BDO

2019 ANNUAL REPORT
FINANCIAL SUPPLEMENTS

Finding
Ways

2019 ANNUAL REPORT
FINANCIAL SUPPLEMENTS

Table of Contents

06 Our Purpose
- Corporate Mission
- Corporate Vision
- Core Values
- Corporate Profile

08 Financial Highlights

10 Report of the Audit Committee to the Board of Directors

12 Statement of Management's Responsibility for Financial Statements

13 Report of Independent Auditors

21 Statements of Financial Position

22 Statements of Income

23 Statements of Comprehensive Income

24 Statements of Changes in Equity

26 Statements of Cash Flows

28 Notes to Financial Statements

214 Supplementary Management Discussion

Our Purpose

Corporate Mission

To be the preferred bank in every market we serve.

Corporate Vision

To be the leading Philippine bank and financial services company that empowers customers to achieve their goals and aspirations, combining our entrepreneurial spirit, international perspective, and intense customer focus to deliver a personalized banking experience that is easy, straightforward, and convenient, while taking pride in building long-term relationships and finding better ways to deliver offerings of the highest standard.

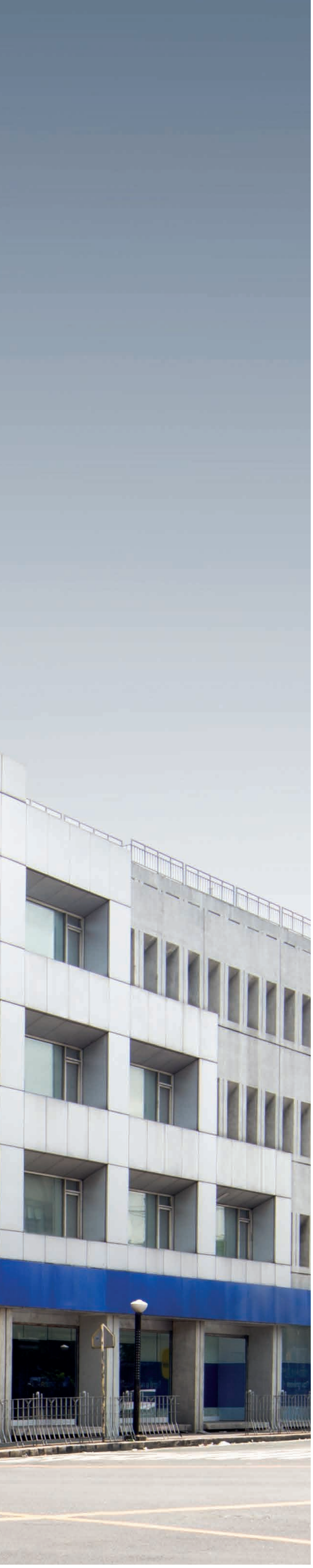
Core Values

Commitment to Customers. We are committed to delivering products and services that surpass customer expectations in value and every aspect of customer service, while remaining prudent and trustworthy stewards of their wealth.

Commitment to a Dynamic and Efficient Organization. We are committed to creating an organization that is flexible, responds to change, and encourages innovation and creativity; we are committed to the process of continuous improvement in everything we do.

Commitment to Employees. We are committed to our employees' growth and development and we will nurture them in an environment where excellence, integrity, teamwork, professionalism, and performance are valued above all else.

Commitment to Shareholders. We are committed to providing our shareholders with superior returns over the long-term.



Corporate Profile

BDO is a full-service universal bank in the Philippines. It provides a complete array of industry-leading products and services including Lending (corporate and consumer), Deposit-taking, Foreign Exchange, Brokering, Trust and Investments, Credit Cards, Corporate Cash Management and Remittances in the Philippines. Through its local subsidiaries, the Bank offers Investment Banking, Private Banking, Leasing and Finance, Rural Banking, Life Insurance, Insurance Brokerage and Stock Brokerage services.

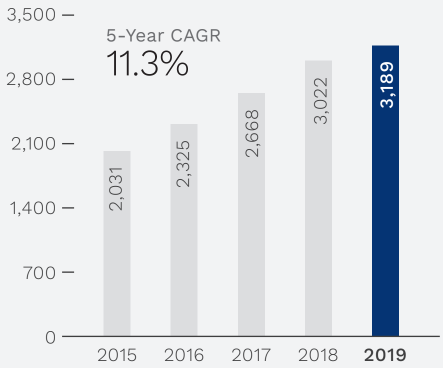
BDO's institutional strengths and value-added products and services hold the key to its successful business relationships with customers. On the front line, its branches remain at the forefront of setting high standards as a sales and service-oriented, customer-focused force. BDO has the largest distribution network with over 1,400 operating branches and more than 4,400 ATMs nationwide.

Through selective acquisitions and organic growth, BDO has positioned itself for increased balance sheet strength and continuing expansion into new markets. As of December 31, 2019, BDO is the country's largest bank in terms of total resources, customer loans, deposits, assets under management and capital, as well as branch and ATM network nationwide.

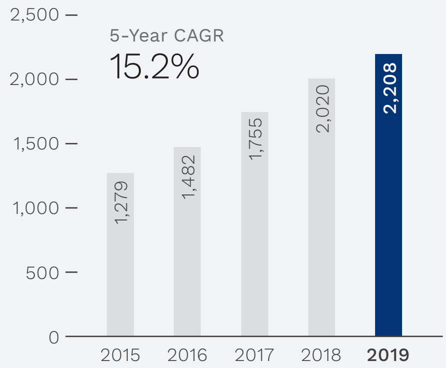
BDO is a member of the SM Group, one of the country's largest and most successful conglomerates with businesses spanning retail, mall operations, property development (residential, commercial, hotels and resorts), and financial services. Although part of a conglomerate, BDO's day-to-day operations are handled by a team of professional managers and bank officers. Further, the Bank has one of the industry's strongest Board of Directors, composed of professionals with extensive experience in various fields that include banking and finance, accounting, law, and business.

Financial Highlights

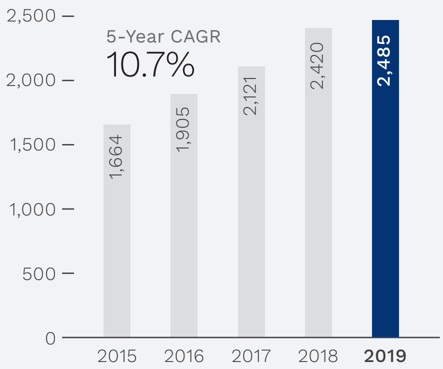
Resources
(in billion Php)



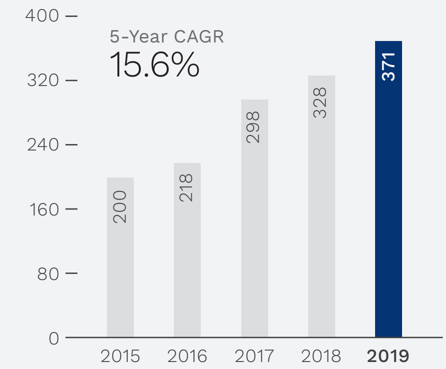
Gross Customer Loans
(in billion Php)



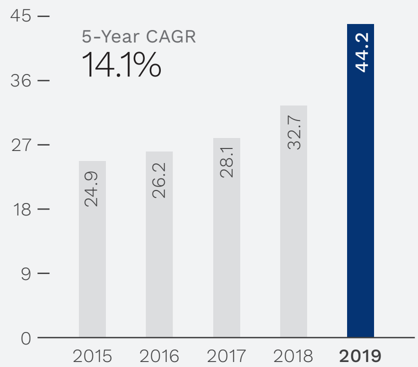
Deposit Liabilities
(in billion Php)



Capital Funds
(in billion Php)



Net Income*
(in billion Php)



* attributable to shareholders of the parent bank

NET INCOME

₱44.2 billion
2019

₱32.7 billion
2018

Financial & Operating Highlights

	CONSOLIDATED			PARENT BANK		
	2019	2018	Change	2019	2018	Change
BALANCE SHEET (in billion Php)						
Resources	3,188.9	3,022.2	6%	3,063.1	2,891.8	6%
Trading and Investment Securities	435.9	385.2	13%	345.3	304.3	13%
Liquid Assets	886.6	919.6	-4%	789.3	825.8	-4%
Gross Customer Loans	2,208.1	2,020.1	9%	2,157.9	1,966.5	10%
Deposits	2,485.2	2,420.0	3%	2,438.7	2,362.3	3%
Equity[1/]	370.6	328.1	13%	369.2	327.6	13%
INCOME STATEMENT (in billion Php)						
Net Interest Income	119.9	98.3	22%	114.5	93.9	22%
Non-Interest Income	60.6	49.7	22%	43.1	35.8	20%
Gross Operating Income	180.5	148.0	22%	157.6	129.7	22%
Operating Expenses	115.2	98.0	17%	94.3	81.8	15%
Pre-provision Profit	65.4	49.9	31%	63.3	47.9	32%
Allowance for Credit Losses	6.2	6.3	-2%	5.7	5.7	0%
Net Profit[2/]	44.2	32.7	35%	44.2	32.7	35%
FINANCIAL PERFORMANCE INDICATORS						
Profitability						
Return on Average Common Equity	12.8%	10.7%		12.8%	10.7%	
Return on Average Equity	12.6%	10.6%		12.7%	10.6%	
Return on Average Assets	1.4%	1.1%		1.5%	1.2%	
Margins and Liquidity						
Net Interest Margin	4.2%	3.6%		4.1%	3.7%	
Gross Customer Loans to Deposit Ratio	88.8%	83.5%		88.5%	83.2%	
Liquid Assets to Total Assets	27.8%	30.4%		25.8%	28.6%	
Liquidity Coverage Ratio[3/]	108.4%	-		109.2%	-	
Net Stable Funding Ratio[3/]	116.7%	-		117.4%	-	
Cost Efficiency						
Cost to Income Ratio	63.8%	66.3%		59.8%	63.1%	
Cost to Average Assets Ratio	3.7%	3.4%		3.2%	3.0%	
Asset Quality						
NPL to Gross Customer Loans	1.2%	1.0%		1.1%	0.9%	
NPL Cover[4/]	164.7%	183.1%		174.2%	198.1%	
Capital and Leverage						
CET 1 Ratio[5/]	12.7%	12.1%		12.2%	11.7%	
Tier 1 Ratio[5/]	12.9%	12.4%		12.4%	11.9%	
Capital Adequacy Ratio[5/]	14.2%	13.8%		13.7%	13.3%	
Countercyclical Buffer[6/]	0.0%			0.0%		
Basel III Leverage Ratio	10.0%	9.3%		9.6%	8.9%	
Assets to Equity	8.6x	9.2x		8.3x	8.8x	
DISTRIBUTION NETWORK AND MANPOWER						
Branches	1,436	1,309	10%	1,173	1,126	4%
ATMs	4,466	4,325	3%	4,225	4,097	3%
Employees	38,510	36,387	6%	32,631	31,370	4%
SHAREHOLDER INFORMATION						
Market Value						
Share Price (in Php)	158.00	130.80	21%			
Market Capitalization (in billion Php)	692.26	572.13	21%			
Valuation						
Earnings per Share (in Php)	10.02	7.40	35%			
Book Value per Share (in Php)	83.03	73.67	13%			
Price-Earnings Ratio	15.8x	17.7x				
Price to Book Value	1.9x	1.8x				
Dividends						
Cash Dividends Paid to Common Shareholders (in billion Php)	5.3	5.2				
Cash Dividends per Common Share (in Php)	1.20	1.20				
Dividend Payout Ratio[7/]	11.9%	15.9%				
Dividend Yield[8/]	0.8%	0.9%				

1/ Total capital accounts, inclusive of minority interest and preferred shares
2/ Net Income attributable to shareholders of the parent bank
3/ Public disclosure required by BSP beginning 2019
4/ Per BSP Circular 1011
5/ Based on audited financial statements
6/ Currently set at 0% by the BSP per Circular 1024 Section 1
7/ Cash dividends paid during the year divided by net profit for the year
8/ Cash dividends per common share paid during the year divided by average daily closing price for the year

Financial Statements

Report of the Audit Committee to the Board of Directors

Guided by its Board-approved Terms of Reference, the Board Audit Committee (BAC) discharged its oversight functions independently over the Bank's financial reporting process, system of internal control, overall management of risks and governance processes, Internal and External Audit functions and compliance with applicable rules and regulations. The BAC, composed of three independent directors and three advisers had thirteen (13) meetings in 2019.

In 2019, the BAC accomplished the following:

1. On the financial reporting process:
   - Extensively reviewed and discussed with Management and External Auditor the annual audited financial statements for the year ended December 31, 2018 before endorsing the same to the Board of Directors on February 20, 2019. The related internal controls on the financial reporting process, compliance with accounting standards and tax regulations, as well as the impact of new accounting standards and regulations more specifically the changes brought about by the adoption of Philippine Financial Reporting Standards (PFRS) 9 and 16, were likewise reviewed.
   - Reviewed and discussed with Management the quarterly unaudited financial statements, results of operations and disclosures prior to endorsement to the Board of Directors for approval.
2. On its oversight function over Internal Audit
   - Deliberated with Internal Audit and approved the risk-based audit plan covering the scope, audit methodology, risk assessment and rating processes, financial budget, manpower resources, as well as changes to the plan during the year.
   - In accordance with regulation, reviewed the revised Internal Audit Charter.
   - Periodically received audit reports and constantly deliberated high and moderate risk findings relating to operational, financial and compliance controls including risk management systems and information security.
   - Regularly tracked the timely resolution of findings and asked for Management's action plans on items that needed more time to be addressed.
   - Ensured Internal Audit's independence and free access to all records, properties and information to be able to fully carry out its functions.
   - Assessed the performance of the Chief Internal Auditor and key Audit Officers.
3. On its oversight function over External Audit
   - Ensured the independence, qualification and objectivity of the appointed BSP-accredited External Auditor.
   - Reviewed and discussed with the External Auditor the content of the engagement letter, audit plan, scope of work, focus areas, engagement team among others, prior to commencement of audit work.

- Discussed comprehensively the external audit reports, focusing on internal controls, risk management, governance and matters with financial impact particularly on the changes in accounting and reporting standards.
- Reviewed the Management Letter as well as Management's response and action taken on the external auditor's findings and recommendations.

4. On its oversight over the Compliance function:

- Reviewed and approved the annual plans and independent compliance testing roadmaps.
- Endorsed for approval of the Board the revised manuals for the Compliance and Anti-Money Laundering (AML) Units incorporating new and amended regulations and directives by the BSP in its examinations.
- Monitored the progress of the Independent Compliance and AML Testing.
- Ensured timely submission of regulatory requirements, compliance to mandatory ratios as well as continuous improvement of the Bank's Compliance and AML system.
- Discussed in detail the BSP Report of Examination (ROE) including the results of regulatory examinations of the Bank's foreign subsidiaries and reviewed Management's reply to the findings ensuring implementation of corrective actions.
- Reviewed the performance of the automated system used by the Unit particularly for its AML and Related Party Database updating to ensure optimal use.
- Discussed and provided directional guidelines on regulatory and AML emerging risks, i.e. Online Gaming Business, investment scams
- Assessed the performance of the Chief Compliance Officer.

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

The members and 2 of 3 advisers of the BAC attended the Bank's Annual Corporate Governance Seminar on "Cybersecurity in the Philippines" and "Blockchain Technology" held on July 24, 2019, while the other adviser, attended the SEC-accredited Corporate Governance Seminar offered by the Good Governance Advocates and Practitioners of the Philippines (GGAPP) on October 16, 2019.

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

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

Statement of Management's Responsibility for Financial Statements

The management of **BDO Unibank, Inc. and Subsidiaries (the BDO Unibank Group)** and of **BDO Unibank, Inc. (the Parent Bank)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the BDO Unibank Group and the Parent Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Punongbayan & Araullo, the independent auditor appointed by the stockholders, has audited the financial statements of the BDO Unibank Group and the Parent Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Teresita T. Sy
Chairperson of the Board

Nestor V. Tan
President & Chief Executive Officer

Dalmacio D. Martin
Treasurer

Signed this 27th day of February 2020

SUBSCRIBED and SWORN to before me this 27th day of February, 2020 affiants exhibiting to me their Competent Evidence of Identity (CEI), as follows:

Name	CEI Number	Date & Place Issued
1. Teresita T. Sy	Passport No. – P3927961A SSS No. – 03-2832705-4	08.24.2017/NCR East
2. Nestor V. Tan	Passport No. – EC7439560 CTC No. – 04374021	04.19.2016/Manila 01.30.2020/Makati
3. Dalmacio D. Martin	Driver's License No. – N11-89-041108 CTC No. – 04357675	02.13.2018/DLRC-Alabang 01.23.2020/Makati

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

Doc. No. 466
Page No. 95
Book No. I
Series of 2020

Atty. MARICHELLE G. GERARDO
Appointment No. M-332
Notary Public until 31 December 2020
14/F BDO North Tower, BDO Corporate Center
7899 Makati Avenue, Makati City
Roll No. 45121
IBP No. 063371, 04 January 2019, Quezon City
PTR No. 7333665, 03 January 2019, Makati City
MCLE Compliance No. VI-0014808, 13 November 2018

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Report of Independent Auditors

THE BOARD OF DIRECTORS AND STOCKHOLDERS
BDO UNIBANK, INC.
BDO Corporate Center
7899 Makati Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Unibank, Inc. and subsidiaries (collectively referred to as the BDO Unibank Group) and of BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 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.

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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) Proper Valuation of Loans and Other Receivables

Description of the Matter

The BDO Unibank Group and the Parent Bank are required to recognize allowance for impairment on their loans and other receivables using the expected credit loss (ECL) model. As of December 31, 2019, the BDO Unibank Group and the Parent Bank had loans and other receivables amounting to P2,225,777 million and P2,175,655 million, respectively, net of allowance for impairment of P32,666 million and P29,833 million, respectively. Loans and other receivables are the most significant resources of the BDO Unibank Group and the Parent Bank which account for 70% and 71% of the BDO Unibank Group's and the Parent Bank's total resources, respectively.

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

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

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

- testing the design and operating effectiveness of 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 the 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, *Financial Instruments*;

- 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 the loan portfolio. This includes assessing the appropriateness of design of the ECL impairment model, formula and inputs used in determining the probability of default, loss given default and exposure at default;

- for forward-looking information used, evaluating whether the forecasted macro-economic factors, which generally include but not limited to Gross Domestic Product growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates, were appropriate. In addition, assessing the level of significance of correlation of selected macro-economic factors to the default rates as well as the impact of these variables to the ECL;

- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts; and,

- on selected non-performing loan accounts, evaluating the management's forecast of recoverable cash flows, valuation of collaterals and estimates of recovery from other sources of collection.

(b) 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 usually determined using the discounted cash flow approach. 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, 2019, the financial assets and financial liabilities of the BDO Unibank Group that are carried at fair value amounted to P172,320 million and P3,172 million, respectively, while that of the Parent Bank amounted to P97,970 million and P1,734 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.

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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.

(c) Adoption of PFRS 16, Leases

Description of the Matter

Effective January 1, 2019, the BDO Unibank Group and the Parent Bank adopted PFRS 16, which replaced Philippine Accounting Standards (PAS) 17, *Leases*, and the related interpretations to PAS 17. The adoption of this new standard, which primarily affected the BDO Unibank Group's and the Parent Bank's accounting for leases as a lessee by recognizing "right-of-use" assets and lease liabilities "on-balance sheet", is considered significant due to the complexities of the accounting requirements and significant judgements involved in determining the assumptions to be used in applying the new standard. The adoption resulted into the recognition of right-of-use assets and lease liabilities amounting to P10,480 million and P12,043 million, respectively, by the BDO Unibank Group, and, P10,394 million and P11,961 million, respectively, by the Parent Bank, as at December 31, 2019. The right-of-use assets and lease liabilities are presented as part of Premises, Furniture, Fixtures and Equipment, and Other Liabilities, respectively, in the 2019 statement of financial position of the BDO Unibank Group and the Parent Bank.

The impact of the adoption of PFRS 16, and the related changes in accounting policies, and basis of judgement and estimates are disclosed in Notes 2 and 3 to the financial statements. In addition, the new disclosure requirements of PFRS 16 are discussed in Note 12 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the significant risk of material misstatement relating to the adoption of PFRS 16 by the BDO Unibank Group and the Parent Bank, included:

- understanding the accounting policies and procedures applied by the BDO Unibank Group and the Parent Bank in identifying leases that qualify under PFRS 16, and leases that qualify under the recognition exemptions on short-term leases and low-value leases, and compliance therewith;

- assessing the completeness of the lease contracts and verifying the accuracy of the lease information provided;

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- on a sample basis, evaluating the reasonableness of the inputs and assumptions used by the management in determining the lease term and incremental borrowing rate used, such as but not limited to, renewal and termination options, contractual terms of the lease, nature and quality of the security, and the economic environment in which the transaction occurs; and,

- evaluating the appropriateness of the adjustments as a result of the adoption of PFRS 16 on the recognition and measurement of right-of-use assets and lease liabilities and, determining the adequacy of related financial statement disclosures, including changes in accounting policies and bases of judgments and estimates.

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 P4,535 million, with allowance for impairment of P1,460 million, as of December 31, 2019, and the significant portion of which relates to the acquisition in prior years of BDO Network Bank, Inc. (BDO Network; formerly One Network Bank, Inc.).

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, the 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 14 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 BDO Network as of and for the year ended December 31, 2019 did not identify events or conditions that may cast significant doubt on BDO Network 's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in the BDO Unibank Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, and Annual Report for the year ended December 31, 2019, 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, 2019 are expected to be made available to us after the date of this auditors' report.

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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.

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- 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 30 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 the Revised Securities Regulation Code Rule 68 of the SEC.

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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. 8116542, January 2, 2020, 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 27, 2020

Statements of Financial Position

BDO UNIBANK, INC. AND SUBSIDIARIES

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

	Notes	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
RESOURCES					
CASH AND OTHER CASH ITEMS	7	**P 64,140**	P 53,749	**P 62,726**	P 52,492
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**309,040**	354,132	**306,938**	349,017
DUE FROM OTHER BANKS	8	**38,956**	55,292	**35,820**	48,780
TRADING AND INVESTMENT SECURITIES	9	**435,905**	385,197	**345,278**	304,281
LOANS AND OTHER RECEIVABLES - Net	10	**2,225,777**	2,071,834	**2,175,655**	2,019,153
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11, 12	**46,551**	33,660	**42,494**	29,272
INVESTMENT PROPERTIES - Net	13	**16,911**	19,785	**12,595**	15,426
OTHER RESOURCES - Net	14	**51,578**	48,598	**81,594**	73,391
TOTAL RESOURCES		**P 3,188,858**	P 3,022,247	**P 3,063,100**	P 2,891,812
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	16	**P 2,485,228**	P 2,419,965	**P 2,438,737**	P 2,362,302
BILLS PAYABLE	17	**167,524**	143,623	**147,321**	117,693
SUBORDINATED NOTES PAYABLE	18	**10,030**	10,030	**10,030**	10,030
INSURANCE CONTRACT LIABILITIES	19	**42,473**	28,506	**-**	-
OTHER LIABILITIES	20	**113,016**	91,974	**97,802**	74,166
Total Liabilities		**2,818,271**	2,694,098	**2,693,890**	2,564,191
EQUITY	21				
Attributable to:					
Shareholders of the Parent Bank		**368,932**	327,372	**369,210**	327,621
Non-controlling Interests		**1,655**	777	**-**	-
		370,587	328,149	**369,210**	327,621
TOTAL LIABILITIES AND EQUITY		**P 3,188,858**	P 3,022,247	**P 3,063,100**	P 2,891,812

See Notes to Financial Statements.

Statements of Income

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Millions of Philippine Pesos Except Per Share Data)

		BDO Unibank Group			Parent Bank		
	Notes	**2019**	2018	2017	**2019**	2018	2017
INTEREST INCOME	22	**P 160,572**	P 129,040	P 99,795	**P 153,081**	P 122,615	P 93,786
INTEREST EXPENSE	23	**40,681**	30,748	18,042	**38,581**	28,720	16,434
NET INTEREST INCOME		**119,891**	98,292	81,753	**114,500**	93,895	77,352
IMPAIRMENT LOSSES - Net	9, 14, 15	**6,166**	6,286	6,537	**5,699**	5,700	5,809
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**113,725**	92,006	75,216	**108,801**	88,195	71,543
OTHER OPERATING INCOME	24	**60,621**	49,674	47,206	**43,145**	35,823	33,633
OTHER OPERATING EXPENSES	24	**115,159**	98,034	84,865	**94,337**	81,794	68,929
PROFIT BEFORE TAX		**59,187**	43,646	37,557	**57,609**	42,224	36,247
TAX EXPENSE	30	**15,019**	11,007	9,452	**13,376**	9,512	8,241
NET PROFIT		**P 44,168**	P 32,639	P 28,105	**P 44,233**	P 32,712	P 28,006
Attributable to:							
Shareholders of the Parent Bank		**P 44,194**	P 32,708	P 28,070			
Non-controlling Interests		**(26)**	(69)	35			
		P 44,168	P 32,639	P 28,105			
Earnings Per Share:	31						
Basic		**P 10.02**	P 7.40	P 6.42			
Diluted		**P 10.02**	P 7.40	P 6.42			

See Notes to Financial Statements.

