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Senior notes	16.1	**P 59,437**	P 50,093	**P 59,437**	P 50,093
Foreign banks		**55,406**	48,499	**55,312**	48,430
Local banks		**22,443**	15,658	**-**	1,500
Deposit substitutes		**-**	907	**-**	907
Others		**6,337**	15,327	**2,944**	4,693
		P 143,623	P 130,484	**P 117,693**	P 105,623

The breakdown of this account as to currency follows:

	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Foreign currencies	**P 117,787**	P 106,293	**P 117,693**	P 105,623
Philippine pesos	**25,836**	24,191	**-**	-
	P 143,623	P 130,484	**P 117,693**	P 105,623

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
One to three months	**P 33,898**	P 63,243	**P 13,697**	P 40,386
More than three months to one year	**11,683**	4,271	**7,854**	2,491
More than one to three years	**54,882**	13,213	**53,005**	13,056
More than three years	**43,160**	49,757	**43,137**	49,690
	P 143,623	P 130,484	**P 117,693**	P 105,623

Bills payable bear annual interest rates of 1.00% to 7.20% in 2018, 0.60% to 3.50% in 2017, and 1.00% to 6.30% in 2016 (see Note 22). Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9.2, 10 and 31).

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 22):

	2018	2017	2016
BDO Unibank Group			
Senior notes	**P 1,778**	P 823	P 902
Foreign banks	**1,566**	814	533
Local banks	**698**	339	223
Deposit substitutes	**-**	91	11
Others	**374**	503	605
	P 4,416	P 2,570	P 2,274
Parent Bank			
Senior notes	**P 1,778**	P 823	P 902
Foreign banks	**1,564**	814	533
Local banks	**2**	3	-
Deposit substitutes	**-**	91	11
Others	**59**	146	196
	P 3,403	P 1,877	P 1,642

16.1 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance 2018	Outstanding Balance 2017
February 20, 2018	February 20, 2025	4.16%	US$ 150	**P 7,945**	P -
September 6, 2017	March 6, 2023	2.95%	700	**35,646**	35,047
October 24, 2016	October 24, 2021	2.63%	300	**15,846**	15,046
				P 59,437	P 50,093

The issuance of senior notes in 2018, 2017 and 2016 is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds.

16.2 Reconciliation of Liabilities Arising from Financing Activities

Presented below and the succeeding page is the reconciliation of liabilities arising from financing activities both in 2018 and 2017, which includes both cash and non-cash changes.

BDO Unibank Group

	Foreign Banks	Senior Notes	Local Banks	Deposit Substitutes	Others	Total
Balance as of January 1, 2018	**P 48,499**	**P 50,093**	**P 15,658**	**P 907**	**P 15,327**	**P 130,484**
Cash flows from financing activities						
Additional borrowings	**109,470**	**7,694**	**121,358**	**907**	**58,046**	**297,475**
Repayment of borrowings	**(105,101)**	**(1,308)**	**(114,677)**	**(1,812)**	**(67,027)**	**(289,925)**
Non-cash financing activities						
Interest amortization	**261**	**73**	**72**	**(2)**	**(9)**	**395**
Revaluation	**2,277**	**2,885**	**32**	**-**	**-**	**5,194**
Balance as of December 31, 2018	**P 55,406**	**P 59,437**	**P 22,443**	**P -**	**P 6,337**	**P 143,623**
Balance as of January 1, 2017	P 36,545	P 30,150	P 10,334	P 602	P 22,925	P 100,556
Cash flows from financing activities						
Additional borrowings	105,134	35,599	74,139	30,328	97,628	342,828
Repayment of borrowings	(93,479)	(15,586)	(68,790)	(30,159)	(105,228)	(313,242)
Non-cash financing activities						
Interest amortization	500	(70)	25	136	(11)	580
Revaluation	(201)	-	(50)	-	13	(238)
Balance as of December 31, 2017	P 48,499	P 50,093	P 15,658	P 907	P 15,327	P 130,484

Parent Bank

		Foreign Banks		Senior Notes		Local Banks		Deposit Substitutes		Others		Total
Balance as of January 1, 2018	**P**	**48,430**	**P**	**50,093**	**P**	**1,500**	**P**	**907**	**P**	**4,693**	**P**	**105,623**
Cash flows from financing activities												
Additional borrowings		**105,207**		**7,694**		**-**		**907**		**2,936**		**116,744**
Repayment of borrowings	**(**	**100,872)**	**(**	**1,308)**	**(**	**1,498)**	**(**	**1,812)**	**(**	**4,676)**	**(**	**110,166)**
Non-cash financing activities												
Interest amortization		**261**		**73**	**(**	**2)**	**(**	**2)**	**(**	**9)**		**321**
Revaluation		**2,286**		**2,885**		**-**		**-**		**-**		**5,171**
Balance as of December 31, 2018	**P**	**55,312**	**P**	**59,437**	**P**	**-**	**P**	**-**	**P**	**2,944**	**P**	**117,693**
Balance as of January 1, 2017	P	36,522	P	30,150	P	-	P	602	P	8,526	P	75,800
Cash flows from financing activities												
Additional borrowings		103,130		35,599		2,381		30,328		1,137		172,575
Repayment of borrowings	(	91,521)	(	15,586)	(	833)	(	30,159)	(	4,972)	(	143,071)
Non-cash financing activities												
Interest amortization		500	(	70)		2		136	(	11)		557
Revaluation	(	201)		-	(	50)		-		13	(	238)
Balance as of December 31, 2017	P	48,430	P	50,093	P	1,500	P	907	P	4,693	P	105,623

17. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (Notes) represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation (PDIC), or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The Notes were used further to expand the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

The issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014. The Notes has a principal amount of P10,000 and will mature on March 10, 2025. As of December 31, 2018 and 2017, the outstanding balance of the Notes including accrued interest amounted to P10,030.

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to P519 in 2018, 2017 and 2016 both in BDO Unibank Group and Parent Bank statements of income (see Note 22).

18. INSURANCE CONTRACT LIABILITIES

This account consists of:

		2018		2017
Legal policy reserves	**P**	**26,514**	P	24,602
Policy and contract claims payable		**1,524**		1,051
Policyholders' dividends		**468**		333
	P	**28,506**	P	25,986

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities				Reinsurer's Share of Liabilities				Net			
		2018		2017		2018		2017		2018		2017
Aggregate reserves for:												
Ordinary life policies	**P**	**17,718**	P	18,753	**P**	**-**	P	-	**P**	**17,718**	P	18,753
Variable unit-linked (VUL) contracts		**8,535**		5,649		**-**		-		**8,535**		5,649
Group life insurance polices		**248**		192		**44**		27		**204**		165
Accident and health policies		**13**		8		**-**		-		**13**		8
Policy and contract claims		**1,524**		1,051		**44**		36		**1,480**		1,015
Policyholders' dividends		**468**		333		**-**		-		**468**		333
	P	**28,506**	P	25,986	**P**	**88**	P	63	**P**	**28,418**	P	25,923

The movements in legal policy reserves are as follows:

	Legal Policy Reserves				Reinsurer's Share of Liabilities				Net			
		2018		2017		2018		2017		2018		2017
Balance at the beginning of the year	**P**	**24,602**	P	19,531	**P**	**27**	P	12	**P**	**24,575**	P	19,519
Premiums received		**11,968**		6,139		**99**		27		**11,869**		6,112
Liability released for payments of death, maturity and surrender benefits and claims	**(**	**7,033)**	(	1,439)	**(**	**82)**	(	12)	**(**	**6,951)**	(	1,427)
Accretion of investment income or change in unit prices		**286**		254		**-**		-		**286**		254
Changes in valuation of interest Rate	**(**	**3,656)**		-		**-**		-	**(**	**3,656)**		-
Changes in mortality assumptions		**-**		90		**-**		-				90
Foreign exchange adjustments		**347**		27		**-**		-		**347**		27
Balance at end of year	**P**	**26,514**	P	24,602	**P**	**44**	P	27	**P**	**26,470**	P	24,575

Reinsurers' share of liabilities is recorded as part of Others under Other Resources in the BDO Unibank Group's statements of financial position (see Note 13).

The movement in Legal policy reserves for the years ended December 31, 2018 and 2017 is recognized as part of Policy reserves, insurance benefits and claims under Other Operating Expenses in the BDO Unibank Group's statements of income (see Note 23).

19. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Accounts payable		**P 20,688**	P 17,914	**P 18,572**	P 15,379
Manager's checks		**14,447**	14,160	**14,379**	14,016
Accrued expenses		**11,151**	9,895	**10,181**	9,037
Bills purchased – contra		**10,774**	9,984	**10,774**	9,984
Lease deposits		**6,760**	6,106	**115**	109
Retirement benefit obligation	24.2	**4,537**	2,779	**4,379**	2,542
Derivatives with negative fair values	9.1, 25(d)	**4,497**	3,750	**1,680**	1,798
Premium on deposit fund		**3,605**	3,078	**-**	-
Outstanding acceptances payable		**3,591**	4,059	**3,591**	4,059
Withholding taxes payable		**1,342**	1,825	**1,204**	1,679
Due to principal		**451**	394	**-**	-
Capitalized interest and other charges		**411**	408	**362**	358
Due to BSP and Treasurer of the Philippines		**100**	103	**96**	99
Others	13.2, 14	**9,620**	7,797	**8,833**	6,930
		P 91,974	P 82,252	**P 74,166**	P 65,990

Accounts payable includes the amount pertaining to BDO Unibank Group's ESOP which is equivalent to the cumulative amount of amortized awarded share options and the amounts paid by the eligible senior officers who exercised their options (see Notes 20.6 and 24.3).

The liability for unredeemed reward points amounting to P3,377 and P3,015 as of December 31, 2018 and 2017, respectively, presented as part of Accrued expenses above represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.19).

Others include margin deposits, life insurance deposits, cash letters of credit and other miscellaneous liabilities.

Interest expense on certain liabilities amounting to P101, P85 and P84 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P19, P12 and P9 in 2018, 2017, and 2016, respectively, in Parent Bank's financial statements are presented as part of Interest expense on bills payable and other liabilities under Interest Expense account in the statements of income (see Note 22).

Impairment losses recognized for off-books account as a result of the adoption of PFRS 9 amounted to P206 for both the Group and the Parent Bank in 2018. This amount is recorded as Provision - Others under Other Liabilities account in the statement of financial position (see Note 14). No accrual of impairment losses for off-books accounts were recognized in 2017 and 2016 since the Group and the Parent Bank applied the restatement using the transitional relief allowed by the new standard (see Note 2.2).

20. EQUITY

20.1 Capital Management and Regulatory Capital

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

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

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

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

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

(a) Common Equity Tier 1 (CET 1) of at least 6.0% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; 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.

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

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

Under BSP Circular 781, universal banks with more than 100 branches are required to comply with the minimum capital requirement of P20 billion. As of December 31, 2018 and 2017, the Parent Bank has complied with the above capitalization requirement.

On October 29, 2014, the BSP issued Circular 856 on the guidelines on the framework for dealing with domestic systemically important banks (DSIB) that is consistent with the Basel principles. Banks, which are identified as DSIB shall be required to have a higher loss absorbency (HLA). The HLA requirement is aimed at ensuring that DSIBs, have a higher share of their statements of financial position funded by instruments, which increase their resilience as a going concern. The HLA requirement is to be met with CET 1 capital.

Banks identified by the BSP as DSIB will be asked to put up additional CET 1 capital ranging from 1.50% to 3.50%, to be implemented on a staggered basis from January 1, 2017 until January 1, 2019.

BDO Unibank Group's and the Parent Bank's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of December 31, 2018 and 2017 follows:

	BDO Unibank Group	Parent Bank
December 31, 2018		
Tier 1 Capital		
CET 1	P 309,694	P 310,281
Additional Tier 1	5,150	5,150
	314,844	315,431
Tier 2 Capital	31,799	30,925
Total Regulatory Capital	346,643	346,356
Deductions	(32,872)	(56,908)
Total Qualifying Capital	P 313,771	P 289,448
Total Risk-Weighted Assets	P 2,279,864	P 2,171,899
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	13.8%	13.3%
Tier 1 Capital Ratio	12.4%	11.9%
Total CET 1 Ratio	12.1%	11.7%

	BDO Unibank Group	Parent Bank
December 31, 2017		
Tier 1 Capital		
CET 1	P 291,215	P 291,507
Additional Tier 1	5,150	5,150
	296,365	296,657
Tier 2 Capital	27,551	26,767
Total Regulatory Capital	323,916	323,424
Deductions	(29,573)	(57,905)
Total Qualifying Capital	P 294,343	P 265,519
Total Risk-Weighted Assets	P 2,032,004	P 1,919,673
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.5%	13.8%
Tier 1 Capital Ratio	13.1%	12.4%
Total CET 1 Ratio	12.9%	12.2%

20.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2018	2017	**2018**	2017
Preferred shares – P10 par value				
Authorized				
Balance at beginning of year	**2,000,000,000**	2,000,000,000	**P 20,000**	P 20,000
Reclassification to common shares (see Note 20.2.1)	**(1,000,000,000)**	-	**(10,000)**	-
Balance at end of year	**1,000,000,000**	2,000,000,000	**P 10,000**	P 20,000
Issued, fully paid and outstanding	**515,000,000**	515,000,000	**P 5,150**	P 5,150
Common shares – P10 par value				
Authorized				
Balance at beginning of year	**4,500,000,000**	4,500,000,000	**P 45,000**	P 45,000
Reclassification from preferred shares (see Note 20.2.1)	**1,000,000,000**	-	**10,000**	-
Balance at end of year	**5,500,000,000**	4,500,000,000	**P 55,000**	P 45,000
Issued, fully paid and outstanding				
Balance at beginning of year	**4,368,974,554**	3,649,967,648	**P 43,690**	P 36,500
Issued during the year	**5,073,510**	719,006,906	**50**	7,190
Balance at end of year	**4,374,048,064**	4,368,974,554	**P 43,740**	P 43,690

20.2.1 Preferred Shares

The following are the features of the BDO Unibank Group and the Parent Bank's preferred shares:

(a) Perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A shares;

(b) Convertible to common shares at the option of the holder after five years from the issue date or at the option of BDO Unibank Group at any time after issue date; and,

(c) Dividend rate is 6.5% per annum of the par value.

On January 7, 2017, the Parent Bank's BOD authorized the conversion of 1,000,000,000 unissued shares of the Parent Bank, consisting of 500,000,000 unissued Series A Preferred Shares and 500,000,000 unissued ordinary Preferred Shares, each with a par value of P10 per share, into 1,000,000,000 common shares with par value of P10 per share. This will provide BDO with the flexibility to issue common shares should the need arise in the future. The BSP approved the transaction on December 22, 2017 and endorsed it to the SEC. The SEC approved the conversion of the unissued preferred shares into common shares, and the corresponding amendment of the Parent Bank's articles of incorporation to reflect said conversion on March 9, 2018.

20.2.2 Common Shares

The Parent Bank's application for listing of its common shares was approved by the PSE on April 24, 2002. The application is for the initial listing of up to 952,708,650 common shares, with par value of P10 per share, at an offer price range of P17.80 to P23.80 per share. The proceeds from the sale of BDO Unibank's listed shares amounted to about P2,200.

On September 24, 2016, the Parent Bank's BOD authorized the Parent Bank to raise P60,000 in additional core capital through a stock rights offer. The BSP and the PSE approved the transaction on November 23, 2016 and December 14, 2016, respectively. On January 3, 2017, the Parent Bank fixed the final terms for the stock rights offer which entitled eligible shareholders to subscribe to one common share for every 5.095 common shares held as of January 5, 2017 record date at an offer price of P83.75 per rights share. The offer period ran from January 16, 2017 to January 24, 2017. Following the close of the offer period, the Parent Bank successfully completed its stock rights offer and 716,402,886 common shares were issued and subsequently listed on the PSE on January 31, 2017. The issuance resulted in recognition of Additional Paid-in Capital amounting to P52,662, net of related transaction costs totalling to P172. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

The history of shares issuances from the initial public offering (IPO) and subsequently, private placements exempt from registration pursuant to Section 10.1 of the Securities Regulation Code and other issuances, is as follows:

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
Private placement	Sybase Equity Investments Corp.	July 20, 2015	64,499,890
Stock options	Various employees	June 6, 2016 to December 31, 2016	4,592,430
Stock options	Various employees	January 3, 2017 to December 27, 2017	2,604,020
Stock rights	Various	January 31, 2017	716,402,886
Stock rights	Various	January 31, 2018	5,073,510
			4,374,048,064

As of December 31, 2018 and 2017, there are 12,583 and 12,649, respectively, holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P130.80 and P164.00 per share as of December 28, 2018 and December 29, 2017, respectively, (the last trading day in 2018 and 2017).

20.3 BDO American Depositary Receipt Program

On April 18, 2013, the Parent Bank launched its Sponsored Level 1 American Depositary Receipt (ADR) Program by which negotiable securities representing underlying BDO common shares can be traded in the U.S. over-the-counter (OTC) market. This provides flexibility for U.S. investors to trade BDO common shares in their time zone and settle their transactions locally. It is meant to tap the pool of U.S. ADR investors, enhance visibility and global presence and diversify and broaden the Parent Bank's shareholder base. ADRs are quoted and traded in U.S. dollars, and cash dividends received on the underlying shares are paid to investors also in U.S. dollars. The ADR ratio for BDO's sponsored Level 1 ADR Program is 1:10, with each ADR representing ten underlying BDO common shares.

The sponsored Level 1 ADR Program does not necessitate the issuance of new shares as ADRs are traded on the U.S. OTC/secondary market using existing shares, in contrast to the sponsored Level II ADR or sponsored Level III ADR where shares are fully listed on a recognized U.S. exchange (e.g., NYSE, NASDAQ). As such, a Level 1 ADR is not a capital raising transaction, to differentiate it from Level III ADR, which allows the issuer to raise capital through a public offering of ADRs in the U.S.

The sponsored Level 1 ADR is exempt, under U.S. SEC Rule 12g3-2(b), from SEC registration, disclosure requirements and reporting obligations, including Sarbanes-Oxley and U.S. generally accepted accounting principles.

Given its sponsored Level 1 ADR Program, the Bank appointed Deutsche Bank (DB) as the exclusive depositary of ADRs for a period of five years. As depositary bank, DB is responsible for the issuance and cancellation, as well as the registration of the ADRs; custody of the underlying BDO common shares and maintenance of the register of holders; the distribution of dividends; and execution of corporate actions and services to the Issuer (i.e., BDO)/Investor/Broker.

As of December 31, 2018 and 2017, 581,041 and 351,492 ADRs valued at US$14,711,958 and US$11,170,416 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$25.32/share and US$31.78/share respectively).

20.4 Surplus Free

On December 8, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of December 21, 2018 and paid on December 28, 2018.

On November 21, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P70.00 per share or a total of P700. The dividends were declared to stockholders as of November 30, 2018 and paid on December 5, 2018, of which, total dividends paid to non-controlling interest amounted to P0.8.

On August 31, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of September 14, 2018 and paid on September 28, 2018.

On May 26, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of June 13, 2018 and paid on June 29, 2018.

On March 2, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P80.00 per share or a total of P800. The dividends were declared to stockholders of record as of February 28, 2018 and paid on March 23, 2018, of which, total dividends paid to non-controlling interest amounted to P1.

On February 24, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of March 13, 2018 and paid on March 28, 2018.

On February 21, 2018, the BOD of BDO Leasing approved the declaration of cash dividends at P0.10 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P216. The dividends were declared to stockholders of record as of March 9, 2018 and paid on March 27, 2018, of which, total dividends paid to non-controlling interest amounted to P25.

On January 27, 2018, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.50% per annum for a total dividend amount of P339. The dividends were paid on March 2, 2018.

On December 2, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of December 19, 2017 and paid on December 29, 2017.

On August 26, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of September 13, 2017 and paid on September 29, 2017.

On May 26, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,310. The dividends were declared to stockholders of record as of June 15, 2017 and paid on June 30, 2017.

On February 24, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,310. The dividends were declared to stockholders of record as of March 14, 2017 and paid on March 31, 2017.

On February 22, 2017, the BOD of BDO Leasing approved the declaration of cash dividends at P0.20 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P433. The dividends were declared to stockholders of record as of March 10, 2017 and paid on March 29, 2017, of which, total dividends paid to non-controlling interest amounted to P50.

On January 27, 2017, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P340. The dividends were paid on February 17, 2017.

On December 3, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,095. The dividends were declared to stockholders of record as of December 19, 2016 and paid on December 29, 2016.

On August 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,094. The dividends were declared to stockholders of record as of September 15, 2016 and paid on September 26, 2016.

On February 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share in respect of the 2015 earnings. On May 28, 2016, the Parent Bank's BOD declared another cash dividend of P0.30 per share. Total dividends are P0.60 per share or P2,188. The dividends were paid on March 28, 2016 and June 27, 2016, respectively.

On February 24, 2016, the BOD of BDO Leasing, a subsidiary of the Parent Bank approved the declaration of cash dividends at P0.20 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P432. The dividends were declared to stockholders of record as of March 11, 2016 and paid on March 30, 2016, of which, total dividends paid to non-controlling interest amounted to P50.

On January 30, 2016, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P339. The dividends were paid on February 16, 2016.

20.5 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to nil, P96 and P28 in 2018, 2017 and 2016, respectively, representing insurance fund on losses due to fire, robbery and other cash losses. This was approved by the Parent Bank's President. In 2017, ONB appropriated its Surplus Free amounting to P25 (nil in 2018) representing insurance fund on losses due to fire, robbery and other cash losses, which was approved by its Chairman.

On April 19, 2018, the BOD of BDO Insurance approved the reversal of the previously approved appropriation for branches/satellite office expansion amounting to P7.

On February 12, 2018, the BOD of BDO Securities approved the reversal of the previously approved appropriation for proprietary trading amounting to P200.

Also, included in the 2018 surplus reserve are the appropriations made by BDO Securities and BDOSHI totaling P9 and P1, respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers*.

In compliance with BSP regulations, 10% of BDO Unibank Group's and the Parent Bank's profit from trust business amounting to P251, P256 and P240 in 2018, 2017 and 2016 respectively, and P181, P190 and P182 in 2018, 2017 and 2016 respectively, is appropriated to surplus reserves (see Note 26).

On January 1, 2018, as a result of the adoption of PFRS 9, the BDO Unibank Group and the Parent Bank recognized appropriations to surplus reserves representing the excess over the computed ECL allowance for general loan loss portfolio amounting to P9,520 and P9,356, respectively [see Note 2.1(b)], which was charged against the opening balance of Surplus Free. In 2018, BDO Unibank Group and the Parent Bank appropriated its Surplus Free for impairment of general loan loss portfolio amounting to P1,860 and P1,824, respectively. The accumulated amount of appropriation to surplus reserves for general loan portfolio as of December 31, 2018 amounted to P11,380 and P11,180 for BDO Unibank Group and the Parent Bank, respectively. This appropriation was prescribed by BSP and was recognized as part of Surplus Reserves account.

20.6 ESOP

For options that were vested in 2018 and 2017, BDO Unibank Group issued new common shares of 5,073,510 and 2,604,020, respectively from its authorized capital stock (see Note 19).

Set out below are summaries of number of options vested under the plan:

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Balance at beginning of year	**5,177,283**	3,557,111	**3,727,213**	2,981,499
Vested during the year	**9,455,129**	9,720,328	**8,189,694**	7,850,278
Exercised during the year	**(7,371,716)**	(8,100,156)	**(6,377,918)**	(7,104,564)
Balance at end of year	**7,260,696**	5,177,283	**5,538,989**	3,727,213

21. INTEREST INCOME

Interest income consists of the following:

	Notes	BDO Unibank Group 2018	2017	2016
Loans and other receivables	10, 25	**P 115,384**	P 88,178	P 73,171
Trading and investment securities:				
At amortized cost	9.3	**7,812**	-	-
At FVOCI	9.2	**3,982**	-	-
At FVTPL	9.1	**72**	162	201
AFS securities	9.2	**-**	3,468	3,618
HTM investments	9.3	**-**	6,061	4,323
Due from BSP and other banks	7, 8	**1,733**	1,742	696
Others		**57**	184	28
		P 129,040	P 99,795	P 82,037

	Notes	Parent Bank 2018	2017	2016
Loans and other receivables	10, 25	**P 111,685**	P 84,431	P 69,570
Trading and investment securities at:				
At amortized cost	9.3	**6,995**	-	-
At FVOCI	9.2	**2,391**	-	-
At FVTPL	9.1	**51**	116	142
AFS securities	9.2	**-**	2,032	2,237
HTM investments	9.3	**-**	5,634	4,115
Due from BSP and other banks	7, 8	**1,446**	1,399	565
Others		**47**	174	18
		P 122,615	P 93,786	P 76,647

22. INTEREST EXPENSE

Interest expense is composed of the following:

	Notes	BDO Unibank Group 2018	2017	2016
Deposit liabilities	15, 25	**P 25,595**	P 14,919	P 13,623
Bills payable and other liabilities	9.2, 16, 17, 19, 24.2	**5,153**	3,123	2,790
		P 30,748	P 18,042	P 16,413

	Notes	Parent Bank 2018	2017	2016
Deposit liabilities	15, 25	**P 24,671**	P 14,076	P 12,898
Bills payable and other liabilities	16, 17 19, 24.2	**4,049**	2,358	2,091
		P 28,720	P 16,434	P 14,989

23. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	BDO Unibank Group 2018	2017	2016
Service charges, fees and commissions	25	**P 27,372**	P 25,701	P 19,074
Insurance premiums		**11,799**	9,871	8,051
Foreign exchange gains	9.1	**3,789**	3,412	2,978
Trust fees	26	**3,314**	3,246	3,123
Rental	12	**1,653**	1,588	1,475
Trading gains (loss) – net	9.1, 9.2	**(1,619)**	450	1,860
Income from assets sold or exchanged	12	**1,057**	798	809
Dividends	9.1	**630**	551	440
Miscellaneous – net	13, 28	**1,679**	1,589	3,803
		P 49,674	P 47,206	P 41,613

	Notes	Parent Bank 2018	2017	2016
Service charges, fees and commissions	25	**P 24,372**	P 21,755	P 15,510
Foreign exchange gains		**3,412**	3,072	2,703
Share in net income of subsidiaries and associates	13.1	**2,740**	4,312	3,657
Trust fees	26	**2,593**	2,647	2,491
Income from assets sold or exchanged	12	**943**	751	767
Rental	12	**583**	534	494
Dividends		**188**	184	132
Trading gains – net	9.1, 9.2	**130**	(405)	1,061
Miscellaneous – net	13, 28	**862**	783	679
		P 35,823	P 33,633	P 27,494

Other operating expenses consist of the following:

	Notes	BDO Unibank Group 2018	2017	2016
Compensation and benefits	24.1	**P 30,449**	P 27,405	P 24,698
Fees and commissions		**13,807**	12,095	6,640
Taxes and licenses	12	**11,639**	8,270	7,224
Occupancy	13.7, 25, 33.2	**9,509**	8,412	7,661
Policy reserves, insurance benefits and claims	18	**7,494**	7,463	5,742
Insurance		**4,805**	4,144	3,802
Advertising		**4,301**	3,431	2,711
Security, clerical, messengerial and janitorial		**3,723**	3,276	2,914
Representation and entertainment		**2,313**	1,861	1,594
Repairs and maintenance		**1,463**	1,316	1,123
Travelling		**1,369**	1,308	1,204
Power, light and water		**1,214**	1,058	959
Supplies		**1,062**	943	691
Telecommunication		**667**	557	488
Information technology		**647**	538	443
Litigation on assets acquired		**542**	473	408
Amortization of computer software	13.7	**516**	528	436
Freight		**331**	307	302
Miscellaneous	13.6	**2,183**	1,480	948
		P 98,034	P 84,865	P 69,988

	Notes	Parent Bank 2018	2017	2016
Compensation and benefits	24.1	**P 26,538**	P 23,909	P 21,508
Fees and commissions		**13,190**	11,372	5,747
Taxes and licenses	12	**10,476**	7,222	6,227
Occupancy	13.7, 25, 33.2	**8,129**	7,046	6,459
Insurance		**4,661**	3,911	3,593
Advertising		**4,208**	3,319	2,600
Security, clerical, messengerial and janitorial		**3,484**	3,054	2,728
Representation and entertainment		**2,063**	1,623	1,401
Repairs and maintenance		**1,351**	1,218	1,052
Travelling		**1,128**	1,089	1,003
Power, light and water		**1,112**	953	862
Supplies		**971**	827	567
Information technology		**615**	510	408
Telecommunication		**573**	465	384
Litigation on assets acquired		**527**	431	378
Amortization of computer software	13.7	**480**	477	372
Freight		**312**	285	282
Miscellaneous	13.6	**1,976**	1,218	808
		P 81,794	P 68,929	P 56,379

24. COMPENSATION AND BENEFITS

24.1 Compensation and Benefits

Expenses recognized for compensation and benefits (see Note 23) are presented below.

	Notes	BDO Unibank Group 2018	2017	2016
Salaries and wages		**P 18,550**	P 16,732	P 15,009
Bonuses		**5,870**	5,255	4,608
Retirement – defined benefit plan	24.2	**1,558**	1,432	1,296
Social security costs		**716**	629	583
Employee stock option plan	24.3	**649**	518	836
Other benefits		**3,106**	2,839	2,366
	23	**P 30,449**	P 27,405	P 24,698

	Notes	Parent Bank 2018	2017	2016
Salaries and wages		**P 16,001**	P 14,432	P 12,811
Bonuses		**5,253**	4,696	4,193
Retirement – defined benefit plan	24.2	**1,340**	1,248	1,134
Social security costs		**603**	539	500
Employee stock option plan	24.3	**582**	464	739
Other benefits		**2,759**	2,530	2,131
	23	**P 26,538**	P 23,909	P 21,508

24.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

BDO Unibank Group and the Parent Bank maintains a fully funded, multi-employer and tax-qualified noncontributory retirement plan that is being administered by the Parent Bank's trust and investment group as trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provided for an early retirement at age of 50 with a minimum of 10 years of credited service and late retirement up to age 65, both subject to the approval of Parent Bank's BOD. Normal retirement benefit is an amount equivalent to a percentage ranging from 50% to 200% of plan salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2018 and 2017.

The amounts of Retirement benefit obligation recognized under Other Liabilities accounts (see Note 19) in the statements of financial position are determined as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Present value of the DBO	**P 28,599**	P 25,347	**P 26,331**	P 23,171
Fair value of plan assets	**(24,070)**	(22,575)	**(21,952)**	(20,629)
Deficiency of plan assets	**4,529**	2,772	**4,379**	2,542
Effect of asset ceiling	**8**	7	**-**	-
	P 4,537	P 2,779	**P 4,379**	P 2,542

The movements in the present value of the DBO are as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 25,347**	P 21,072	**P 23,171**	P 19,253
Current service cost	**1,535**	1,432	**1,340**	1,248
Interest expense	**1,445**	1,159	**1,321**	1,059
Benefits paid by the plan	**(1,405)**	(1,252)	**(1,247)**	(1,208)
Past service cost	**23**	-	**-**	-
Remeasurements:				
Actuarial losses (gains) arising from changes in:				
- experience adjustments	**5,645**	13,860	**5,156**	13,272
- demographic assumptions	**(1,951)**	(9,699)	**(2,195)**	(9,237)
- financial assumption	**(2,040)**	(1,225)	**(1,215)**	(1,216)
Balance at end of year	**P 28,599**	P 25,347	**P 26,331**	P 23,171

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 22,575**	P 21,850	**P 20,629**	P 20,093
Contributions paid into the plan	**2,899**	1,533	**2,542**	1,355
Interest income	**1,329**	1,210	**1,213**	1,109
Benefits paid by the plan	**(1,405)**	(1,252)	**(1,247)**	(1,208)
Remeasurement loss - return on plan assets (excluding amounts included in net interest)	**(1,328)**	(766)	**(1,185)**	(720)
Balance at end of year	**P 24,070**	P 22,575	**P 21,952**	P 20,629

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.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Placements in debt instruments:				
Government bonds	**P 2,552**	P 7,374	**P 2,182**	P 6,711
Corporate bonds	**12,970**	4,629	**12,100**	4,268
UITFs	**5,088**	4,835	**4,715**	4,534
Cash and cash equivalents	**1,002**	2,483	**933**	2,321
Loans and other receivables	**1,425**	982	**1,339**	928
Equity instruments	**777**	807	**433**	485
Other properties	**256**	1,465	**250**	1,382
	P 24,070	P 22,575	**P 21,952**	P 20,629

Actual returns on plan assets were nil and P27 in 2018 and P444 and P389 in 2017 in the BDO Unibank Group and the Parent Bank's financial statements, respectively.

Certain plan assets include BDO Unibank Group's own financial instruments [see Note 25(c)].

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for UITFs which are at Level 2, loans and other receivables and other properties, which are at Level 3.

The components of amounts recognized in profit or loss and in other comprehensive income of the BDO Unibank Group and the Parent Bank in respect of the defined benefit plan as follows:

	BDO Unibank Group		
	2018	2017	2016
Recognized in profit or loss:			
Current service costs	**P 1,534**	P 1,432	P 1,296
Past service costs	**23**	-	-
Interest expense (income)	**117**	(51)	(87)
	P 1,674	P 1,381	P 1,209
Recognized in other comprehensive income, net of tax (see Note 29.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 3,951**	P 9,702	P 472
- demographic assumptions	**(1,365)**	(6,790)	16
- financial assumptions	**(1,428)**	(857)	134
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**930**	536	48
- changes in the effect of the asset ceiling	**-**	(41)	(22)
Share in actuarial gains of associates	**-**	-	(3)
	P 2,088	P 2,550	P 645

	Parent Bank		
	2018	2017	2016
Recognized in profit or loss:			
Current service costs	**P 1,340**	P 1,248	P 1,134
Interest expense	**108**	(50)	(79)
	P 1,448	P 1,198	P 1,055
Recognized in other comprehensive income, net of tax (see Note 29.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 3,609**	P 9,290	P 377
- demographic assumptions	**(1,537)**	(6,466)	-
- financial assumptions	**(850)**	(851)	106
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**830**	504	53
- changes in the effect of the asset ceiling	**-**	(32)	(20)
	2,052	2,445	516
Share in actuarial losses (gains) of subsidiaries and associates	**36**	(92)	129
	P 2,088	P 2,353	P 645

Current service costs are presented as part of Compensation and benefits under Other Operating Expenses account (see Note 23) while interest income are netted against Interest Expense account (see Note 22) in the statements of income of BDO Unibank Group and the Parent Bank.

Amounts recognized in other comprehensive income were included within the items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income.

In determining the amounts of post-employment benefit obligation, the following significant actuarial assumptions were used:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Discount rates	**7.52%**	5.70%	**7.53%**	5.70%
Expected rate of salary increases	**2.00 - 11.00%**	2.00 - 11.00%	**7.00 - 8.00%**	6.00 - 8.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 25 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes BDO Unibank Group and the Parent Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan is composed of investment in cash and cash equivalents, UITF, debt and equity instruments, and loans and receivables. Due to the long-term nature of plan obligation, a level of continuing debt securities is an appropriate element of the BDO Unibank Group's long-term strategy to manage the plans effectively.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit asset as of December 31, 2018 and 2017:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
BDO Unibank Group			
December 31, 2018			
Discount rate	**+/-1%**	**(P 845)**	**P 924**
Salary increase rate	**+/-1%**	**910**	**(849)**
December 31, 2017			
Discount rate	+/-1%	(P 1,190)	P 1,337
Salary increase rate	+/-1%	1,082	(985)
Parent Bank			
December 31, 2018			
Discount rate	**+/-1%**	**(P 639)**	**P 675**
Salary increase rate	**+/-1%**	**666**	**(643)**
December 31, 2017			
Discount rate	+/-1%	(P 982)	P 1,087
Salary increase rate	+/-1%	864	(798)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, BDO Unibank Group through its Compensation Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds or UITFs) with maturities that match the benefit payments as they fall due and in the appropriate currency. BDO Unibank Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2018 and 2017 consists of debt instruments and UITFs, although the BDO Unibank Group and the Parent Bank also invest in cash and cash equivalents and properties. The debt instruments include government bonds and corporate bonds.