Statements of Comprehensive Income

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2019	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2019	Parent Bank 2018	Parent Bank 2017
NET PROFIT		**P 44,168**	P 32,639	P 28,105	**P 44,233**	P 32,712	P 28,006
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that are or will be reclassified subsequently to profit or loss:							
Net unrealized gains (losses) on debt investments at fair value through other comprehensive income (FVOCI), net of tax	9	**7,583**	(4,984)	-	**3,659**	(2,475)	-
Transfer of realized losses (gains) on disposed debt investments at FVOCI to statements of income, net of tax		**228**	(143)	-	**(7)**	(11)	-
Impairment losses on debt investments at FVOCI	9	**13**	18	-	**5**	5	-
Unrealized gains on available-for-sale (AFS) securities, net of tax	9	**-**	-	622	**-**	-	255
Transfer of amortized unrealized fair value losses on reclassified AFS securities to held-to-maturity investments to statements of income		**-**	-	621	**-**	-	288
Transfer of realized losses on impaired AFS securities to statements of income, net of tax		**-**	-	139	**-**	-	-
Transfer of realized gains on disposed AFS securities to statements of income, net of tax		**-**	-	(1,474)	**-**	-	(58)
Net gains (losses) on FVOCI securities, net of tax		**7,824**	(5,109)	-	**3,657**	(2,481)	-
Net gains (losses) on AFS securities, net of tax		**-**	-	(92)	**-**	-	485
Translation adjustment related to foreign operations		**(1)**	34	(8)	**(5)**	1	(14)
		7,823	(5,075)	(100)	**3,652**	(2,480)	471
Items that will not be reclassified to profit or loss:							
Remeasurement on life insurance reserves		**(5,046)**	3,655	785	**-**	-	-
Actuarial losses on remeasurement of retirement benefit obligation, net of tax	25	**(2,355)**	(2,088)	(2,550)	**(2,240)**	(2,052)	(2,445)
Unrealized gains (losses) on equity investments at FVOCI, net of tax	9	**79**	(1,210)	-	**(181)**	54	-
		(7,322)	357	(1,765)	**(2,421)**	(1,998)	(2,445)
Share in other comprehensive income (loss) of subsidiaries and associates accounted for under equity method		**14**	(9)	(3)	**34**	(220)	1,702
Other Comprehensive Income (Loss), net of tax		**515**	(4,727)	(1,868)	**1,265**	(4,698)	(272)
TOTAL COMPREHENSIVE INCOME		**P 44,683**	P 27,912	P 26,237	**P 45,498**	P 28,014	P 27,734
Attributable to:							
Shareholders of the Parent Bank		**P 44,675**	P 28,025	P 26,226			
Non-controlling Interests		**8**	(113)	11			
		P 44,683	P 27,912	P 26,237			

See Notes to Financial Statements.

Statements of Changes in Equity

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 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, 2019																
As previously stated		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
Effect of adoption of PFRS 16	2	-	-	-	-	-	(847)	-	-	-	-	-	-	(847)	-	(847)
As restated		43,740	5,150	123,377	14,788	9	155,480	(10,390)	(8,893)	1,008	2,257	13	(14)	326,525	777	327,302
Transactions with owners	21															
Issuance of shares during the year		74	-	672	-	-	-	-	-	-	-	-	-	746	-	746
Options transferred during the year		-	-	-	860	-	-	-	-	-	-	-	-	860	-	860
Options expensed during the year		-	-	-	890	-	-	-	-	-	-	-	-	890	-	890
Cash dividends		-	-	-	-	-	(5,593)	-	-	-	-	-	-	(5,593)	-	(5,593)
		74	-	672	1,750	-	(5,593)	-	-	-	-	-	-	(3,097)	-	(3,097)
Total comprehensive income (loss)		-	-	-	-	-	44,194	7,862	(2,347)	-	(5,046)	(2)	14	44,675	8	44,683
Transfer from Surplus Free																
Trust reserve	21, 27	-	-	-	272	-	(272)	-	-	-	-	-	-	-	-	-
Other reserves	21	-	-	-	1,552	-	(1,552)	-	-	-	-	-	-	-	-	-
		-	-	-	1,824	-	(1,824)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	-	(689)	729	-	-	-	-	-	40	-	40
Other adjustments																
Change in ownership interest in subsidiaries	29	-	-	-	-	3	689	58	16	-	-	-	-	766	870	1,636
Disposal of properties	21	-	-	-	-	-	76	-	-	(53)	-	-	-	23	-	23
		-	-	-	-	3	765	58	16	(53)	-	-	-	789	870	1,659
BALANCE AT DECEMBER 31, 2019		**P 43,814**	**P 5,150**	**P 124,049**	**P 18,362**	**P 12**	**P 192,333**	**(P 1,741)**	**(P 11,224)**	**P 955**	**(P 2,789)**	**P 11**	**P -**	**P 368,932**	**P 1,655**	**P 370,587**
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	21															
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	21, 27	-	-	-	251	-	(251)	-	-	-	-	-	-	-	-	-
Reversal of appropriations during the year	21	-	-	-	(207)	-	207	-	-	-	-	-	-	-	-	-
Other reserves	21	-	-	-	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	29															
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	21															
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	21	-	-	-	126	-	(126)	-	-	-	-	-	-	-	-	-
Trust reserve	21, 27	-	-	-	256	-	(256)	-	-	-	-	-	-	-	-	-
		-	-	-	382	-	(382)	-	-	-	-	-	-	-	-	-
Other adjustments	21, 29															
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

See Notes to Financial Statements.

Statements of Changes in Equity

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Millions of Philippine Pesos)

		Parent Bank										
	Notes	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, 2019												
As previously stated		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
Effect of adoption of PFRS 16	2	-	-	-	-	(856)	-	-	-	-	-	(856)
As restated		43,740	5,150	123,358	13,885	154,727	(4,281)	(8,504)	1,005	(1)	(2,314)	326,765
Transactions with owners	21											
Issuance of shares during the year		74	-	672	-	-	-	-	-	-	-	746
Options transferred during the year		-	-	-	860	-	-	-	-	-	-	860
Options expensed during the year		-	-	-	890	-	-	-	-	-	-	890
Cash dividends		-	-	-	-	(5,593)	-	-	-	-	-	(5,593)
		74	-	672	1,750	(5,593)	-	-	-	-	-	(3,097)
Total comprehensive income (loss)		-	-	-	-	44,233	3,476	(2,240)	-	(5)	34	45,498
Transfer from Surplus Free												
Trust reserve	21, 27	-	-	-	189	(189)	-	-	-	-	-	-
Other reserves	21	-	-	-	1,563	(1,563)	-	-	-	-	-	-
		-	-	-	1,752	(1,752)	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	(689)	(23)	-	-	-	-	(712)
Other adjustment												
Change in ownership interest in subsidiaries	14, 29	-	-	-	-	733	-	-	-	-	-	733
Disposal of properties	21	-	-	-	-	76	-	-	(53)	-	-	23
		-	-	-	-	809	-	-	(53)	-	-	756
BALANCE AT DECEMBER 31, 2019		**P 43,814**	**P 5,150**	**P 124,030**	**P 17,387**	**P 191,735**	**(P 828)**	**(P 10,744)**	**P 952**	**(P 6)**	**(P 2,280)**	**P 369,210**
BALANCE AT JANUARY 1, 2018												
As previously stated		P 43,690	P 5,150	P 122,947	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	21											
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	21, 27	-	-	-	181	(181)	-	-	-	-	-	-
Other reserves	21	-	-	-	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												
Change in ownership interest in subsidiaries	14, 29	-	-	-	-	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	21											
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	21	-	-	-	96	(96)	-	-	-	-	-	-
Trust reserve	21, 27	-	-	-	190	(190)	-	-	-	-	-	-
		-	-	-	286	(286)	-	-	-	-	-	-
Other adjustment												
Change in ownership interest in subsidiaries	29	-	-	-	-	(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

See Notes to Financial Statements.

Statements of Cash Flows

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group			Parent Bank		
	Notes	**2019**	2018	2017	**2019**	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 59,187**	P 43,646	P 37,557	**P 57,609**	P 42,224	P 36,247
Adjustments for:							
Interest income	22	**(160,572)**	(129,040)	(99,795)	**(153,081)**	(122,615)	(93,786)
Interest received		**159,329**	125,410	97,862	**151,900**	119,115	91,455
Interest paid		**(44,705)**	(23,833)	(17,650)	**(43,136)**	(21,948)	(16,085)
Interest expense	23	**40,681**	30,748	18,042	**38,581**	28,720	16,434
Depreciation and amortization	11, 13, 14	**8,850**	5,776	5,172	**7,564**	4,555	3,958
Impairment losses	9, 14, 15	**6,166**	6,286	6,537	**5,699**	5,700	5,809
Share in net profit of subsidiaries and associates	14	**(696)**	(631)	(612)	**(6,046)**	(2,740)	(4,312)
Fair value losses (gains)		**597**	672	(199)	**1,093**	(476)	(67)
Operating profit before changes in operating resources and liabilities		**68,837**	59,034	46,914	**60,183**	52,535	39,653
Decrease (increase) in financial assets at fair value through profit or loss		**(7,374)**	1,048	(1,048)	**(1,040)**	487	(32)
Increase in loans and other receivables		**(192,119)**	(265,648)	(259,476)	**(194,417)**	(266,500)	(255,626)
Increase in investment properties		**(1,058)**	(2,113)	(3,573)	**(1,014)**	(2,107)	(3,389)
Increase in other resources		**(16,129)**	(13,823)	(17,395)	**(13,265)**	(8,121)	(16,848)
Increase in deposit liabilities		**66,043**	297,683	215,758	**77,148**	315,718	212,278
Increase in insurance contract liabilities		**8,921**	6,175	6,206	**-**	-	-
Increase in other liabilities		**22,660**	18,587	18,631	**22,703**	13,935	17,244
Cash generated from (used in) operations		**(50,219)**	100,943	6,017	**(49,702)**	105,947	(6,720)
Cash paid for income tax		**(13,555)**	(10,631)	(8,836)	**(11,861)**	(9,087)	(7,552)
Net Cash From (Used in) Operating Activities		**(63,774)**	90,312	(2,819)	**(61,563)**	96,860	(14,272)
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of investment securities at amortized cost	9	**(79,199)**	(87,158)	-	**(78,983)**	(60,406)	-
Acquisitions of securities at fair value through other comprehensive income (FVOCI)	9	**(58,665)**	(40,130)	-	**(39,656)**	(17,629)	-
Maturities of investment securities at amortized cost		**51,579**	54,036	-	**48,746**	26,154	-
Proceeds from disposals of securities at FVOCI		**41,889**	24,417	-	**25,820**	8,387	-
Acquisitions of premises, furniture, fixtures and equipment	11	**(4,397)**	(8,135)	(6,158)	**(3,446)**	(6,920)	(4,989)
Proceeds from disposals of premises, furniture, fixtures and equipment		**310**	230	113	**165**	125	17
Acquisitions of held-to-maturity (HTM) investments		**-**	-	(83,061)	**-**	-	(74,111)
Acquisitions of available-for-sale (AFS) securities	9	**-**	-	(59,161)	**-**	-	(26,052)
Proceeds from disposals of AFS securities		**-**	-	46,033	**-**	-	17,816
Maturities of HTM investments		**-**	-	34,503	**-**	-	33,013
Net Cash Used in Investing Activities		**(48,483)**	(56,740)	(67,731)	**(47,354)**	(50,289)	(54,306)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from bills payable	17	**510,151**	297,475	342,828	**132,467**	116,744	172,575
Payments of bills payable	17	**(482,251)**	(289,925)	(313,242)	**(99,044)**	(110,166)	(143,071)
Dividends paid	21	**(5,593)**	(5,612)	(5,632)	**(5,593)**	(5,585)	(5,582)
Payments of lease liabilities	12	**(3,122)**	-		**(3,076)**	-	-
Proceeds from issuance of common stock	21	**746**	461	203	**746**	461	203
Net proceeds from issuance of stock rights	21	**-**	-	59,826	**-**	-	59,826
Net Cash From Financing Activities		**19,931**	2,399	83,983	**25,500**	1,454	83,951
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Carried Forward)*		**(P 92,326)**	P 35,971	P 13,433	**(P 83,417)**	P 48,025	P 15,373

See Notes to Financial Statements.

Statements of Cash Flows

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2019	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2019	Parent Bank 2018	Parent Bank 2017
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Brought Forward)*		(P 92,326)	P 35,971	P 13,433	(P 83,417)	P 48,025	P 15,373
CASH AND CASH EQUIVALENTS AT BEGINNING 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 (BSP)	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**	2,097	-	**6,490**	2,097	-
HTM securities	9	**-**	-	894	**-**	-	894
Securities purchased under reverse repurchase agreement (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
Foreign currency notes and coins (FCNC)	14	**4,828**	3,695	3,338	**4,828**	3,694	3,337
		541,392	505,421	491,988	**525,830**	477,805	462,432
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**64,140**	53,749	45,006	**62,726**	52,492	43,882
Due from BSP	7	**309,040**	354,132	353,308	**306,938**	349,017	340,596
Due from other banks	8	**38,956**	55,292	51,479	**35,820**	48,780	41,088
Investment securities at amortized cost	9	**308**	9,168	-	**308**	6,490	-
HTM securities	9	**-**	-	2,097	**-**	-	2,097
SPURRA	10	**-**	22,009	18,260	**-**	22,009	14,872
Interbank loans receivables	10	**31,277**	42,214	31,576	**31,277**	42,214	31,576
FCNC	14	**5,345**	4,828	3,695	**5,344**	4,828	3,694
		P 449,066	P 541,392	P 505,421	**P 442,413**	P 525,830	P 477,805

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

a. The BDO Unibank Group and the Parent Bank foreclosed real and other properties totalling to P14,009 and P13,780, respectively, in 2019, P13,032 and P12,834, respectively, in 2018 and, P11,975 and P11,784, respectively, in 2017, in settlement of certain loan accounts (see Note 13).

b. In 2019, the BDO Unibank Group and the Parent Bank recognized additional right-of-use assets amounting to P2,801 and P2,693, respectively, which is presented as part of Premises, Furniture, Fixtures and Equipment (see Notes 11 and 12).

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 statements of financial position (see Note 2.5).

See Notes to Financial Statements.

Notes to Financial Statements

BDO UNIBANK, INC. AND SUBSIDIARIES

DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

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

As a banking institution, BDO Unibank Group's operations are regulated and supervised by the BSP. In this regard, BDO Unibank Group is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. BDO Unibank Group is subject to the provisions of 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, 2019, BDO Unibank Group had 1,436 branches (including two foreign branches), 2,472 on-site and 1,994 off-site automated teller machines (ATMs) and 562 cash accept machines (CAMs). As of December 31, 2019, the Parent Bank had 1,173 branches (including two foreign branches), 2,274 on-site and 1,951 off-site ATMs and 562 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 1.1%, 1.3% and 1.2% of BDO Unibank Group's total revenues in 2019, 2018 and 2017, respectively, and 1.8% and 1.4% of BDO Unibank Group's total resources as of December 31, 2019 and 2018, respectively. BDO Unibank Group's subsidiaries and associates are shown in Notes 2.3 and 14.2.

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, 2019 (including the comparative financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 27, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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

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

(b) Presentation of Financial Statements

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

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

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 the BDO Unibank Group and the Parent Bank not to restate its prior periods' financial statements. The impact of the adoption of PFRS 9 resulted to an increase (decrease) in the balances as of January 1, 2018 of Surplus Reserves, Surplus Free, Net Unrealized Fair Value Gains (Losses) (NUGL) on Fair Value Through Other Comprehensive Income (FVOCI), Non-controlling Interest and Total Equity amounting to P9,520, (P2,010), (P529), P17 and P6,998, respectively, for the BDO Unibank Group, and of Surplus Reserves, Surplus Free, NUGL on FVOCI, Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates and Total Equity amounting to P9,356, (P1,846), (P653), P126 and P6,983, respectively, for the Parent Bank.

(c) Functional and Presentation Currency

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

Items included in the financial statements of the 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 the BDO Unibank Group and the Parent Bank operate.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2019 that are Relevant to the BDO Unibank Group and the Parent Bank

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

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty Over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 and 11 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation

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

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

(ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. 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. The application of these amendments had no significant impact on the BDO Unibank Group and the Parent Bank's financial statements.

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

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

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

The BDO Unibank Group and the Parent Bank have adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Surplus Free for the current period. Accordingly, comparative information were not restated.

The accounting policies of the BDO Unibank Group and the Parent Bank as a lessor, as described in Note 2.20(a), were not significantly affected, while the new accounting policies of the BDO Unibank Group and the Parent Bank as a lessee are disclosed in Note 2.20(b).

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

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

b. The BDO Unibank Group and the Parent Bank recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the BDO Unibank Group and the Parent Bank's incremental borrowing rate as at January 1, 2019. The BDO Unibank Group and the Parent Bank's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 ranges from 6.78% to 7.53%. Lease liabilities are presented as part of Other Liabilities in the 2019 statement of financial position (see Notes 12 and 20).

c. The BDO Unibank Group and the Parent Bank have elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The BDO Unibank Group and the Parent Bank also elected to measure the right-of-use assets at its carrying amount as if the new standard had been applied since commencement date, but discounted using the BDO Unibank Group and the Parent Bank's incremental borrowing rate at the date of application. The Right-of-use assets are presented as part of Premises, Furniture, Fixtures and Equipment in the 2019 statement of financial position (see Notes 11 and 12).

d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the BDO Unibank Group and the Parent Bank have applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense as incurred.

e. The BDO Unibank Group and the Parent Bank have also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:

i. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, the BDO Unibank Group and the Parent Bank have no onerous contracts; and,

ii. use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the statement of financial position as at January 1, 2019.

BDO Unibank Group:

	Notes	Carrying Amount (PAS 17) December 31, 2018	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
Resources –				
Premises, furniture, fixtures, and equipment – net	c	P 33,660	P 10,212	P 43,872
Liabilities –				
Other liabilities	b	91,974	11,059	103,033
Impact on surplus free			(P 847)	

Parent Bank:

	Notes	Carrying Amount (PAS 17) December 31, 2018	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
Resources –				
Premises, furniture, fixtures, and equipment – net	c	P 29,272	P 10,188	P 39,460
Liabilities –				
Other liabilities	b	74,166	11,044	85,210
Impact on surplus free			(P 856)	

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

	Notes	BDO Unibank Group	Parent Bank
Operating lease commitments December 31, 2018 (PAS 17)	34.2	P 16,974	P 16,975
Recognition exemptions:			
Leases of low value assets	d	(2,225)	(2,190)
Leases with remaining term of less than 12 months	d	(1)	-
Operating lease liabilities before discounting		14,748	14,785
Discount using incremental borrowing rate	b	(3,202)	(3,254)
Lease liabilities, January 1, 2019 (PFRS 16)		P 11,546	P 11,531

(v) IFRIC 23, *Uncertainty Over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the BDO Unibank 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 BDO Unibank Group and the Parent Bank have to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. The application of this interpretation has no significant impact on the BDO Unibank Group and the Parent Bank's financial statements.

(vi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2019, are relevant to the BDO Unibank Group and the Parent Bank but had no material impact on the financial statements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.

- PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

(b) *Effective Subsequent to 2019 but not Adopted Early*

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

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

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

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

(iii) PFRS 3 (Amendments), *Business Combinations – Definition of a Business* (effective January 1, 2020). The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. Also, the amendments will likely result in more acquisitions being accounted for as asset acquisitions.

(iv) 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 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 or 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.

(v) PFRS 17, *Insurance Contracts* (effective January 1, 2023). The new standard will eventually replace PFRS 4, *Insurance Contract.* The Insurance Commission (IC), through its Circular Letter 2018-69, has deferred the implementation of PFRS 17 for life insurance and non-life insurance industry. PFRS 17 will set out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within its scope.

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

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

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

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

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

2.3 Basis of Consolidation

The BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Bank, and its subsidiaries as enumerated in Notes 2.3(c) and 14.2, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the BDO Unibank Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

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

(a) Investments in Subsidiaries

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

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

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of BDO Unibank Group's share of the identifiable net assets acquired, is recognized as goodwill. If 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 and Share in net income of subsidiaries and associates under Other Operating Income account in the statement of income for BDO Unibank Group and Parent Bank, respectively.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Notes 2.21 and 14.2).

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

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

(c) Transactions with Non-controlling Interests

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

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

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

The BDO Unibank Group holds interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership		
	2019	2018	2017
Rural Bank			
BDO Network Bank, Inc. (BDO Network) [previously One Network Bank, Inc. (A Rural Bank of BDO) (ONB)]	**84.87%**	99.86%	99.79%
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%
BDO Finance Corporation (BDO Finance)	**100%**	-	-
Securities Companies			
BDO Securities Corporation (BDO Securities)	**99.88%**	99.88%	99.88%
BDO Nomura Securities, Inc. (BDO Nomura)	**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%
Insurance Companies			
BDO Life Assurance Company Inc., (BDO Life)	**100%**	100%	100%
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
Remittance Companies			
BDO Remit (USA), Inc.	**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)	**96.32%**	96.32%	96.32%
Express Padala (Hongkong), Ltd.	**-**	100%	100%
PCIB Europe S.p.A.	**-**	-	100%
Others			
PCI Realty Corporation	**100%**	100%	100%

Non-controlling interests in 2019 and 2018 represent the interests not held by BDO Unibank Group in BDO Network, BDO Capital, BDO Leasing, Averon, BDO Rental, BDO Securities, BDO Nomura, ASI, Equimark and BDO RIH.

On September 4, 2017, a downstream merger occurred between BDO Life and BDO Life Holdings resulting in the dissolution of the latter (see Note 29.3).

In 2018, PCIB Europe S.p.A. had been dissolved after the liquidation proceeding was completed.

In 2019, 2018 and 2017, the Parent Bank subscribed to additional shares of BDO Network (see Note 29.6).

On May 16, 2019, the Parent Bank completed the sale of its 15% ownership interest in BDO Network (see Note 29.6).

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

On September 4, 2019, Express Padala (Hongkong), Ltd. had been dissolved and its remaining cash had been repatriated to the Parent Bank.

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

2.5 Financial Assets and Financial Liabilities

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

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

At initial recognition, the BDO Unibank Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, 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 (FVTPL) are expensed in profit or loss.

(a) *Classification, Measurement and Reclassification of Financial Assets*

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

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

Where the business model is to hold assets to collect contractual cash flows, the BDO Unibank Group and the Parent Bank assess whether the financial instruments' cash flows represent SPPI. In making this assessment, the BDO Unibank Group and the Parent Bank consider 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(d)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The BDO Unibank Group and the Parent Bank's financial assets at amortized cost are presented as Cash and Other Cash Items, Loans and Other Receivables, Investment securities at amortized cost and certain accounts under Other Resources account in the statements 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.

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 on FVOCI account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the NUGL account is not reclassified to profit or loss but is reclassified directly to Surplus Free account except for those debt securities classified as FVOCI wherein fair value changes are 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 BDO Unibank Group, and, the amount of dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

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

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

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

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

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

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

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

(b) Effective Interest Rate Method and Interest Income

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

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

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

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

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

(c) *Impairment of Financial Assets*

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

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

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

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

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

(d) Measurement of ECL

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

- *Probability of Default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss Given Default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those BDO Unibank Group 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 BDO Unibank Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the BDO Unibank Group shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur, unless the drawdown after default will be mitigated by the normal credit risk management actions and policies of the BDO Unibank Group.

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

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

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

(e) Derecognition of Financial Assets

(i) Modification of Loans

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

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

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

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

(ii) Derecognition of Financial Assets Other than Through Modification

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

(f) Classification and Measurement of Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, 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.

(g) Derecognition of Financial Liabilities

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

(b) *Financial Guarantees and Undrawn Loan Commitments*

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

2.6 Derivative Financial Instruments

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

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

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

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

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

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

2.7 Premises, Furniture, Fixtures and Equipment

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

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

2.8 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).

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

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 24).

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 24).

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 24).

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 have significant influence but which are neither subsidiaries nor interest in a joint venture.

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

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

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

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

2.12 Other Resources

Other resources 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 Club 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 Contract Liabilities

(a) Legal Policy Reserves

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

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

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

(i) The increase or decrease in legal policy reserves in the current year due to other assumptions excluding change in discount rate will be recognized to profit or loss; and,

(ii) Remeasurement on life insurance reserves due to changes in discount rates will be recognized in other comprehensive income (see Note 2.16).

(b) Insurance Contracts with Fixed and Guaranteed Terms

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

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

(c) *Variable Unit-linked Insurance Contracts*

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

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

(d) *Liability Adequacy Test*

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

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

(a) *Insurance Premiums*

(i) *Net insurance premium* – recognized as gross premium on insurance contracts less reinsurers' share of gross premiums.

(ii) *Gross premiums on insurance contracts.* Premiums arising from insurance contracts are initially recognized as income on the effective date of the insurance policies. Subsequent to initial recognition, gross earned premiums on life insurance contracts are recognized as revenue at the date when payments are due.

(iii) *Reinsurers' share of gross premiums.* Gross reinsurance premiums on traditional and variable contracts are recognized as an expense when the policy becomes effective.

(b) *Insurance Benefits and Claims*

(i) *Net insurance benefits and claims* - BDO Unibank Group's net insurance benefits and claims consist of gross benefits and claims, reinsurers' share on benefits and claims, gross change in legal policy reserves and reinsurers' share on gross change in legal policy reserves.

(ii) *Gross benefits and claims.* Gross benefits and claims of the policyholders include the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

(iii) *Reinsurers' share on benefits and claims.* Reinsurers' share on benefits and claims pertain to the amount recoverable from reinsurers for recognized claims during the year. These are accounted for when the corresponding claims are recognized.

(iv) *Gross change in legal policy reserves.* Gross change in legal policy reserves represents the change in the valuation of legal policy reserves recognized as part of Insurance Contract Liabilities account in the statement of financial position.

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

2.15 Offsetting Financial Instruments

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

2.16 Equity

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 BDO Unibank Group to carry to surplus 10% of its net profits accruing from its trust business until the surplus shall amount to 20% of the regulatory capital and, to the appropriation for general loan loss provision as prescribed by BSP. 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 21). Share options outstanding (SOO), which is also included in the surplus reserve, represents the accumulated total of employee share options' amortizations over the vesting period as the share-based employee remuneration are recognized and reported in the statement of income. SOO will be deducted for any exercise or forfeiture of share options already vested.

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 the statement of income and which are available and not restricted for use by BDO Unibank Group, reduced by the amounts of dividends declared, if any.

NUGL 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 arises from the increase or decrease of the reserves brought about by changes in discount rates (see Note 2.14).

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 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 funded retirement plan (see Note 25.2).

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

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

2.18 Other Income and Expense Recognition

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

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

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

(a) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized 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.

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

2.19 Provisions and Contingencies

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

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

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

The BDO Unibank Group offers monetized rewards to active 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*

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

For any new contracts entered into on or after January 1, 2019, BDO Unibank Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, BDO Unibank Group assesses whether the contract meets three key evaluations which are:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to BDO Unibank Group;

- BDO Unibank Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- BDO Unibank Group has the right to direct the use of the identified asset throughout the period of use. BDO Unibank Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the BDO Unibank Group recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by BDO Unibank Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, BDO Unibank Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The BDO Unibank Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.21).

On the other hand, BDO Unibank Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or BDO Unibank Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

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

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

Leases which transfer to BDO Unibank Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

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 BDO Unibank 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 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 25):

(a) *Post-employment Defined Benefit*

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

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

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. If there is a plan amendment, curtailment or settlement during the period, the BDO Unibank Group remeasures its net defined benefit liability or asset using updated actuarial assumptions to determine the current service cost and net interest for the remaining of the annual reporting period after the change to the plan. Net interest is reported as part of Interest expense on bills payable and other borrowings under Interest Expense account in the statement of income (see Note 23).

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) *Short-term Benefits*

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

(d) *Termination Benefits*

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

(e) Bonus Plans

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

(f) Employee Stock Option Plan

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

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

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

(g) Unavailed Leaves

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

2.24 Income Taxes

Tax expense recognized in 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 30.1).

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) Determination of Lease Term of Contracts with Renewal and Termination Options (2019)

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

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

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

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

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

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

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

(c) *Evaluation of Business Model Applied in Managing Financial Instruments*

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

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

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

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

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

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, BDO Unibank Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if BDO Unibank Group can explain the reasons for those sales and why those sales do not reflect a change in BDO Unibank Group's objective for the business model.

(e) 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.

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

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

(g) Classification and Fair Value Determination of Acquired Properties

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, chattels as Non-current assets held for sale (presented under Other Resources account) if expected to be recovered through sale rather than use, real properties as Investment Properties if intended to be held for capital appreciation or lease, as Financial Assets if qualified as such in accordance with PFRS 9 or as Other properties (presented under Other Resources account) if held for sale but the depreciable properties (other than building) are not yet disposed within 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 BDO Unibank Group's methodology in determining the fair value of acquired properties are further discussed in Note 6.5.

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

The management considers that the BDO Unibank Group and the Parent Bank have significant influence on NLEX Corporation (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 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.

(i) Determination of Timing of Satisfaction of Performance Obligations

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

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

(j) Recognition of Provisions and Contingencies

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

3.2 Key Sources of Estimation Uncertainty

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

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

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

(b) Estimation of Allowance for ECL

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

The carrying value of financial assets at FVOCI, 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 15 respectively.

(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 use 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 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 normally using the discounted cash flow model.

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

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 13 and 14, 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 13 to the financial statements is 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. Significant judgment is applied by the management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of BDO Unibank Group's future taxable income together with its future tax planning strategies. The BDO Unibank Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2019 and 2018 is disclosed in Note 30.1.

(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 15.

(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 25.2 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 25.2.

(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 are presented as part of Accrued expenses under Other Liabilities account in the statement of financial position as disclosed in Note 20.

(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 BDO Unibank Group is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

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

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

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

The BOD has constituted the Risk Management Committee (RMC) as the Board-Level Committee responsible for the 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 BDO Unibank Group's statement of financial position, including the BDO Unibank Group's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

BDO Unibank Group operates an 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 BDO Unibank 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 BDO Unibank Group is exposed. RMG functionally reports to the RMC.

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

4.1 Liquidity Risk

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

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2019 and 2018 in accordance with account classification of the BSP is presented below and in the succeeding pages. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2019				
	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 64,140	P -	P -	P -	P 64,140
Due from BSP and other banks	134,653	2,264	48	211,031	347,996
Trading and investment securities	38,997	25,911	102,380	268,617	435,905
Loans and other receivables - net	453,118	281,272	328,369	1,163,018	2,225,777
Other resources - net*	-	88	38	114,914	115,040
Total Resources	690,908	309,535	430,835	1,757,580	3,188,858
Liabilities and Equity:					
Deposit liabilities	615,396	27,747	13,383	1,828,702	2,485,228
Bills and subordinated notes payable	48,675	43,331	42,761	42,787	177,554
Insurance contract liabilities**	61	(1,164)	342	43,234	42,473
Other liabilities	28,683	2,157	4,075	78,101	113,016
Total Liabilities	692,815	72,071	60,561	1,992,824	2,818,271
Equity	-	-	-	370,587	370,587
Total Liabilities and Equity	692,815	72,071	60,561	2,363,411	3,188,858
On-book gap	(1,907)	237,464	370,274	(605,831)	-
Cumulative on-book gap	(1,907)	235,557	605,831	-	-
Contingent assets	222,024	34,619	20,294	5,481	282,418
Contingent liabilities	255,066	35,598	19,993	5,467	316,124
Off-book gap	(33,042)	(979)	301	14	(33,706)
Net Periodic Gap	(34,949)	236,485	370,575	(605,817)	33,706
Cumulative Total Gap	(P 34,949)	P 201,536	P 572,111	(P 33,706)	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

	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
Trading and investment securities	13,825	56,729	98,227	216,416	385,197
Loans and other receivables - net	463,437	201,081	349,271	1,058,045	2,071,834
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 three years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

Parent Bank

	2019				
	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 62,726	P -	P -	P -	P 62,726
Due from BSP and other banks	131,182	2,255	48	209,273	342,758
Trading and investment securities	34,690	20,757	91,548	198,283	345,278
Loans and other receivables - net	446,261	268,912	304,999	1,155,483	2,175,655
Other resources - net*	-	-	-	136,683	136,683
Total Resources	674,859	291,924	396,595	1,699,722	3,063,100
Liabilities and Equity:					
Deposit liabilities	604,273	26,672	13,155	1,794,637	2,438,737
Bills and subordinated notes payable	36,334	40,519	37,971	42,527	157,351
Other liabilities	24,837	-	-	72,965	97,802
Total Liabilities	665,444	67,191	51,126	1,910,129	2,693,890
Equity	-	-	-	369,210	369,210
Total Liabilities and Equity	665,444	67,191	51,126	2,279,339	3,063,100
On-book gap	9,415	224,733	345,469	(579,617)	-
Cumulative on-book gap	9,415	234,148	579,617	-	-
Contingent assets	215,963	25,772	1,941	1,059	244,735
Contingent liabilities	249,084	26,941	1,957	1,095	279,077
Off-book gap	(33,121)	(1,169)	(16)	(36)	(34,342)
Net Periodic Gap	(23,706)	223,564	345,453	(579,653)	34,342
Cumulative Total Gap	(P 23,706)	P 199,858	P 545,311	(P 34,342)	P -

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

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
Trading and investment securities	9,197	51,017	85,021	159,046	304,281
Loans and other receivables - net	451,821	185,561	325,786	1,055,985	2,019,153
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.*

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 BDO Unibank 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, 2019 and 2018 follows:

BDO Unibank Group

	2019			2018		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P 143**	**P 373,037**	**P 373,180**	P 152	P 407,729	P 407,881
Due from other banks	**36,842**	**2,114**	**38,956**	52,953	2,339	55,292
Trading and investment securities:						
At FVTPL	**5,671**	**21,410**	**27,081**	4,093	16,215	20,308
At FVOCI	**82,468**	**62,771**	**145,239**	75,464	44,925	120,389
At amortized cost	**134,678**	**128,907**	**263,585**	138,103	106,397	244,500
Loans and other receivables	**266,216**	**1,959,561**	**2,225,777**	305,505	1,766,329	2,071,834
Other resources	**5,658**	**333**	**5,991**	5,029	2,041	7,070
	P 531,676	**P 2,548,133**	**P 3,079,809**	P 581,299	P 2,345,975	P 2,927,274
Liabilities:						
Deposit liabilities	**P 373,229**	**P 2,111,999**	**P 2,485,228**	P 416,383	P 2,003,582	P 2,419,965
Bills payable	**112,719**	**54,805**	**167,524**	117,787	25,836	143,623
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Insurance contract liabilities	**7,965**	**34,508**	**42,473**	7,283	21,223	28,506
Other liabilities	**5,677**	**96,155**	**101,832**	5,439	75,635	81,074
	P 499,590	**P 2,307,497**	**P 2,807,087**	P 546,892	P 2,136,306	P 2,683,198

Parent Bank

	2019			2018		
	Foreign Currencies	Philippine Pesos	Total	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items						
and due from BSP	P 48	P 369,616	P 369,664	P 36	P 401,473	P 401,509
Due from other banks	35,768	52	35,820	48,729	51	48,780
Trading and investment						
securities:						
At FVTPL	2,487	1,683	4,170	2,880	1,377	4,257
At FVOCI	64,337	29,463	93,800	61,026	16,089	77,115
At amortized cost	130,533	116,775	247,308	130,830	92,079	222,909
Loans and other receivables	267,520	1,908,135	2,175,655	307,567	1,711,586	2,019,153
Other resources	5,542	-	5,542	5,001	1	5,002
	P 506,235	P 2,425,724	P 2,931,959	P 556,069	P 2,222,656	P 2,778,725
Liabilities:						
Deposit liabilities	P 356,773	P 2,081,964	P 2,438,737	P 398,841	P 1,963,461	P 2,362,302
Bills payable	112,180	35,141	147,321	117,693	-	117,693
Subordinated notes payable	-	10,030	10,030	-	10,030	10,030
Other liabilities	5,075	83,163	88,238	4,755	59,998	64,753
	P 474,028	P 2,210,298	P 2,684,326	P 521,289	P 2,033,489	P 2,554,778

4.2.2 Interest Rate Risk

BDO Unibank Group prepares an interest rate gap analysis in the Banking Book to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The Banking Book is a term for resources on a bank's statement of financial position that are expected to be held to maturity, usually consisting of customer loans to and deposits from retail and corporate customers. The Banking Book can also include those derivatives that are used to hedge exposures arising from the Banking Book activity, including interest rate risk. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities in the Banking Book. An interest rate gap report is prepared by classifying all resources and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity is fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income. Interest rate financial instruments (e.g., interest rate derivatives) may be used to hedge the interest rate exposures in the Banking Book. There are however, no outstanding interest rate derivatives used as hedges in the Banking Book.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2019 and 2018 based on the expected interest realization or recognition are shown in the succeeding pages.

BDO Unibank Group

	2019					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 64,140	P 64,140
Due from BSP and other banks	25,325	-	-	-	322,671	347,996
Trading and investment securities	33,244	25,339	208,865	141,376	27,081	435,905
Loans and other receivables - net	1,063,144	272,907	748,014	141,712	-	2,225,777
Other resources - net*	-	-	-	-	115,040	115,040
Total Resources	1,121,713	298,246	956,879	283,088	528,932	3,188,858
Liabilities and Equity:						
Deposit liabilities	543,613	43,157	60,979	20,508	1,816,971	2,485,228
Bills and subordinated notes payable	58,529	43,336	68,912	6,777	-	177,554
Insurance contract liabilities**	(376)	(1,487)	349	29,948	14,039	42,473
Other liabilities	-	585	3,437	211	108,783	113,016
Total Liabilities	601,766	85,591	133,677	57,444	1,939,793	2,818,271
Equity	-	-	-	-	370,587	370,587
Total Liabilities and Equity	601,766	85,591	133,677	57,444	2,310,380	3,188,858
On-book gap	519,947	212,655	823,202	225,644	(1,781,448)	-
Cumulative on-book gap	519,947	732,602	1,555,804	1,781,448	-	-
Contingent assets	17,575	1,797	-	-	-	19,372
Contingent liabilities	4,373	1,772	-	-	-	6,145
Off-book gap	13,202	25	-	-	-	13,227
Net Periodic Gap	533,149	212,680	823,202	225,644	(1,781,448)	(13,227)
Cumulative Total Gap	P 533,149	P 745,829	P 1,569,031	P 1,794,675	P 13,227	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

	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
Trading and investment securities	11,664	56,431	178,738	118,056	20,308	385,197
Loans and other receivables - net	1,025,682	189,261	620,802	236,089	-	2,071,834
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 five years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

Parent Bank

	2019					
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Non-rate Sensitive**	**Total**
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 62,726	P 62,726
Due from BSP and other banks	23,000	-	-	-	319,758	342,758
Trading and investment securities	32,079	20,757	182,122	106,150	4,170	345,278
Loans and other receivables - net	1,055,732	258,924	722,990	138,009	-	2,175,655
Other resources - net*	-	-	-	-	136,683	136,683
Total Resources	1,110,811	279,681	905,112	244,159	523,337	3,063,100
Liabilities and Equity:						
Deposit liabilities	527,032	40,769	60,451	26,085	1,784,400	2,438,737
Bills and subordinated notes payable	41,397	40,525	67,097	8,332	-	157,351
Other liabilities	-	-	-	-	97,802	97,802
Total Liabilities	568,429	81,294	127,548	34,417	1,882,202	2,693,890
Equity	-				369,210	369,210
Total Liabilities and Equity	568,429	81,294	127,548	34,417	2,251,412	3,063,100
On-book gap	542,382	198,387	777,564	209,742	(1,728,075)	-
Cumulative on-book gap	542,382	740,769	1,518,333	1,728,075	-	-
Contingent assets	14,574	-	-	-	-	14,574
Contingent liabilities	1,409	-	-	-	-	1,409
Off-book gap	13,165	-	-	-	-	13,165
Net Periodic Gap	555,547	198,387	777,564	209,742	(1,728,075)	(13,165)
Cumulative Total Gap	P 555,547	P 753,934	P 1,531,498	P 1,741,240	P 13,165	P -

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

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
Trading and investment securities	7,586	51,017	155,786	85,635	4,257	304,281
Loans and other receivables - net	1,015,170	166,254	597,213	240,516	-	2,019,153
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.*

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

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level, which is a percentage of projected earnings. The BDO Unibank Group and the Parent Bank use the VaR model to estimate the daily potential loss that the BDO Unibank Group and the Parent Bank can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over limits should only arise in very exceptional circumstances.

- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.

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

- Earnings-at-risk (EAR) – The RMG computes the EAR based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

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

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

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,

- The VaR measure is dependent upon the BDO Unibank Group and the Parent Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice-versa.

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

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

BDO Unibank Group

	2019		2018	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 25)**	**(P 280)**	(P 27)	(P 401)
Interest rate risk – Peso	**(62)**	**(1,137)**	(71)	(754)
Interest rate risk – USD	**(9)**	**(470)**	(4)	(125)
	(P 96)	**(P 1,887)**	(P 102)	(P 1,280)

Parent Bank

	2019		2018	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 25)**	**(P 276)**	(P 25)	(P 367)
Interest rate risk – Peso	**(20)**	**(276)**	(47)	(348)
Interest rate risk – USD	**(5)**	**(205)**	(2)	(65)
	(P 50)	**(P 757)**	(P 74)	(P 780)

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

The EAR before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2019 and 2018 is shown below and in the succeeding page.

BDO Unibank Group

	2019			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 5,965)	P 5,965	(P 2,982)	P 2,982
As a percentage of the BDO Unibank Group's net interest income for 2019	(4.98%)	4.98%	(2.49%)	2.49%
EAR	P 12,584			
As a percentage of the BDO Unibank Group's net interest income for 2019	10.50%			
Average (1yr) EAR	P 8,874			
Stress EAR	P 22,781			

	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%
EAR	P 5,104			
As a percentage of the BDO Unibank Group's net interest income for 2018	5.19%			
Average (1yr) EAR	P 7,912			
Stress EAR	P 16,651			

Parent Bank

	2019			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 6,003)**	**P 6,003**	**(P 3,001)**	**P 3,001**
As a percentage of the Parent Bank's net interest income for 2019	**(5.24%)**	**5.24%**	**(2.62%)**	**2.62%**
EAR	**P 13,275**			
As a percentage of the Parent Bank's net interest income for 2019	**11.59%**			
Average (1yr) EAR	**P 9,290**			
Stress EAR	**P 22,823**			

	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%
EAR	P 5,715			
As a percentage of the Parent Bank's net interest income for 2018	6.09%			
Average (1yr) EAR	P 8,209			
Stress EAR	P 17,305			

4.2.3 Price Risk

The BDO Unibank Group and the Parent Bank are exposed to equity securities price risk because of investments in equity securities held by BDO Unibank Group and Parent Bank classified on the statement of financial position either as financial assets at FVOCI securities, or financial assets at FVTPL. The BDO Unibank Group and the Parent Bank are not exposed to commodity price risk. To manage its price risk arising from investments in listed equity securities, BDO Unibank Group 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 financial assets at FVTPL and financial assets at FVOCI on BDO Unibank Group and Parent Bank's net profit after tax and equity as of December 31, 2019 and 2018. The results are based on the volatility assumption of the benchmark equity index, which was 2.33% and 2.28% in 2019 and 2018, respectively, for securities classified as financial assets at FVTPL and FVOCI securities with all other variables held constant and all the BDO Unibank Group and the Parent Bank's equity instruments moved according to the historical correlation with the index.

	Impact on Net Profit After Tax Increase			**Impact on Other Comprehensive Income Increase**		
	2019	2018	2017	**2019**	2018	2017
BDO Unibank Group						
Financial assets at FVTPL	**P 335**	P 194	P 93	**P -**	P -	P -
Financial assets at FVOCI	**-**	-	-	**203**	136	-
Available-for-sale (AFS) securities	**-**	-	-	**-**	-	861
	P 335	P 194	P 93	**P 203**	P 136	P 861
Parent Bank						
Financial assets at FVOCI	**P -**	P -	P -	**P 48**	P 2	P -
AFS securities	**-**	-	-	**-**	-	55
	P -	P -	P -	**P 48**	P 2	P 55

4.3 Credit Risk

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

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

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

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

4.3.1 Credit Risk Assessment

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

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

- Current : Grades AAA to B
- Watchlisted : Grade B-
- 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) Current

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

(b) Watchlisted

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

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

(c) Adversely Classified

(i) 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 and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2019 and 2018, there are no POCI financial assets in both BDO Unibank Group and Parent Bank's financial statements.

The following table shows the exposure to credit risk as of December 31, 2019 and 2018 for each internal risk grade and the related allowance for ECL:

BDO Unibank Group

		2019			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate					
Grades AAA to B	: Current	P 1,650,322	P -	P -	P 1,650,322
Grade B-	: Watchlisted	25,059	2	292	25,353
Grade C	: LEM	-	3,387	675	4,062
Grade D	: Substandard	-	4,427	1,229	5,656
Grade E	: Doubtful	-	164	3,507	3,671
Grade F	: Loss	-	-	4,944	4,944
		1,675,381	7,980	10,647	1,694,008
Expected credit loss allowance		(6,609)	(549)	(8,412)	(15,570)
Carrying amount		P 1,668,772	P 7,431	P 2,235	P 1,678,438
Receivables from customers - consumer					
Grades AAA to B	: Current	P 496,264	P -	P -	P 496,264
Grade B-	: Watchlisted	80	-	-	80
Grade C	: LEM	-	1,933	169	2,102
Grade D	: Substandard	-	1,091	1,109	2,200
Grade E	: Doubtful	-	5	3,536	3,541
Grade F	: Loss	-	-	9,855	9,855
		496,344	3,029	14,669	514,042
Expected credit loss allowance		(5,050)	(681)	(8,767)	(14,498)
Carrying amount		P 491,294	P 2,348	P 5,902	P 499,544
Other receivables					
Grades AAA to B	: Current	P 47,184	P -	P -	P 47,184
Grade C	: LEM	1	-	20	21
Grade D	: Substandard	-	325	851	1,176
Grade E	: Doubtful	-	-	291	291
Grade F	: Loss	-	-	1,721	1,721
		47,185	325	2,883	50,393
Expected credit loss allowance		(116)	(269)	(2,213)	(2,598)
Carrying amount		P 47,069	P 56	P 670	P 47,795
Debt investment securities at amortized cost					
Grades AAA to B	: Current	P 263,736	P -	P -	P 263,736
Grade E	: Doubtful	-	-	1,138	1,138
Grade F	: Loss	-	-	264	264
		263,736	-	1,402	265,138
Expected credit loss allowance		(151)	-	(1,402)	(1,553)
Carrying amount		P 263,585	P -	P -	P 263,585
Debt investment securities at FVOCI					
Grades AAA to B	: Current	P 134,123	P -	P -	P 134,123

BDO Unibank Group

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loan commitments and other contingent accounts				
Grades AAA to B : Current	**P 446,096**	**P -**	**P -**	**P 446,096**
Grade B- : Watchlisted	**11,640**	**-**	**-**	**11,640**
Grade E : Doubtful	**-**	**-**	**44**	**44**
Grade F : Loss	**-**	**1**	**-**	**1**
	457,736	**1**	**44**	**457,781**
Expected credit loss allowance	**(114)**	**-**	**-**	**(114)**
Carrying amount	**P 457,622**	**P 1**	**P 44**	**P 457,667**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate				
Grades AAA to B : Current	P 1,532,084	P -	P -	P 1,532,084
Grade B- : Watchlisted	29,445	4,940	22	34,407
Grade C : LEM	-	797	297	1,094
Grade D : Substandard	-	4,299	1,749	6,048
Grade E : Doubtful	-	-	1,468	1,468
Grade F : Loss	-	-	4,764	4,764
	1,561,529	10,036	8,300	1,579,865
Expected credit loss allowance	(6,630)	(1,972)	(6,243)	(14,845)
Carrying amount	P 1,554,899	P 8,064	P 2,057	P 1,565,020
Receivables from customers - consumer				
Grades AAA to B : Current	P 425,645	P -	P -	P 425,645
Grade B- : Watchlisted	146	12	13	171
Grade C : LEM	-	1,446	84	1,530
Grade D : Substandard	-	867	766	1,633
Grade E : Doubtful	-	-	2,558	2,558
Grade F : Loss	-	-	8,660	8,660
	425,791	2,325	12,081	440,197
Expected credit loss allowance	(3,794)	(572)	(7,550)	(11,916)
Carrying amount	P 421,997	P 1,753	P 4,531	P 428,281
Other receivables				
Grades AAA to B : Current	P 77,857	P -	P -	P 77,857
Grade C : LEM	-	24	77	101
Grade D : Substandard	-	490	288	778
Grade E : Doubtful	-	-	609	609
Grade F : Loss	-	-	1,472	1,472
	77,857	514	2,446	80,817
Expected credit loss allowance	(235)	(37)	(2,012)	(2,284)
Carrying amount	P 77,622	P 477	P 434	P 78,533
Debt investment securities at amortized cost				
Grades AAA to B : Current	P 244,635	P -	P -	P 244,635
Grade F : Loss	-	-	1,446	1,446
	244,635	-	1,446	246,081
Expected credit loss allowance	(135)	-	(1,446)	(1,581)
Carrying amount	P 244,500	P -	P -	P 244,500
Debt investment securities at FVOCI				
Grades AAA to B : Current	P 110,150	P -	P -	P 110,150
Loan commitments and other contingent accounts				
Grades AAA to B : Current	P 398,080	P -	P -	P 398,080
Grade B- : Watchlisted	447	155	-	602
	398,527	155	-	398,682
Expected credit loss allowance	(202)	(4)	-	(206)
Carrying amount	P 398,325	P 151	P -	P 398,476

The table below sets out the credit quality of trading debt securities measured at FVTPL (see Note 9.1).

	2019	2018
Grade:		
AAA	P 4,835	P 2,037
AA+ to AA	524	129
A+ to A-	474	341
BBB+ to BBB-	2,710	2,493
BB+ to BB-	61	14
	P 8,604	P 5,014

The table below 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
2019								
Derivative assets	**P 161,883**	**P 3,562**	**P 131,305**	**P 1,523**	**P 3,730**	**P 26**	**P 26,848**	**P 2,013**
Derivative liabilities	**159,580**	**3,172**	**107,228**	**1,406**	**27,157**	**327**	**25,195**	**1,439**
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

As of December 31, 2019 and 2018, the BDO Unibank Group held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P412,136 and P463,173, 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

			2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 Total
Receivables from customers – corporate						
Grades AAA to B	:	Current	**P 1,635,751**	**P -**	**P -**	**P 1,635,751**
Grade B-	:	Watchlisted	**24,820**	**-**	**223**	**25,043**
Grade C	:	LEM	**-**	**2,986**	**581**	**3,567**
Grade D	:	Substandard	**-**	**4,427**	**1,036**	**5,463**
Grade E	:	Doubtful	**-**	**20**	**3,015**	**3,035**
Grade F	:	Loss	**-**	**-**	**4,681**	**4,681**
			1,660,571	**7,433**	**9,536**	**1,677,540**
Expected credit loss allowance			**(6,520)**	**(538)**	**(7,991)**	**(15,049)**
Carrying amount			**P 1,654,051**	**P 6,895**	**P 1,545**	**P 1,662,491**
Receivables from customers - consumer						
Grades AAA to B	:	Current	**P 465,858**	**P -**	**P -**	**P 465,858**
Grade B-	:	Watchlisted	**80**	**-**	**-**	**80**
Grade C	:	LEM	**-**	**1,663**	**119**	**1,782**
Grade D	:	Substandard	**-**	**594**	**994**	**1,588**
Grade E	:	Doubtful	**-**	**5**	**3,062**	**3,067**
Grade F	:	Loss	**-**	**-**	**7,951**	**7,951**
			465,938	**2,262**	**12,126**	**480,326**
Expected credit loss allowance			**(4,549)**	**(541)**	**(7,243)**	**(12,333)**
Carrying amount			**P 461,389**	**P 1,721**	**P 4,883**	**P 467,993**

Parent Bank

			2019			
			Stage 1	**Stage 2**	**Stage 3**	**Total**
Other receivables						
Grades AAA to B	:	Current	**P 44,525**	**P -**	**P -**	**P 44,525**
Grade C	:	LEM	**1**	**-**	**20**	**21**
Grade D	:	Substandard	**602**	**324**	**224**	**1,150**
Grade E	:	Doubtful	**-**	**-**	**261**	**261**
Grade F	:	Loss	**-**	**-**	**1,665**	**1,665**
			45,128	**324**	**2,170**	**47,622**
Expected credit loss allowance			**(46)**	**(269)**	**(2,136)**	**(2,451)**
Carrying amount			**P 45,082**	**P 55**	**P 34**	**P 45,171**
Debt investment securities at amortized cost						
Grades AAA to B	:	Current	**P 247,449**	**P -**	**P -**	**P 247,449**
Grade E	:	Doubtful	**-**	**-**	**1,138**	**1,138**
Grade F	:	Loss	**-**	**-**	**264**	**264**
			247,449	**-**	**1,402**	**248,851**
Expected credit loss allowance			**(141)**	**-**	**(1,402)**	**(1,543)**
Carrying amount			**P 247,308**	**P -**	**P -**	**P 247,308**
Debt investment securities at FVOCI						
Grades AAA to B	:	Current	**P 89,431**	**P -**	**P -**	**P 89,431**
Loan commitments and other contingent accounts						
Grades AAA to B	:	Current	**P 446,096**	**P -**	**P -**	**P 446,096**
Grade B-	:	Watchlisted	**11,640**	**-**	**-**	**11,640**
Grade E	:	Doubtful	**-**	**-**	**44**	**44**
Grade F	:	Loss	**-**	**1**	**-**	**1**
			457,736	**1**	**44**	**457,781**
Expected credit loss allowance			**(114)**	**-**	**-**	**(114)**
Carrying amount			**P 457,622**	**P 1**	**P 44**	**P 457,667**

			2018			
			Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate						
Grades AAA to B	:	Current	P 1,507,824	P -	P 56	P 1,507,880
Grade B-	:	Watchlisted	28,873	4,907	-	33,780
Grade C	:	LEM	-	462	264	726
Grade D	:	Substandard	-	4,298	1,542	5,840
Grade E	:	Doubtful	-	-	1,184	1,184
Grade F	:	Loss	-	-	4,450	4,450
			1,536,697	9,667	7,496	1,553,860
Expected credit loss allowance			(6,506)	(1,968)	(5,893)	(14,367)
Carrying amount			P 1,530,191	P 7,699	P 1,603	P 1,539,493
Receivables from customers - consumer						
Grades AAA to B	:	Current	P 401,136	P -	P -	P 401,136
Grade B-	:	Watchlisted	146	12	13	171
Grade C	:	LEM	-	1,307	65	1,372
Grade D	:	Substandard	-	438	701	1,139
Grade E	:	Doubtful	-	-	2,131	2,131
Grade F	:	Loss	-	-	6,693	6,693
			401,282	1,757	9,603	412,642
Expected credit loss allowance			(3,545)	(429)	(5,805)	(9,779)
Carrying amount			P 397,737	P 1,328	P 3,798	P 402,863

Parent Bank

		2018			
		Stage 1	Stage 2	Stage 3	Total
Other receivables					
Grades AAA to B	: Current	P 76,116	P -	P -	P 76,116
Grade D	: Substandard	-	477	283	760
Grade E	: Doubtful	-	-	601	601
Grade F	: Loss	-	-	1,371	1,371
		76,116	477	2,255	78,848
Expected credit loss allowance		(83)	(37)	(1,931)	(2,051)
Carrying amount		P 76,033	P 440	P 324	P 76,797
Debt investment securities at amortized cost					
Grades AAA to B	: Current	P 223,032	P -	P -	P 223,032
Grade F	: Loss	-	-	1,446	1,446
		223,032	-	1,446	224,478
Expected credit loss allowance		(123)	-	(1,446)	(1,569)
Carrying amount		P 222,909	P -	P -	P 222,909
Debt investment securities at FVOCI					
Grades AAA to B	: Current	P 73,741	P -	P -	P 73,741
Loan commitments and other contingent accounts					
Grades AAA to B	: Current	P 398,080	P -	P -	P 398,080
Grade B-	: Watchlisted	447	155	-	602
		398,527	155	-	398,682
Expected credit loss allowance		(202)	(4)	-	(206)
Carrying amount		P 398,325	P 151	P -	P 398,476

The table below sets out the credit quality of trading debt securities measured at FVTPL (see Note 9.1).