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

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2018, the plan of the BDO Unibank Group and the Parent Bank is underfunded by P4,538 and P4,379, respectively, based on the latest actuarial valuation report. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The BDO Unibank Group and the Parent Bank expects to pay P6,376 and P6,119 respectively, as contributions to retirement benefit plans in 2019.

The expected maturity of undiscounted expected benefits payments of BDO Unibank Group and the Parent Bank from the plan for the next ten years is presented as follows:

	BDO Unibank Group	Parent Bank
Between one to five years	P 32,986	P 31,574
Between six to ten years	4,322	2,842
	P 37,308	**P 34,416**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 2.5 to 17.6 years for the BDO Unibank Group and 2.5 years for the Parent Bank.

24.3 ESOP

BDO Unibank Group's ESOP expense includes the amounts recognized by the Parent Bank and its subsidiaries over the vesting period. In 2018 and 2017, vested shares totaled 9,455,129 and 9,720,328, respectively for BDO Unibank Group, and 8,189,694 and 7,850,278 shares, respectively for Parent Bank.

The ESOP expense, included as part of Compensation and benefits under Other Operating Expenses in the BDO Unibank Group's statements of income, amounted to P649, P518 and P836 in 2018, 2017, and 2016, respectively, and in the Parent Bank's statements of income, amounted to P582, P464 and P739, respectively (see Note 24.1).

25. RELATED PARTY TRANSACTIONS

The Parent Bank created a Related Party Transaction Committee composed of independent directors and non-executive directors, with independent directors comprising majority of the members as required by the BSP. The said Committee exercises oversight role to ensure bank compliance with BSP regulations on related party transactions.

The summary of BDO Unibank Group's significant transactions with its related parties as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction 2018	2017	2016	Outstanding Balance 2018	2017
DOSRI Loans	25(a)					
Stockholders		**P 35,813**	P 78,597	P 16,529	**P 51,131**	P 51,916
Related Parties Under Common Ownership		**476**	3,314	42,812	**1,032**	2,066
Officers and Employees		**1,601**	1,504	1,296	**2,019**	1,860
Deposit Liabilities	25(b)					
Stockholders		**638,830**	554,530	386,266	**46,873**	52,886
Related Parties Under Common Ownership		**12,638**	80,630	403,677	**3,765**	3,790
Officers and Employees		**620**	349	36	**21**	93
Other Transactions with Associates	25(d)					
Loans and Advances		**1,800**	-	-	**6,936**	5,920
Interest Income		**370**	254	88	**342**	52
Related Parties Under Common Ownership						
Rent Expense	25(d)	**1,157**	1,031	915	**92**	109
Key Management Personnel	25(d)					
Compensation		**1,574**	1,413	1,501	**-**	-
Retirement Plan	25(c)	**(135)**	64	109	**5,188**	5,058

The summary of the Parent Bank's significant transactions with its related parties as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction 2018	2017	2016	Outstanding Balance 2018	2017
DOSRI Loans	25(a)					
Stockholders		**P 35,813**	P 78,597	P 16,529	**P 51,131**	P 51,916
Related Parties Under Common Ownership		**476**	3,314	42,812	**1,032**	2,064
Officers and Employees		**1,600**	1,500	1,289	**2,014**	1,853
Deposit Liabilities	25(b)					
Stockholders		**638,830**	554,530	386,266	**46,873**	52,886
Related Parties Under Common Ownership		**12,405**	80,630	403,677	**3,703**	3,790
Officers and Employees		**621**	349	36	**21**	93
Other Transactions with Subsidiaries	25(d)					
Loans and Advances		**69,388**	69,613	42,035	**5,887**	8,539
Derivative Assets		-	100	742	**-**	1
Derivative Liabilities		**538**	1,276	600	**5**	25
Deposit Liabilities		**423**	697	699	**4,821**	4,398
Interest Income		**247**	232	128	**46**	9
Rent Income		**120**	115	96	**-**	-
Service Fees		**637**	539	222	**-**	-
Interest Expense		**41**	23	13	**5**	1
Rent Expense		**14**	9	9	**-**	-
Related Parties Under Common Ownership						
Rent Expense	25(d)	**1,009**	912	820	**92**	109
Key Management Personnel	25(d)					
Compensation		**1,060**	985	976	**-**	-
Retirement Plan	25(c)	**(135)**	64	109	**5,187**	5,055

In the ordinary course of business, the BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below and in the succeeding pages.

(a) Loans to Related Parties

Under existing policies of BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.5% to 6.5% per annum in 2018, 2.0% to 3.5% per annum in 2017 and 2016, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2018 and 2017, the BDO Unibank Group and the Parent Bank is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group				Parent Bank			
		2018		2017		**2018**		2017
Total DOSRI loans	**P**	**54,182**	P	55,842	**P**	**54,177**	P	55,833
Unsecured DOSRI loans		**1,726**		1,573		**1,726**		1,572
Past due DOSRI loans		**7**		1		**7**		1
Non-performing DOSRI loans		**15**		-		**15**		-
% of DOSRI loans to total loan portfolio		**2.68%**		3.18%		**2.75%**		3.28%
% of unsecured DOSRI loans to total DOSRI loans		**3.19%**		2.82%		**3.19%**		2.82%
% of past due DOSRI loans to total DOSRI loans		**0.01%**		0.00%		**0.01%**		0.00%
% of non-performing DOSRI loans to total DOSRI loans		**0.03%**		0.00%		**0.03%**		0.00%

DOSRI loans of BDO Unibank Group and the Parent Bank bear annual interest rates of 0.00% to 9.00% in 2018 and 0.00% to 10.60% 2017 and 0.00% to 12.00% in 2016 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

Total DOSRI loans of BDO Unibank Group and the Parent Bank include loans to officers under the Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within one month to 20 years.

Total loan releases and collections in 2018 amounted to P37,890 and P39,548 for BDO Unibank Group and P37,889 and P39,544 for the Parent Bank, respectively. Total loan releases and collections in 2017 amounted to P83,415 and P50,813 for BDO Unibank Group and P83,411 and P50,805 for the Parent Bank, respectively. Total loan releases and collections in 2016, on the other hand, amounted to P60,637 and P67,087 for BDO Unibank Group and P60,630 and P66,961 for the Parent Bank, respectively.

(b) Deposits from Related Parties

Total deposits made by the related parties amounted to P652,088, P635,509 and P789,979 in 2018, 2017 and 2016 for BDO Unibank Group, and P651,856, P635,509 and P789,979 in 2018, 2017 and 2016 for the Parent Bank, respectively, and bearing interest rates range of 0.00% to 5.50% in 2018, 0.00% to 4.32% in 2017 and 0.00% to 5.30% in 2016. The related interest expense from deposits amounted to P1,873 and P2,181 and P2,391 in 2018, 2017, and 2016, respectively (see Note 22).

(c) Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

Related Party Category	Amounts of Transaction 2018	2017	2016	Outstanding Balance 2018	2017
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 18**	P 27
BDO Leasing	**-**	-	-	**-**	1
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**20**	26
BDO Leasing	**-**	-	-	**1**	2
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**5,149**	5,002
Trading gain					
BDO Unibank, Inc.	**(159)**	59	105	**-**	-
Interest expense					
BDO Unibank, Inc.	**24**	5	4	**-**	-

BDO Unibank Group's retirement fund has transactions directly and indirectly with Parent Bank as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

Related Party Category	Amounts of Transaction 2018	2017	2016	Outstanding Balance 2018	2017
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 18**	P 27
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**20**	26
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**5,149**	5,002
Trading gain					
BDO Unibank, Inc.	**(159)**	59	105	**-**	-
Interest expense					
BDO Unibank, Inc.	**24**	5	4	**-**	-

Details of the contributions of BDO Unibank Group and Parent Bank, and benefits paid out by the plan to the employees are presented in Note 24.

(d) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown in the section that follows. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Transactions with and between subsidiaries have been eliminated in the BDO Unibank Group's financial statements. Significant transactions with subsidiaries are as follows:

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. Total advances granted and collected amounted to P79 and P85, P85 and P29 and P344 and P478, in 2018, 2017 and 2016, respectively. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables in the Parent Bank's statements of financial position amounted to P79 and P85 as of December 31, 2018 and 2017, respectively (see Note 10).

The Parent Bank also grants both secured and unsecured interest-bearing loans to subsidiaries with outstanding balance of P5,808 and P8,454 as of December 31, 2018 and 2017, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 10). Total loans granted amounted to P69,309, P69,528 and P41,691 while total loans collected amounted to P71,955, P67,005 and P42,578 for 2018, 2017 and 2016, respectively. These loans are payable in cash with a term between one month to five years. Interest income recognized on these is presented as part of Interest Income in the Parent Bank's statements of income (see Note 21). Interest rate on these loans ranges from 2.5% to 6.5%, 2.0% to 3.5% and 2.0% to 3.5% per annum in 2018, 2017, and 2016, respectively.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank. Total service fees are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). There are no outstanding balance arising from these transactions as of December 31, 2018 and 2017. Total service fees amounted to P637, P539 and P222 in 2018, 2017 and 2016, respectively.

BDO Life, a former associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life pays the Parent Bank management fees in cash equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. Total service fees is presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). Outstanding balances arising from this as of December 31, 2018 and 2017 is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

Certain subsidiaries lease office space from the Parent Bank. Total rent collected from the subsidiaries is included as part of Miscellaneous under Other Operating Income in the Parent Bank's statements of income (see Note 23). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2018 and 2017. Total rent income amounted to P120, P115 and P96 in 2018, 2017 and 2016, respectively.

BDO Capital, BDO Securities and BDOI, have reimbursed the Parent Bank in cash on the actual costs and expenditures in relation to its services amounting to nil, P67 and P90 in 2018, 2017, and 2016, respectively. There are no outstanding receivable from subsidiaries as of December 31, 2018 and 2017.

(3) Expenses of the Parent Bank

The Parent Bank leases space from BDOSHI for its branch operations. Total rent paid is included as part of Occupancy account under Other Operating Expenses account in the Parent Bank statements of income (see Note 23). The lease term is between 10 to 20 years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2018 and 2017. Total rent expense amounted to P14, P9 and P9 in 2018, 2017 and 2016, respectively.

(4) Derivatives

In 2018 and 2017, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards, interest rate swap and cross currency swaps. As of December 31, 2018 and 2017, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account (see Note 9.1) and Derivatives with negative fair values under Other Liabilities account in the statements of financial position (see Note 19).

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank bear interest rates of 0.00% to 6.75% in 2018, 0.00% to 2.50% in 2017 and 0.00% to 2.60% in 2016. These related interest expense from these deposits are included as part of Interest Expense account on deposit liabilities in the statements of financial position (see Note 22).

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2018 and 2017, there is an outstanding secured and unsecured interest-bearing loans and advances to associates amounting to P6,936 and P5,920 for the BDO Unibank Group and P6,750 and P5,200 for the Parent Bank, respectively, and are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable in cash between two months to twelve years. Total collections on loans and advances amounted to P536, P8 and P488 in 2018, 2017 and 2016, respectively.

Annual interest rate on these loans ranges from 6.37% to 7.70% for 2018 and 3.0% to 7.7% for the years 2017 and 2016. The related interest income is presented as part of Interest Income on loans and other receivables in the BDO Unibank Group's statements of income (see Note 21). As of December 31, 2018, 2017 and 2016, there were no impairment losses recognized on these loans and advances.

(iii) Transaction of the Parent Bank with related parties under common ownership is shown below.

The Parent Bank leases space from related parties for its branch operations. For the years ended December 31, 2018, 2017 and 2016, total rent paid to related parties amounted to P1,009, P912 and P820, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 23). The terms of the lease are from two to five years and is payable in cash. Outstanding balances arising from this transaction amounted to P92 and P109 as of December 31, 2018 and 2017, respectively and is included as part of Accounts payable under Other Liabilities (see Note 19).

(iv) Key Management Personnel Compensation

The compensation and benefits given to BDO Unibank Group and the Parent Bank's key management are as follows (see Note 24.1):

	BDO Unibank Group		
	2018	2017	2016
Salaries and other benefits	**P 1,374**	P 1,267	P 1,348
Retirement expense	**200**	146	153
	P 1,574	P 1,413	P 1,501

	Parent Bank		
	2018	2017	2016
Salaries and other benefits	**P 931**	P 886	P 878
Retirement expense	**129**	99	98
	P 1,060	P 985	P 976

26. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group and the Parent Bank's statements of financial position since these are not resources of the BDO Unibank Group (see Note 33.3).

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Investments	**P 1,150,783**	P 1,036,651	**P 841,019**	P 743,955
Others	**10,934**	9,507	**8,665**	7,806
	P 1,161,717	P 1,046,158	**P 849,684**	P 751,761

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities which are shown as part of Investment securities at amortized cost (see Note 9.3) with a total face value of P13,136 as of December 31, 2018 and HTM investments (see Note 9.3) with a total face value of P11,008 as of December 31, 2017, in BDO Unibank Group and, P8,628 and P7,830 as of December 31, 2018 and 2017, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2018 and 2017, the additional reserve for trust functions amounted to P251 and P256, respectively, for BDO Unibank Group and P181 and P190, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 20.5).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P3,314, P3,246 and P3,123 for the years ended December 31, 2018, 2017 and 2016, respectively, in BDO Unibank Group statements of income and P2,593, P2,647, and P2,491 for the years ended December 31, 2018, 2017 and 2016, respectively, in the Parent Bank statements of income (see Note 23).

27. UNIT-LINKED FUNDS

VUL life insurance contracts of BDO Life are life insurance policies wherein a portion of the premiums received are invested in VUL funds, which are composed mainly of investments in equity and debt securities. The withdrawal or surrender amount of a VUL policy can be computed by multiplying the total units held by the policyholder by the fund's Net Asset Value (NAV) per unit, which changes daily depending on the fund's performance.

In 2013, BDO Life obtained the approval from IC to issue VUL products, where payments to policyholders are linked to internal investment funds set up by BDO Life. The VUL funds are mainly managed by the Trust and Investment Group of the Parent Bank.

As of December 31, 2018 and 2017, BDO Life has 12 VUL funds. The details of the investment funds, which comprise the assets backing the unit-linked liabilities, are presented in the table below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the BDO Unibank Group's financial statements.

		2018		2017
Assets:				
Cash and cash equivalents	**P**	**73**	P	62
Financial assets at FVTPL		**8,514**		5,658
Other receivables		**13**		7
	P	**8,600**	P	5,727
Liabilities and Equity:				
Other liabilities	**P**	**45**	P	32
Net assets attributable to unitholders		**8,555**		5,695
	P	**8,600**	P	5,727

28. MERGERS AND ACQUISITIONS

28.1 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo for €3. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued the shares to BDO Capital, making BDO Capital the owner of approximately 96% of the outstanding capital stock of CBN Grupo (see Note 13.1). CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered, thereafter, with The Netherlands Chamber of Commerce on October 24, 2016. The total goodwill recognized in 2016 amounted to P32 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

28.2 Acquisition of Credit Card Portfolio

On June 14, 2016, the Parent Bank signed an agreement with SB Cards to be the exclusive issuer and acquirer of Diners Club credit cards in the Philippines. The acquisition includes SB Cards' existing Diners Club portfolio and its cardholder base. The agreement took effect on September 30, 2016.

The Parent Bank recognized the acquisition-date fair value of the existing credit card receivables and liabilities assumed and compared the net assets acquired with the cash consideration given up resulting in the recognition of Trademark for the excess relating to the use of Diners Club trade name by the Parent Bank for a period of five years. Presented below is the analysis of the transaction.

Credit card receivables	P	586
Liabilities	(	18)
Net asset acquired		568
Cash consideration	(	733)
Trademark (see Note 13.6)	P	165

28.3 Acquisition of BDO Life

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of BDO Life, a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by GPHCI. As of December 31, 2015, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of BDO Life.

On June 30, 2016, BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. Although the acquisition was consummated in 2016, the consideration was agreed by the parties in 2014. During 2015, BDO Life's net asset substantially increased as a result of the improvement in the latter's insurance operations. Accordingly, the fair value of the net assets exceeded the amount of consideration received by the Group resulting in the recognition of a gain on fair valuation of previously-held interest and gain on bargain purchase (negative goodwill) amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214. This is recorded as part of Miscellaneous under Other Operating Income account in the 2016 financial statements of BDO Unibank Group (see Note 23).

BDO Unibank Group is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market. By assuming full control of BDO Life Assurance's operations, BDO Unibank Group will be able to adapt more readily to the demands of its target markets.

On the date of acquisition, the equity share in BDO Life was re-measured at fair value, as follows:

Fair value	P 2,549
Book value	(1,921)
Gain on fair valuation of previously-held interest	P 628

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	851
Trading and investment securities		25,882
Loans and other receivables		563
Bank premises, furniture, fixtures and equipment		54
Other resources		104
Total resources		27,454
Insurance contract liabilities		17,910
Other liabilities		3,173
Total liabilities		21,083
Net assets acquired		6,371
Fair value of the investment for the previously held interest in BDO Life	(	2,549)
Consideration transferred (for the 60% ownership interest)	(	2,236)
Gain on bargain purchase	P	1,586

Pre-acquisition income arising from the step-up acquisition amounted to P391. Subsequently, GPHCI was renamed to BDO Life Holdings (see Notes 2.3 and 13.1).

On November 24, 2016, the BOD of BDO Life Holdings and BDO Life, at their respective meetings, approved the merger of the two companies, with BDO Life as the surviving entity, and the Plan of Merger. The same were likewise approved by the respective stockholders of the companies on December 3, 2016. The merger was approved by the SEC on September 4, 2017 and was implemented on the same date.

Under the Articles of Merger, the capital stock owned by the Parent Bank and BDO Capital in BDO Life Holdings shall be exchanged for shares in the capital stock of BDO Life on the basis of the net asset value of BDO Life Holdings. BDO Life issued a total of 15,931,324 shares with a par value of P100 per share to the shareholders of BDO Life Holdings in exchange for the net asset of BDO Life Holdings, composed of 15,150,505 shares reacquired by BDO Life as a consequence of the merger, since it was previously wholly-owned by BDO Life Holdings, and 780,819 shares from the unissued authorized capital stock of BDO Life. The shareholdings of the Parent Bank and BDO Capital after the merger is 97.0% and 3.0%, respectively.

28.4 Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in an Investment Agreement (the Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share. Such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 new common shares of PCIB Securities at P370.34 per share, resulting to new percentage of ownership of the Parent Bank to 51.0% and Nomura having 49.0% over PCIB Securities. Subsequently, PCIB Securities was renamed as BDO Nomura.

On July 20, 2017, BDO Nomura's BOD and stockholders approved the increase in its authorized capital stock from P100, divided into 1,000,000 shares with P100 par value per share to P1,000, divided into 10,000,000 shares with P100 par value per share. In relation to the increase in authorized capital stock, BDO Nomura received a cash infusion from the Parent Bank and Nomura Asia Investment (Singapore) Pte. Ltd. amounting to P153 and P147, respectively, for future subscription of additional shares of stock of BDO Nomura with a total par value of P300. The deposit for future stock subscription were recorded as part of Equity investments under Other Resources account in the Parent Bank's 2017 statement of financial position (see Note 13.1). On February 5, 2018, the application for the increase in authorized capital stock of BDO Nomura was approved by the SEC. Accordingly, such deposit was applied against subscription of additional shares of stock of BDO Nomura in 2018.

On November 27, 2018 additional cash infusion was received from the Parent Bank and Nomura Asia Investment (Singapore) Pte. Ltd amounting to P51 and P49, respectively with a total par value of P100.

28.5 Joint Venture Investment Agreement with Mitsubishi Motors Philippines Corp. (MMPC), Sojitz Corporation (SJC) and JACCS Co. Ltd. (JACCS)

On January 28, 2016, BDO Leasing entered into a joint venture investment agreement with MMPC, SJC and JACCS to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles in the Philippines. The joint venture, incorporated and named MAFSC, is seen harnessing the complementary strengths of the partners of the joint venture to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and a growing population. Upon the incorporation of MAFSC on May 31, 2016, BDO Leasing contributed P300 for 3,000,000 common shares, thereby owning 40% of the company while MMPC, SJC and JACCS jointly hold the remaining 60% stake (see Note 13.1).

28.6 Acquisition of One Network Bank, Inc. (A Rural Bank)

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of Additional Paid-in Capital amounting to P6,028, net of related transaction costs amounting to P3. Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%. The total goodwill recognized in 2015 amounting to P2,903 is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

As of December 31, 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. These additional purchases of ONB common shares by the Parent Bank increased its total shareholdings in ONB to 99.76%. Total additional goodwill recognized in 2016 amounted to P4.

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	3,294
Trading and investment securities		2,457
Loans and other receivables		20,532
Bank premises, furniture, fixtures and equipment		1,510
Other resources		403
Total resources		28,196
Deposit liabilities		20,920
Other liabilities		3,478
Total liabilities		24,398
Net asset position		3,798
Non-controlling share in equity	(	14)
Cost of investment	(	6,687)
Goodwill (see Note 13.3)	P	2,903

On December 3, 2016, the Parent Bank's BOD authorized a P1,000 capital infusion into ONB to allow the subsidiary to provide for its ongoing expansion plans and to comply with BSP regulations. The BSP approved the additional equity investment into ONB on August 10, 2017. On September 13, 2017, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.79%.

On September 30, 2017, the Parent Bank's BOD authorized an additional P1,000 capital infusion into ONB to support its MSME initiatives and give it additional leeway in its expansion plans. The BSP approved the additional equity investments into ONB on December 13, 2017. Moreover, on January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.81%. On January 23, 2018 and December 27, 2018, the Parent Bank subscribed to an additional 124,275 and 14,276 shares, respectively, from ONB's total issued and outstanding capital stock thereby increasing its shareholdings in ONB to 99.86%

On October 1, 2018, the Parent Bank has entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire a 15% ownership interest in ONB. The transaction is subject to closing conditions, including requisite regulatory approvals.

28.7 Acquisition of Trust Business

In 2014, the Parent Bank entered into a definitive agreement for the acquisition of the trust business of Deutsche Bank AG's Manila branch (Deutsche) comprising of trust, other fiduciary and investment management activities amounting to P35,751 and presented as part of contingent accounts under Trust department accounts (see Note 33.3). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources account in the statements of financial position (see Note 13.7).

29. TAXES

29.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	BDO Unibank Group		
	2018	2017	2016
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 9,305**	P 8,031	P 5,528
Minimum corporate income tax (MCIT) at 2%	**23**	14	16
Final taxes at 20%, 15%, 10% and 7.5%	**1,685**	1,371	1,220
	11,013	9,416	6,764
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(6)**	36	33
	P 11,007	P 9,452	P 6,797

	BDO Unibank Group		
	2018	2017	2016
Reported in other comprehensive income:			
Actuarial losses	**(P 859)**	(P 1,125)	(P 267)
Fair value of financial assets at FVOCI	**(44)**	-	-
Fair value of AFS securities	**-**	20	(21)
	(P 903)	(P 1,105)	(P 288)

	Parent Bank		
	2018	2017	2016
Reported in profit or loss:			
Current tax expense:			
RCIT at 30%	**P 8,080**	P 7,045	P 4,651
Final taxes at 20%, 15%, 10% and 7.5%	**1,234**	978	870
	9,314	8,023	5,521
Deferred tax expense relating to origination and reversal of temporary differences	**198**	218	192
	P 9,512	P 8,241	P 5,713
Reported in other comprehensive income:			
Actuarial losses	**(P 879)**	(P 1,048)	(P 221)

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	BDO Unibank Group		
	2018	2017	2016
Tax on pretax profit at 30%	**P 13,094**	P 11,267	P 9,870
Adjustment for income subjected to lower income tax rates	**(617)**	(379)	(349)
Tax effects of:			
Income exempt from tax	**(3,494)**	(2,552)	(2,868)
Non-deductible expenses	**2,278**	2,545	1,734
Deductible temporary differences not recognized	**(659)**	(908)	(1,022)
Net operating loss carryover (NOLCO) not recognized	**127**	17	20
Application of previously unrecognized MCIT	**-**	(4)	-
Utilization of previously unrecognized NOLCO	**-**	-	(30)
Others	**278**	(534)	(558)
Tax expense reported in profit or loss	**P 11,007**	P 9,452	P 6,797

	Parent Bank		
	2018	2017	2016
Tax on pretax profit at 30%	**P 12,667**	P 10,874	P 8,931
Adjustment for income subjected to lower income tax rates	**(621)**	(484)	(399)
Tax effects of:			
Income exempt from tax	**(3,882)**	(3,492)	(3,216)
Non-deductible expenses	**1,998**	2,259	1,460
Deductible temporary differences not recognized	**(650)**	(916)	(1,021)
Others	**-**	-	(42)
Tax expense reported in profit or loss	**P 9,512**	P 8,241	P 5,713

Components of the net deferred tax assets (see Note 13) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Deferred tax assets:				
Allowance for impairment	**P 6,560**	P 6,386	**P 5,858**	P 5,858
Unamortized past service costs	**1,219**	1,116	**1,182**	1,070
Retirement obligation	**863**	495	**901**	351
Lease income differential	**146**	128	**146**	129
NOLCO	**-**	3	**-**	-
Others	**217**	1	**-**	-
	9,005	8,129	**8,087**	7,408
Deferred tax liabilities:				
Revaluation increment	**432**	432	**431**	431
Changes in fair values of financial assets at FVOCI (2018)/ AFS securities (2017)	**36**	80	**-**	-
Capitalized interest	**48**	50	**48**	50
Lease income differential	**2**	10	**-**	-
Others	**175**	154	**-**	-
	693	726	**479**	481
Net deferred tax assets	**P 8,312**	P 7,403	**P 7,608**	P 6,927

Movements in net deferred tax assets for the years ended December 31 follow:

BDO Unibank Group

	Statements of Income		
	2018	2017	2016
Unamortized past service costs	**(P 103)**	P 222	P 154
Allowance for impairment	**(175)**	(115)	(117)
Lease income differential	**(25)**	(51)	(46)
Retirement asset (obligation)	**332**	23	87
Capitalized interest	**(3)**	(3)	(3)
NOLCO	**-**	(2)	17
Others	**(32)**	(38)	(59)
Deferred tax expense (income)	**(P 6)**	P 36	P 33

Parent Bank

	Statements of Income		
	2018	2017	2016
Unamortized past service costs	**(P 110)**	P 183	P 155
Retirement asset (obligation)	**328**	46	89
Lease income differential	**(17)**	(8)	(14)
Capitalized interest	**(3)**	(3)	(3)
Allowance for impairment	**-**	-	(35)
Deferred tax expense	**P 198**	P 218	P 192

	Statements of Comprehensive Income					
	BDO Unibank Group			Parent Bank		
	2018	2017	2016	**2018**	2017	2016
Movements in actuarial losses	**(P 859)**	(P 1,125)	(P 267)	**(P 879)**	(P 1,048)	(P 221)
Movements in fair value of financial assets at FVOCI	**(44)**	-	-	**-**	-	-
Movements in fair value of AFS securities	**-**	20	(21)	**-**	-	-
Movements in revaluation Increment	**-**	-	-	**-**	-	-
Deferred tax income	**(P 903)**	(P 1,105)	(P 288)	**(P 879)**	(P 1,048)	(P 221)

BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods follows for BDO Unibank Group (nil for the Parent Bank):

Year	**NOLCO**	**MCIT**	**Valid Until**
2018	P 269	P 9	2021
2017	57	13	2020
2016	69	11	2019
	P 395	P 33	

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2018 and 2017 are as follows:

	BDO Unibank Group			
	2018		2017	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 13,247**	**P 3,974**	P 22,088	P 6,626
NOLCO	**299**	**90**	128	38
MCIT	**31**	**31**	36	36
Others	**1,206**	**362**	1,238	371
	P 14,783	**P 4,457**	P 23,490	P 7,071

	Parent Bank							
	2018				2017			
	Tax Base		**Tax Effect**		Tax Base		Tax Effect	
Allowance for impairment	**P**	**12,357**	**P**	**3,707**	P	20,778	P	6,233
Others		**1,214**		**364**		1,341		402
	P	**13,571**	**P**	**4,071**	P	22,119	P	6,635

BDO Unibank Group and the Parent Bank continues claiming itemized deduction for income tax purposes.

29.2 Gross Receipts Tax

On January 29, 2004, RA No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

29.3 Documentary Stamp Tax

Documentary stamp tax (DST) (at varying rates) are imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On December 19, 2017, RA No. 10963 known as train law was passed amending the rates of DST, the significant provisions of which are summarized as follows:

(a) On every issue of debt instruments, there shall be collected a DST of one peso and fifty centavos on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of one peso and 50 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

(c) On all bills of exchange or drafts, there shall be collected a DST of 60 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the affectivity of RA No. 9243;
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

29.4 Supplementary Information Required by the Bureau of Internal Revenue (BIR)

The BIR issued Revenue Regulations (RR) No. 15-2010 on November 25, 2010, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under Securities Regulation Code Rule 68, as amended.

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

30. EARNINGS PER SHARE

Basic earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2018	2017	2016
Net profit attributable to shareholders of the Parent Bank	**P 32,708**	P 28,070	P 26,234
Dividends on preferred shares	**(339)**	(340)	(339)
Net profit available to common shares	**32,369**	27,730	25,895
Divided by the weighted average number of outstanding common shares (in millions)	**4,372**	4,322	3,805
Basic earnings per share	**P 7.40**	P 6.42	P 6.81

Diluted earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2018	2017	2016
Net profit attributable to shareholders of the Parent Bank	**P 32,369***	P 27,730*	P 25,895*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**4,372**	4,322	3,805
Potential common shares from assumed conversion of preferred shares	*****	*	*
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**4,372**	4,322	3,805
Diluted earnings per share	**P 7.40**	P 6.42	P 6.81

* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

** *Potential common shares from assumed conversion of stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

Basic earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2018	2017	2016
Net profit	**P 32,712**	P 28,006	P 24,057
Dividends on preferred shares	**(339)**	(340)	(339)
Net profit available to common shares	**32,373**	27,666	23,718
Divided by the weighted average number of outstanding common shares (in millions)	**4,372**	4,322	3,805
Basic earnings per share	**P 7.40**	P 6.40	P 6.23

Diluted earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2018	2017	2016
Net profit	**P 32,373***	P 27,666*	P 23,718*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**4,372**	4,322	3,805
Potential common shares from assumed conversion of convertible preferred shares	*****	*	*
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**4,372**	4,322	3,805
Diluted earnings per share	**P 7.40**	P 6.40	P 6.23

* *Net profit of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

** *Potential common shares from assumed conversion of stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

(a) The following are some measures of BDO Unibank Group and Parent Bank's financial performance:

	2018	2017	2016
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**10.6%**	10.2%	12.5%
Return on average resources:			
Net profit / Average total resources	**1.1%**	1.1%	1.2%
Net interest margin:			
Net interest income / Average interest earning resources	**3.6%**	3.5%	3.2%
Return on common equity:			
Net profit / Average common equity	**10.7%**	10.2%	12.7%
Liquidity ratio:			
Total liquid resources / Total resources	**30.4%**	31.6%	33.5%
Debt to equity:			
Total liabilities / Total equity	**821.0%**	794.3%	968.7%
Resources to equity:			
Total resources / Total equity	**921.0%**	894.3%	1,068.7%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**241.9%**	308.2%	301.3%
Profit margin:			
Net profit / Revenues	**18.3%**	19.1%	21.2%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**13.8%**	14.5%	12.4%

* *Computed using balances prepared under PFRS*

Parent Bank

	2018	2017	2016
Return on average equity:			
Net profit / Average total capital accounts	**10.6%**	10.2%	11.5%
Return on average resources:			
Net profit / Average total resources	**1.2%**	1.2%	1.2%
Net interest margin:			
Net interest income / Average interest earning resources	**3.7%**	3.5%	3.2%
Return on common equity:			
Net profit / Average common equity	**10.7%**	10.2%	11.7%
Liquidity ratio:			
Total liquid resources / Total resources	**28.6%**	29.2%	31.5%
Debt to equity:			
Total liabilities / Total equity	**782.7%**	748.2%	915.8%
Resources to equity:			
Total resources / Total equity	**882.7%**	848.2%	1,015.8%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**247.0%**	320.6%	298.6%
Profit margin:			
Net profit / Revenues	**20.6%**	22.0%	23.1%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**13.3%**	13.8%	11.4%

* *Computed using balances prepared under PFRS*

(b) Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Aggregate amount of secured liabilities	**P 226**	P 2,322	**P -**	P 907
Aggregate amount of resources pledged as security	**P 1,501**	P 4,033	**P -**	P 1,075

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

32.1 Dividends

On January 26, 2019, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.5% per annum of the par value for a total dividend of P339. The dividends will be paid within 60 days from dividend declaration date.

32.2 Purchase of Loans and Deposits of Rural Bank of Pandi by ONB

On February 4, 2019, ONB, entered into an asset sale and purchase agreement with Rural Bank of Pandi, Inc. (RBPI) to purchase RBPI's gross loan receivables and assume its recorded deposit liabilities worth approximately P781 and P918, respectively. The transaction is seen to provide ONB with a stronger presence in Bulacan and fast track its expansion in Central Luzon.

The agreement is still subject to closing conditions and regulatory approvals.

32.3 Issuance of Peso-Denominated Bonds

On February 11, 2019, the Parent Bank issued P35,000 fixed rate bonds. The bonds have a tenor of 1.5 years and bear a coupon rate of 6.42%. Interest will be paid quarterly, calculated on a 30/360 count basis. This represents the initial issuance from P100 billion peso bond program approved by the BOD in August 2018. The issue aims to further diversify the Bank's funding sources and support business expansion.

33. COMMITMENTS AND CONTINGENCIES

33.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2018, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

33.1.1 PEACe bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers. Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

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

On October 7, 2011, or nearly 10 years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT. On October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the Bureau of Treasury (BTr) and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling. On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds. On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On August 16, 2016, the Supreme Court ordered the BTr to immediately release and pay the bondholders the amount of P4,966, representing the 20% FWT on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

On October 19, 2016, the Respondents filed Motions where they respectfully prayed that the Honorable Court grant them leave to file the Motion for Partial Reconsideration and admit the Motion for Partial Reconsideration. The Respondents also prayed that the Resolution dated August 16, 2016 be partially reconsidered and for judgment to be rendered stating that (1) jurisdiction to hear actions assailing the validity of the exercise of quasi-legislative powers of the Commissioner of Internal Revenue pertains to the regular courts after review by the Secretary of Finance; and, (2) the 6% interest on the withheld amount of P4,966 be deleted or in the alternative, and only when respondents are held liable for interest, computation thereof shall be reckoned from the date of finality of the Decision dated January 13, 2015 at the prevailing market rate of comparable short term government debt securities at the time of payment.