	2019	2018
Grade:		
AAA	**P 1,580**	P 1,277
AA+ to AA	**4**	4
BBB+ to BBB-	**975**	-
BB+ to BB-	**61**	354
	P 2,620	P 1,635

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

	Total		Exchange-traded		Over-the-counter: Central Counterparties		Over-the-counter: Other Bilateral Collateralized	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
2019								
Derivative assets	**P 135,165**	**P 1,549**	**P 131,105**	**P 1,523**	**P 3,730**	**P 26**	**P 130**	**P -**
Derivative liabilities	**134,515**	**1,734**	**107,228**	**1,406**	**27,157**	**328**	**130**	**-**
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	-	-

As of December 31, 2019 and 2018, the Parent Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P405,484 and P450,289, 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 monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below and in the succeeding pages.

BDO Unibank Group

	2019			2018		
	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 447,934**	**P 290,150**	**P 309,636**	P 536,426	P 292,871	P 228,301
Real estate activities	**5**	**286,744**	**20,542**	-	242,836	22,080
Wholesale and retail trade	**-**	**290,150**	**4,202**	-	274,443	1,085
Electricity, gas, steam and air-conditioning supply	**-**	**259,617**	**-**	-	222,305	-
Transportation and storage	**-**	**105,245**	**2,715**	-	114,023	3,333
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**291,461**	**-**	-	234,238	-
Manufacturing	**-**	**206,143**	**13,797**	-	215,108	13,940
Arts, entertainment and recreation	**-**	**81,065**	**-**	-	76.366	-
Construction	**-**	**69,385**	**-**	-	47,797	-
Accommodation and food service activities	**-**	**37,357**	**-**	-	31,465	-
Information and communication	**-**	**30,366**	**-**	-	32,530	-
Education	**-**	**23,763**	**-**	-	5,960	-
Water supply, sewerage waste management and remediation activities	**-**	**21,780**	**-**	-	12,567	-
Mining and quarrying	**-**	**20,359**	**-**	-	23,830	-
Agriculture, forestry and fishing	**-**	**15,072**	**-**	-	13,861	-
Professional, scientific and technical services	**-**	**10,904**	**-**	-	10,980	-
Administrative and support services	**-**	**9,919**	**-**	-	9,517	-
Human health and social work activities	**-**	**8,982**	**-**	-	9,092	-
Public administrative and defense; compulsory social security	**-**	**1,416**	**-**	-	640	-
Activities of extraterritorial and organizations and bodies	**-**	**10**	**-**	-	41	-
Other service activities	**1,137**	**148,162**	**60,226**	4,994	149,592	89,562
	P 449,076	**P 2,208,050**	**P 411,118**	P 541,420	P 2,020,062	P 358,301
Concentration by location:						
Philippines	**P 381,356**	**P 2,083,321**	**P 326,070**	P 448,131	P 1,891,447	P 279,391
Others	**67,720**	**124,729**	**85,048**	93,289	128,615	78,910
	P 449,076	**P 2,208,050**	**P 411,118**	P 541,420	P 2,020,062	P 358,301

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

***Receivables from customers are reported net of unearned interests or discounts.*

Parent Bank

	2019			2018		
	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 442,423**	**P 289,122**	**P 275,189**	P 525,857	P 290,365	P 212,182
Electricity, gas, steam and air-conditioning supply	**-**	**259,435**	**-**	-	221,533	-
Real estate activities	**-**	**286,343**	**15,475**	-	241,272	17,701
Transportation and storage	**-**	**102,347**	**2,659**	-	109,997	2,571
Wholesale and retail traded	**-**	**284,878**	**4,202**	-	267,923	1,030
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**282,454**	**-**	-	225,550	-
Manufacturing	**-**	**203,539**	**12,124**	-	211,264	12,481
Arts, entertainment and recreation	**-**	**79,988**	**-**	-	75,000	-
Construction	**-**	**65,076**	**-**	-	42,900	-
Accommodation and food service activities	**-**	**37,113**	**-**	-	31,298	-
Information and communication	**-**	**29,889**	**-**	-	32,072	-
Water supply, sewerage waste management and remediation activities	**-**	**21,661**	**-**	-	12,317	-
Mining and quarrying	**-**	**19,599**	**-**	-	22,434	-
Agriculture, forestry and fishing	**-**	**14,167**	**-**	-	13,043	-
Professional, scientific and technical services	**-**	**10,811**	**-**	-	10,738	-
Administrative and support services	**-**	**8,677**	**-**	-	8,131	-
Human health and social work activities	**-**	**8,061**	**-**	-	8,235	-
Education	**-**	**5,280**	**-**	-	5,411	-
Public administrative and defense; compulsory social security	**-**	**536**	**-**	-	629	-
Activities of extraterritorial and organizations bodies	**-**	**7**	**-**	-	38	-
Other service activities	**-**	**148,883**	**32,494**	-	136,352	50,015
	P 442,423	**P 2,157,866**	**P 342,143**	P 525,857	P 1,966,502	P 295,980
Concentration by location						
Philippines	**P 375,872**	**P 2,034,336**	**P 264,380**	P 438,835	P 1,845,037	P 224,717
Others	**66,551**	**123,530**	**77,763**	87,022	121,465	71,263
	P 442,423	**P 2,157,866**	**P 342,143**	P 525,857	P 1,966,502	P 295,980

** Cash and cash equivalents include cash and other cash items, due from BSP and other banks, SPURRA, FCNC, certain interbank loans receivables and investment securities at amortized cost (see Note 2.5).*
***Receivables from customers are reported as gross of allowance but net of unearned interests or discounts.*

4.3.4 Collateral Held as Security and Other Credit Enhancements

BDO Unibank Group and the Parent Bank hold collateral against credit exposures from customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically. Collateral generally is not held over 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**	
	2019	2018	**2019**	2018
Receivable from customers – corporate:				
Property	**P 511,930**	P 497,150	**P 483,845**	P 460,617
Equity securities	**126,655**	131,529	**126,655**	131,529
Hold-out deposits	**93,768**	141,806	**93,765**	141,806
Debt securities	**1,964**	5,147	**1,964**	5,109
Others	**229,282**	220,603	**225,522**	210,049
	963,599	996,235	**931,751**	949,110
Receivable from customers – consumer:				
Property	**334,772**	286,512	**327,160**	278,268
Hold-out deposits	**2,841**	3,950	**2,775**	3,881
Debt securities	**647**	849	**239**	571
Equity securities	**591**	171	**102**	171
Others	**199,222**	170,747	**189,263**	159,536
	538,073	462,229	**519,539**	442,427
Other receivables:				
Property	**2,165**	2,139	**2,165**	2,139
Others	**44,434**	72,053	**44,434**	71,805
	46,599	74,192	**46,599**	73,944
	P 1,548,271	P 1,532,656	**P 1,497,889**	P 1,465,481

As of December 31, 2019 and 2018, 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.

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

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

(a) Receivable from Customers - Corporate

The net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables to corporate customers amounted to P9,948 and P10,210 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P8,440 and P9,302 as of December 31, 2019 and 2018, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P963,559 and P996,235 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P931,751 and P949,110 as of December 31, 2019 and 2018, 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 net carrying amount of credit-impaired receivables to individual customers amounted to P8,573 and P6,321 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P6,613 and P5,126 as of December 31, 2019 and 2018, respectively, for the Parent Bank. The value of identifiable collateral held against those loans and advances amounted to P538,073 and P462,229 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P519,539 and P442,427 as of December 31, 2019 and 2018, 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 net carrying amount of credit-impaired other receivables amounted to P204 and P911 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P89 and P764 as of December 31, 2019 and 2018, respectively, for the Parent Bank. The value of identifiable collateral held against those loans and advances amounted to P46,559 and P74,192 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P46,599 and P73,944 as of December 31, 2019 and 2018, 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, FVOCI securities and FVTPL are their carrying amounts of P263,585, P134,123 and P8,604, respectively, as of December 31, 2019, and P244,500, P110,150 and P5,014, respectively, as of December 31, 2018 for the BDO Unibank Group. Meanwhile, maximum exposure to credit risk of the investment securities at amortized cost, FVOCI securities and FVTPL are their carrying amounts of P247,308, P89,431 and P2,620, respectively, as of December 31, 2019, and P222,909, P73,741 and P1,635, respectively, as of December 31, 2018 for the Parent Bank.

4.3.5 Amounts Arising from Expected Credit Losses

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

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

(a) Significant Increase in Credit Risk

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

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

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

(ii) *Generating the term structure of PD*

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

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

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

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

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the BDO Unibank Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as 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 BDO Unibank Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the BDO Unibank Group in full, without recourse by the BDO Unibank Group to actions such as realizing security (if any is held);

- the borrower is more than 90 days past due on any material credit obligation to the BDO Unibank Group; or,

- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

(c) Forward-looking Information

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

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

The relevant macro-economic variables for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth, 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 BDO Unibank Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the BDO Unibank Group's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt; 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 for such loans as consumer and corporate loans and credit card receivables. The BDO Unibank Group's Credit Committee regularly reviews reports on restructured activities.

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

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

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

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

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 BDO Unibank 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) *Write-offs*

The BDO Unibank Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include; cessation of enforcement activity; and, where the BDO Unibank Group's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off. The BDO Unibank Group and Parent Bank have still, however, enforceable right to receive payment even if the financial assets have been written off except in certain cases [see Note 4.3.5(g)].

(g) Loss allowance

In 2019, the BDO Unibank Group and the Parent Bank performed recalibration of its existing ECL model to incorporate on the most-recent default and recovery experience of the BDO Unibank Group and the Parent Bank and developments in the macroeconomic environment. Independent macroeconomic variables used to forecast the probability of default could either be dictated by their statistical significance in the model or economic significance. Inputs are updated to ensure that models are robust, predictive and reliable.

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

BDO Unibank Group

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,630	P 1,972	P 6,243	P 14,845
Transfers to:				
Stage 1	20	(15)	(5)	-
Stage 2	(3)	3	-	-
Stage 3	(5)	(1,479)	1,484	-
Net remeasurement of loss allowance	(861)	(19)	279	(601)
New financial assets originated or purchased	3,024	131	793	3,948
Derecognition of financial assets	(2,159)	(44)	(226)	(2,429)
Write-offs	-	-	(90)	(90)
Foreign exchange	(37)	-	(66)	(103)
Balance at December 31	P 6,609	P 549	P 8,412	P 15,570
Receivables from customers – consumer				
Balance at January 1	P 3,794	P 572	P 7,550	P 11,916
Transfers to:				
Stage 1	256	(14)	(242)	-
Stage 2	(120)	36	84	-
Stage 3	(557)	(956)	1,513	-
Net remeasurement of loss allowance	565	1,077	2,787	4,429
New financial assets originated or purchased	1,638	238	595	2,471
Derecognition of financial assets	(523)	(272)	(1,660)	(2,455)
Write-offs	-	-	(1,856)	(1,856)
Foreign exchange	(3)	-	(4)	(7)
Balance at December 31	P 5,050	P 681	P 8,767	P 14,498
Other receivables				
Balance at January 1	P 235	P 37	P 2,012	P 2,284
Transfer to Stage 3	(1)	(5)	6	-
Net remeasurement of loss allowance	(65)	228	208	371
New financial assets originated or purchased	77	22	624	723
Derecognition of financial assets	(22)	(13)	(416)	(451)
Write-offs	(108)	-	(219)	(327)
Foreign exchange	-	-	(2)	(2)
Balance at December 31	P 116	P 269	P 2,213	P 2,598

BDO Unibank Group

	2019			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at amortized cost				
Balance at January 1	P 135	P -	P 1,446	P 1,581
Net remeasurement of loss allowance	26	-	-	26
New financial assets originated or purchased	22	-	-	22
Foreign exchange	(5)	-	(44)	(49)
Derecognition of financial assets	(27)	-	-	(27)
Balance at December 31	P 151	P -	P 1,402	P 1,553
Debt investment securities at FVOCI				
Balance at January 1	P 87	P -	P -	P 87
Net remeasurement of loss allowance	17	-	-	17
New financial assets originated or purchased	13	-	-	13
Derecognition of financial assets	(17)	-	-	(17)
Balance at December 31	P 100	P -	P -	P 100
Loan commitments and other contingent accounts				
Balance at January 1	P 202	P 4	P -	P 206
Transfer to Stage 1	2	(2)	-	-
Net remeasurement of loss allowance	(97)	-	-	(97)
New financial assets originated or purchased	65	-	-	65
Derecognition of financial assets	(57)	(2)	-	(59)
Foreign exchange	(1)	-	-	(1)
Balance at December 31	P 114	P -	P -	P 114

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,684	P 455	P 5,209	P 12,348
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
New financial assets originated or purchased	3,058	-	-	3,058
Derecognition of financial assets	(2,396)	(60)	(137)	(2,593)
Write-offs	-	-	(31)	(31)
Foreign exchange	6	4	1	11
Balance at December 31	P 6,630	P 1,972	P 6,243	P 14,845
Receivables from customers – consumer				
Balance at January 1	P 3,787	P 505	P 6,147	P 10,439
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
New financial assets originated or purchased	1,382	-	-	1,382
Derecognition of financial assets	(521)	(180)	(2,215)	(2,916)
Write-offs	-	-	(1,830)	(1,830)
Foreign exchange	3	-	4	7
Others	-	-	-	-
Balance at December 31	P 3,794	P 572	P 7,550	P 11,916

BDO Unibank Group

	2018			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Balance at January 1	P 205	P 32	P 2,928	P 3,165
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
New financial assets originated or purchased	61	-	-	61
Derecognition of financial assets	(17)	(6)	(1,516)	(1,539)
Write-offs	(4)	-	(459)	(463)
Foreign exchange	-	-	1	1
Balance at December 31	P 235	P 37	P 2,012	P 2,284
Debt investment securities at amortized cost				
Balance at January 1	P 128	P -	P 1,387	P 1,515
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
Debt investment securities at FVOCI				
Balance at January 1	P 69	P -	P -	P 69
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
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

Parent Bank

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers – corporate				
Balance at January 1	**P 6,506**	**P 1,968**	**P 5,893**	**P 14,367**
Transfers to:				
Stage 2	**(2)**	**2**	**-**	**-**
Stage 3	**(3)**	**(1,475)**	**1,478**	**-**
Net remeasurement of loss allowance	**(851)**	**(44)**	**217**	**(678)**
New financial assets originated or purchased	**3,001**	**131**	**761**	**3,893**
Derecognition of financial assets	**(2,094)**	**(44)**	**(222)**	**(2,360)**
Write-offs	**-**	**-**	**(70)**	**(70)**
Foreign exchange	**(37)**	**-**	**(66)**	**(103)**
Balance at December 31	**P 6,520**	**P 538**	**P 7,991**	**P 15,049**

Parent Bank

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – consumer				
Balance at January 1	P 3,545	P 429	P 5,805	P 9,779
Transfers to:				
Stage 1	101	(9)	(92)	-
Stage 2	(63)	(28)	91	-
Stage 3	(401)	(106)	507	-
Net remeasurement of loss allowance	536	315	3,419	4,270
New financial assets originated or purchased	1,212	138	360	1,710
Derecognition of financial assets	(378)	(198)	(1,130)	(1,706)
Write-offs	-	-	(1,713)	(1,713)
Foreign exchange	(3)	-	(4)	(7)
Balance at December 31	P 4,549	P 541	P 7,243	P 12,333
Other receivables				
Balance at January 1	P 83	P 37	P 1,931	P 2,051
Transfer to Stage 3	-	(5)	5	-
Net remeasurement of loss allowance	(64)	228	208	372
New financial assets originated or purchased	49	22	619	690
Derecognition of financial assets	(22)	(13)	(416)	(451)
Write-offs	-	-	(209)	(209)
Foreign exchange	-	-	(2)	(2)
Balance at December 31	P 46	P 269	P 2,136	P 2,451
Debt investment securities at amortized cost				
Balance at January 1	P 123	P -	P 1,446	P 1,569
Net remeasurement of loss allowance	27	-	-	27
New financial assets originated or purchased	22	-	-	22
Foreign exchange	(5)	-	(44)	(49)
Derecognition of financial assets	(26)	-	-	(26)
Balance at December 31	P 141	P -	P 1,402	P 1,543
Debt investment securities at FVOCI				
Balance at January 1	P 67	P -	P -	P 67
Net remeasurement of loss allowance	11	-	-	11
New financial assets originated or purchased	8	-	-	8
Derecognition of financial assets	(14)	-	-	(14)
Balance at December 31	P 72	P -	P -	P 72
Loan commitments and other contingent accounts				
Balance at January 1	P 202	P 4	P -	P 206
Transfer to Stage 1	2	(2)	-	-
Net remeasurement of loss allowance	(97)	-	-	(97)
New financial assets originated or purchased	65	-	-	65
Derecognition of financial assets	(57)	(2)	-	(59)
Foreign exchange	(1)	-	-	(1)
Balance at December 31	P 114	P -	P -	P 114

Parent Bank

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total
Receivables from customers – corporate				
Balance at January 1	P 6,537	P 433	P 4,865	P 11,835
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
New financial assets originated or purchased	3,007	-	-	3,007
Derecognition of financial assets	(2,355)	(53)	(109)	(2,517)
Write-offs	-	-	(30)	(30)
Foreign exchange	6	4	1	11
Balance at December 31	P 6,506	P 1,968	P 5,893	P 14,367
Receivables from customers – consumer				
Balance at January 1	P 3,311	P 459	P 5,259	P 9,029
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
New financial assets originated or purchased	1,287	-	-	1,287
Derecognition of financial assets	(394)	(160)	(2,065)	(2,619)
Write-offs	-	-	(1,830)	(1,830)
Foreign exchange	3	-	4	7
Balance at December 31	P 3,545	P 429	P 5,805	P 9,779
Other receivables				
Balance at January 1	P 54	P 32	P 2,854	P 2,940
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
New financial assets originated or purchased	60	-	-	60
Derecognition of financial assets	(17)	(6)	(1,508)	(1,531)
Write-offs	-	-	(459)	(459)
Foreign exchange	-	-	1	1
Balance at December 31	P 83	P 37	P 1,931	P 2,051
Debt investment securities at amortized cost				
Balance at January 1	P 115	P -	P 1,387	P 1,502
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

Parent Bank

	2018			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at January 1	P 62	P -	P -	P 62
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
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

The BDO Unibank Group and the Parent Bank had written off certain accounts amounting to P370 and P233 in 2019, respectively, and P585 and P582 in 2018, respectively, from which the BDO Unibank Group and the Parent Bank have no longer an enforceable right to receive payment [see Note 4.3.5(f)].

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

	BDO Unibank Group		**Parent Bank**	
	2019	2018	**2019**	2018
Balance at January 1	**P 30,919**	P 27,867	**P 28,039**	P 25,699
Net remeasurement of loss allowance	**4,145**	7,850	**3,905**	6,903
New financial assets originated or purchased	**7,242**	4,611	**6,388**	4,456
Derecognition of financial assets	**(5,438)**	(7,171)	**(4,616)**	(6,786)
Write-offs	**(2,273)**	(2,324)	**(1,992)**	(2,319)
Foreign exchange	**(162)**	86	**(162)**	86
Balance at December 31	**P 34,433**	P 30,919	**P 31,562**	P 28,039

4.4 Operational Risk

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

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

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

Framework

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

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

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

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

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 BDO Unibank Group's data privacy framework is in accordance with the Republic Act No. 10173, *Data Privacy Act of 2012*.

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

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

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

5. SEGMENT REPORTING

5.1 Business Segments

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

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

(a) ***Commercial banking*** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;

(b) ***Investment banking*** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, financial advisory services and securities brokerage;

(c) ***Private banking*** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts;

(d) ***Leasing and financing*** – provides direct leases, sale and leaseback arrangements and real estate leases;

(e) ***Insurance*** – engages in insurance brokerage and life insurance business by providing protection, education, savings, retirement and estate planning solutions to individual and corporate clients through life insurance products and services; and,

(f) ***Others*** – includes 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.

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 1.1%, 1.3% and 1.2% of BDO Unibank Group's total revenues in 2019, 2018 and 2017, respectively, and 1.8% and 1.4% of BDO Unibank Group's total resources as of December 31, 2019 and 2018, respectively (see Note 1.1).