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

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

- The BTr paid the 20% final withholding tax withheld on the PEACe bonds amounting to P690, plus interest of 4% per annum from October 19, 2011 to April 10, 2017 amounting to P151; and,

- The payment was made in the form of 3-Year Retail Treasury Bonds, with interest of 4.25 % per annum.

The 3-Year Retail Treasury Bonds settlement was recognized by the Parent Bank as part of financial assets at FVTPL (see Note 9.1). The interest was recognized as part of Others under Interest Income account (see Note 21) in the 2017 statement of income.

33.1.2 Applicability of RR 4-2011

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 regular banking unit 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 of Makati. The Parent Bank and BDO Private 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 Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR No. 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR No. 4-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 25, 2018, the RTC declared RR 4-2011 as null and void. The writs of preliminary injunction issued by the RTC on April 25, 2015 and February 28, 2018 were also made permanent, thereby enjoining Department of Finance (DOF) and BIR from implementing RR 4-2011 and prohibiting them from issuing a preliminary assessment notice or final assessment notice, or deciding any administrative matter pending before it, according to or in relation to said regulation.

On July 10, 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari ("Motion for Extension"). 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 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

The case remains pending as of December 31, 2018.

33.1.3 First e-Bank

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting Philippine Deposit Insurance Corporation ("PDIC") to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with the Parent Bank wherein consideration of the assumption by the Parent Bank of FeB's liabilities in the maximum amount of P10,000, PDIC will provide the Parent Bank P10,000 of financial assistance and PDIC will receive FeB's assets to recover said financial assistance.

About P5,000 of the financial assistance was released to the Parent Bank and the remaining P5,000 was deposited in escrow with BDO Trust and Investments Group ("BDO-TIG") in accordance with the escrow agreement dated October 23, 2002 entered into by the Parent Bank, PDIC, and BDO-TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets the Parent Bank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon.

Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against the Parent Bank, which case was raffled to RTC Makati City Branch 60. On October 14, 2016, the Parent Bank filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

In a judgement dated May 31, 2018, RTC Makati dismissed the complaint, granted the Parent Bank's counterclaim and ordered BDO-TIG to immediately release the remaining escrow amount, plus interests, to the Parent Bank. PDIC filed Motion for Reconsideration and the Parent Bank and BDO-TIG filed their respective comment/opposition thereto. PDIC's Motion for Reconsideration was submitted for resolution.

33.1.4 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2018, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

33.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the statements of income, amounted to P3,597, P3,220 and P2,846 in 2018, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P3,385, P3,012 and P2,670 in 2018, 2017 and 2016, respectively, in the Parent Bank's financial statements (see Note 23).

As of December 31, 2018 and 2017, the estimated minimum future annual rentals of BDO Unibank Group and Parent Bank follow:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Within one year	**P 1,931**	P 2,089	**P 1,682**	P 1,864
More than one year but not more than five years	**15,569**	12,282	**14,800**	11,512
More than five years	**6,102**	4,714	**5,927**	4,575
	P 23,602	P 19,085	**P 22,409**	P 17,951

33.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2018 and 2017, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies. The summary of BDO Unibank Group's commitments and contingent accounts is shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2018**	2017	**2018**	2017
Trust department accounts	26	**P 1,161,717**	P 1,046,158	**P 849,684**	P 751,761
Committed credit lines	4.3.1	**349,732**	303,425	**349,732**	303,353
Forward exchange sold		**132,422**	128,650	**118,276**	116,021
Forward exchange bought		**122,948**	137,034	**105,811**	121,647
Unused commercial letters of credit	4.3.1	**48,950**	47,553	**48,950**	47,536
Interest rate swap receivable		**19,201**	16,481	**5,978**	6,263
Interest rate swap payable		**19,201**	16,481	**5,978**	6,263
Spot exchange sold		**10,818**	14,054	**10,290**	13,740
Bills for collection		**10,716**	5,125	**10,716**	5,125
ROP warrants		**8,475**	15,021	**8,475**	15,021
Spot exchange bought		**7,273**	6,546	**6,745**	6,232
Export letters of credit confirmed		**6,180**	2,351	**6,180**	2,351
Other contingent accounts		**3,038**	2,643	**3,038**	2,038
Late deposits/payments received		**2,674**	1,436	**2,654**	1,426
Outstanding guarantees issued		**1,715**	20,221	**1,715**	20,209

UNAUDITED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

P&A
Grant Thornton

An instinct for growth™

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288

Report on Review of Interim Consolidated Financial Information

The Board of Directors and the Stockholders
BDO Unibank, Inc. and Subsidiaries
BDO Corporate Center
7899 Makati Avenue, Makati City

Introduction

We have reviewed the accompanying consolidated statement of financial position of BDO Unibank, Inc. and subsidiaries (together hereinafter referred to as "the Group") as of June 30, 2019, and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the six months ended June 30, 2019 and 2018, and notes to interim consolidated financial information, including a summary of selected accounting policies and other explanatory information (hereinafter referred to as "interim consolidated financial information").

Management's Responsibility for the Interim Consolidated Financial Information

Management is responsible for the preparation and fair presentation of this interim consolidated financial information in accordance with Philippine Accounting Standard 34, *Interim Financial Reporting* (PAS 34), and for such internal control as management determines is necessary to enable the preparation of interim consolidated financial information that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

Scope of Review

Except as explained in the following paragraph, we conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.*

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Conclusion

As discussed in Note 3 to interim consolidated financial information, the Group is still in the process of compiling the relevant information to determine the impact and the required adjustment resulting from the adoption of Philippine Financial Reporting Standards 16, *Leases*. The impact of PFRS 16 will be recognized by the Group on the third quarter of 2019.

Conclusion

Based on our review, except for the adjustment resulting from the adoption of PFRS 16 as discussed in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information of the Group does not present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2019, and their consolidated financial performance and their consolidated cash flows for the six months ended June 30, 2019 and 2018 in accordance with PAS 34.

Other Matter

We have previously audited the consolidated financial statements of the Group as of December 31, 2018, including the consolidated statement of financial position, which is presented herein for comparative purposes, on which we have rendered our report thereon dated February 23, 2019.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 7333690, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-5 (until July 9, 2021)
Firm - No. 0002-FR-5 (until March 26, 2021)
BIR AN 08-002511-7-2017 (until June 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until July 24, 2021)

September 10, 2019

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2018)
(Amounts in Millions of Philippine Pesos)

	Notes		June 30, 2019		December 31, 2018
RESOURCES					
CASH AND OTHER CASH ITEMS	5	P	44,718	P	53,749
DUE FROM BANGKO SENTRAL NG PILIPINAS	5		332,955		354,132
DUE FROM OTHER BANKS	6		37,319		55,292
TRADING AND INVESTMENT SECURITIES - Net	7		427,667		385,197
LOANS AND OTHER RECEIVABLES - Net	8		2,119,920		2,071,834
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	9		33,701		33,660
INVESTMENT PROPERTIES - Net	10		19,838		19,785
OTHER RESOURCES - Net	11		49,168		48,598
TOTAL RESOURCES		P	3,065,286	P	3,022,247
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	13	P	2,399,558	P	2,419,965
BILLS PAYABLE	14		166,740		143,623
SUBORDINATED NOTES PAYABLE	15		10,030		10,030
INSURANCE CONTRACT LIABILITIES	16		36,156		28,506
OTHER LIABILITIES	17		101,966		91,974
Total Liabilities			2,714,450		2,694,098
EQUITY	18				
Attributable to:					
Shareholders of the Parent Bank			349,175		327,372
Non-controlling Interests			1,661		777
Total Equity			350,836		328,149
TOTAL LIABILITIES AND EQUITY		P	3,065,286	P	3,022,247

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

	Notes		2019		2018
INTEREST INCOME ON					
Loans and other receivables	8	P	70,946	P	52,588
Trading and investment securities	7		7,908		5,572
Due from Bangko Sentral ng Pilipinas and other banks	5, 6		533		905
Others			36		25
			79,423		59,090
INTEREST EXPENSE ON					
Deposit liabilities	13		18,586		10,769
Bills payable and other liabilities	14, 15, 17		3,911		2,336
			22,497		13,105
NET INTEREST INCOME			56,926		45,985
IMPAIRMENT LOSSES	7, 8, 17		2,988		3,541
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES			53,938		42,444
OTHER OPERATING INCOME	19		29,509		22,788
OTHER OPERATING EXPENSES	19		56,501		46,795
PROFIT BEFORE TAX			26,946		18,437
TAX EXPENSE	25		6,806		5,324
NET PROFIT		P	20,140	P	13,113
Attributable To:					
Shareholders of the Parent Bank		P	20,152	P	13,148
Non-controlling Interests		(	12)	(	35)
		P	20,140	P	13,113
Earnings Per Share	26				
Basic		P	4.53	P	2.93
Diluted		P	4.53	P	2.93

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Notes	2019	2018
NET PROFIT		P 20,140	P 13,113
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified subsequently to profit or loss:			
Net unrealized gains (losses) on debt investments at fair value through other comprehensive income (FVOCI), net of tax		6,066	(1,627)
Transfer of realized losses (gains) on disposed debt investments at FVOCI to statements of income, net of tax		49	(1,902)
Impairment losses on debt investments at FVOCI	12	18	9
Total gains (losses) on FVOCI securities, net of tax		6,133	(3,520)
Translation adjustments related to foreign operations		(8)	45
		6,125	(3,475)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement on life insurance reserves		(3,195)	2,942
Unrealized gains (losses) on equity investments at FVOCI, net of tax		616	(1,819)
		(2,579)	1,123
Share in other comprehensive loss of associates accounted for under equity method	11	-	(4)
Other Comprehensive Income (Loss), net of tax		3,546	(2,356)
TOTAL COMPREHENSIVE INCOME		P 23,686	P 10,757
Attributable To:			
Shareholders of the Parent Bank		P 23,672	P 10,825
Non-controlling Interests		14	(68)
		P 23,686	P 10,757

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Gains (Losses)	Revaluation Increment	Remeasurement on Life Insurance Reserves	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Loss of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2019		P 43,740	P 5,150	P 123,377	P 14,788	P 9	P 156,327	(P 10,390)	(P 8,893)	P 1,008	P 2,257	P 15	(P 14)	P 327,372	P 777	P 328,149
Transactions with owners:	18															
Issuance of shares during the period		32		286										318		318
Cash dividends							(2,965)							(2,965)		(2,965)
		32		286			(2,965)							(2,647)		(2,647)
Total comprehensive income (loss)							20,152	6,723			(3,195)	(8)		23,672	14	23,686
Transfers to (from) Surplus Free:	18															
Trust reserve					83		(83)									
Other reserves					394		(394)									
					477		(477)									
Disposals of equity securities classified as FVOCI							(440)	451						11		11
Other adjustment –	24															
Change in ownership interest in subsidiaries						3	690	58	16					767	870	1,637
BALANCE AT JUNE 30, 2019		P 43,772	P 5,150	P 123,663	P 15,265	P 12	P 173,287	(P 3,158)	(P 8,877)	P 1,008	(P 938)	P 5	(P 14)	P 349,175	P 1,661	P 350,836
BALANCE AT JANUARY 1, 2018		P 43,690	P 5,150	P 122,966	P 12,874	P 11	P 131,519	(P 4,520)	(P 6,805)	P 1,008	(P 1,394)	(P 21)	(P 5)	P 304,469	P 869	P 305,338
Transactions with owners:	18															
Issuance of shares during the period		7		54										61		61
Cash dividends							(2,961)							(2,961)	(26)	(2,987)
		7		54			(2,961)							(2,900)	(26)	(2,926)
Total comprehensive income (loss)							13,148	(5,306)			2,942	45	(4)	10,825	(68)	10,757
Transfer to (from) Surplus Free:	18															
Reversal of appropriations during the period					(200)		200									
Trust reserve					70		(70)									
Other reserves					70		(70)									
					(60)		60									
Other adjustment –	24															
Change in ownership interest in subsidiaries						(2)								(2)	(1)	(3)
BALANCE AT JUNE 30, 2018		P 43,697	P 5,150	P 123,020	P 12,814	P 9	P 141,766	(P 9,826)	(P 6,805)	P 1,008	P 1,544	P 24	(P 9)	P 312,392	P 774	P 313,166

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 26,946	P 18,437
Adjustments for:			
Interest income		(79,423)	(59,090)
Interest received		79,029	57,079
Interest expense		22,497	13,105
Interest paid		(22,615)	(12,152)
Depreciation and amortization	9, 10, 11	3,139	2,596
Impairment losses	12	2,988	3,541
Share in net profit of associates	11	(327)	(324)
Fair value losses (gains) on financial assets at fair value through profit or loss (FVTPL)		(85)	1,697
Operating profit before changes in operating resources and liabilities		32,149	24,889
Increase in financial assets at FVTPL		(6,523)	(5,891)
Increase in loans and other receivables		(26,252)	(153,695)
Increase in investment properties		(850)	(1,062)
Decrease (increase) in other resources		(5,825)	724
Increase (decrease) in deposit liabilities		(20,026)	202,224
Increase in insurance contract liabilities		4,455	2,620
Increase in other liabilities		15,641	2,775
Cash generated from (used in) operations		(7,231)	72,584
Cash paid for income taxes		(6,607)	(5,253)
Net Cash From (Used in) Operating Activities		(13,838)	67,331
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investment at amortized cost		(58,929)	(51,819)
Maturities of investment at amortized cost		56,362	37,534
Acquisitions of financial assets at fair value through other comprehensive income (FVOCI)		(40,596)	(30,965)
Proceeds from disposals of FVOCI		20,839	30,701
Acquisitions of premises, furniture, fixtures and equipment	9	(2,027)	(5,092)
Proceeds from disposals of premises, furniture, fixtures and equipment		91	113
Net Cash Used in Investing Activities		(24,260)	(19,528)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bills payable		158,071	165,292
Payments of bills payable		(135,241)	(162,347)
Dividends paid	18	(2,965)	(2,987)
Proceeds from issuance of common stock	18	318	61
Payments of lease liabilities		(5)	-
Net Cash From Financing Activities		20,178	19
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(carried forward)***		(P 17,920)	P 47,822

	Notes	2019	2018
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(brought forward)***		(P 17,920)	P 47,822
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Cash and other cash items	5	53,749	45,006
Due from Bangko Sentral ng Pilipinas	5	354,132	353,308
Due from other banks	6	55,292	51,479
Investment securities at amortized cost - net		9,168	2,097
Securities purchased under reverse repurchase agreement (SPURRA)	8	22,009	18,260
Interbank loans receivable		42,214	31,576
Foreign currency notes and coins (FCNC)	11	4,828	3,695
		541,392	505,421
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash and other cash items	5	44,718	36,634
Due from Bangko Sentral ng Pilipinas	5	332,955	367,651
Due from other banks	6	37,319	64,192
Investment securities at amortized cost - net		15,754	21,439
SPURRA	8	31,501	18,764
Interbank loans receivable		57,419	40,576
FCNC	11	3,806	3,987
		P 523,472	P 553,243

Other Information

Certain Investment securities at amortized cost, SPURRA and Interbank loans receivables, and FCNC are included as part of cash and cash equivalents for cash flow purposes but are presented as part of Trading and Investment Securities, Loans and Other Receivables, and Other Resources, respectively, in the consolidated statements of financial position.

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2019 AND 2018
(UNAUDITED)

(With Comparative Audited Figures as of December 31, 2018)
(Amounts in Millions of Philippine Pesos, Except Per Share Data or as Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

BDO Unibank, Inc. (BDO Unibank or the Parent Bank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Philippine Securities and Exchange Commission (SEC) granted the Parent Bank extension of its corporate term for another 50 years from December 20, 2017 or until December 20, 2067. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, life insurance and insurance brokerage, credit card services, stockbrokerage, trust and others.

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

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of June 30, 2019, BDO Unibank Group had 1,362 branches (including two foreign branches), 2,390 on-site and 1,989 off-site automated teller machines (ATMs) and 511 cash accept machines (CAMs). As of June 30, 2019, the Parent Bank had 1,141 branches (including two foreign branches), 2,209 on-site and 1,946 off-site ATMs and 511 CAMs. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and a holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and in the United States. These foreign operations accounted for 1.1% and 1.4% of BDO Unibank Group's total revenues for the six months ended June 30, 2019 and 2018, respectively. These also accounts for 1.5% and 1.4% of BDO Unibank Group's total resources as of June 30, 2019 and December 31, 2018, respectively.

1.2 Subsidiaries

The BDO Unibank Group holds interests in the following subsidiaries as of June 30, 2019 and December 31, 2018:

Subsidiaries	Percentage of Ownership June 30, 2019	Percentage of Ownership December 31, 2018
Rural Bank		
One Network Bank, Inc. (A Rural Bank of BDO) (ONB)	**84.87%**	99.86%
Investment House		
BDO Capital & Investment Corporation (BDO Capital)	**99.88%**	99.88%
Private Banking		
BDO Private Bank, Inc. (BDO Private)	**100%**	100%
Leasing and Finance		
BDO Leasing and Finance, Inc. (BDO Leasing)	**88.54%**	88.54%
Averon Holdings Corporation (Averon)	**99.88%**	99.88%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%
Securities Companies		
BDO Securities Corporation (BDO Securities)	**99.88%**	99.88%
BDO Nomura Securities, Inc. (BDO Nomura)	**51%**	51%
Armstrong Securities, Inc. (ASI)	**80%**	80%
Real Estate Companies		
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%
Equimark-NFC Development Corporation (Equimark)	**60%**	60%
Insurance Companies		
BDO Life Assurance Company, Inc.(BDO Life)	**100%**	100%
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%
Remittance Companies		
BDO Remit (USA), Inc.	**100%**	100%
Express Padala (Hongkong), Ltd.	**100%**	100%
BDO Remit (Italia) S.p.A	**100%**	100%
BDO Remit (Japan) Ltd.	**100%**	100%
BDO Remit (Canada) Ltd.	**100%**	100%
BDO Remit Limited	**100%**	100%
BDO Remit (Macau) Ltd.	**100%**	100%
BDO Remit International Holdings B.V. (BDO RIH)	**96.32%**	96.32%
Others		
PCI Realty Corporation	**100%**	100%

The non-controlling interests represent the interests not held by BDO Unibank Group in ONB, BDO Capital, BDO Leasing, Averon, BDO Rental, BDO Securities, BDO Nomura, ASI, Equimark and BDO RIH.