5.2 Analysis of Segment Information

Segment information (by service lines) as of and for the years ended December 31, 2019, 2018 and 2017 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
December 31, 2019							
Revenues							
From external customer							
Interest income	P 155,463	P 26	P 1,466	P 1,976	P 1,632	P 9	P 160,572
Interest expense	(38,659)	(1)	(643)	(1,289)	(89)	(2)	(40,681)
Net interest income	116,804	27	823	687	1,543	7	119,891
Intersegment revenue							
Interest income	231	41	-	-	38	43	353
Interest expense	(91)	(73)	(27)	(101)	(6)	(84)	(382)
Net interest income	140	(32)	(27)	(101)	32	(41)	(29)
Other operating income							
Investment banking fees	-	1,371	-	-	-	-	1,371
Others	44,684	405	1,662	1,054	17,589	587	65,981
	44,684	1,776	1,662	1,054	17,589	587	67,352
Total net revenues	161,628	1,771	2,458	1,640	19,164	553	187,214
Expenses							
Other operating expenses							
Depreciation and amortization	7,841	107	66	794	87	85	8,980
Impairment losses	6,003	68	28	63	5	-	6,167
Others	89,885	833	1,259	702	14,418	349	107,446
	103,729	1,008	1,353	1,559	14,510	434	122,593
Segment operating income	57,899	763	1,105	81	4,654	119	64,621
Tax expense	13,496	256	226	34	967	40	15,019
Segment net income	P 44,403	P 507	P 879	P 47	P 3,687	P 79	P 49,602
Statement of Financial Position							
Total resources							
Segment assets	P 3,081,358	P 7,175	P 34,857	P 30,806	P 58,302	P 5,329	P 3,217,827
Deferred tax assets (liabilities) - net	8,878	(154)	24	133	48	(2)	8,927
Intangible assets	5,400	139	18	2	55	1	5,615
	P 3,095,636	P 7,160	P 34,899	P 30,941	P 58,405	P 5,328	P 3,232,369
Total liabilities	P 2,720,385	P 2,963	P 29,083	P 25,327	P 48,549	P 2,184	P 2,828,491
Other segment information							
Capital expenditures	P 6,332	P 22	P 18	P 533	P 76	P 14	P 6,995
Investment in associates under equity method	P -	P -	P -	P -	P -	P 5,048	P 5,048
Share in the profit of associates	P -	P -	P -	(P 42)	P -	P 738	P 696

December 31, 2018	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
Revenues							
From external customer							
Interest income	P 124,190	P 35	P 1,703	P 1,960	P 1,140	P 12	P 129,040
Interest expense	(28,840)	(2)	(815)	(1,008)	(82)	(1)	(30,748)
Net interest income	95,350	33	888	952	1,058	11	98,292
Intersegment revenues							
Interest income	248	9	1	-	30	36	324
Interest expense	(42)	(55)	(2)	(155)	-	(70)	(324)
Net interest income	206	(46)	(1)	(155)	30	(34)	-
Other operating income							
Investment banking fees	-	1,081	-	-	-	-	1,081
Others	36,702	324	1,004	1,254	11,956	594	51,834
	36,702	1,405	1,004	1,254	11,956	594	52,915
Total net revenues	132,258	1,392	1,891	2,051	13,044	571	151,207
Expenses							
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	93,370
	90,587	1,037	1,390	1,630	10,385	403	105,432
Segment operating income	41,671	355	501	421	2,659	168	45,775
Tax expense	9,363	161	200	90	1,151	42	11,007
Segment net income	P 32,308	P 194	P 301	P 331	P 1,508	P 126	P 34,768
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 3,050,102
Deferred tax assets (liabilities) - net	8,319	(181)	29	126	34	(15)	8,312
Intangible assets	5,223	207	17	15	54	1	5,517
	P 2,919,062	P 5,771	P 48,848	P 41,523	P 43,255	P 5,472	P 3,063,931
Total liabilities	P 2,586,747	P 2,075	P 43,711	P 36,180	P 34,746	P 2,375	P 2,705,834
Other segment information							
Capital expenditures	P 9,791	P 37	P 26	P 986	P 75	P 27	P 10,942
Investment in associates under equity method	P -	P -	P -	P 235	P -	P 4,846	P 5,081
Share in the profit of associates	P -	P -	P -	(P 31)	P -	P 662	P 631

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
December 31, 2017							
Revenues							
From external customer							
Interest income	P 95,224	P 62	P 1,779	P 1,913	P 806	P 11	P 99,795
Interest expense	(16,686)	-	(599)	(690)	(65)	(2)	(18,042)
Net interest income	78,538	62	1,180	1,223	741	9	81,753
Intersegment revenues							
Interest income	232	5	-	1	16	14	268
Interest expense	(23)	(48)	-	(154)	-	(43)	(268)
Net interest income	209	(43)	-	(153)	16	(29)	-
Other operating income							
Investment banking fees	-	1,766	-	-	-	-	1,766
Others	34,646	412	855	1,242	12,642	457	50,254
	34,646	2,178	855	1,242	12,642	457	52,020
Total net revenues	113,393	2,197	2,035	2,312	13,399	437	133,773
Expenses							
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	80,720
	77,528	961	1,398	1,593	10,574	375	92,429
Segment operating income	35,865	1,236	637	719	2,825	62	41,344
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 31,892
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 2,698,236
Deferred tax assets (liabilities) - net	7,441	(182)	31	111	26	(24)	7,403
Intangible assets	5,374	134	26	29	32	1	5,596
	P 2,552,843	P 7,105	P 64,496	P 42,816	P 38,512	P 5,463	P 2,711,235
Total liabilities	P 2,250,781	P 2,690	P 59,147	P 37,374	P 31,391	P 2,292	P 2,383,675
Other segment information							
Capital expenditures	P 9,414	P 42	P 18	P 788	P 26	P 386	P 10,674
Investment in associates under equity method	P -	P -	P -	P 267	P -	P 4,678	P 4,945
Share in the profit of associates	P -	P -	P -	(P 14)	P -	P 626	P 612

5.3 Reconciliation

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

	2019	2018	2017
Revenue			
Total segment net revenues	**P 187,214**	P 151,207	P 133,773
Elimination of intersegment revenues	**(6,702)**	(3,241)	(4,814)
Net revenues as reported in profit or loss	**P 180,512**	P 147,966	P 128,959
Profit or loss			
Total segment net income	**P 49,602**	P 34,768	P 31,892
Elimination of intersegment profit	**(5,434)**	(2,129)	(3,787)
Net profit as reported in profit or loss	**P 44,168**	P 32,639	P 28,105
Resources			
Total segment resources	**P 3,232,369**	P 3,063,931	P 2,711,235
Elimination of intersegment assets	**(43,511)**	(41,684)	(43,131)
Total resources	**P 3,188,858**	P 3,022,247	P 2,668,104
Liabilities			
Total segment liabilities	**P 2,828,491**	P 2,705,834	P 2,383,675
Elimination of intersegment liabilities	**(10,220)**	(11,736)	(13,911)
Total liabilities	**P 2,818,271**	P 2,694,098	P 2,369,764

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

	2019			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
At amortized cost:				
Cash and other cash items	P 64,140	P -	P 64,140	P 64,140
Due from BSP	309,040	-	309,040	309,040
Due from other banks	38,956	-	38,956	38,956
Loans and other receivables	2,225,777	-	2,225,777	2,196,798
Other resources	5,991	-	5,991	5,991
Financial assets at FVTPL	-	27,081	27,081	27,081
Financial assets at FVOCI	-	145,239	145,239	145,239
Investment securities at amortized cost	263,585	-	263,585	270,967
	P 2,907,489	P 172,320	P 3,079,809	P 3,058,212
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,485,228	P -	P 2,485,228	P 2,492,812
Bills payable	167,524	-	167,524	168,772
Subordinated notes payable	10,030	-	10,030	9,876
Insurance contract liabilities	42,473	-	42,473	42,473
Other liabilities	98,660	-	98,660	98,660
At fair value –				
Other liabilities	-	3,172	3,172	3,172
	P 2,803,915	P 3,172	P 2,807,087	P 2,815,765

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

Parent Bank

	2019			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
At amortized cost:				
Cash and other cash items	**P 62,726**	**P -**	**P 62,726**	**P 62,726**
Due from BSP	**306,938**	**-**	**306,938**	**306,938**
Due from other banks	**35,820**	**-**	**35,820**	**35,820**
Loans and other receivables	**2,175,655**	**-**	**2,175,655**	**2,148,083**
Other resources	**5,542**	**-**	**5,542**	**5,542**
Financial assets at FVTPL	**-**	**4,170**	**4,170**	**4,170**
Financial assets at FVOCI	**-**	**93,800**	**93,800**	**93,800**
Investment securities at amortized cost	**247,308**	**-**	**247,308**	**256,288**
	P 2,833,989	**P 97,970**	**P 2,931,959**	**P 2,913,367**

Parent Bank

	2019							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial liabilities								
At amortized cost:								
Deposit liabilities	**P**	**2,438,737**	**P**	**-**	**P**	**2,438,737**	**P**	**2,440,268**
Bills payable		**147,321**		**-**		**147,321**		**148,838**
Subordinated notes payable		**10,030**		**-**		**10,030**		**9,876**
Other liabilities		**86,504**		**-**		**86,504**		**86,504**
At fair value –								
Other liabilities		**-**		**1,734**		**1,734**		**1,734**
	P	**2,682,592**	**P**	**1,734**	**P**	**2,684,326**	**P**	**2,687,220**

	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
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

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, 2019 and 2018 are grouped into the fair value hierarchy as presented in the tables in the succeeding pages. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2019					
Resources:					
Financial assets at FVTPL:	9.1				
Equity securities – quoted		**P 14,595**	**P 320**	**P -**	**P 14,915**
Government debt securities		**5,178**	**-**	**-**	**5,178**
Corporate debt securities		**1,597**	**1,829**	**-**	**3,426**
Derivative financial assets		**-**	**3,562**	**-**	**3,562**
		21,370	**5,711**	**-**	**27,081**
Financial assets at FVOCI:	9.2				
Government debt securities		**81,514**	**-**	**-**	**81,514**
Corporate debt securities		**52,609**	**-**	**-**	**52,609**
Equity securities – quoted		**9,190**	**256**	**-**	**9,446**
Equity securities – not quoted		**-**	**-**	**1,670**	**1,670**
		143,313	**256**	**1,670**	**145,239**
		P 164,683	**P 5,967**	**P 1,670**	**P 172,320**
Liabilities –					
Derivatives with negative fair values	20	**P 87**	**P 3,085**	**P -**	**P 3,172**
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	20	P 79	P 4,418	P -	P 4,497

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2019					
Resources:					
Financial assets at FVTPL:	9.1				
Government debt securities		**P 2,348**	**P -**	**P -**	**P 2,348**
Derivative financial assets		-	**1,549**	**-**	**1,549**
Corporate debt securities		**272**	**-**	**-**	**272**
Equity securities – quoted		**1**	**-**	**-**	**1**
		2,621	**1,549**	**-**	**4,170**
Financial assets at FVOCI:	9.2				
Government debt securities		**53,547**	**-**	**-**	**53,547**
Corporate debt securities		**35,884**	**-**	**-**	**35,884**
Equity securities – quoted		**3,898**	**252**	**-**	**4,150**
Equity securities – not quoted		**-**	**-**	**219**	**219**
		93,329	**252**	**219**	**93,800**
		P 95,950	**P 1,801**	**P 219**	**P 97,970**
Liabilities –					
Derivatives with negative fair values	20	**P 87**	**P 1,647**	**P -**	**P 1,734**
December 31, 2018					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 2,621	P -	P 2,621
Government debt securities		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	20	P 79	P 1,601	P -	P 1,680

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

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

(a) Equity securities

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

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

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

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

(b) Debt securities

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

(i) Fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.

(ii) For corporate and other quoted debt securities, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(c) Derivatives

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

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, 2019				
Resources:				
Cash and other cash items	**P 64,140**	**P -**	**P -**	**P 64,140**
Due from BSP	**309,040**	**-**	**-**	**309,040**
Due from other banks	**38,956**	**-**	**-**	**38,956**
Investment securities at amortized cost	**270,967**	**-**	**-**	**270,967**
Loans and other receivable	**-**	**-**	**2,196,798**	**2,196,798**
Other resources	**5,639**	**-**	**352**	**5,991**
	P 688,742	**P -**	**P 2,197,150**	**P 2,885,892**
Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 2,492,812**	**P 2,492,812**
Bills payable	**-**	**168,772**	**-**	**168,772**
Insurance contract liabilities	**-**	**-**	**42,473**	**42,473**
Subordinated notes payable	**-**	**9,876**	**-**	**9,876**
Other liabilities	**-**	**-**	**98,660**	**98,660**
	P -	**P 178,648**	**P 2,633,945**	**P 2,812,593**
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
Investment securities at amortized cost	233,974	-	999	234,973
Loans and other receivable	-	-	2,056,012	2,056,012
Other resources	6,742	-	328	7,070
	P 703,889	P -	P 2,057,339	P 2,761,228
Liabilities:				
Deposit liabilities	P -	P -	P 2,462,134	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 -	P 125,437	P 2,590,038	P 2,715,475

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Resources:				
Cash and other cash items	P 62,726	P -	P -	P 62,726
Due from BSP	306,938	-	-	306,938
Due from other banks	35,820	-	-	35,820
Investment securities at amortized cost	256,288	-	-	256,288
Loans and other receivables	-	-	2,148,083	2,148,083
Other resources	5,542	-	-	5,542
	P 667,314	**P -**	**P 2,148,083**	**P 2,815,397**
Liabilities:				
Deposit liabilities	P -	P -	P 2,440,268	P 2,440,268
Bills payable	-	148,838	-	148,838
Subordinated notes payable	-	9,876	-	9,876
Other liabilities	-	-	86,504	86,504
	P -	**P 158,714**	**P 2,526,772**	**P 2,685,486**
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 -	P -	P 2,399,846	P 2,399,846
Bills payable	-	115,373	-	115,373
Subordinated notes payable	-	9,757	-	9,757
Other liabilities	-	-	63,073	63,073
	P -	P 125,130	P 2,462,919	P 2,588,049

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*

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

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

(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, 2019 and 2018 are shown below.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Investment properties				
Land	**P -**	**P -**	**P 21,077**	**P 21,077**
Building and improvements	**-**	**-**	**12,396**	**12,396**
Non-current assets held for sale	**-**	**-**	**1,020**	**1,020**
	P -	**P -**	**P 34,493**	**P 34,493**
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

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Investment properties				
Land	**P -**	**P -**	**P 16,164**	**P 16,164**
Building and improvements	**-**	**-**	**11,569**	**11,569**
Non-current assets held for sale	**-**	**-**	**1,017**	**1,017**
	P -	**P -**	**P 28,750**	**P 28,750**
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

The fair value of the investment properties of the BDO Unibank Group and the Parent Bank as of December 31, 2019 and 2018 (see Note 13) 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, 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 the Investment Properties and the Non-Current Assets Held for Sale.

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

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning and accessibility.

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

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

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

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

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Further, there were no transfers into or out of Level 3 fair value hierarchy in 2019 and 2018.

6.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of the BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2019 and 2018 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, 2019				
Financial assets at FVTPL:				
Currency swaps	**P 323**	**P 298**	**P -**	**P 25**
Interest rate swaps	**1,151**	**1,094**	**-**	**57**
Loans and receivables –				
Receivables from customers	**42,164**	**-**	**40,160**	**2,004**
	P 43,638	**P 1,392**	**P 40,160**	**P 2,086**
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

Parent Bank

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2019				
Financial assets at FVTPL:				
Currency swaps	**P 5**	**P -**	**P -**	**P 5**
Interest rate swaps	**1,100**	**1,043**	**-**	**57**
Loans and receivables –				
Receivables from customers	**38,955**	**-**	**38,955**	**-**
	P 40,060	**P 1,043**	**P 38,955**	**P 62**
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

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 gross in the statements of financial position.

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

BDO Unibank Group

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2019				
Deposit liabilities	**P 80,100**	**P 40,160**	**P -**	**P 39,940**
Derivatives with negative fair values:				
Currency swaps	**532**	**298**	**90**	**144**
Interest rate swaps	**115**	**75**	**-**	**40**
	P 80,747	**P 40,533**	**P 90**	**P 40,124**
December 31, 2018				
Deposit liabilities	P 105,374	P 50,835	P -	P 54,539
Bills payable	226	-	226	-
Derivatives with negative fair values:				
Currency swaps	2,028	296	1,732	-
Interest rate swaps	158	65	-	93
	P 107,786	P 51,196	P 1,958	P 54,632

Parent Bank

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2019				
Deposit liabilities	**P 78,895**	**P 38,955**	**P -**	**P 39,940**
Derivatives with negative fair values:				
Currency swaps	**144**	**-**	**-**	**144**
Interest rate swaps	**64**	**24**	**-**	**40**
	P 79,103	**P 38,979**	**P -**	**P 40,124**

Parent Bank

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2018				
Deposit liabilities	P 105,318	P 50,779	P -	P 54,539
Derivatives with negative fair values – Interest rate swaps	90	-	-	90
	P 105,408	P 50,779	P -	P 54,629

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**	
	2019	2018	**2019**	2018
Cash and other cash items	**P 64,140**	P 53,749	**P 62,726**	P 52,492
Due from BSP:				
Mandatory reserves	**285,191**	347,260	**283,089**	342,145
Other than mandatory reserves	**23,849**	6,872	**23,849**	6,872
	309,040	354,132	**306,938**	349,017
	P 373,180	P 407,881	**P 369,664**	P 401,509

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 16). Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate ranging from 0.00% to 4.75% in 2019, from 2.50% to 5.25% in 2018 and from 2.50% and 3.50% in 2017. Total interest income earned amounted to P422, P899 and P1,441 in 2019, 2018 and 2017, respectively, in BDO Unibank Group's financial statements and P417, P785 and P1,165 in 2019, 2018 and 2017, respectively, in the Parent Bank's financial statements (see Note 22).

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	
	2019	2018	**2019**	2018
Foreign banks	**P 30,211**	P 51,537	**P 35,087**	P 48,117
Local banks	**8,745**	3,755	**733**	663
	P 38,956	P 55,292	**P 35,820**	P 48,780

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
U.S. dollars	**P 27,683**	P 37,669	**P 27,147**	P 34,924
Philippine pesos	**2,114**	2,339	**52**	51
Other foreign currencies	**9,159**	15,284	**8,621**	13,805
	P 38,956	P 55,292	**P 35,820**	P 48,780

Annual interest rates on these deposits range from 0.00% to 5.75% in 2019, from 0.00% to 2.45% in 2018, and from 0.00% to 3.00% in 2017 in the BDO Unibank Group's financial statements, and from 0.00% to 2.00% in 2019, from 0.00% to 2.45% in 2018, and from 0.00% to 1.35% in 2017 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 P959, P834, and P301 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements, and P817, P661, and P234 in 2019, 2018, and 2017, respectively, in the Parent Bank's financial statements (see Note 22).

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	**2019**	2018	**2019**	2018
Financial assets at FVTPL	9.1	**P 27,081**	P 20,308	**P 4,170**	P 4,257
Financial assets at FVOCI	9.2	**145,239**	120,389	**93,800**	77,115
Investment securities at amortized cost - net	9.3	**263,585**	244,500	**247,308**	222,909
		P 435,905	P 385,197	**P 345,278**	P 304,281

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Derivative financial assets	**P 3,562**	P 6,230	**P 1,549**	P 2,621
Government debt securities	**5,178**	2,347	**2,348**	1,616
Corporate debt securities	**3,426**	2,667	**272**	19
	12,166	11,244	**4,169**	4,256
Equity securities – quoted	**14,915**	9,064	**1**	1
	P 27,081	P 20,308	**P 4,170**	P 4,257

All financial assets at FVTPL are held for trading.

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

		BDO Unibank Group		
	Notes	**2019**	2018	2017
Interest income	22	**P 197**	P 72	P 162
Trading gain (loss) - net	24	**1,606**	(1,863)	202
Dividend income	24	**72**	87	3
Foreign exchange gain (loss)	24	**(449)**	137	147
Total other income (loss)		**1,229**	(1,639)	352
Total other expenses		**7**	10	1
Net income (loss)		**P 1,419**	(P 1,577)	P 513

		Parent Bank		
	Notes	**2019**	2018	2017
Interest income	22	**P 87**	P 51	P 116
Trading gain (loss) - net	24	**267**	(126)	(51)
Net income (loss)		**P 354**	(P 75)	P 65

The BDO Unibank Group's government and corporate debt securities earn interest at annual rates ranging from 0.00% to 10.63%, from 2.75% to 10.63% and from 0.00% to 10.63% in 2019, 2018 and 2017, respectively, while the Parent Bank's government and corporate debt securities earn interest at annual rates ranging from 0.00% to 10.63%, from 2.75% to 10.63% and from 0.38% to 10.63% in 2019, 2018 and 2017, respectively.

Foreign currency-denominated securities amounted to P5,671 and P4,093 as of December 31, 2019 and 2018, respectively, in the BDO Unibank Group's financial statements and P2,487 and P2,880 as of December 31, 2019 and 2018, 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 20 and 26(d)(i)(4)].

BDO Unibank Group

	2019			2018		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 249,230**	**P 1,129**	**P 1,714**	P 220,114	P 1,884	P 1,020
Cross currency swaps	**32,866**	**2,184**	**1,202**	35,255	4,037	3,083
Interest rate swaps	**30,892**	**249**	**180**	38,402	309	315
ROP warrants	**8,475**	**-**	**76**	8,475	-	79
	P 321,463	**P 3,562**	**P 3,172**	P 302,246	P 6,230	P 4,497

Parent Bank

	2019			2018		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 244,530**	**P 1,084**	**P 1,260**	P 213,708	P 1,769	P 1,020
Cross currency swaps	**8,037**	**384**	**333**	10,379	787	491
Interest rate swaps	**8,638**	**81**	**65**	11,956	65	90
ROP warrants	**8,475**	**-**	**76**	8,475	-	79
	P 269,680	**P 1,549**	**P 1,734**	P 244,518	P 2,621	P 1,680

Certain financial assets at FVTPL of the BDO Unibank Group and the Parent Bank amounting to P1,474 and P1,105, respectively, in 2019 and P452 and P65, respectively, in 2018, are subject to offsetting against the related derivatives with negative fair value presented under Other Liabilities of the BDO Unibank Group and the Parent Bank amounting to P1,392 and P1,043, respectively, in 2019 and P361 and nil, respectively, for 2018. This indicates an enforceable master netting arrangements and similar agreements with an intention to settle on a net basis (see Note 6.6).

9.2 Financial Assets at FVOCI

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

	BDO Unibank Group		**Parent Bank**	
	2019	2018	**2019**	2018
Government debt securities	**P 81,514**	P 60,165	**P 53,547**	P 36,865
Corporate debt securities	**52,609**	49,985	**35,884**	36,876
Equity securities:				
Quoted	**9,446**	8,800	**4,150**	3,207
Not quoted	**1,670**	1,439	**219**	167
	P 145,239	P 120,389	**P 93,800**	P 77,115

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

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Foreign currencies	**P 82,468**	P 75,464	**P 64,337**	P 61,026
Philippine peso	**62,771**	44,925	**29,463**	16,089
	P 145,239	P 120,389	**P 93,800**	P 77,115

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Within one year	**P 35,277**	P 29,763	**P 25,273**	P 20,595
One to five years	**71,408**	61,935	**51,502**	44,096
Beyond five years	**38,554**	28,691	**17,025**	12,424
	P 145,239	P 120,389	**P 93,800**	P 77,115

Government debt securities issued by the ROP and foreign sovereigns and corporate debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 0.00% to 12.13% in 2019, from 1.75% to 12.13% in 2018 and from 0.00% to 12.13% in 2017 for BDO Unibank Group's financial statements while from 0.00% to 10.63% in 2019, from 2.38% to 10.63% in 2018, and from 2.13% to 10.63% in 2017 in the Parent Bank's financial statements (see Note 22).

The fair values of government debt, equity and corporate 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 is as follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Balance at beginning of year	**P 120,389**	P 110,799	**P 77,115**	P 70,188
Additions	**58,665**	40,130	**39,656**	17,629
Disposals	**(39,235)**	(28,550)	**(24,045)**	(11,305)
Unrealized fair value gains (losses)	**7,662**	(6,194)	**3,478**	(2,421)
Foreign currency revaluation	**(2,244)**	4,215	**(2,404)**	3,024
Deferred tax liability	**2**	(11)	**-**	-
Balance at end of year	**P 145,239**	P 120,389	**P 93,800**	P 77,115

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

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 (nil as of December 31, 2019) were pledged as collaterals for bills payable under repurchase agreements (see Notes 6.6, 17 and 32).

Impairment losses recognized for FVOCI debt securities presented in NUGL for BDO Unibank Group and the Parent Bank amounted to P13 and P5, respectively, in 2019 and P18 and P5, respectively, in 2018. Total accumulated impairment losses presented in NUGL for the BDO Unibank Group and the Parent Bank amounted to P100 and P72, respectively, as of December 31, 2019 and P87 and P67, respectively, as of December 31, 2018 (see Note 4.3.5).

9.3 Investment Securities at Amortized Cost

This account consists of:

		BDO Unibank Group		Parent Bank	
	Note	**2019**	2018	**2019**	2018
Government debt securities		**P 213,366**	P 199,004	**P 199,904**	P 182,861
Corporate debt securities:					
Quoted		**48,581**	44,240	**47,339**	40,369
Not quoted		**3,191**	2,837	**1,608**	1,248
		265,138	246,081	**248,851**	224,478
Allowance for impairment	15	**(1,553)**	(1,581)	**(1,543)**	(1,569)
		P 263,585	P 244,500	**P 247,308**	P 222,909

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

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Foreign currencies	**P 134,678**	P 138,103	**P 130,533**	P 130,830
Philippine peso	**128,907**	106,397	**116,775**	92,079
	P 263,585	P 244,500	**P 247,308**	P 222,909

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Less than one year	**P 36,183**	P 49,070	**P 34,816**	P 43,910
One to five years	**156,461**	117,777	**148,705**	112,049
Beyond five years	**70,941**	77,653	**63,787**	66,950
	P 263,585	P 244,500	**P 247,308**	P 222,909

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

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Balance at beginning of year	**P 244,500**	P 203,764	**P 222,909**	P 183,805
Additions	**79,199**	87,158	**78,983**	60,406
Maturities	**(54,988)**	(52,687)	**(49,647)**	(27,459)
Foreign currency gains - net	**(5,098)**	6,264	**(4,911)**	6,157
Impairment recovery (loss)	**(28)**	1	**(26)**	-
Balance at end of year	**P 263,585**	P 244,500	**P 247,308**	P 222,909

Annual coupon interest rates on government and corporate debt securities range from 0.00% to 18.25% in 2019, 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 0.00% to 15.00% in 2019, 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 22).

Government securities with an aggregate principal amount of nil for both the BDO Unibank Group and the Parent Bank as of December 31, 2019 were pledged as collateral for bills payable under repurchase agreements (see Notes 17 and 32).

As mentioned in Note 27, certain government debt securities are deposited with the BSP.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

		BDO Unibank Group		Parent Bank	
	Notes	**2019**	2018	**2019**	2018
Receivables from customers:					
Loans and discounts	26	**P 2,031,016**	P 1,847,364	**P 1,979,672**	P 1,792,227
Credit card receivables		**99,391**	78,738	**99,391**	78,738
Customers' liabilities under letters of credit and trust receipts		**62,043**	79,476	**62,043**	79,476
Bills purchased		**17,097**	16,641	**17,089**	16,632
		2,209,547	2,022,219	**2,158,195**	1,967,073
Unearned interests or discounts		**(1,497)**	(2,157)	**(329)**	(571)
Allowance for impairment	15	**(30,068)**	(26,761)	**(27,382)**	(24,146)
		(31,565)	(28,918)	**(27,711)**	(24,717)
		2,177,982	1,993,301	**2,130,484**	1,942,356
Other receivables:					
Interbank loans receivables		**38,571**	49,264	**38,571**	49,264
Accounts receivable	26	**10,010**	7,698	**8,153**	6,550
Sales contract receivables		**977**	1,150	**898**	1,025
Others		**835**	696	**-**	-
SPURRA		**-**	22,009	**-**	22,009
		50,393	80,817	**47,622**	78,848
Allowance for impairment	15	**(2,598)**	(2,284)	**(2,451)**	(2,051)
		47,795	78,533	**45,171**	76,797
		P 2,225,777	P 2,071,834	**P 2,175,655**	P 2,019,153

Non-performing loans (NPL) included in the total loan portfolio of the BDO Unibank Group and the Parent Bank as of December 31, 2019 and 2018 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		Parent Bank	
	2019	2018	**2019**	2018
NPL	**P 25,228**	P 19,977	**P 22,275**	P 17,108
Allowance for impairment	**(16,495)**	(13,408)	**(14,868)**	(11,346)
	P 8,733	P 6,569	**P 7,407**	P 5,762

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 maturity profile of receivable from customers (net of unearned interest or discounts) is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Less than one year	**P 607,894**	P 586,394	**P 604,785**	P 580,735
One to five years	**277,107**	266,661	**248,584**	243,128
Beyond five years	**1,323,049**	1,167,007	**1,304,497**	1,142,639
	P 2,208,050	P 2,020,062	**P 2,157,866**	P 1,966,502

BDO Unibank Group and Parent Bank's credit concentration of receivable from customers (net of unearned interest or discounts) as to industry is presented in Note 4.3.3.

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	
	2019	2018	**2019**	2018
Secured:				
Real estate mortgage	**P 306,031**	P 292,723	**P 301,476**	P 288,276
Chattel mortgage	**118,795**	113,812	**103,400**	90,928
Other securities	**96,205**	119,541	**95,296**	118,422
	521,031	526,076	**500,172**	497,626
Unsecured	**1,687,019**	1,493,986	**1,657,694**	1,468,876
	P 2,208,050	P 2,020,062	**P 2,157,866**	P 1,966,502

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	
	2019	2018	**2019**	2018
Variable interest rates	**P 1,711,190**	P 1,596,046	**P 1,690,853**	P 1,569,277
Fixed interest rates	**496,860**	424,016	**467,013**	397,225
	P 2,208,050	P 2,020,062	**P 2,157,866**	P 1,966,502

Loans and receivables bear annual interest rates of 0% (e.g., non-performing loans and zero percent credit card installment program) to 4.10% per month in 2019, 2018 and 2017 (see Note 22).

The BDO Unibank Group and the Parent Bank's receivables from customers amounting to nil as of December 31, 2019 and, P269 and nil, respectively, as of December 31, 2018 are pledged as collaterals to secure borrowings under rediscounting privileges (see Notes 17 and 32).

Certain receivables from customers of the BDO Unibank Group and the Parent Bank amounting to P42,164 and P38,955, respectively, for 2019, and P51,202 and P50,779, respectively, for 2018, are subject to offsetting with the corresponding collaterals received as a means of security amounting to P40,160 and P38,955, respectively, for 2019, and P50,835 and P50,779, respectively, for 2018, indicating a legally enforceable right to offset the recognized amounts with an intention to settle on a net basis (see Note 6.6.).

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 2019 and 2018 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
December 31, 2019							
Cost	P 8,190	P 26,789	P 22,697	P 7,623	P 1,137	P 12,913	P 79,349
Accumulated depreciation and amortization	-	(16,392)	(7,748)	(5,580)	-	(2,433)	(32,153)
Allowance for impairment(see Note 15)	(269)	-	(376)	-	-	-	(645)
Net Carrying Amount	**P 7,921**	**P 10,397**	**P 14,573**	**P 2,043**	**P 1,137**	**P 10,480**	**P 46,551**
December 31, 2018							
Cost	P 6,199	P 25,976	P 20,017	P 7,086	P 985	P -	P 60,263
Accumulated depreciation and amortization	-	(15,267)	(5,939)	(4,882)	-	-	(26,088)
Allowance for impairment(see Note 15)	(140)	-	(375)	-	-	-	(515)
Net Carrying Amount	P 6,059	P 10,709	P 13,703	P 2,204	P 985	P -	P 33,660
January 1, 2018							
Cost	P 6,155	P 24,452	P 16,744	P 6,201	P 711	P -	P 54,263
Accumulated depreciation and amortization	-	(14,837)	(5,368)	(4,197)	-	-	(24,402)
Allowance for impairment(see Note 15)	(140)	-	(375)	-	-	-	(515)
Net Carrying Amount	P 6,015	P 9,615	P 11,001	P 2,004	P 711	P -	P 29,346

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
December 31, 2019							
Cost	P 7,450	P 21,083	P 21,450	P 6,926	P 1,137	P 12,781	P 70,827
Accumulated depreciation and amortization	-	(13,047)	(7,285)	(5,118)	-	(2,387)	(27,837)
Allowance for impairment(see Note 15)	(125)	-	(371)	-	-	-	(496)
Net Carrying Amount	**P 7,325**	**P 8,036**	**P 13,794**	**P 1,808**	**P 1,137**	**P 10,394**	**P 42,494**
December 31, 2018							
Cost	P 5,458	P 19,723	P 18,829	P 6,504	P 984	P -	P 51,498
Accumulated depreciation and amortization	-	(11,714)	(5,546)	(4,470)	-	-	(21,730)
Allowance for impairment(see Note 15)	(125)	-	(371)	-	-	-	(496)
Net Carrying Amount	P 5,333	P 8,009	P 12,912	P 2,034	P 984	P -	P 29,272
January 1, 2018							
Cost	P 5,414	P 18,395	P 15,588	P 5,659	P 711	P -	P 45,767
Accumulated depreciation and amortization	-	(11,461)	(5,043)	(3,850)	-	-	(20,354)
Allowance for impairment(see Note 15)	(125)	-	(371)	-	-	-	(496)
Net Carrying Amount	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P -	P 24,917

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 of premises, furniture, fixtures and equipment is shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
Balance at January 1, 2019, net of accumulated depreciation, amortization and impairment							
As previously stated	P 6,059	P 10,709	P 13,703	P 2,204	P 985	P -	P 33,660
Effect of adoption of PFRS 16 (see Note 2.2)	-	-	-	-	-	10,212	10,212
As restated	6,059	10,709	13,703	2,204	985	10,212	43,872
Additions	312	2,494	699	548	344	2,801	7,198
Disposals	(77)	(196)	(4)	-	-	-	(277)
Reclassifications	1,756	84	1,436	107	(187)	-	3,196
Allowance for impairment	(129)	-	(1)	-	-	-	(130)
Revaluation		1	(3)	(3)		-	(5)
Reversal	-	-	-	-	(5)		(5)
Depreciation and amortization charges for the year	-	(2,695)	(1,257)	(813)	-	(2,533)	(7,298)
Balance at December 31, 2019, net of accumulated depreciation, amortization and impairment	**P 7,921**	**P 10,397**	**P 14,573**	**P 2,043**	**P 1,137**	**P 10,480**	**P 46,551**
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 -	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 -	P 33,660

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
Balance at January 1, 2019, net of accumulated depreciation, amortization and impairment,							
As previously stated	P 5,333	P 8,009	P 12,912	P 2,034	P 984	P -	P 29,272
Effect of adoption of PFRS 16 (see Note 2.2)	-	-	-	-	-	10,188	10,188
As restated	5,333	8,009	12,912	2,034	984	10,188	39,460
Additions	312	1,757	631	402	344	2,693	6,139
Disposals	(77)	(59)	-	-	-	-	(136)
Reclassifications	1,757	83	1,436	106	(186)	-	3,196
Revaluation	-	-		(1)		-	(1)
Reversal	-	-	-	-	(5)		(5)
Depreciation and amortization charges for the year	-	(1,754)	(1,185)	(733)	-	(2,487)	(6,159)
Balance at December 31, 2019, net of accumulated depreciation, amortization and impairment	P 7,325	P 8,036	P 13,794	P 1,808	P 1,137	P 10,394	P 42,494
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 -	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 -	P 29,272

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2019 and 2018, the BDO Unibank Group and the Parent Bank have complied with this requirement.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2019 and 2018 are still being used in operations with acquisition costs amounting to P8,114 and P7,619, respectively, in the BDO Unibank Group's financial statements and P6,971 and P6,885, respectively, in the Parent Bank's financial statements.

12. LEASES

The BDO Unibank Group and the Parent Bank have leases for certain land and building. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a Right-of-use asset under Premises, Furniture, Fixtures and Equipment (see Note 11) and a Lease liability under Other Liabilities (see Note 20) on the 2019 statement of financial position.

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

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

BDO Unibank Group

	Number of Right-of-use Asset Leased	Range of Remaining Term	Average Remaining Lease Term
Land	46	9 months – 27 years	12 years
Buildings	1,246	1 month – 28 years	4.5 years

Parent Bank

	Number of Right-of-use Asset Leased	Range of Remaining Term	Average Remaining Lease Term
Land	49	9 months – 27 years	12 years
Buildings	1,088	1 month – 28 years	4.5 years

12.1 Right-of-Use Assets

The carrying amounts of BDO Unibank Group and the Parent Bank's right-of-use assets as at December 31, 2019 and the movements during the period are shown below (see Note 11).

BDO Unibank Group

	Land	Buildings	Total
Balance at the beginning of the year	P 470	P 9,742	P 10,212
Additions	26	2,775	2,801
Depreciation and amortization	(47)	(2,486)	(2,533)
Balance at the end of year	**P 449**	**P 10,031**	**P 10,480**

Parent Bank

	Land	Buildings	Total
Balance at the beginning of the year	P 499	P 9,689	P 10,188
Additions	27	2,666	2,693
Depreciation and amortization	(48)	(2,439)	(2,487)
Balance at the end of year	**P 478**	**P 9,916**	**P 10,394**

12.2 Lease Liabilities

Lease liabilities are presented in the statements of financial position as part of Other Liabilities amounting to P12,043 and P11,961 for the BDO Unibank Group and the Parent Bank, respectively, as at December 31, 2019 (see Note 20).

The use of extension and termination options gives the BDO Unibank Group and the Parent Bank added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the BDO Unibank Group and the Parent Bank's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost. As at December 31, 2019, the terms of the lease contracts of the BDO Unibank Group and the Parent Bank are renewable upon mutual agreement of the parties.

As of December 31, 2019, the BDO Unibank Group and the Parent Bank had not committed to any lease which had not yet commenced.

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

BDO Unibank Group

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 10 Years	10 or More Years	Total
Lease payments	P 3,120	P 2,697	P 2,335	P 1,817	P 1,316	P 3,158	P 532	P 14,975
Finance charges	(723)	(576)	(443)	(332)	(249)	(460)	(149)	(2,932)
Net present value	P 2,397	P 2,121	P 1,892	P 1,485	P 1,067	P 2,698	P 383	P 12,043

Parent Bank

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 10 Years	10 or More Years	Total
Lease payments	P 3,053	P 2,652	P 2,320	P 1,808	P 1,311	P 3,204	P 595	P 14,943
Finance charges	(722)	(578)	(446)	(335)	(251)	(477)	(173)	(2,982)
Net present value	P 2,331	P 2,074	P 1,874	P 1,473	P 1,060	P 2,727	P 422	P 11,961

The total cash outflow in respect of leases amounted to P3,122 and P3,076 in 2019 for the BDO Unibank Group and the Parent Bank, respectively. Interest expense in relation to lease liabilities amounted to P827 and P822 for the BDO Unibank Group and the Parent Bank, respectively, which are presented as part of Interest expense on lease liabilities under Interest Expense account in the 2019 statement of income (see Notes 20 and 23).

12.3 Lease Payments Not Recognized as Liabilities

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

The expenses relating to short-term leases and low-value assets amounted to P1 and P404 for BDO Unibank Group, respectively, and nil and P399 for Parent Bank, respectively. Moreover, expenses recognized by the BDO Unibank Group and the Parent Bank relating to variable lease payments amounted to P267 and P260, respectively. These are presented as part of Occupancy under Other Operating Expenses account in the 2019 statement of income (see Note 24). As of December 31, 2019, the BDO Unibank Group and the Parent Bank do not have lease commitments in relation to short term leases.

13. 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 P435 and P88 in 2019, P381 and P87 in 2018, and P290 and P71 in 2017 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 24). Direct expenses incurred from these properties such as taxes and licenses amounted to P32 and P3 in 2019, P5 and P2 in 2018, and P19 and P2 in 2017 in BDO Unibank Group and Parent Bank's financial statements, respectively, and are presented as part of Taxes and licenses under Other Operating Expenses account in the BDO Unibank Group and Parent Bank's financial statements, respectively (see Note 24).

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2019 and 2018 are shown below and in the succeeding page.

	Land	Buildings	Total
BDO Unibank Group			
December 31, 2019			
Cost	**P 9,616**	**P 13,359**	**P 22,975**
Accumulated depreciation	**-**	**(4,189)**	**(4,189)**
Allowance for impairment (see Note 15)	**(1,776)**	**(99)**	**(1,875)**
Net carrying amount	**P 7,840**	**P 9,071**	**P 16,911**
December 31, 2018			
Cost	P 11,094	P 14,768	P 25,862
Accumulated depreciation	-	(4,190)	(4,190)
Allowance for impairment (see Note 15)	(1,783)	(104)	(1,887)
Net carrying amount	P 9,311	P 10,474	P 19,785
January 1, 2018			
Cost	P 9,429	P 13,471	P 22,900
Accumulated depreciation	-	(3,217)	(3,217)
Allowance for impairment (see Note 15)	(1,539)	(104)	(1,643)
Net carrying amount	P 7,890	P 10,150	P 18,040
Parent Bank			
December 31, 2019			
Cost	**P 7,218**	**P 10,712**	**P 17,930**
Accumulated depreciation	**-**	**(3,810)**	**(3,810)**
Allowance for impairment (see Note 15)	**(1,474)**	**(51)**	**(1,525)**
Net carrying amount	**P 5,744**	**P 6,851**	**P 12,595**

	Land		Buildings		Total	
Parent Bank						
December 31, 2018						
Cost	P	8,693	P	12,182	P	20,875
Accumulated depreciation		-	(	3,913)	(	3,913)
Allowance for impairment (see Note 15)	(	1,479)	(	57)	(	1,536)
Net carrying amount	P	7,214	P	8,212	P	15,426
January 1, 2018						
Cost	P	8,129	P	10,874	P	19,003
Accumulated depreciation		-	(	2,943)	(	2,943)
Allowance for impairment (see Note 15)	(	1,504)	(	60)	(	1,564)
Net carrying amount	P	6,625	P	7,871	P	14,496

A reconciliation of the carrying amounts, at the beginning and end of 2019 and 2018, of investment properties is shown below and in the succeeding page.

	Land		**Buildings**		**Total**	
BDO Unibank Group						
Balance at January 1, 2019, net of accumulated depreciation and impairment	**P**	**9,311**	**P**	**10,474**	**P**	**19,785**
Additions		**1,111**		**1,487**		**2,598**
Reclassifications	**(**	**1,751)**	**(**	**1,229)**	**(**	**2,980)**
Disposals	**(**	**826)**	**(**	**707)**	**(**	**1,533)**
Revaluation	**(**	**5)**	**(**	**2)**	**(**	**7)**
Depreciation for the year		**-**	**(**	**952)**	**(**	**952)**
Balance at December 31, 2019, net of accumulated depreciation and impairment	**P**	**7,840**	**P**	**9,071**	**P**	**16,911**
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

Parent Bank	Land	Buildings	Total
Balance at January 1, 2019, net of accumulated depreciation and impairment	**P 7,214**	**P 8,212**	**P 15,426**
Additions	**1,106**	**1,438**	**2,544**
Disposals	**(818)**	**(706)**	**(1,524)**
Reclassifications	**(1,752)**	**(1,244)**	**(2,996)**
Revaluation	**(6)**	**-**	**(6)**
Depreciation for the year	**-**	**(849)**	**(849)**
Balance at December 31, 2019, net of accumulated depreciation and impairment	**P 5,744**	**P 6,851**	**P 12,595**
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

The fair value of investment properties as of December 31, 2019 and 2018, determined using observable recent prices of the reference properties adjusted for difference and replacement cost approach, amounted to P33,473 and P38,681, respectively, for the BDO Unibank Group's financial statements and P27,733 and P29,962, 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, 2019 and 2018 was based on value in use computed through discounted cash flows method at an effective rate of 1.92% and 2.63% in 2019 and 2018, respectively.

BDO Unibank Group has no contractual obligations to purchase, construct or develop investment properties, or to repair, neither maintain or enhance the same nor are there any restrictions on the future use or realizability of the investment properties.

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, financial assets at FVOCI, other resources or non-current assets held for sale. As of December 31, 2019 and 2018, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Investment properties	**P 11,822**	P 11,581	**P 11,596**	P 11,389
Financial assets at FVOCI	**1,130**	687	**1,130**	687
Non-current assets held for sale	**1,057**	764	**1,054**	758
	P 14,009	P 13,032	**P 13,780**	P 12,834

14. OTHER RESOURCES

The components of this account are shown below.

	Notes	BDO Unibank Group		Parent Bank	
		2019	2018	**2019**	2018
Deferred charges	14.1	**P 9,696**	P 7,926	**P 9,694**	P 7,925
Deferred tax assets - net	30.1	**8,927**	8,312	**8,179**	7,608
Credit card acquiring		**8,185**	6,182	**8,185**	6,182
Foreign currency notes and coins on hand		**5,345**	4,828	**5,344**	4,828
Equity investments	14.2	**5,048**	5,081	**40,398**	36,919
Goodwill	14.3, 29.1, 29.6, 29.7	**4,535**	4,435	**1,391**	1,391
Branch licenses	14.4	**3,020**	3,020	**3,020**	3,020
Computer software - net		**1,829**	1,909	**1,662**	1,732
Non-current assets held for sale	14.5	**1,057**	764	**1,054**	758
Prepaid documentary stamps		**590**	956	**555**	923
Customer lists - net	14.7, 29.8	**487**	487	**487**	487
Real properties for development and sale		**353**	382	**-**	-
Returned checks and other cash items		**330**	361	**330**	360
Margin deposits		**292**	2,279	**197**	173
Trademark - net	14.6, 29.2	**58**	91	**58**	91
Dividend receivable		**39**	54	**-**	-
Others	14.7, 19	**4,160**	3,852	**3,121**	3,078
		53,951	50,919	**83,675**	75,475
Allowance for impairment	15	**(2,373)**	(2,321)	**(2,081)**	(2,084)
		P 51,578	P 48,598	**P 81,594**	P 73,391

14.1 *Deferred Charges*

Deferred charges represent the unamortized portion of loan origination fees, which consist of commission and other fees, related to auto loans presented as part of Receivables from customers - Loans and discounts account under Loans and Other Receivables in the statements of financial position (see Note 10). This amount is initially deducted from the loan proceeds issued to the borrowers and then subsequently amortized over the term of the loan. In addition, this account also includes origination costs related to Long-term Negotiable Certificate of Deposits (LTNCD) presented as part of Time deposit liabilities under Deposit Liabilities account in the statements of financial position (see Note 16).

14.2 *Equity Investments*

Equity investments consist of the following:

		BDO Unibank Group		Parent Bank	
	Held	**2019**	2018	**2019**	2018
Philippine subsidiaries					
BDO Network	84.87%	**P -**	P -	**P 8,166**	P 8,700
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**	243
PCI Realty Corporation	100%	**-**	-	**34**	34
BDOI	100%	**-**	-	**11**	11
Equimark	60%	**-**	-	**4**	4
		-	-	**23,880**	24,414
Foreign subsidiaries					
BDORO	100%	P **-**	P -	P **169**	**P** 169
BDO Remit (Japan) Ltd.	100%	**-**	-	**92**	92
BDO Remit (Canada) Ltd.	100%	**-**	-	**50**	50
BDO Remit (USA), Inc.	100%	**-**	-	**26**	26
Express Padala (Hongkong), Ltd.	-	**-**	-	-	28
		-	-	**337**	365
Associates					
SM Keppel Land, Inc. (SM Keppel)	50%	**1,658**	1,658	**1,658**	1,658
NLEX Corporation	11.70%	**1,405**	1,405	**1,405**	1,405
NorthPine Land, Inc.	20%	**232**	232	**232**	232
Taal Land, Inc.	33.33%	**170**	170	**170**	170
MMPC Auto-Financial Services Corporation (MAFSC)	-	**-**	300	**-**	-
Others	*	**5**	5	**5**	5
		3,470	3,770	**3,470**	3,470
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**1,311**	1,182	**8,670**	9,397
Equity in net profit		**696**	631	**6,046**	2,740
Equity in other comprehensive income (loss)		**15**	(17)	**(721)**	(92)
Dividends		**(550)**	(485)	**(2,035)**	(3,458)
Disposal		**106**	-	**-**	-
Change in percentage ownership in subsidiaries		**-**	-	**733**	83
Liquidation		**-**	-	**18**	-
Balance at end of year		**1,578**	1,311	**12,711**	8,670
Net investments in associates/subsidiaries		**5,048**	5,081	**40,398**	36,919
Allowance for impairment		**(158)**	(155)	**(158)**	(155)
		P 4,890	P 4,926	**P 40,240**	P 36,764

* *This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2019 and 2018, except for BDO Life and BDO Leasing which is at 100% and 88.54% for BDO Unibank Group, respectively (see Note 2.3) and 97% and 87.43% in the Parent Bank, respectively, as shown above, in both years.

The fair value of BDO Leasing amounts to P3,581 and P4,193 as of December 31, 2019 and 2018, 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, 2019 are all incorporated in the Philippines, except for the following:

Foreign Subsidiaries	Country of Incorporation
BDO Remit (USA), Inc.	United States of America
BDORO	United Kingdom
BDO Remit International Holdings B.V**	Netherlands
BDO Remit UK, Ltd. **	United Kingdom
BDO Remit (Ireland) Designated Activity Company**	Ireland
BDO Remit (Spain), S.A** (formerly 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 8th floor, 20 Farringdon, 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. However, due to the ongoing political and economic developments in the UK and Europe on account of the ongoing Brexit negotiation, the Parent Bank has decided to put BDORO's application for a banking license on hold. The Parent Bank will re-evaluate the business model for BDORO when the terms of the Brexit become clearer and evaluate how any agreement ultimately impacts the BDO Unibank Group's ability to provide cross border services to Europe. 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.

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.

In May 2013, BDO Capital obtained control over CBN Grupo International Holdings B.V. (CBN Grupo) (now BDO RIH) through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established. In October 2016, BDO Capital acquired additional shares which increased its ownership interest to 96.32%. Additional goodwill acquired amounted to P32 (see Note 29.1). 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 January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new BDO Network shares thereby increasing its shareholdings in BDO Network 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 BDO Network's total issued and outstanding capital stock thereby increasing its shareholdings in BDO Network to 99.86%. On October 1, 2018, the Parent Bank, together with BDO Network, has entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire a 15% ownership interest in BDO Network via the purchase of 17,341,475 shares held by the Parent Bank and the subscription of 34,682,949 unissued common shares of BDO Network at a price of P31.77 per share. The transaction was completed on May 16, 2019. This results to decrease in shareholdings in BDO Network to 84.87%.

On July 4, 2019, BDO Leasing sold to JACCS Co. Ltd. (JACCS), a corporation duly organized and existing under the laws of Japan, its 3,000,000 common shares representing 40% ownership interest in MAFSC for P166 (see Note 29.5). The principal place of business of MAFSC is 38th Floor, Robinsons Equitable Tower, ADB Avenue cor. Poveda St., Ortigas Center, Pasig City.

On September 4, 2019, Express Padala (Hongkong), Ltd. had been dissolved and remaining cash had been repatriated to the Parent Bank.

BDO Unibank Group includes two subsidiaries, BDO Leasing and BDO Network, with significant NCI:

Name	Proportion of Ownership Interest and Voting Rights Held by NCI		Profit Allocated to NCI		Accumulated NCI	
	2019	2018	**2019**	2018	**2019**	2018
BDO Leasing	**11.46%**	11.46%	**P 5**	P 38	**P 643**	P 612
BDO Network	**15.13%**	0.15%	**26**	(1)	**914**	7

The registered office and principal place of business of BDO Leasing is located at 39th Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

The registered office and principal place of business of BDO Network is located at BDO Network Bank Corporate Center, Km. 9, Sasa, Davao City.

Dividends paid to NCI were nil and P25 in 2019 and 2018, respectively (see Note 21.4).

Summarized consolidated financial information of BDO Leasing and BDO Network, before intragroup eliminations, follows:

	BDO Leasing	
	2019	2018
Statements of financial position:		
Total resources	**P 30,954**	P 41,549
Total liabilities	**25,340**	36,206
Equity attributable to owners of the parent	**4,971**	4,731
Non-controlling interest	**643**	612
Statements of comprehensive income:		
Total interest income	**1,976**	1,960
Total other operating income	**1,054**	1,254
Profit attributable to owners of the parent	**42**	293
Profit attributable to NCI	**5**	38
Profit	**47**	331
Total comprehensive income attributable to owners of the parent	**241**	31
Total comprehensive income attributable to NCI	**31**	4
Total comprehensive income	**P 272**	P 35
Statements of cash flows:		
Net cash from operating activities	**P 7,956**	P 1,401
Net cash from investing activities	**631**	133
Net cash used in financing activities	**(8,732)**	(1,717)
Net cash outflow	**(P 145)**	(P 183)

	BDO Network	
	2019	2018
Statements of financial position:		
Total resources	**P 32,535**	P 27,250
Total liabilities	**26,494**	22,555
Equity attributable to owners of the parent	**5,127**	4,688
Non-controlling interest	**914**	7
Statements of comprehensive income:		
Total interest income	**2,613**	1,822
Total other operating income	**1,540**	879
Profit attributable to owners of the parent	**144**	(403)
Profit attributable to NCI	**26**	(1)
Profit	**170**	(404)
Total comprehensive income attributable to owners of the parent	**207**	(496)
Total comprehensive income attributable to NCI	**37**	(1)
Total comprehensive income	**P 244**	(P 497)

	BDO Network 2019	BDO Network 2018
Statements of cash flows:		
Net cash from (used in) operating activities	(P 684)	P 945
Net cash used in investing activities	(498)	(564)
Net cash from financing activities	1,102	1,000
Net cash inflow (outflow)	**(P 80)**	P 1,381

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2019, 2018 and 2017:

	NLEX Corporation	SM Keppel	Others	Total
December 31, 2019 (Unaudited)				
Assets	**P 53,658**	**P 11,813**	**P 3,789**	**P 69,260**
Liabilities	**31,736**	**9,717**	**1,489**	**42,942**
Equity	**21,922**	**2,096**	**2,300**	**26,318**
Revenues	**13,988**	**458**	**1,195**	**15,641**
Net profit (loss)	**5,865**	**(128)**	**1,021**	**6,758**
December 31, 2018 (Audited)				
Assets	P 49,401	P 10,600	P 2,846	P 62,847
Liabilities	30,840	8,375	752	39,967
Equity	18,561	2,225	2,094	22,880
Revenues	13,393	328	1,236	14,957
Net profit (loss)	5,756	(105)	207	5,858
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

14.3 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, BDO Network and Rural Bank of Pandi, Inc., which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015, 2016 and 2019, respectively (see Note 29).

The reconciliation of the carrying amount of goodwill (net of allowance for impairment) of BDO Unibank Group is as follows:

	2019	2018
Balance at beginning of year	P 3,044	P 3,044
Acquisition	100	-
Impairment	(69)	-
Balance at end of year	P 3,075	P 3,044

In 2019 and 2018, there were no movement for the goodwill account of the Parent Bank, which was already provided with full allowance.

Significant portion of goodwill of the BDO Unibank Group pertains to the goodwill from acquisition of BDO Network amounting to P2,907.

The BDO Unibank Group recognized goodwill in 2019 amounting to P100 arising from asset sale and purchase agreement with Rural Bank of Pandi, Inc. (RBPI) through BDO Network (see Note 29.7).

The BDO Unibank Group recognized impairment loss on goodwill of P69 in 2019. The Parent Bank also recognized impairment loss of nil in 2019 and 2018 and P2 in 2017, to write-down the value of the goodwill to their recoverable amount (see Note 15). The BDO Unibank Group and the Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. The recoverable amount to determine any impairment on the goodwill was determined using discounted cash flow method approach based on five-year cash flow projection to be realized by the acquired entity and the estimated terminal value. The growth rate used to extrapolate the five-year cash flow projection ranges from 16% to 35% at a discount rate of 7.02%. The BDO Unibank Group also considered key assumptions in determining the cash flow projections which includes volume and growth target projection on salary loans and micro, small and medium enterprises (MSME) loans offered by BDO Network.