On May 16, 2019, the Parent Bank completed the sale of its 15% ownership interest in ONB (see Note 24.3).

1.3 Approval of Interim Consolidated Financial Information

The interim consolidated financial information (unaudited) of BDO Unibank Group as of and for the six months ended June 30, 2019 (including the comparative audited financial statements as of December 31, 2018 and the unaudited interim consolidated financial information for the six months ended June 30, 2018) were authorized for issue by the Parent Bank's President on September 10, 2019.

2. BASIS OF PREPARATION OF INTERIM CONSOLIDATED FINANCIAL INFORMATION

This interim consolidated financial information has been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. This interim consolidated financial information does not include all of the information required for annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of BDO Unibank Group as of and for the year ended December 31, 2018. The interim consolidated financial information of BDO Unibank Group has been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The preparation of interim consolidated financial information in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of resources and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

In preparing the interim consolidated financial information, the significant judgments made by the management in applying the BDO Unibank Group's accounting policies and the key sources of estimation uncertainty are the same as those applied in the BDO Unibank Group's annual consolidated financial statements as of and for the year ended December 31, 2018 and the corresponding interim reporting period, except for the adoption of the new standard, PFRS 16, *Leases* (see Note 3).

This interim consolidated financial information is presented in Philippine pesos, BDO Unibank Group's functional and presentation currency, and all values are presented in millions, except for per share data or when otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in this interim consolidated financial information are consistent with those applied in BDO Unibank Group's annual consolidated financial statements as of and for the year ended December 31, 2018, except for the adoption of PFRS 16.

The mandatory effective date of PFRS 16 is for annual periods beginning January 1, 2019. PFRS 16 requires lessees to account for leases "on balance sheet" by recognizing a "right-of-use" asset and a lease liability. The BDO Unibank Group is a lessee to a numerous lease contracts and is still in the process of compiling the relevant information to determine the impact and the adjustment required for the adoption of PFRS 16. The impact of PFRS 16 will be recognized by BDO Unibank Group on the third quarter of 2019.

4. SEGMENT REPORTING

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

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

(a) ***Commercial banking*** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;

(b) ***Investment banking*** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, financial advisory services, and securities brokerage;

(c) ***Private banking*** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts;

(d) ***Leasing and financing*** – provides direct leases, sale and leaseback arrangements and real estate leases;

(e) ***Insurance*** – engages in insurance brokerage and life insurance business by providing protection, education, savings, retirement and estate planning solutions to individual and corporate clients through life insurance products and services; and,

(f) ***Others*** – includes asset management, realty management, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

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

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

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

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

During the six months ended June 30, 2019, there have been no significant changes from prior periods in the measurement methods used by the BDO Unibank Group in determining operating segments and reported segment profit or loss.

Segment information (by service lines) as of and for the six months ended June 30, 2019 (including the comparative audited financial statements as of December 31, 2018 and the financial information for the six months ended June 30, 2018) follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
June 30, 2019 (Unaudited)								
Statement of Income								
Total interest income								
External	P 76,873	P 13	P 747	P 1,009	P 776	P 5	P -	P 79,423
Intersegment	139	23	-	-	23	31	(216)	-
	77,012	36	747	1,009	799	36	(216)	79,423
Total interest expense								
External	21,326	2	376	749	43	1	-	22,497
Intersegment	46	36	21	82	4	37	(226)	-
	21,372	38	397	831	47	38	(226)	22,497
Net interest income (expense)	55,640	(2)	350	178	752	(2)	10	56,926
Other operating income								
Investment banking fees	-	477	-	-	-	-	-	477
Others	21,749	200	913	535	8,919	297	(3,581)	29,032
	21,749	677	913	535	8,919	297	(3,581)	29,509
Other operating expenses								
Depreciation and amortization	2,627	45	32	405	46	42	(58)	3,139
Impairment losses (recovery)	3,001	(2)	2	(16)	3	-	-	2,988
Others	45,189	394	636	341	7,095	171	(464)	53,362
	50,817	437	670	730	7,144	213	(522)	59,489
Profit (loss) before tax	26,572	238	593	(17)	2,527	82	(3,049)	26,946
Tax expense	6,269	74	95	12	331	25	-	6,806
Net profit (loss)	P 20,303	P 164	P 498	(P 29)	P 2,196	P 57	(P 3,049)	P 20,140

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
June 30, 2019 (Unaudited)								
Statement of Financial Position								
Total resources								
Segment assets	P 2,943,593	P 10,756	P 45,136	P 35,514	P 52,366	P 5,502	(P 44,137)	P 3,048,730
Intangible assets	5,140	211	21	9	51	1	2,906	8,339
Deferred tax assets (liability) - net	8,232	(184)	27	126	31	(15)	-	8,217
	P 2,956,965	P 10,783	P 45,184	P 35,649	P 52,448	P 5,488	(P 41,231)	P 3,065,286
Total liabilities	P 2,601,535	P 6,910	P 39,057	P 30,193	P 42,652	P 2,329	(P 8,226)	P 2,714,450
Other segment information								
Capital expenditures	P 3,172	P 14	P 17	P 247	P 12	P 6	P -	P 3,468
Investment in associates under equity method	P -	P -	P -	P 194	P -	P 4,910	P -	P 5,104
Share in the profit of associates	P -	P -	P -	(P 41)	P -	P 368	P -	P 327
June 30, 2018 (Unaudited)								
Statement of Income								
Total interest income								
External	P 56,739	P 23	P 845	P 954	P 524	P 5	P -	P 59,090
Intersegment	102	2	-	-	10	15	(129)	-
	56,841	25	845	954	534	20	(129)	59,090
Total interest expense								
External	12,286	2	325	452	38	2	-	13,105
Intersegment	13	25	-	60	-	31	(129)	-
	12,299	27	325	512	38	33	(129)	13,105
Net interest income (expense)	44,542	(2)	520	442	496	(13)	-	45,985
Other operating income								
Investment banking fees	-	633	-	-	-	-	-	633
Others	16,795	150	500	629	4,674	288	(881)	22,155
	16,795	783	500	629	4,674	288	(881)	22,788
Other operating expenses								
Depreciation and amortization	2,088	25	16	437	18	12	-	2,596
Impairment losses	3,502	-	-	29	10	-	-	3,541
Others	38,516	513	692	376	4,366	198	(462)	44,199
	44,106	538	708	842	4,394	210	(462)	50,336
Profit before tax	17,231	243	312	229	776	65	(419)	18,437
Tax expense	4,631	108	106	51	411	17	-	5,324
Net profit	P 12,600	P 135	P 206	P 178	P 365	P 48	(P 419)	P 13,113
Statement of Financial Position [December 31, 2018 (Audited)]								
Total resources								
Segment assets	P 2,905,520	P 5,745	P 48,802	P 41,382	P 43,167	P 5,486	(P 44,591)	P 3,005,511
Intangible assets	5,223	207	17	15	54	1	2,907	8,424
Deferred tax assets (liability) - net	8,319	(181)	29	126	34	(15)	-	8,312
	P 2,919,062	P 5,771	P 48,848	P 41,523	P 43,255	P 5,472	(P 41,684)	P 3,022,247
Total liabilities	P 2,586,747	P 2,075	P 43,711	P 36,180	P 34,746	P 2,375	(P 11,736)	P 2,694,098
Other segment information [June 30, 2018 (Unaudited)]								
Capital expenditures	P 5,961	P 15	P 8	P 388	P 41	P 89	P -	P 6,502
Investment in associates under equity method	P -	P -	P -	P 249	P -	P 4,777	P -	P 5,026
Share in the profit of associates	P -	P -	P -	(P 17)	P -	P 341	P -	P 324

5. CASH AND DUE FROM BSP

These accounts are composed of the following:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cash and other cash items	P 44,718	P 53,749
Due from BSP		
Mandatory reserves	323,112	347,260
Other than mandatory reserves	9,843	6,872
	332,955	354,132
	P 377,673	P 407,881

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims. Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate ranging from 4.4% to 4.7% in 2019 and from 2.5% to 5.3% in 2018.

6. DUE FROM OTHER BANKS

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

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Foreign banks	P 34,861	P 51,537
Local banks	2,458	3,755
	P 37,319	P 55,292

Annual interest rates on these deposits range from 0.0% to 7.5% in 2019 and from 0.0% to 2.5% in 2018. There are deposits, such as current accounts, which do not earn interest.

7. TRADING AND INVESTMENT SECURITIES

The components of this account are presented below.

	Notes	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Financial assets at fair value through profit or loss (FVTPL)	7.1	P 26,941	P 20,308
Financial assets at fair value through other comprehensive income (FVOCI)	7.2	146,976	120,389
Investment securities at amortized cost (AC)	7.3	253,750	244,500
		P 427,667	P 385,197

7.1 Financial Assets at FVTPL

This account is composed of the following:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Derivative financial assets	P 5,423	P 6,230
Government debt securities	4,841	2,347
Other debt securities	4,591	2,667
	14,855	11,244
Equity securities – quoted	12,086	9,064
	P 26,941	P 20,308

Annual coupon interest rates on government and other debt securities range from 0.9% to 9.5% in 2019 and from 2.8% to 10.6% in 2018.

7.2 Financial Assets at FVOCI

This account is composed of the following:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Government debt securities	P 80,777	P 60,165
Other debt securities	55,809	49,985
Equity securities:		
Quoted	8,774	8,800
Not quoted	1,616	1,439
	P 146,976	P 120,389

Government debt securities issued by the Republic of the Philippines and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual coupon rates ranging from 2.4% to 12.1% in 2019 and from 1.8% to 12.1% in 2018.

Certain financial assets at FVOCI of BDO Unibank Group amounting to nil and P1,232 as of June 30, 2019 and December 31, 2018, respectively, are pledged as collaterals to secure certain borrowings presented under Bills Payable account in the consolidated statements of financial position (see Note 14).

7.3 Investment Securities at AC

This account is composed of the following:

	Note	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Government debt securities		P 205,726	P 199,004
Corporate debt securities		49,595	47,077
		255,321	246,081
Allowance for impairment	12	(1,571)	(1,581)
		P 253,750	P 244,500

Annual coupon interest rates on government and corporate debt securities range from 0.4% to 18.3% in 2019 and from 1.4% to 15.0% in 2018.

As of June 30, 2019 and December 31, 2018, there were no securities pledged as collaterals to secure certain borrowings.

As mentioned in Note 22, certain government debt securities are deposited with the BSP.

8. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Receivables from customers:			
Loans and discounts	21	P 1,867,626	P 1,847,364
Customers' liabilities under letters of credit and trust receipts		76,208	79,476
Credit card receivables		84,449	78,738
Bills purchased		16,511	16,641
		2,044,794	2,022,219
Unearned interests or discounts		(1,744)	(2,157)
Allowance for impairment	12	(28,456)	(26,761)
Balance carried forward		P 2,014,594	P 1,993,301

	Note	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance brought forward		P 2,014,594	P 1,993,301
Other receivables:			
Interbank loans receivables		62,861	49,264
Securities purchased under reverse repurchase agreement		31,501	22,009
Accounts receivable		11,703	7,698
Sales contract receivables		911	1,150
Others		812	696
		107,788	80,817
Allowance for impairment	12	(2,462)	(2,284)
		105,326	78,533
		P 2,119,920	P 2,071,834

The Group's credit concentration of receivables from customers (net of unearned interests or discounts) as to industry follows:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Financial and insurance activities	P 288,496	P 292,871
Wholesale and retail trade	279,149	274,443
Real estate activities	256,310	242,836
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	253,267	234,238
Electricity, gas, steam and air-conditioning supply	218,669	222,305
Manufacturing	215,305	215,108
Transportation and storage	102,466	114,023
Arts, entertainment and recreation	74,679	76,366
Construction	59,757	47,797
Accommodation and food service activities	32,906	31,465
Information and communication	28,455	32,530
Mining and quarrying	23,592	23,830
Education	22,968	5,960
Agriculture, forestry and fishing	13,561	13,861
Water supply, sewerage, waste management and remediation activities	12,477	12,567
Professional, scientific and technical services	10,394	10,980
Administrative and support services	9,803	9,517
Human health and social work activities	8,976	9,092
Public administrative and defense; compulsory social security	1,182	640
Activities of extraterritorial organizations and bodies	11	41
Other service activities	130,627	149,592
	P 2,043,050	P 2,020,062

The breakdown of total loans (receivable from customers, net of unearned interests or discounts), as to secured and unsecured follows:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Secured:		
Real estate mortgage	P 292,981	P 292,723
Chattel mortgage	115,791	113,812
Other securities	103,422	119,541
	512,194	526,076
Unsecured	1,530,856	1,493,986
	P 2,043,050	P 2,020,062

Loans and other receivables bear interest rates of 0.0% (e.g., non-performing loans and zero percent credit card installment program) to 4.1% per month in both 2019 and 2018.

Certain receivables from customers of BDO Unibank Group amounting to nil and P269 as of June 30, 2019 and December 31, 2018, respectively, are pledged as collateral to secure certain borrowings presented under Bills Payable account in the consolidated statements of financial position (see Note 14).

9. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

A reconciliation of the carrying amounts at the beginning and end of the six months ended June 30, 2019 and of the year ended December 31, 2018 of premises, furniture, fixtures and equipment is shown below.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of period, net of accumulated depreciation, amortization and allowance for impairment	P 33,660	P 29,346
Depreciation and amortization charges for the period	(2,038)	(3,955)
Additions	2,027	8,135
Reclassification	143	364
Disposals	(86)	(240)
Revaluation	(5)	10
Balance at end of period, net of accumulated depreciation, amortization and allowance for impairment	P 33,701	P 33,660

10. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. A reconciliation of the carrying amounts at the beginning and end of the six months ended June 30, 2019 and of the year ended December 31, 2018 of investment properties is shown below.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of period, net of accumulated depreciation and allowance for impairment	P 19,785	P 18,040
Additions	1,468	2,807
Disposals	(562)	(681)
Depreciation charges for the period	(804)	(1,268)
Revaluation	(56)	(14)
Reclassifications	7	901
Balance at end of period, net of accumulated depreciation and allowance for impairment	P 19,838	P 19,785

11. OTHER RESOURCES

Other resources consist of the following:

	Notes	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Deferred charges		P 8,979	P 7,926
Deferred tax assets – net	25	8,217	8,312
Equity investments	11.1	5,104	5,081
Goodwill	11.2, 24	4,435	4,435
Credit card acquiring		4,352	6,182
Foreign currency notes and coins		3,806	4,828
Branch licenses	11.2	3,020	3,020
Prepaid expenses		2,104	1,352
Computer software – net	11.4	1,840	1,953
Margin deposits		1,327	2,279
Prepaid documentary stamps		902	956
Non-current assets held for sale	11.3	852	764
Customer lists – net		487	487
Real properties for development and sale		370	382
Trademark – net	11.4, 24.2	74	91
Balance carried forward		P 45,869	P 48,048

	Note	June 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
Balance brought forward		P	45,869	P	48,048
Dividend receivable			42		54
Returned checks and other cash items			14		361
Others			5,572		2,456
			51,497		50,919
Allowance for impairment	12	(	2,329)	(	2,321)
		P	49,168	P	48,598

11.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	June 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
Acquisition costs:					
SM Keppel Land, Inc.	50.00%	P	1,658	P	1,658
NLEX Corporation (previously Manila North Tollways Corporation)	11.70%		1,405		1,405
MMPC Auto Financial Services Corporation (MAFSC)	34.97%		300		300
Northpine Land, Incorporated	20.00%		232		232
Taal Land, Inc.	33.33%		170		170
Others*	*		5		5
Total acquisition costs			3,770		3,770
Accumulated equity in total comprehensive income:					
Balance at beginning of period			1,311		1,182
Equity in net profit			327		631
Dividends		(	304)	(	485)
Equity in other comprehensive loss			-	(	17)
Balance at end of period			1,334		1,311
Net investments in associates			5,104		5,081
Allowance for impairment		(	155)	(	155)
		P	4,949	P	4,926

* *This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*

11.2 Goodwill and Branch Licenses

Goodwill represents the excess of the cost of acquisition of the BDO Unibank Group over the fair value of the net assets acquired at the date of acquisition, including branch licenses, and relates mainly to business synergy for economies of scale. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines, American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc., Rural Bank of San Enrique, Inc. and BDO RIH, BDO Savings and ONB, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014 and 2015, respectively.

Branch licenses represent the rights granted by the BSP to the Parent Bank to establish certain number of branches as an incentive in acquiring The Real Bank (A Thrift Bank), Inc. and BDO Savings in addition to the current branches of the acquired banks.

11.3 Non-current Assets Held for Sale

Non-current assets held for sale include real and other properties acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale. No impairment loss has been recognized both for the six months ended June 30, 2019 and 2018.

11.4 Others

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio (see Note 24.2) amounted to P17 both for the six months ended June 30, 2019 and 2018. This is recognized as part of Miscellaneous expense under Other Operating Expenses account in the consolidated statements of income (see Note 19).

Amortization expense on computer software licenses amounted to P269 and P249 for the six months ended June 30, 2019 and 2018, respectively, and is presented as Amortization of intangibles under Other Operating Expenses account in the consolidated statements of income (see Note 19).

Depreciation expense and amortization on certain assets amounted to P11 and P2 for the six months ended June 30, 2019 and 2018, respectively, and is presented as part of Occupancy under Other Operating Expenses account in the consolidated statements of income (see Note 19).

For the six months ended June 30, 2019 and 2018, no additional impairment loss was recognized.

12. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year:			
Investment securities at AC	7.3	P 1,581	P 730
Loans and other receivables	8	29,045	26,248
Bank premises		515	515
Investment properties		1,887	1,643
Other resources	11	2,321	2,662
		35,349	31,798
Impairment losses – net		3,049	6,243
Write-offs		(1,046)	(2,325)
Foreign currency revaluation		(135)	244
Adjustments		(10)	(6)
Reclassifications		11	(226)
Reversals		(1)	(379)
		P 37,217	P 35,349
Balance at end of year:			
Investment securities at AC	7.3	P 1,571	P 1,581
Loans and other receivables	8	30,918	29,045
Bank premises		515	515
Investment properties		1,884	1,887
Other resources	11	2,329	2,321
		P 37,217	P 35,349

In 2019 and 2018, the Group provided impairment loss on debt securities measured at FVOCI amounting to P18 and P9, respectively. The impairment loss (recovery) on debt securities classified as FVOCI are recognized as part of items that are or will be reclassified subsequently to profit or loss in the statements of comprehensive income. Moreover, in 2019 and 2018, the Group recognized impairment recovery on loan commitments and other contingent accounts amounting to (P79) and nil, respectively, which are presented as part of Others under Other Liabilities in the statements of financial position (see Note 17).

13. DEPOSIT LIABILITIES

The breakdown of this account is presented below.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Demand	P 190,520	P 179,944
Savings	1,495,834	1,505,680
Time	713,204	734,341
	P 2,399,558	P 2,419,965

The breakdown of this account as to currency follows:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Philippine pesos	P 1,997,892	P 2,003,582
Foreign currencies	401,666	416,383
	P 2,399,558	P 2,419,965

The maturity profile of deposit liabilities is presented below.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Less than one year	P 2,272,327	P 2,279,536
One to five years	36,142	45,420
Beyond five years	91,089	95,009
	P 2,399,558	P 2,419,965

BDO Unibank Group's deposit liabilities bear annual interest rates ranging from 0.0% to 6.7% in 2019 and from 0.0% to 6.8% in 2018, respectively. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest.

BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Time Deposits (LTNCDs) as of June 30, 2019 and December 31, 2018 as presented as follows:

				Outstanding Balance	
Issue Date	Maturity Date	Effective Rate	BSP Approval	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
April 12, 2019	October 12, 2024	5.375%	May 11, 2018	P 7,320	P -
May 7, 2018	November 7, 2023	4.375%	June 23, 2017	8,200	8,200
August 18, 2017	February 18, 2023	3.625%	June 23, 2017	11,800	11,800
April 6, 2015	October 6, 2020	3.75%	July 10, 2014	7,500	7,500
December 11, 2013	June 11, 2019	3.125%	October 25, 2013	-	5,000
September 12, 2013	September 12, 2020	3.50%	July 4, 2013	5,000	5,000
October 15, 2012	October 15, 2019	5.25%	May 3, 2012	5,000	5,000
				P 44,820	P 42,500

The net proceeds from the issuance of LTNCDs are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

14. BILLS PAYABLE

This account is composed of the following borrowings from:

	Notes	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Senior notes	14.1	P 57,952	P 59,437
Foreign banks		47,793	55,406
Fixed rate bonds	14.2	35,400	-
Local banks		19,204	22,443
BSP		2,001	-
Others		4,390	6,337
		P 166,740	P 143,623

The breakdown of this account as to currency follows:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Foreign currencies	P 105,145	P 117,787
Philippine pesos	61,595	25,836
	P 166,740	P 143,623

The maturity profile of bills payable is presented below.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
One to three months	P 38,889	P 33,898
More than three months to one year	12,111	11,683
More than one to three years	73,643	54,882
More than three years	42,097	43,160
	P 166,740	P 143,623

Bills payable bears annual interest rates from 0.0% to 7.1% and 1.0% to 7.2% in 2019 and 2018, respectively. Certain bills payable to local banks and to BSP (included in Others) are collateralized by certain trading and investment securities and receivables from customers (see Notes 7.2 and 8).

For the six months ended June 30, 2019 and 2018, interest on bills payable amounted to P3,591 and P2,028, respectively, and is included as part of Interest Expense on Bills Payable and Other Liabilities in the consolidated statements of income.

14.1 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount		Outstanding Balance June 30, 2019 (Unaudited)	Outstanding Balance December 31, 2018 (Audited)
February 20, 2018	February 20, 2025	4.16%	US$	150	P 7,747	P 7,945
September 6, 2017	March 6, 2023	2.95%		700	34,762	35,646
October 24, 2016	October 24, 2021	2.63%		300	15,443	15,846
					P 57,952	P 59,437

The issuance of the senior notes is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds.

14.2 Fixed Rate Bonds

On February 11, 2019, the Parent Bank issued fixed rate bonds with face value of P35,000 and coupon rate of 6.4% which will mature on August 11, 2020. The issuance of the bonds is part of the Parent Bank's efforts to diversify funding sources and support business expansion.

15. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (Notes) represent direct, unconditional, unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not deposits, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation (PDIC), or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The proceeds from the Notes were used to expand further the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

The issuance of the Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014. The Notes has a principal amount of P10,000 and will mature on March 10, 2025. As of June 30, 2019 and December 31, 2018, the outstanding balance of the Notes including accrued interest both amounted P10,030.

Total interest expense on the Notes included as part of Interest Expense on Bills Payable and Other Liabilities in the consolidated statements of income both amounted to P259 both for the six months ended June 30, 2019 and 2018.

16. INSURANCE CONTRACT LIABILITIES

This account consists of:

		June 30, 2019 (Unaudited)		December 31, 2018 (Audited)
Legal policy reserves	P	34,133	P	26,514
Policy and contract claims payable		1,476		1,524
Policyholders' dividends		547		468
	P	36,156	P	28,506

Legal policy reserves represent estimates of present value of benefits in excess of present value of premium and also include the policyholders' share in net assets for variable-unit linked life insurance contracts (see Note 23). These estimates are based on interest rates, mortality/morbidity tables, lapsed rate, and valuation method as prescribed by the Insurance Commission (IC). The movements in legal policy reserves for the periods ended June 30, 2019 and 2018, except those brought about by changes in discount rate, is recognized as part of Policy reserves, insurance benefits and claims under Other Operating Expenses in the consolidated statements of income (see Note 19). This account shall be measured and accounted for in accordance with the circular on valuation standard for the life insurance reserves. The movement in legal policy reserves brought about by the changes in discount rate is recognized under Remeasurement on life insurance reserves in the consolidated statements of comprehensive income.

17. OTHER LIABILITIES

Other liabilities consist of the following:

		June 30, 2019 (Unaudited)		December 31, 2018 (Audited)
Accounts payable	P	23,362	P	20,688
Manager's checks		16,304		14,447
Accrued expenses		15,385		11,151
Bills purchased – contra		10,741		10,774
Lease deposits		5,549		6,760
Derivatives with negative fair values		4,667		4,497
Outstanding acceptances payable		3,815		3,591
Premium deposit fund		3,718		3,605
Retirement benefit obligation		2,973		4,537
Withholding taxes payable		1,505		1,342
Due to BSP and Treasurer of the Philippines		531		100
Capitalized interest and other charges		416		411
Due to principal		296		451
Others		12,704		9,620
	P	101,966	P	91,974

Others include margin deposits, life insurance deposits, cash letters of credit and miscellaneous liabilities. Impairment recoveries recognized for off-books account amounted to (P79) and nil in 2019 and 2018, respectively. These amounts are recorded as part of Others under Other Liabilities account in the consolidated statements of financial position (see Note 12).

Interest expense on certain liabilities amounting to P61 and P49 for the six months ended June 30, 2019 and 2018, respectively, are presented as part of Interest Expense on Bills Payable and Other Liabilities in the consolidated statements of income.

18. EQUITY

18.1 Capital Management and Regulatory Capital

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

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

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

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

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

(a) Common Equity Tier 1 (CET 1) of at least 6.0% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets;
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital; and,
(e) Countercyclical capital Buffer (CCyB) of 0% subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%.

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

Risk assets consist of total resources after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

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

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

Under BSP Circular 781, universal banks with more than 100 branches are required to comply with the minimum capital requirement of P20 billion. As of June 30, 2019 and December 31, 2018, the Parent Bank has complied with the above capitalization requirement.

On October 29, 2014, the BSP issued Circular 856 on the guidelines on the framework for dealing with domestic systemically important banks (DSIB) that is consistent with the Basel principles. Banks which are identified as DSIB shall be required to have a higher loss absorbency (HLA). The HLA requirement is aimed at ensuring that DSIBs have a higher share of their statements of financial position funded by instruments which increase their resilience as a going concern. The HLA requirement is to be met with CET 1 capital.

Banks identified by the BSP as DSIB will be asked to put up additional CET 1 capital ranging from 1.5% to 3.5%, to be implemented on a staggered basis from January 1, 2017 until January 1, 2019. As of June 30, 2019, the BDO Unibank Group has complied with this requirement.

BSP Circular 1024 requires banks to put up a CCyB, which is set initially at zero percent (0%), composed CET 1. CCyB may be subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. This took effect last January 4, 2019.

BDO Unibank Group's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of June 30, 2019 and December 31, 2018 follows:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Tier 1 Capital		
CET 1	P 331,123	P 309,694
Additional Tier 1	5,150	5,150
	336,273	314,844
Tier 2 Capital	31,968	31,799
Total Regulatory Capital	368,241	346,643
Deductions	(32,857)	(32,872)
Total Qualifying Capital	P 335,384	P 313,771
Total Risk Weighted Assets	P 2,351,440	P 2,279,864
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.3%	13.8%
Tier 1 Capital Ratio	12.9%	12.4%
Total CET 1 Ratio	12.7%	12.1%

18.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Preferred shares – P10 par value				
Authorized – 1,000,000,000 shares				
Issued, fully paid and outstanding	515,000,000	515,000,000	P 5,150	P 5,150
Common shares – P10 par value				
Authorized – 5,500,000,000 shares				
Issued, fully paid and outstanding:				
Balance at beginning of period	4,374,048,064	4,368,974,554	P 43,740	P 43,690
Issued during the period	3,191,220	5,073,510	32	50
Balance at end of period	4,377,239,284	4,374,048,064	P 43,772	P 43,740

18.2.1 Preferred Shares

The following are the features of the BDO Unibank Group's preferred shares:

(a) Perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A shares;

(b) Convertible to common shares at the option of the holder after five years from the issue date or at the option of BDO Unibank Group at any time after issue date; and,

(c) Dividend rate is 6.5% per annum of the par value.

18.2.2 Common Shares

As of June 30, 2019 and December 31, 2018, there are 12,557 and 12,583 holders of the listed shares, respectively, equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P140.00 per share as of June 28, 2019 and at P130.80 per share as of December 28, 2018 (the last trading day in 2018).

18.3 BDO American Depositary Receipt Program

On April 18, 2013, the Parent Bank launched its Sponsored Level 1 American Depositary Receipt (ADR) Program by which negotiable securities representing underlying BDO common shares can be traded in the U.S. over-the-counter (OTC) market. This provides flexibility for U.S. investors to trade BDO common shares in their time zone and settle their transactions locally. It is meant to tap the pool of U.S. ADR investors, enhance visibility and global presence and diversify and broaden the Parent Bank's shareholder base. ADRs are quoted and traded in U.S. dollars, and cash dividends received on the underlying shares are paid to investors also in U.S. dollars. The ADR ratio for BDO's sponsored Level 1 ADR Program is 1:10, with each ADR representing ten underlying BDO common shares.

The sponsored Level 1 ADR Program does not necessitate the issuance of new shares as ADRs are traded on the U.S. OTC/secondary market using existing shares, in contrast to the sponsored Level II ADR or sponsored Level III ADR where shares are fully listed on a recognized U.S. exchange (e.g., NYSE, NASDAQ). As such, a Level 1 ADR is not a capital raising transaction, to differentiate it from Level III ADR, which allows the issuer to raise capital through a public offering of ADRs in the U.S.

The sponsored Level 1 ADR is exempt, under U.S. SEC Rule 12g3-2(b), from SEC registration, disclosure requirements and reporting obligations, including Sarbanes-Oxley and U.S. generally accepted accounting principles.

Given its sponsored Level 1 ADR Program, the Bank appointed Deutsche Bank (DB) as the exclusive depositary of ADRs for a period of five years. As depositary bank, DB is responsible for the issuance and cancellation, as well as the registration of the ADRs; custody of the underlying BDO common shares and maintenance of the register of holders; the distribution of dividends; and execution of corporate actions and services to the Issuer (i.e., BDO)/Investor/Broker.

As of June 30, 2019 and December 31, 2018, 792,522 and 581,041 ADRs valued at US$21,707,178 and US$14,711,958 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$27.39/share and US$25.32/share, respectively). The outstanding ADR shares as of June 30, 2019 and December 31, 2018 are equivalent to BDO common shares amounting to 7,925,220 and 5,810,410, respectively, at the ratio 1:10 (i.e, each ADR represents ten underlying BDO common shares).

18.4 Surplus Free

On May 25, 2019, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,313. The dividends were declared to stockholders of record as of June 11, 2019 and paid on June 24, 2019.

On February 23, 2019, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,313. The dividends were declared to stockholders of record as of March 12, 2019 and paid on March 25, 2019.

On January 26, 2019, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P339. The dividends were paid on March 8, 2019.

On December 8, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of December 21, 2018 and paid on December 28, 2018.

On November 21, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P70.00 per share or a total of P700. The dividends were declared to stockholders as of November 30, 2018 and paid on December 5, 2018, of which, total dividends paid to non-controlling interest amounted to P0.80.

On August 31, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of September 14, 2018 and paid on September 28, 2018.

On May 26, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of June 13, 2018 and paid on June 29, 2018.

On March 2, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P80.00 per share or a total of P800. The dividends were declared to stockholders of record as of February 28, 2018 and paid on March 23, 2018, of which, total dividends paid to non-controlling interest amounted to P1.

On February 24, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of March 13, 2018 and paid on March 28, 2018.

On February 21, 2018, the BOD of BDO Leasing approved the declaration of cash dividends at P0.10 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P216. The dividends were declared to stockholders of record as of March 9, 2018 and paid on March 27, 2018, of which, total dividends paid to non-controlling interest amounted to P25.

On January 27, 2018, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P339. The dividends were paid on March 2, 2018.

18.5 Surplus Reserves

On April 19, 2018, the BOD of BDOI approved the reversal of the previously approved appropriation for branches/satellite office expansion amounting to P7.

On February 12, 2018, the BOD of BDO Securities approved the reversal of the previously approved appropriation for proprietary trading amounting to P200.

In compliance with BSP regulations, 10% of BDO Unibank Group's profit from trust business amounting to P83 and P70 for the six months ended June 30, 2019 and 2018, respectively, is appropriated to surplus reserves (see Note 22).

BDO Unibank Group appropriated its Surplus Free amounting to P390 representing the additional excess of 1% required allowance of the BSP over the computed expected credit losses allowance for general loan portfolio for the six months ended June 30, 2019. This appropriation was recognized as part of Surplus Reserves account in the consolidated statements of changes in equity.

18.6 Employee Stock Option Plan (ESOP)

For options that were vested, BDO Unibank Group issued new common shares of 3,191,220 and 5,073,510 during the six months ended June 30, 2019 and December 31, 2018, respectively, from its authorized capital stock.

Set out below is the summary of number of options vested under the plan.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of period	**7,260,696**	5,177,283
Exercised during the period	**(4,929,220)**	(7,371,716)
Vested during the period	**14,308,411**	9,455,129
Balance at end of period	**16,639,887**	7,260,696

19. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

		For the Six Months Ended	
	Note	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Service charges, fees and commissions		P 14,979	P 12,964
Insurance premiums		6,853	5,618
Trading gains (losses) – net		1,990	(1,933)
Trust fees	22	1,702	1,664
Foreign exchange gain – net		1,602	1,879
Rental		802	845
Income from assets acquired		462	565
Dividends		322	390
Recovery on charged-off assets		259	278
Miscellaneous		538	518
		P 29,509	P 22,788

Other operating expenses consist of the following:

		For the Six Months Ended	
	Notes	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Employee benefits	20	P 15,916	P 13,670
Fees and commissions		7,975	6,564
Taxes and licenses		7,081	5,779
Occupancy	9, 10 11.4, 21, 27.2	5,144	4,421
Policy reserves, insurance benefits and claims	16	5,601	2,935
Insurance		2,606	2,295
Advertising		2,397	1,881
Security, clerical, messengerial and janitorial		1,944	1,779
Representation and entertainment		912	1,062
Repairs and maintenance		773	696
Power, light and water		605	586
Travelling		580	577
Supplies		427	486
Information technology		418	299
Amortization of intangibles	11.4	269	249
Litigation on assets acquired		265	279
Miscellaneous	11.4	3,588	3,237
		P 56,501	P 46,795

20. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are presented below (see Note 19).

	For the Six Months Ended	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Salaries and wages	**P 9,991**	P 8,899
Bonuses	**2,317**	2,074
Retirement – defined benefit plan	**1,078**	848
Social security costs	**416**	351
ESOP	**470**	290
Other benefits	**1,644**	1,208
	P 15,916	P 13,670

21. RELATED PARTY TRANSACTIONS

The summary of BDO Unibank Group's transactions with its related parties for the periods ended June 30, 2019 and 2018 and outstanding balances as of June 30, 2019 and December 31, 2018 are as follows:

		June 30, 2019 (Unaudited)		June 30, 2018 (Unaudited)	December 31, 2018 (Audited)
Related Party Category	Notes	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
DOSRI Loans	21.1				
Stockholders		**P 21,103**	**P 41,322**	P 16,475	P 51,131
Related Parties Under Common Ownership		**64**	**673**	159	1,032
Officers and employees		**864**	**2,034**	785	2,019
Deposit Liabilities	21.2				
Stockholders		**299,382**	**41,605**	388,919	46,873
Related Parties Under Common Ownership		**2,894**	**505**	6,048	3,765
Officers and employees		**316**	**29**	417	21
Retirement Plan	21.3	**6**	**5,962**	11	5,188
Other Transactions with Associates	21.4 (a)				
Loans and Advances		**2,528**	**8,147**	850	6,936
Interest Income		**285**	**278**	161	342
Related Parties Under Common Ownership	21.4 (b)(i)				
Rent expense		**567**	**100**	553	92
Key Management Personnel	21.4 (b)(ii)				
Compensation		**566**	-	600	-

In the ordinary course of business, BDO Unibank Group has loans, deposits and other transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI) as described below.