14.4 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. In 2019 and 2018, allowance on impairment loss was recognized on branch licenses at the BDO Unibank Group's financial statements amounting to nil and P80, respectively, for unutilized branch licenses upon the expiry of the term given by the BSP to the Parent Bank in establishing certain number of branches.

14.5 Non-current Assets Held for Sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group and the Parent Bank intend to sell within one year from the date of classification as held for sale. No impairment loss was recognized in 2017 to 2019 in both BDO Unibank Group and Parent Bank's financial statements.

14.6 Trademark

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio (see Note 29.2) amounted to P33 per year from 2017 to 2019. This is recorded under Miscellaneous under Other Operating Expenses account in the statements of income (see Note 24).

14.7 Others

Amortization expense on computer software licenses amounted to P546, P516 and P528 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements and P502, P480 and P477 in 2019, 2018, and 2017, 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 24).

Depreciation expense on certain assets amounting to P21, P4 and P2 in 2019, 2018 and 2017, respectively, in both BDO Unibank Group and Parent Bank's financial statements are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 24).

No impairment loss was recognized by the Parent Bank from 2017 to 2019 on the value of customer lists. The customer list was recognized as a result of the Parent Bank's acquisition of a trust business in 2014 (see Note 29.8).

15. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Balance at beginning of year:					
Investment securities at amortized cost	9.3	**P 1,581**	P 730	**P 1,569**	P 356
Loans and other receivables	10	**29,045**	26,248	**26,197**	23,961
Bank premises	11	**515**	515	**496**	496
Investment properties	13	**1,887**	1,643	**1,536**	1,564
Other resources	14	**2,321**	2,662	**2,084**	2,139
		35,349	31,798	**31,882**	28,516
Impairment losses - net		**6,208**	6,243	**5,749**	5,670
Write-offs		**(2,273)**	(2,325)	**(1,992)**	(2,320)
Foreign currency revaluation		**(180)**	244	**(180)**	243
Reclassification		**18**	(226)	**18**	(226)
Adjustments		**(9)**	(6)	**1**	(1)
Reversals		**(1)**	(379)	**-**	-
		P 39,112	P 35,349	**P 35,478**	P 31,882
Balance at end of year:					
Investment securities at amortized cost	9.3	**P 1,553**	P 1,581	**P 1,543**	P 1,569
Loans and other receivables	10	**32,666**	29,045	**29,833**	26,197
Bank premises	11	**645**	515	**496**	496
Investment properties	13	**1,875**	1,887	**1,525**	1,536
Other resources	14	**2,373**	2,321	**2,081**	2,084
		P 39,112	P 35,349	**P 35,478**	P 31,882

The BDO Unibank Group and the Parent Bank provide impairment loss on debt securities measured as FVOCI amounting to P13 and P5, respectively, in 2019 and P18 and P5, respectively, in 2018. The impairment losses on debt securities classified as FVOCI are recognized as part of items that are or will be reclassified subsequently to profit or loss in the statements of comprehensive income (see Note 9.2). Moreover, the BDO Unibank Group and the Parent Bank provide impairment loss (recovery) on loan commitments and other contingent accounts amounting to (P67) and P25 in 2019 and 2018, respectively, which is recognized as Provision – Others under Other Liabilities in the statements of financial position (see Note 20).

The BDO Unibank Group and the Parent Bank also provide impairment loss related to provision for damage suits amounting to P12 in 2019 (nil in 2018) which is recognized as part of Others under Other Liabilities in the 2019 statement of financial position (see Note 20).

Total impairment losses on certain financial assets amounted to P6,008, P6,141, and P6,531 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements and P5,749, P5,569 and P5,807 in 2019, 2018, and 2017, respectively, in the Parent Bank's financial statements.

Total impairment losses on non-financial assets amounted to P200, P102, and P6 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements and nil, P101, and P2 in 2019, 2018, and 2017, respectively, in the Parent Bank's financial statements.

16. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Demand	**P 232,995**	P 179,944	**P 217,527**	P 151,492
Savings	**1,589,639**	1,505,680	**1,571,333**	1,490,664
Time	**662,594**	734,341	**649,877**	720,146
	P2,485,228	P 2,419,965	**P2,438,737**	P 2,362,302

This account is composed of the following (by counterparties):

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Due to other banks:				
Demand	**P 2,106**	P 2,282	**P 2,091**	P 2,271
Savings	**3,970**	7,647	**3,970**	7,636
Time	**5,694**	2,159	**5,594**	2,154
Carried forward	**P 11,770**	P 12,088	**P 11,655**	P 12,061

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Brought forward	**P 11,770**	P 12,088	**P 11,655**	P 12,061
Due to customers:				
Demand	**230,889**	177,662	**215,436**	149,221
Savings	**1,585,669**	1,498,033	**1,567,363**	1,483,028
Time	**656,900**	732,182	**644,283**	717,992
	2,473,458	2,407,877	**2,427,082**	2,350,241
	P 2,485,228	P 2,419,965	**P 2,438,737**	P 2,362,302

The breakdown of deposit liabilities as to currency is as follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Philippine pesos	**P 2,111,999**	P 2,003,582	**P 2,081,964**	P 1,963,461
Foreign currencies	**373,229**	416,383	**356,773**	398,841
	P 2,485,228	P 2,419,965	**P 2,438,737**	P 2,362,302

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Less than one year	**P 2,374,819**	P 2,279,536	**P 2,329,093**	P 2,223,549
One to five years	**32,470**	45,420	**31,705**	43,744
Beyond five years	**77,939**	95,009	**77,939**	95,009
	P 2,485,228	P 2,419,965	**P 2,438,737**	P 2,362,302

The BDO Unibank Group and the Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates ranging from 0.00% to 5.38% in 2019, from 0.0% to 6.75% in 2018, and 0.0% to 5.25% in 2017. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 23).

The BDO Unibank Group's time deposit liabilities include the Parent Bank's LTNCD as of December 31, 2019 and 2018 as follows:

BSP Approval	Effective Rate	Outstanding Balance 2019	Outstanding Balance 2018	Issue Date	Maturity Date
August 15, 2019	4.000%	**P 6,500**	P -	September 27, 2019	March 27, 2025
May 11, 2018	5.375%	**7,320**	-	April 12, 2019	October 12, 2024
June 23, 2017	4.375%	**8,200**	8,200	May 7, 2018	November 7, 2023
June 23, 2017	3.625%	**11,800**	11,800	August 18, 2017	February 18, 2023
July 10, 2014	3.750%	**7,500**	7,500	April 6, 2015	October 6, 2020
October 25, 2013	3.125%	**-**	5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.500%	**5,000**	5,000	September 12, 2013	September 12, 2020
May 3, 2012	5.250%	**-**	5,000	October 15, 2012	October 15, 2019
		P 46,320	P 42,500		

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 December 6, 2019, 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 14%, 4% and 3%, respectively, in compliance with the BSP Circular No. 1063 issued on December 3, 2019 (see Note 7).

17. BILLS PAYABLE

This account is composed of the following borrowings from:

		BDO Unibank Group		Parent Bank	
	Note	**2019**	2018	**2019**	2018
Senior notes	17.1	**P 57,298**	P 59,437	**P 57,298**	P 59,437
Foreign banks		**54,916**	55,406	**54,882**	55,312
Fixed rate bonds	17.2	**35,141**	-	**35,141**	-
Local banks		**13,427**	22,443	**-**	-
Others		**6,742**	6,337	**-**	2,944
		P 167,524	P 143,623	**P 147,321**	P 117,693

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Foreign currencies	**P 112,719**	P 117,787	**P 112,180**	P 117,693
Philippine pesos	**54,805**	25,836	**35,141**	-
	P 167,524	P 143,623	**P 147,321**	P 117,693

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
One to three months	**P 44,454**	P 33,898	**P 26,891**	P 13,697
More than three months to one year	**43,374**	11,683	**40,767**	7,854
More than one to three years	**38,090**	54,882	**38,064**	53,005
More than three years	**41,606**	43,160	**41,599**	43,137
	P 167,524	P 143,623	**P 147,321**	P 117,693

Bills payable bear annual interest rates of 0.33% to 6.42% in 2019, 1.00% to 7.20% in 2018, and 0.60% to 3.50% in 2017 (see Note 23). 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 32).

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 23):

	2019	2018	2017
BDO Unibank Group			
Fixed rate peso bonds	**P 1,997**	P -	P -
Foreign banks	**1,873**	1,566	814
Senior notes	**1,772**	1,778	823
Local banks	**901**	698	339
Deposit substitutes	**-**	-	91
BSP	**1**	-	-
Others	**471**	374	503
	P 7,015	P 4,416	P 2,570
Parent Bank			
Fixed rate peso bonds	**P 1,997**	P -	P -
Foreign banks	**1,859**	1,564	814
Senior notes	**1,772**	1,778	823
Local banks	**-**	2	3
Deposit substitutes	**-**	-	91
Others	**42**	59	146
	P 5,670	P 3,403	P 1,877

17.1 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance 2019	Outstanding Balance 2018
February 20, 2018	February 20, 2025	4.16%	150	**7,660**	7,945
September 6, 2017	March 6, 2023	2.95%	676	**34,376**	35,646
October 24, 2016	October 24, 2021	2.63%	300	**15,262**	15,846
				P 57,298	P 59,437

The issuance of senior notes in 2019, 2018 and 2017 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.

17.2 Issuance of Fixed Rate Peso Bonds

On February 11, 2019, the Parent Bank issued P35,000 fixed rate peso 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 31, 2018. The issue aims to further diversify the Parent Bank's funding sources and support business expansion.

17.3 Reconciliation of Liabilities Arising from Financing Activities

Presented below is the reconciliation of liabilities arising from financing activities both in 2019 and 2018, which includes both cash and non-cash changes.

BDO Unibank Group

	Foreign Banks	Senior Notes	Fixed Rate Peso Bonds	Local Banks	Deposit Substitutes	BSP	Others	Total
Balance as of January 1, 2019	P 55,406	P 59,437	P -	P 22,443	P -	P -	P 6,337	P 143,623
Cash flows from financing activities								
Additional borrowings	100,891	-	34,734	301,463	-	2,000	71,063	510,151
Repayment of borrowings	(99,269)	-	-	(310,332)	-	(2,000)	(70,650)	(482,251)
Non-cash financing activities								
Interest amortization	91	55	407	(87)	-	-	(8)	458
Revaluation	(2,203)	(2,194)	-	(60)	-	-	-	(4,457)
Balance as of December 31, 2019	**P 54,916**	**P 57,298**	**P 35,141**	**P 13,427**	**P -**	**P -**	**P 6,742**	**P 167,524**
Balance as of January 1, 2018	P 48,499	P 50,093	P -	P 15,658	P 907	P -	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 -	P 22,443	P -	P -	P 6,337	P 143,623

Parent Bank

	Foreign Banks	Senior Notes	Fixed Rate Peso Bonds	Local Banks	Deposit Substitutes	BSP	Others	Total
Balance as of January 1, 2019	P 55,312	P 59,437	P -	P -	P -	P -	P 2,944	P 117,693
Cash flows from financing activities								
Additional borrowings	97,733	-	34,734	-	-	-	-	132,467
Repayment of borrowings	(96,108)	-	-	-	-	-	(2,936)	(99,044)
Non-cash financing activities								
Interest amortization	90	55	407	-	-	-	(8)	544
Revaluation	(2,145)	(2,194)	-	-	-	-	-	(4,339)
Balance as of December 31, 2019	**P 54,882**	**P 57,298**	**P 35,141**	**P -**	**P -**	**P -**	**P -**	**P 147,321**
Balance as of January 1, 2018	P 48,430	P 50,093	P -	P 1,500	P 907	P -	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 -	P -	P 2,944	P 117,693

18. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (the Notes) represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation (PDIC), or any other person. The Notes 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, 2019 and 2018, 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 2019, 2018 and 2017 both in BDO Unibank Group and Parent Bank's statements of income (see Note 23).

In its letter dated December 2, 2019, the BSP approved the Parent Bank's request to exercise its right of early redemption of the Notes on March 10, 2020. The noteholders have been informed of the early redemption by registered mail and through advertisements which appeared in newspapers of general circulation on January 8 and 15, 2020. The Notes will be redeemed on March 10, 2020 and noteholders will be paid the redemption price equal to the par value of the Notes plus all accrued and unpaid interest up to but excluding March 10, 2020 after which the Notes will be considered redeemed and cancelled.

19. INSURANCE CONTRACT LIABILITIES

This account consists of:

	2019	2018
Legal policy reserves	**P 40,232**	P 26,514
Policy and contract claims payable	**1,606**	1,524
Policyholders' dividends	**635**	468
	P 42,473	P 28,506

The maturity profile of this account is presented below.

	2019	2018
Within one year	**(P 1,103)**	(P 952)
More than one year	**43,576**	29,458
	P 42,473	P 28,506

Insurance contract liabilities maturing within one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities		**Reinsurer's Share of Liabilities**		**Net**	
	2019	2018	**2019**	2018	**2019**	2018
Aggregate reserves for:						
Ordinary life policies	**P 26,221**	P 17,718	**P -**	P -	**P 26,221**	P 17,718
Variable unit-linked (VUL) contracts	**13,759**	8,535	**-**	-	**13,759**	8,535
Group life insurance polices	**277**	248	**54**	44	**223**	204
Accident and health policies	**(25)**	13	**-**	-	**(25)**	13
Policy and contract claims	**1,606**	1,524	**19**	17	**1,587**	1,507
Policyholders' dividends	**635**	468	**-**	-	**635**	468
	P 42,473	P 28,506	**P 73**	P 61	**P 42,400**	P 28,445

The movements in legal policy reserves are as follows:

	Legal Policy Reserves		Reinsurer's Share of Liabilities		Net	
	2019	2018	**2019**	2018	**2019**	2018
Balance at the beginning of the year	**P 26,514**	P 24,602	**P 44**	P 27	**P 26,470**	P 24,575
Premiums received	**14,977**	11,968	**101**	99	**14,876**	11,869
Liability released for payments of death, maturity and surrender benefits and claims	**(7,685)**	(7,033)	**(91)**	(82)	**(7,594)**	(6,951)
Accretion of investment income or change in unit prices	**1,644**	286	**-**	-	**1,644**	286
Changes in valuation of interest rate	**5,046**	(3,656)	**-**	-	**5,046**	(3,656)
Foreign exchange adjustments	**(264)**	347	**-**	-	**(264)**	347
Balance at end of year	**P 40,232**	P 26,514	**P 54**	P 44	**P 40,178**	P 26,470

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 14).

The movement in Legal policy reserves for the years ended December 31, 2019 and 2018 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 24).

20. OTHER LIABILITIES

Other liabilities consist of the following:

		BDO Unibank Group		Parent Bank	
	Notes	**2019**	2018	**2019**	2018
Accounts payable		**P 24,568**	P 20,688	**P 22,072**	P 18,572
Manager's checks		**17,382**	14,447	**17,255**	14,379
Accrued expenses		**14,396**	11,151	**13,445**	10,181
Bills purchased – contra		**12,483**	10,774	**12,483**	10,774
Lease liabilities	12.2	**12,043**	-	**11,961**	-
Lease deposits		**4,868**	6,760	**122**	115
Premium on deposit fund		**3,735**	3,605	**-**	-
Outstanding acceptances payable		**3,597**	3,591	**3,597**	3,591
Retirement benefit obligation	25.2	**3,305**	4,537	**3,203**	4,379
Derivatives with negative fair values	9.1, 26(d)	**3,172**	4,497	**1,734**	1,680
Withholding taxes payable		**1,761**	1,342	**1,594**	1,204
Due to BSP and Treasurer of the Philippines		**526**	100	**522**	96
Capitalized interest and other charges		**486**	411	**430**	362
Due to principal		**351**	451	**-**	-
Others	15, 34.1.2	**10,343**	9,620	**9,384**	8,833
		P 113,016	P 91,974	**P 97,802**	P 74,166

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Within one year	**P 87,791**	P 79,776	**P 79,736**	P 70,626
More than one year	**25,225**	12,198	**18,066**	3,540
	P 113,016	P 91,974	**P 97,802**	P 74,166

Accounts payable in 2018 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 21.5.1 and 25.3).

The liability for unredeemed reward points amounting to P3,985 and P3,377 as of December 31, 2019 and 2018, 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 in relation to lease liabilities amounted to P827 and P822 for the BDO Unibank Group and the Parent Bank, which are presented as part of Interest expense on finance lease liabilities under Interest expense account in the 2019 statement of income (see Note 23).

Interest expense on certain liabilities amounting to P117, P101 and P85 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements and P28, P19 and P12 in 2019, 2018, and 2017, respectively, in Parent Bank's financial statements are presented as part of Interest expense on bills payable and other borrowings under Interest Expense account in the statements of income (see Note 23).

Impairment losses (recoveries) recognized for off-books account amounted to (P67) and P25 for both the BDO Unibank Group and the Parent Bank in 2019 and 2018, respectively. The accumulated impairment losses as of December 31, 2019 and 2018 amounting to P114 and P206, respectively, for both the BDO Unibank Group and the Parent Bank are recorded as part of Others under Other Liabilities account in the statements of financial position (see Note 15).

21. EQUITY

21.1 Capital Management and Regulatory Capital

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

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

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

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

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

(a) Common Equity Tier 1 (CET 1) of at least 6.0% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets;
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital; and,
(e) Countercyclical Capital Buffer (CCyB) of 0% subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%.

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

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

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

At the end of each reporting period, the BDO Unibank Group and the Parent Bank have 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, 2019 and 2018, the Parent Bank has complied with the above capitalization requirement.

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

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

BSP Circular 1024 requires banks to put up a CCyB, which is set initially at 0%, composed of CET 1. CCyB may be subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. This took effect last December 21, 2018.

BDO Unibank Group 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, 2019 and 2018 follows:

	BDO Unibank Group	Parent Bank
December 31, 2019		
Tier 1 Capital		
CET 1	P 349,780	P 350,362
Additional Tier 1	5,150	5,150
	354,930	355,512
Tier 2 Capital	33,399	32,632
Total Regulatory Capital	388,329	388,144
Deductions	(34,013)	(59,216)
Total Qualifying Capital	P 354,316	P 328,928
Total Risk-Weighted Assets	P 2,492,890	P 2,395,545
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.2%	13.7%
Tier 1 Capital Ratio	12.9%	12.4%
Total CET 1 Ratio	12.7%	12.2%

	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%

21.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2019	2018	**2019**	2018
Preferred shares – P10 par value				
Authorized				
Balance at beginning of year	**1,000,000,000**	2,000,000,000	**P 10,000**	P 20,000
Reclassification to common shares (see Note 21.2.1)	**-**	(1,000,000,000)	**-**	(10,000)
Balance at end of year	**1,000,000,000**	1,000,000,000	**P 10,000**	P 10,000
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	**5,500,000,000**	4,500,000,000	**P 55,000**	P 45,000
Reclassification from preferred shares (see Note 21.2.1)	**-**	1,000,000,000	**-**	10,000
Balance at end of year	**5,500,000,000**	5,500,000,000	**P 55,000**	P 55,000
Issued, fully paid and outstanding				
Balance at beginning of year	**4,374,048,064**	4,368,974,554	**P 43,740**	P 43,690
Issued during the year	**7,322,270**	5,073,510	**74**	50
Balance at end of year	**4,381,370,334**	4,374,048,064	**P 43,814**	P 43,740

21.2.1 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 6.50% 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.

21.2.2 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 totaling to P172. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

The history of shares issuances from the initial public offering (IPO) and subsequently, private placements exempt from registration pursuant to Section 10.1 of the Securities Regulation Code and other issuances, is as follows:

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
Private placement	Sybase Equity Investments Corp.	July 20, 2015	64,499,890
Stock options	Various employees	June 6, 2016 to December 31, 2016	4,592,430
Stock options	Various employees	January 3, 2017 to December 27, 2017	2,604,020
Stock rights	Various employees	January 31, 2017	716,402,886
Stock rights	Various employees	January 31, 2018	5,073,510
Stock options	Various employees	January 7, 2019 to December 26, 2019	7,322,270
			4,381,370,334

As of December 31, 2019 and 2018, there are 12,470 and 12,583, respectively, holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P158.00 and P130.80 per share as of December 27, 2019 and December 28, 2018, respectively, (the last trading day in 2019 and 2018).

21.3 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 Parent Bank appointed Deutsche Bank (DB) as the exclusive depositary of ADRs for a period of five years. As depositary bank, DB is responsible for the issuance and cancellation, as well as the registration of the ADRs; custody of the underlying BDO common shares and maintenance of the register of holders; the distribution of dividends; and execution of corporate actions and services to the Issuer (i.e., BDO)/Investor/Broker.

As of December 31, 2019 and 2018, 669,676 and 581,041 ADRs valued at US$21,483,206 and US$14,711,958 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$32.08/share and US$25.32/share, respectively).

21.4 Surplus Free

On December 7, 2019, the Parent Bank's BOD approved the declaration of cash dividends on common shares at the rate of P0.30 per share or a total of P1,314. The dividends were declared to stockholders of record as of December 23, 2019 and paid on December 27, 2019.

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 or a total of P1,314. The dividends were declared to stockholders of record as of September 17, 2019 and paid on September 30, 2019.

On July 31, 2019, the Parent Bank entered into a deed of sale of certain parcel of land to a third party for a total consideration of P119. The related revaluation increment on land arose from previous business combination amounting to P76 was subsequently transferred to Surplus Free account in the 2019 statement of changes in equity.

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 6.50% 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 P0.8.

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 6.50% per annum for a total dividend amount of P340. The dividends were paid on February 17, 2017.

21.5 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to nil in 2019 and 2018 and P96 in 2017, representing insurance fund on losses due to fire, robbery and other cash losses. This was approved by the Parent Bank's President. BDO Network appropriated its Surplus Free amounting to P5, nil and P25 in 2019, 2018 and 2017, respectively, representing insurance fund on losses due to fire, robbery and other cash losses, which was approved by its Chairman.

The BDO Unibank Group and the Parent Bank appropriated its Surplus Free for impairment of general loan loss portfolio amounting to P1,543 and P1,563, respectively, in 2019 and P1,860 and P1,824, respectively, in 2018. The accumulated amount of appropriation to surplus reserves for general loan loss portfolio as of December 31, 2019 and 2018 amounted to P12,923 and P11,380, respectively, for BDO Unibank Group and P12,743 and P11,180, respectively, for the Parent Bank, respectively. This appropriation was prescribed by BSP and was recognized as part of Surplus Reserves account.

In compliance with BSP regulations, 10% of BDO Unibank Group and the Parent Bank's profit from trust business amounting to P272, P251 and P256 in 2019, 2018 and 2017 respectively, and P189, P181 and P190 in 2019, 2018 and 2017 respectively, is appropriated to surplus reserves (see Note 27).

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 2019, 2018 and 2017 surplus reserve are the appropriations made by BDO Securities and Armstrong Securities, Inc. totaling P4, P10 and P5, respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers.*

21.5.1 ESOP

For options that were vested in 2019 and 2018, BDO Unibank Group issued new common shares of 7,322,270 and 5,073,510, respectively, from its authorized capital stock (see Note 21).

Set out below are summaries of number of options vested under the plan:

	BDO Unibank Group		**Parent Bank**	
	2019	2018	**2019**	2018
Balance at beginning of year	**7,260,696**	5,177,283	**5,538,989**	3,727,213
Vested during the year	**14,504,751**	9,455,129	**13,145,911**	8,189,694
Exercised during the year	**(9,225,770)**	(7,371,716)	**(8,278,920)**	(6,377,918)
Balance at end of year	**12,539,677**	7,260,696	**10,405,980**	5,538,989

In prior years, the Parent Bank settles the stock options being exercised by the employees through acquisition of the BDO Unibank shares in the secondary market. Accordingly, the Parent Bank recognizes liability in accounting for the ESOP, wherein a liability account is recognized for the monthly amortization of the expense related to the share option and was presented as part of Accounts payable under Other Liabilities account in the 2018 statement of financial position. In 2019, the Parent Bank has changed its strategy in settling the stock options exercised through issuance of primary shares. Consequently, the previously recognized liability, which amounted to P860, was accordingly transferred to Surplus Reserve. Share options expensed in 2019 amounted to P890.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Average option life	5 years
Average share price at grant date	P 133.70
Average exercise price at grant date	P 119.01
Average fair value of options at grant date	P 48.76
Average standard deviation of share price returns	28.70%
Average dividend yield	0.93%
Average risk-free investment rate	5.13%

The underlying expected volatility was determined by reference to historical prices of the Parent Bank's shares over a period of one year.