21.1 Loans to Related Parties

Under existing policies of BDO Unibank Group, these loans are made on substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group.

In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group, whichever is lower. As of June 30, 2019 and December 31, 2018, BDO Unibank Group is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Total DOSRI loans	**P 44,029**	P 54,182
Unsecured DOSRI loans	**1,739**	1,726
Past due DOSRI loans	**5**	7
Non-performing DOSRI loans	**14**	15
% of DOSRI loans to total loan portfolio	**2.16%**	2.68%
% of unsecured DOSRI loans to total DOSRI loans	**3.95%**	3.19%
% of past due DOSRI loans to total DOSRI loans	**0.01%**	0.01%
% of non-performing DOSRI loans to total DOSRI loans	**0.03%**	0.03%

DOSRI loans bear annual interest rates of 0.0% to 9.0% in both 2019 and 2018 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

Total DOSRI loans include loans to officers under the Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within three months to 20 years.

Total DOSRI loan releases and collections for the six months ended June 30, 2019 amounted to P22,031 and P32,184, respectively. Total loan releases and collections for the year ended December 31, 2018, on the other hand, amounted to P17,419 and P23,719, respectively.

21.2 Deposits from Related Parties

As of June 30, 2019 and 2018, total deposits made by the related parties to the Parent Bank amounted to P302,592 and P395,384, respectively. Interest expense from deposits amounted to P801 and P971 for the six months ended June 30, 2019 and 2018, respectively.

21.3 Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group for the periods ended June 30, 2019 and 2018 and outstanding balances as of June 30, 2019 and December 31, 2018 as follows:

Related Party Category	June 30, 2019 (Unaudited) Amount of Transaction	June 30, 2019 (Unaudited) Outstanding Balance	June 30, 2018 (Unaudited) Amount of Transaction	December 31, 2018 (Audited) Outstanding Balance
Loans to employees				
BDO Unibank	P -	P 16	P -	P 18
Investment in shares of:				
BDO Unibank	-	22	-	20
BDO Leasing	-	1	-	1
Deposit liabilities (including LTNCDs)				
BDO Unibank	-	5,923	-	5,149
Trading gain (loss)				
BDO Unibank	1	-	(7)	-
Interest expense				
BDO Unibank	5	-	18	-

21.4 Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with associates and other related parties is shown below and in the succeeding page. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(a) Other transactions of the Parent Bank with associates are shown below.

Loans and Advances to Associates

As of June 30, 2019 and December 31, 2018, outstanding loans and advances to associates amounted to P8,147 and P6,936, respectively. The related loans and advances are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the consolidated statements of financial position (see Note 8). These loans are payable between one month to twelve years. BDO Unibank Group recognized P285 and P161 interest income on these loans for the six months ended June 30, 2019 and 2018, respectively. Annual interest rate on these loans ranges from 0.0% to 7.7% and 4.5% to 7.7% for the six months ended June 30, 2019 and 2018, respectively.

(b) Other transactions of the Parent Bank with related parties under common ownership are shown below:

(i) Expenses of the Parent Bank

The Parent Bank leases space from related parties for its branch operations. Total rent expense charged by related parties under common ownership for the six months ended June 30, 2019 and 2018 is included as part of Occupancy account under Other Operating Expenses (see Note 19).

(ii) The salaries and other compensation given to the BDO Unibank Group's key management are as follows:

	For the Six Months Ended	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Salaries and wages	**P 461**	P 489
Bonus	**104**	109
Social security costs and other benefits	**1**	2
	P 566	P 600

22. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee – see Note 19) for its customers are not included in the accompanying consolidated statements of financial position since these are not resources of the BDO Unibank Group (see Note 27.3):

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Investments	**P 1,215,712**	P 1,150,783
Others	**15,841**	10,934
	P 1,231,553	P 1,161,717

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities which are shown as part of Investment securities at amortized cost (see Note 7.3) with a total face value of P13,470 and P13,136 as of June 30, 2019 and December 31, 2018, respectively, are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. For the periods ended June 30, 2019 and December 31, 2018, the additional reserve for trust functions amounted to P83 and P251, respectively, is included as part of Surplus Reserves account in the statements of changes in equity (see Note 18.5).

23. UNIT-LINKED FUNDS

Variable unit-linked (VUL) life insurance contracts of BDO Life are life insurance policies wherein a portion of the premiums received are invested in VUL funds, which are composed mainly of investments in equity and debt securities. The withdrawal or surrender amount of a VUL policy can be computed by multiplying the total units held by the policyholder by the fund's Net Asset Value (NAV) per unit, which changes daily depending on the fund's performance.

In 2013, BDO Life obtained the approval from IC to issue VUL products, where payments to policyholders are linked to internal investment funds set up by the Company. The VUL funds are managed by BDO – Trust and Investment Group (BDO – TIG).

As of June 30, 2019 and December 31, 2018, BDO Life has 12 VUL funds. The details of the investment funds, which comprise the assets backing the unit-linked liabilities are presented below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the consolidated financial statements.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets:		
Cash and cash equivalents	**P 34**	P 73
Financial assets at FVTPL	**11,481**	8,514
Other receivables	**33**	13
	P 11,548	P 8,600
Liabilities and Equity:		
Other liabilities	**P 163**	P 45
Net assets attributable to unitholders (see Note 16)	**11,385**	8,555
	P 11,548	P 8,600

24. MERGERS AND ACQUISITIONS

24.1 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by BDO Capital of 3,273,000 shares in BDO RIH (formerly CBN Grupo International Holdings B.V.) for €3. The BSP approved the investment in March 2016. On October 21, 2016, BDO RIH issued the shares to BDO Capital, making BDO Capital the owner of approximately 96% of the outstanding capital stock of BDO RIH. CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered, thereafter, with The Netherlands Chamber of Commerce on October 24, 2016. The total goodwill recognized in 2016 amounted to P32 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 11.2).

24.2 Acquisition of Credit Card Portfolio

On June 14, 2016, the Parent Bank signed an agreement with SB Cards Corporation (SB Cards) to be the exclusive issuer and acquirer of Diners Club credit cards in the Philippines. The acquisition includes SB Cards' existing Diners Club portfolio and its cardholder base. The agreement took effect on September 30, 2016.

The Parent Bank recognized the acquisition-date fair value of the existing credit card receivables and liabilities assumed and compared the net assets acquired with the cash consideration given up resulting in the recognition of Trademark for the excess relating to the use of Diners Club tradename by the Parent Bank for a period of five years. Presented below is the analysis of the transaction.

Credit card receivables	P 586
Liabilities	(18)
Net asset acquired	568
Cash consideration	(733)
Trademark (see Note 11.4)	P 165

24.3 Acquisition of ONB

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of additional paid-in capital amounting to P6,028, net of related transaction costs amounting to P3.

Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%. Total goodwill recognized in 2015 amounted to P2,903 (see Note 11).

As of December 31, 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. These additional purchases of ONB common shares by the Parent Bank increased its total shareholdings in ONB to 99.76%. Total additional goodwill recognized in 2016 amounted to P4 (see Note 11).

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	3,294
Trading and investment securities		2,457
Loans and other receivables		20,532
Bank premises, furniture, fixtures and equipment		1,510
Other resources		403
Total resources		28,196
Deposit liabilities		20,920
Other liabilities		3,478
Total liabilities		24,398
Net asset position		3,798
Non-controlling share in equity	(	14)
Cost of investment	(	6,687)
Goodwill	P	2,903

On December 3, 2016, the Parent Bank's BOD authorized a P1,000 capital infusion into ONB to allow the subsidiary to provide for its ongoing expansion plans and to comply with BSP regulations. The BSP approved the additional equity investment into ONB on August 10, 2017. On September 13, 2017, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.79%.

On September 30, 2017, the Parent Bank's BOD authorized an additional P1,000 capital infusion into ONB to support its micro, small and medium enterprises initiatives and give it additional leeway in its expansion plans. The BSP approved the additional equity investments into ONB on December 13, 2017. Moreover, on January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.81%. On May 15, 2019, January 23, 2018 and December 27, 2018, the Parent Bank subscribed to an additional 18,758, 124,275 and 14,276 shares, respectively, from ONB's total issued and outstanding capital stock thereby increasing its shareholdings in ONB to 99.86%

On October 1, 2018, the Parent Bank, together with ONB, has entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire a 15% ownership interest in ONB via the purchase of 17,341,475 shares held by the Parent Bank and the subscription of 34,682,949 unissued common shares of ONB at a price of P31.77 per share. The transaction was completed on May 16, 2019. The change in ownership interest resulted only to recognition of Non-controlling Interest amounting to P870 in the consolidated statement of changes in equity since it did not result in the loss of control of the Parent Bank.

24.4 Purchase of Loans and Deposits of Rural Bank of Pandi by ONB

On February 4, 2019, ONB, entered into an asset sale and purchase agreement with Rural Bank of Pandi, Inc. (RBPI) to purchase RBPI's gross loan receivables and assume its recorded deposit liabilities worth approximately P781 and P918, respectively. The transaction is seen to provide ONB with a stronger presence in Bulacan and fast track its expansion in Central Luzon (see Note 28.3).

25. TAXES

The major components of tax expense reported in the consolidated statements of income follow:

	For the Six Months Ended	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Reported in profit or loss:		
Current tax expense	**P 6,703**	P 5,476
Deferred tax expense (income) relating to origination and reversal of temporary differences	**103**	(152)
	P 6,806	P 5,324
Reported in other comprehensive income (loss):		
Movement in fair value of FVOCI securities	**P 3**	(P 9)
Revaluation increment	**(1)**	(3)
	P 2	(P 12)

The components of the net deferred tax assets (see Note 11) follow:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Deferred tax assets:		
Allowance for impairment	P 6,596	P 6,560
Unamortized past service cost	1,093	1,219
Retirement obligation	1,019	863
Lease income differential	146	146
Others	52	217
	8,906	9,005
Deferred tax liabilities:		
Revaluation increment	431	432
Capitalized interest	46	48
Changes in fair values of FVOCI securities	39	36
Lease income differential	2	2
Others	171	175
	689	693
Deferred tax assets – net	P 8,217	P 8,312

26. EARNINGS PER SHARE

26.1 Basic Earnings Per Share

Basic earnings per share attributable to shareholders of BDO Unibank Group are computed as follows:

	For the Six Months Ended	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Net profit attributable to shareholders of the Parent Bank	P 20,152	P 13,148
Less dividends in arrears on preferred shares	339	339
Net profit available to common shares	19,813	12,809
Divided by the weighted average number of outstanding common shares (in millions)	4,375	4,369
Basic earnings per share	P 4.53	P 2.93

26.2 Diluted Earnings Per Share

Diluted earnings per share attributable to the shareholders of BDO Unibank Group are computed as follows:

	For the Six Months Ended	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Net profit available to common shares	**P 19,813**	P 12,809
Divided by the weighted average number of outstanding common shares (in millions):		
Outstanding common shares	**4,375**	4,369
Potential common shares from assumed conversion of convertible preferred shares*	*****	*
Potential common shares from assumed conversion of stock option plan**	******	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares and stock option plan	**4,375**	4,369
Diluted earnings per share	**P 4.53**	P 2.93

* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

** *Potential common shares from assumed conversion of stock option plan made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

27. COMMITMENTS AND CONTINGENT LIABILITIES

27.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of June 30, 2018, management believes that no such legal proceedings are expected to have material adverse effect on the BDO Unibank Group's consolidated financial position.

27.1.1 Applicability of Revenue Regulation 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 (RR 4-2011) regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

RR 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and 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. BDO Unibank, Inc. and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR 4-2011 and that the scope of RR 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the RTC of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR 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 4-2011 against the Petitioners, including the issuance of preliminary assessment notice or final assessment notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 25, 2018, the RTC declared RR 4-2011 as null and void. The writs of preliminary injunction issued by the RTC on April 25, 2015 and February 28, 2018 were also made permanent, thereby enjoining Department of Finance (DOF) and BIR from implementing RR 4-2011 and prohibiting them from issuing a preliminary assessment notice or final assessment notice, or deciding any administrative matter pending before it, according to or in relation to said regulation.

On July 10, 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari ("Motion for Extension"). 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 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

On March 27, 2019, the Supreme Court ordered Respondents to file their Comment on the Petition.

The case remains pending as of June 30, 2019.

27.1.2 First e-bank

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting PDIC to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with BDO Unibank where in consideration of the assumption by BDO Unibank of FeB's liabilities in the maximum amount of P10,000, PDIC will provide BDO Unibank P10,000 of Financial Assistance and PDIC will receive FeB's assets to recover said financial assistance.

About P5,000 of the financial assistance was released to BDO Unibank and the remaining P5,000 was deposited in escrow with BDO - TIG in accordance with the escrow agreement dated October 23, 2002 entered into by BDO Unibank, PDIC, and BDO - TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets BDO Unibank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon. Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against BDO Unibank, which case was raffled to RTC Makati City Branch 60.

On October 14, 2016, BDO Unibank filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

In a judgement dated May 31, 2018, RTC Makati dismissed the complaint, granted BDO Unibank's counterclaim and ordered BDO - TIG to immediately release the remaining escrow amount, plus interests, to BDO Unibank. PDIC filed Motion for Reconsideration but the same was denied by RTC Makati. PDIC filed Notice of Appeal. Case is still pending before the Court of Appeals.

27.1.3 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of June 30, 2019 management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

27.2 Leases

The BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expense account in the consolidated statements of income, amounted to P1,850 and P1,756 for the periods ended June 30, 2019 and 2018, respectively (see Note 19).

The estimated minimum future annual rentals follow:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Within one year	P 2,591	P 1,931
More than one year but not more than five years	15,341	15,569
More than five years	6,131	6,102
	P 24,063	P 23,602

27.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying BDO Unibank Group consolidated financial information. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of June 30, 2019, no additional material losses or liabilities are required to be recognized in the accompanying consolidated financial information of BDO Unibank Group as a result of these commitments and contingencies.

Following is a summary of BDO Unibank Group's commitments and contingent accounts:

	Note		**June 30, 2019 (Unaudited)**		December 31, 2018 (Audited)
Trust department accounts	22	**P**	**1,231,553**	P	1,161,717
Committed credit lines			**389,301**		349,732
Forward exchange sold			**153,760**		132,422
Forward exchange bought			**160,698**		122,948
Unused commercial letters of credit			**47,829**		48,950
Spot exchange sold			**17,493**		10,818
Interest rate swap receivable			**16,246**		19,201
Interest rate swap payable			**16,246**		19,201
Bills for collection			**10,141**		10,716
Spot exchange bought			**9,551**		7,273
Republic of the Philippines warrants			**8,475**		8,475
Export letters of credit confirmed			**7,675**		6,180
Outstanding guarantees issued			**3,548**		1,715
Late deposits/payments received			**2,978**		2,674
Other contingent accounts			**3,040**		3,038

28. EVENTS AFTER THE END OF THE REPORTING PERIOD

28.1 Sale of Equity Investment on MAFSC by BDO Leasing

On July 4, 2019, BDO Leasing sold to JACCS Co. LTD., a corporation duly organized and existing under the laws of Japan, its 3,000,000 common shares representing 40% ownership interest in MMPC Auto Financial Services Corporation for P166.

28.2 Change in Corporate Name of ONB

On July 31, 2019, the SEC approved the resolution changing the corporate name of ONB to BDO Network Bank, Inc. doing business under the names and styles of BDO Network Bank, BDO Network Bank, a Rural Bank, BDO Network, a Rural Bank.

28.3 Approval of Purchase of Loans and Deposits of RBPI by ONB

On August 22, 2019, the Monetary Board of the BSP approved the asset sale and purchase agreement entered by ONB to purchase RBPI's gross loan receivables and assume its recorded deposit liabilities (see Note 24.4). However, as of June 30, 2019, the completion of the transaction is still subject to the fulfillment of other closing conditions.

28.4 Dividends

On August 31, 2019, the Parent Bank's BOD approved the declaration of cash dividends on common shares at the rate of P0.30 per share to all stockholders of record as of September 17, 2019 and payable on September 30, 2019.

THE ISSUER

BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue
Makati City Philippines

SOLE ARRANGER

The Hongkong and Shanghai Banking Corporation Limited
HSBC Centre, 3058 Fifth Avenue West,
Bonifacio Global City, Taguig City
Philippines

SELLING AGENTS

BDO CAPITAL & INVESTMENT CORPORATION
BDO Corporate Center
7899 Makati Avenue
Makati City, Philippines

BDO PRIVATE BANK
BDO Equitable Tower
8751 Paseo de Roxas
Makati City, Philippines

REGISTRAR AND PAYING AGENT

Philippine Depository & Trust Corp.
37/F The Enterprise Center Tower I
6766 Ayala Avenue corner Paseo de Roxas
Makati City Philippines

LEGAL ADVISERS

Picazo Buyco Tan Fider & Santos
Transaction Counsel
Penthouse, Liberty Center – Picazo Law
104 H.V. dela Costa St., Salcedo Village
Makati City

Martinez Vergara Gonzalez & Serrano
Issuer Counsel
Suite 2401 The Orient Square
F. Ortigas, Jr. Road, Ortigas Center
Pasig City

INDEPENDENT AUDITORS

Punongbayan & Araullo
20/F The Enterprise Center Tower I
6766 Ayala Avenue
Makati City
Philippines

BDO