22. INTEREST INCOME

Interest income consists of the following:

		BDO Unibank Group		
	Notes	**2019**	2018	2017
Loans and other receivables	10, 26	**P 142,908**	P 115,384	P 88,178
Trading and investment securities:				
At amortized cost	9.3	**10,415**	7,812	-
At FVOCI	9.2	**5,607**	3,982	-
At FVTPL	9.1	**197**	72	162
AFS securities	9.2	**-**	-	3,468
Held-to-maturity (HTM) investments	9.3	**-**	-	6,061
Due from BSP and other banks	7, 8	**1,381**	1,733	1,742
Others		**64**	57	184
		P 160,572	P 129,040	P 99,795

	Notes	Parent Bank		
		2019	2018	2017
Loans and other receivables	10, 26	**P 138,521**	P 111,685	P 84,431
Trading and investment securities:				
At amortized cost	9.3	**9,642**	6,995	-
At FVOCI	9.2	**3,550**	2,391	-
At FVTPL	9.1	**87**	51	116
AFS securities	9.2	**-**	-	2,032
HTM investments	9.3	**-**	-	5,634
Due from BSP and other banks	7, 8	**1,234**	1,446	1,399
Others		**47**	47	174
		P 153,081	P 122,615	P 93,786

23. INTEREST EXPENSE

Interest expense is composed of the following:

	Notes	BDO Unibank Group		
		2019	2018	2017
Deposit liabilities	16, 26	**P 32,047**	P 25,595	P 14,919
Bills payable and other borrowings	17, 18, 20, 25.2	**7,807**	5,153	3,123
Finance lease liabilities	12.2, 20	**827**	-	-
		P 40,681	P 30,748	P 18,042

	Notes	Parent Bank		
		2019	2018	2017
Deposit liabilities	16, 26	**P 31,384**	P 24,671	P 14,076
Bills payable and other borrowings	17, 18, 20, 25.2	**6,375**	4,049	2,358
Finance lease liabilities	12.2, 20	**822**	-	-
		P 38,581	P 28,720	P 16,434

24. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	BDO Unibank Group 2019	2018	2017
Service charges, fees and commissions	26	**P 31,722**	P 27,372	P 25,701
Insurance premiums		**14,764**	11,799	9,871
Foreign exchange gains	9.1	**3,821**	3,789	3,412
Trust fees	27	**3,532**	3,314	3,246
Trading gains (loss) - net	9.1	**1,867**	(1,619)	450
Rental	13	**1,526**	1,653	1,588
Income from assets sold or exchanged	13	**1,131**	1,057	798
Dividends	9.1	**560**	630	551
Miscellaneous - net		**1,698**	1,679	1,589
		P 60,621	P 49,674	P 47,206

	Notes	Parent Bank 2019	2018	2017
Service charges, fees and commissions	26	**P 27,707**	P 24,372	P 21,755
Share in net income of subsidiaries and associates	14.2	**6,046**	2,740	4,312
Foreign exchange gains		**3,715**	3,412	3,072
Trust fees	27	**2,727**	2,593	2,647
Income from assets sold or exchanged	13	**1,047**	943	751
Rental	13	**523**	583	534
Trading gains (losses) - net	9.1	**290**	130	(405)
Dividends		**180**	188	184
Miscellaneous - net		**910**	862	783
		P 43,145	P 35,823	P 33,633

Other operating expenses consist of the following:

		BDO Unibank Group		
	Notes	**2019**	2018	2017
Compensation and benefits	25.1	**P 35,385**	P 30,449	P 27,405
Fees and commissions		**18,826**	13,807	12,095
Taxes and licenses	13	**14,106**	11,639	8,270
Policy reserves, insurance benefits and claims	19	**11,285**	7,494	7,463
Occupancy	14.7, 12, 26, 34.2	**9,680**	9,509	8,412
Insurance		**5,255**	4,805	4,144
Advertising		**4,260**	4,301	3,431
Security, clerical, messengerial and janitorial		**3,993**	3,723	3,276
Representation and entertainment		**2,163**	2,313	1,861
Repairs and maintenance		**1,437**	1,463	1,316
Travelling		**1,344**	1,369	1,308
Power, light and water		**1,206**	1,214	1,058
Supplies		**1,001**	1,062	943
Information technology		**869**	647	538
Telecommunication		**661**	667	557
Litigation on assets acquired		**548**	542	473
Amortization of computer software	14.7	**546**	516	528
Freight		**402**	331	307
Miscellaneous	14.6	**2,192**	2,183	1,480
		P 115,159	P 98,034	P 84,865

		Parent Bank		
	Notes	**2019**	2018	2017
Compensation and benefits	25.1	**P 30,777**	P 26,538	P 23,909
Fees and commissions		**18,305**	13,190	11,372
Taxes and licenses	13	**12,904**	10,476	7,222
Occupancy	14.7, 12, 26, 34.2	**8,278**	8,129	7,046
Insurance		**5,158**	4,661	3,911
Advertising		**4,199**	4,208	3,319
Security, clerical, messengerial and janitorial		**3,723**	3,484	3,054
Representation and entertainment		**1,913**	2,063	1,623
Repairs and maintenance		**1,296**	1,351	1,218
Power, light and water		**1,108**	1,112	953
Travelling		**1,060**	1,128	1,089
Supplies		**883**	971	827
Information technology		**836**	615	510
Telecommunication		**552**	573	465
Litigation on assets acquired		**535**	527	431
Amortization of computer software	14.7	**502**	480	477
Freight		**375**	312	285
Miscellaneous	14.6	**1,933**	1,976	1,218
		P 94,337	P 81,794	P 68,929

25. COMPENSATION AND BENEFITS

25.1 Compensation and Benefits

Expenses recognized for compensation and benefits (see Note 24) are presented below.

	Notes	BDO Unibank Group		
		2019	2018	2017
Salaries and wages		**P 21,065**	P 18,550	P 16,732
Bonuses		**6,712**	5,870	5,255
Retirement – defined benefit plan	25.2	**1,819**	1,558	1,432
Employee stock option plan	25.3	**994**	649	518
Social security costs		**884**	716	629
Other benefits		**3,911**	3,106	2,839
	24	**P 35,385**	P 30,449	P 27,405

	Notes	Parent Bank		
		2019	2018	2017
Salaries and wages		**P 18,097**	P 16,001	P 14,432
Bonuses		**5,988**	5,253	4,696
Retirement – defined benefit plan	25.2	**1,585**	1,340	1,248
Employee stock option plan	25.3	**890**	582	464
Social security costs		**752**	603	539
Other benefits		**3,465**	2,759	2,530
	24	**P 30,777**	P 26,538	P 23,909

25.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

The BDO Unibank Group and the Parent Bank maintain a fully funded, multi-employer and tax-qualified noncontributory retirement plan that is being administered by the Parent Bank's trust and investment group as trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provided for an early retirement at age of 50 with a minimum of ten years of credited service and late retirement up to age 65, 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 2019 and 2018.

The amounts of Retirement benefit obligation recognized under Other Liabilities accounts (see Note 20) in the statements of financial position are determined as follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Present value of the DBO	**P 33,937**	P 28,599	**P 31,189**	P 26,331
Fair value of plan assets	**(30,633)**	(24,070)	**(27,986)**	(21,952)
Deficiency of plan assets	**3,304**	4,529	**3,203**	4,379
Effect of asset ceiling	**1**	8	**-**	-
	P 3,305	P 4,537	**P 3,203**	P 4,379

The movements in the present value of the DBO are as follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Balance at beginning of year	**P 28,599**	P 25,347	**P 26,331**	P 23,171
Current service cost	**1,819**	1,535	**1,585**	1,340
Interest expense	**2,153**	1,445	**1,983**	1,321
Benefits paid by the plan	**(1,632)**	(1,405)	**(1,541)**	(1,247)
Past service cost	**-**	23	**-**	-
Remeasurements:				
Actuarial losses (gains) arising from changes in:				
- experience adjustments	**1,114**	5,645	**826**	5,156
- demographic assumptions	**(554)**	(1,951)	**-**	(2,195)
- financial assumption	**2,438**	(2,040)	**2,005**	(1,215)
Balance at end of year	**P 33,937**	P 28,599	**P 31,189**	P 26,331

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

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Balance at beginning of year	**P 24,070**	P 22,575	**P 21,952**	P 20,629
Contributions paid into the plan	**6,572**	2,899	**6,119**	2,542
Interest income	**1,998**	1,329	**1,825**	1,213
Benefits paid by the plan	**(1,632)**	(1,405)	**(1,541)**	(1,247)
Remeasurement loss - return on plan assets (excluding amounts included in net interest)	**(375)**	(1,328)	**(369)**	(1,185)
Balance at end of year	**P 30,633**	P 24,070	**P 27,986**	P 21,952

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	
	2019	2018	**2019**	2018
Placements in debt instruments:				
Government bonds	**P 11,665**	P 2,552	**P 10,774**	P 2,182
Corporate bonds	**9,868**	12,970	**9,090**	12,100
UITFs	**7,756**	5,088	**7,307**	4,715
Equity instruments	**1,001**	777	**490**	433
Cash and cash equivalents	**32**	1,002	**31**	933
Loans and other receivables	**12**	1,425	**11**	1,339
Other properties	**299**	256	**283**	250
	P 30,633	P 24,070	**P 27,986**	P 21,952

Actual returns on plan assets were P1,624 and P1,456 in 2019 and nil and P27 in 2018 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 26(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		
	2019	2018	2017
Recognized in profit or loss:			
Current service costs	**P 1,819**	P 1,535	P 1,432
Past service costs	**-**	23	-
Interest expense (income)	**156**	117	(51)
	P 1,975	P 1,675	P 1,381
Recognized in other comprehensive income, net of tax (see Note 30.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 780**	P 3,951	P 9,702
- demographic assumptions	**(388)**	(1,365)	(6,790)
- financial assumptions	**1,706**	(1,428)	(857)
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**262**	930	536
- changes in the effect of the asset ceiling	**(5)**	-	(41)
	P 2,355	P 2,088	P 2,550

	Parent Bank		
	2019	2018	2017
Recognized in profit or loss:			
Current service costs	**P 1,585**	P 1,340	P 1,248
Interest expense	**158**	108	(50)
	P 1,743	P 1,448	P 1,198

	Parent Bank		
	2019	2018	2017
Recognized in other comprehensive income, net of tax (see Note 30.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 578**	P 3,609	P 9,290
- demographic assumptions	**-**	(1537)	(6,466)
- financial assumptions	**1,403**	(850)	(851)
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**259**	830	504
- changes in the effect of the asset ceiling	**-**	-	(32)
	2,240	2,052	2,445
Share in actuarial losses (gains) of subsidiaries and associates	**88**	36	(92)
	P 2,328	P 2,088	P 2,353

Current service costs are presented as part of Compensation and benefits under Other Operating Expenses account (see Note 24) while interest expense or income are presented or netted against Interest Expense account (see Note 23) in the statements of income of the BDO Unibank Group and the Parent Bank.

Amounts recognized in other comprehensive income were included within the items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income.

In determining the amounts of post-employment benefit obligation, the following significant actuarial assumptions were used:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Discount rates	**5.22%**	7.52%	**5.23%**	7.53%
Expected rate of salary increases	**2.00 - 11.00%**	2.00 - 11.00%	**6.50 - 11.00%**	7.00 - 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 24 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the BDO Unibank Group and the Parent Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan is composed of investment in UITF, debt and equity instruments, cash and cash equivalents, and loans and receivables. Due to the long-term nature of plan obligation, a level of continuing debt securities is an appropriate element of the BDO Unibank Group's long-term strategy to manage the plans effectively.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(i) Sensitivity Analysis

The table below and in the succeeding page summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit asset as of December 31, 2019 and 2018:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
BDO Unibank Group			
December 31, 2019			
Discount rate	**+/-1%**	**(P 1,058)**	**P 1,150**
Salary increase rate	**+/-1%**	**1,106**	**(1,039)**
December 31, 2018			
Discount rate	+/-1%	(P 845)	P 924
Salary increase rate	+/-1%	910	(849)

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Parent Bank			
December 31, 2019			
Discount rate	**+/-1%**	**(P 840)**	**P 890**
Salary increase rate	**+/-1%**	**857**	**(825)**
December 31, 2018			
Discount rate	+/-1%	(P 639)	P 675
Salary increase rate	+/-1%	666	(643)

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, 2019 and 2018 consists of debt instruments and UITFs, although the BDO Unibank Group and the Parent Bank also invest in cash and cash equivalents, equity instruments and properties. The debt instruments include government bonds and corporate bonds.

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

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2019, the plan of the BDO Unibank Group and the Parent Bank is underfunded by P3,305 and P3,203, respectively, based on the latest actuarial valuation report. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The BDO Unibank Group and the Parent Bank expect to pay P5,731 and P5,294, respectively, as contributions to retirement benefit plans in 2020.

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 37,443	P 35,582
Between six to ten years	13,603	12,078
	P 51,046	**P 47,660**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 2.8 to 14.6 years for the BDO Unibank Group and 2.8 years for the Parent Bank.

25.3 ESOP

BDO Unibank Group's ESOP expense includes the amounts recognized by the Parent Bank and its subsidiaries over the vesting period. In 2019 and 2018, vested shares totaled 14,504,751 shares and 9,455,129 shares, respectively, for BDO Unibank Group, and 13,145,911 shares and 8,189,694 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 P994, P649 and P518 in 2019, 2018, and 2017, respectively, and in the Parent Bank's statements of income, amounted to P890, P582 and P464, respectively (see Note 25.1).

26. RELATED PARTY TRANSACTIONS

The Parent Bank created a Related Party Transaction Committee composed of all independent directors and non-executive directors. 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, 2019 and 2018 and for each of the three years ended are as follows:

		Amounts of Transaction			Outstanding Balance	
Related Party Category	Note	**2019**	2018	2017	**2019**	2018
DOSRI Loans	26(a)					
Stockholders		**P 23,713**	P 35,813	P 78,597	**P 27,765**	P 51,131
Related Parties Under Common Ownership		**75**	476	3,314	**623**	1,032
Officers and Employees		**1,802**	1,601	1,504	**2,167**	2,019
Deposit Liabilities	26(b)					
Stockholders		**576,553**	638,830	554,530	**23,191**	46,873
Related Parties Under Common Ownership		**6,568**	12,638	80,630	**437**	3,765
Officers and Employees		**433**	620	349	**12**	21
Other Transactions with Associates	26(d)					
Loans and Advances		**2,820**	1,800	2,700	**7,784**	6,936
Interest Income		**509**	370	254	**6**	96
Related Parties Under Common Ownership	26(d)					
Right-of-use Asset		**833**	-	-	**1,951**	-
Lease Liabilities		**200**	-	-	**2,145**	-
Depreciation Expense		**655**	-	-	**-**	-
Interest Expense		**142**	-	-	**-**	-
Rent Expense		**-**	1,157	1,031	**-**	92
Key Management Personnel	26(d)					
Compensation		**1,653**	1,574	1,413	**-**	-
Retirement Plan	26(c)	**72**	(135)	64	**6,654**	5,188

The summary of the Parent Bank's significant transactions with its related parties as of December 31, 2019 and 2018 and for each of the three years ended are as follows:

		Amounts of Transaction			Outstanding Balance	
Related Party Category	Note	**2019**	2018	2017	**2019**	2018
DOSRI Loans	26(a)					
Stockholders		**P 23,713**	P 35,813	P 78,597	**P 27,765**	P 51,131
Related Parties Under Common Ownership		**75**	476	3,314	**623**	1,032
Officers and Employees		**1,798**	1,600	1,500	**2,161**	2,014
Deposit Liabilities	26(b)					
Stockholders		**576,553**	638,830	554,530	**23,191**	46,873
Related Parties Under Common Ownership		**6,039**	12,405	80,630	**329**	3,703
Officers and Employees		**433**	621	349	**12**	21
Other Transactions with Subsidiaries	26(d)					
Loans and Advances		**48,034**	69,388	69,613	**3,659**	5,887
Derivative Assets		**-**	-	100	**-**	-
Derivative Liabilities		**1,033**	538	1,276	**11**	5
Deposit Liabilities		**1,257**	423	697	**6,078**	4,821
Interest Income		**231**	247	232	**12**	46
Rent Income		**124**	120	115	**-**	-
Service Fees		**792**	637	539	**-**	-
Interest Expense		**83**	41	23	**4**	5
Right-of-use Asset		**-**	-	-	**117**	-
Lease Liabilities		**(10)**	-	-	**129**	-
Amortization Expense		**13**	-	-	**-**	-
Interest Expense		**8**	-	-	**-**	-
Rent Expense		**-**	14	9	**-**	-
Other Transactions with Associates	26(d)					
Loans and Advances		**2,820**	1,800	2,700	**7,600**	6,750
Interest Income		**494**	342	197	**5**	95

Related Party Category	Note	Amounts of Transaction 2019	2018	2017	Outstanding Balance 2019	2018
Related Parties Under Common Ownership	26(d)					
Right-of-use Asset		**P 833**	P -	P -	**P 1,951**	P -
Lease Liabilities		**200**	-	-	**2,145**	-
Amortization Expense		**655**	-	-	**-**	-
Interest Expense		**142**	-	-	**-**	-
Rent Expense		**-**	1,009	912	**-**	92
Key Management Personnel	26(d)					
Compensation		**1,107**	1,060	985	**-**	-
Retirement Plan	26(c)	**72**	(135)	64	**6,653**	5,187

In the ordinary course of business, the BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below and in the succeeding pages.

(a) *Loans to Related Parties*

Under existing policies of the BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.5% to 6% per annum in 2019, 2.5% to 6.5% per annum in 2018 and 2.0% to 3.5% per annum in 2017, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in the BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2019 and 2018, the BDO Unibank Group and the Parent Bank are in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group 2019	2018	Parent Bank 2019	2018
Total DOSRI loans	**P 30,555**	P 54,182	**P 30,549**	P 54,177
Unsecured DOSRI loans	**1,867**	1,726	**1,867**	1,726
Past due DOSRI loans	**9**	7	**9**	7
Non-performing DOSRI loans	**24**	15	**24**	15
% of DOSRI loans to total loan portfolio	**1.38%**	2.68%	**1.42%**	2.75%
% of unsecured DOSRI loans to total DOSRI loans	**6.11%**	3.19%	**6.11%**	3.19%
% of past due DOSRI loans to total DOSRI loans	**0.03%**	0.01%	**0.03%**	0.01%
% of non-performing DOSRI loans to total DOSRI loans	**0.08%**	0.03%	**0.08%**	0.03%

DOSRI loans of the BDO Unibank Group and the Parent Bank bear annual interest rates of 0.00% to 9.00% in 2019 and 2018 and 0.00% to 10.60% in 2017 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

Total DOSRI loans of the BDO Unibank Group and the Parent Bank include loans to officers under the BDO Unibank Group and Parent Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within one month to 20 years.

Total loan releases and collections in 2019 amounted to P25,590 and P49,217 for the BDO Unibank Group and P25,586 and P49,214 for the Parent Bank, respectively. Total loan releases and collections in 2018 amounted to P37,890 and P39,548 for the BDO Unibank Group and P37,889 and P39,544 for the Parent Bank, respectively. Total loan releases and collections in 2017, on the other hand, amounted to P83,415 and P50,813 for the BDO Unibank Group and P83,411 and P50,805 for the Parent Bank, respectively.

(b) *Deposits from Related Parties*

Total deposits made by the related parties amounted to P583,554, P652,088 and P635,509 in 2019, 2018 and 2017 for the BDO Unibank Group, and P583,025, P651,856 and P635,509 in 2019, 2018 and 2017 for the Parent Bank, respectively, and bearing interest rates range of 0% to 4.53% in 2019, 0.00% to 5.50% in 2018 and 0.00% to 4.32% in 2017. The related interest expense from deposits amounted to P1,611, P1,873 and P2,181 in 2019, 2018 and 2017, respectively (see Note 23).

(c) *Transactions with Retirement Plan*

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group as of December 31, 2019 and 2018 and for each of the three years ended are as follows:

	Amounts of Transaction			Outstanding Balance	
Related Party Category	**2019**	2018	2017	**2019**	2018
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 13**	P 18
BDO Leasing	**-**	-	-	**-**	-
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**25**	20
BDO Leasing	**-**	-	-	**1**	1
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**6,615**	5,149
Trading gain					
BDO Unibank, Inc.	**65**	(159)	59	**-**	-
Interest expense					
BDO Unibank, Inc.	**7**	24	5	**-**	-

The BDO Unibank Group's retirement fund has transactions directly and indirectly with the Parent Bank as of December 31, 2019 and 2018 and for each of the three years ended are as follows:

Related Party Category	Amounts of Transaction 2019	2018	2017	Outstanding Balance 2019	2018
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 13**	P 18
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**25**	20
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**6,615**	5,149
Trading gain					
BDO Unibank, Inc.	**65**	(159)	59	**-**	-
Interest expense					
BDO Unibank, Inc.	**7**	24	5	**-**	-

Details of the contributions of the BDO Unibank Group and the Parent Bank, and benefits paid out by the plan to the employees are presented in Note 25.

(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 P25 and P79, P79 and P85 and P85 and P29, in 2019, 2018 and 2017, 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 P25 and P79 as of December 31, 2019 and 2018, respectively (see Note 10).

The Parent Bank also grants both secured and unsecured interest-bearing loans to subsidiaries with outstanding balance of P3,634 and P5,808 as of December 31, 2019 and 2018, 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 P48,009, P69,309 and P69,528 while total loans collected amounted to P50,183, P71,955 and P67,005 for 2019, 2018 and 2017, respectively. These loans are payable in cash with a term between seven days to five years. Interest income recognized on these is presented as part of Interest Income in the Parent Bank's statements of income (see Note 22). Interest rate on these loans ranges from 2.5% to 6.0%, 2.5% to 6.5% and 2.0% to 3.5% per annum in 2019, 2018, and 2017, respectively.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice, at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank. 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 24). There are no outstanding balance arising from these transactions as of December 31, 2019 and 2018. Total service fees amounted to P792, P637 and P539 in 2019, 2018 and 2017, respectively.

BDO Life has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life pays the Parent Bank management fees in cash equivalent to certain percentage based on the average daily balance of the fund and are deducted quarterly from the fund. 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 24). Outstanding balances arising from this as of December 31, 2019 and 2018 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 24). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2019 and 2018. Total rent income amounted to P124, P120 and P115 in 2019, 2018 and 2017, 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 in both 2019 and 2018 and P67 in 2017. There are no outstanding receivable from subsidiaries as of December 31, 2019 and 2018.

(3) Expenses of the Parent Bank

Under PFRS 16, the Parent Bank, as a lessee, recognized right-of-use assets related to lease of space from BDO Network, BDOSHI and Averon for its branch operations, amounting to P117, as of December 31, 2019, which is presented as part of Premises, Furniture, Fixtures and Equipment (see Note 11). Depreciation expense and amortization of the right-of-use assets arising from this transaction, amounting to P13 is presented as part of Occupancy under Other Operating Expenses account in the Parent Bank's 2019 statement of income (see Note 24). Total interest expense on lease liability is included as part of Interest expense on finance lease liabilities under the Interest Expense account in the Parent Bank's 2019 statement of income which amounted to P8 (see Note 23). Outstanding balance arising from these transactions amounted to P129 as of December 31, 2019 and is included as part of Lease liabilities under Other Liabilities (see Note 20).

Under PAS 17, the Parent Bank leases space from BDO Network, BDOSHI and Averon 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 24). The lease term is between 10 to 30 years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2018. Total rent expense amounted to P14 and P9 in 2018 and 2017, respectively.

(4) Derivatives

In 2019 and 2018, 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, 2019 and 2018, 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 20).

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank bear interest rates of 0.00% to 6.65% in 2019, 0.00% to 6.75% in 2018 and 0.00% to 2.50% in 2017. 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 23).

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2019 and 2018, there is an outstanding secured and unsecured interest-bearing loans and advances to associates amounting to P7,784 and P6,936 for the BDO Unibank Group and P7,600 and P6,750 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 one year to twelve years. Total collections on loans and advances amounted to P1,987, P1,736 and P8 for BDO Unibank Group and P1,970, P1,200 and nil for the Parent Bank in 2019, 2018 and 2017, respectively.

Annual interest rate on these loans ranges from 5.00% to 7.70%, 6.37% to 7.70%, and 3.81% to 7.70% for the years 2019, 2018 and 2017, respectively. The related interest income is presented as part of Interest Income on loans and other receivables in the BDO Unibank Group's statements of income (see Note 22). As of December 31, 2019, 2018 and 2017, 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.

Under PFRS 16, the Parent Bank, as a lessee, recognized right-of-use assets related to lease of space from related parties for its branch operations, amounting to P1,951, as of December 31, 2019, which is presented as part of Premises, Furniture, Fixtures and Equipment (see Note 11). Amortization expense on right-of-use assets arising from this transaction, amounting to P655 is presented as part of Occupancy under Other Operating Expenses account in the Parent Bank's 2019 statement of income (see Note 24).

Total interest expense on lease liabilities from related parties, included as part of Interest expense on finance lease liabilities under the Interest Expense account amounted to P142 in the Parent Bank's 2019 statement of income (see Note 23). Outstanding balances arising from this transaction amounted to P2,145 as of December 31, 2019 and is included as part of Lease liabilities under Other Liabilities (see Note 20).

Under PAS 17, for the years ended December 31, 2018 and 2017, total rent paid to related parties amounted to P1,009 and P912, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 24). Outstanding balances arising from this transaction amounted to P92 as of December 31, 2018 and is included as part of Accounts payable under Other Liabilities (see Note 20).

The terms of the lease are from two to five years and is payable in cash.

(iv) Key Management Personnel Compensation

The compensation and benefits given to BDO Unibank Group and the Parent Bank's key management are as follows (see Note 25.1):

	BDO Unibank Group		
	2019	2018	2017
Salaries and other benefits	**P 1,445**	P 1,374	P 1,267
Retirement expense	**208**	200	146
	P 1,653	P 1,574	P 1,413

	Parent Bank		
	2019	2018	2017
Salaries and other benefits	**P 957**	P 931	P 886
Retirement expense	**150**	129	99
	P 1,107	P 1,060	P 985

27. 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 34.4).

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Investments	**P 1,325,160**	P 1,150,783	**P 970,499**	P 841,019
Others	**11,208**	10,934	**8,546**	8,665
	P 1,336,368	P 1,161,717	**P 979,045**	P 849,684

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities which are shown as part of Investment securities at amortized cost with a total face value of P14,869 and P13,136 as of December 31, 2019 and 2018 (see Note 9.3), respectively, in BDO Unibank Group and, P9,861 and P8,628 as of December 31, 2019 and 2018, 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, 2019 and 2018, the additional reserve for trust functions amounted to P272 and P251, respectively, for BDO Unibank Group and P189 and P181, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 21.5).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P3,532, P3,314 and P3,246 for the years ended December 31, 2019, 2018 and 2017, respectively, in BDO Unibank Group statements of income and P2,727, P2,593, and P2,647 for the years ended December 31, 2019, 2018 and 2017, respectively, in the Parent Bank statements of income (see Note 24).

28. 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, 2019 and 2018, 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.

		2019		2018
Assets:				
Cash and cash equivalents	**P**	**52**	P	73
Financial assets at FVTPL		**13,696**		8,514
Other receivables		**38**		13
	P	**13,786**	P	8,600
Liabilities and Equity:				
Other liabilities	**P**	**77**	P	45
Net assets attributable to unitholders		**13,709**		8,555
	P	**13,786**	P	8,600

29. MERGERS AND ACQUISITIONS

29.1 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 14.2). 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 amounted to P123 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Notes 14.2 and 14.3).

29.2 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 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 14.6)	P	165

29.3 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 BDO Unibank 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.

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 remeasured 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 14.2).

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.

29.4 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 14.2). 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.

29.5 Joint Venture Investment Agreement with Mitsubishi Motors Philippines Corp. (MMPC), Sojitz Corporation (SJC) and JACCS Co. Ltd.

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 14.2).

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.

29.6 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 14.3).

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 14.3)	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 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% resulting to increase in Surplus Free amounting to P763.

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 was completed on May 16, 2019. The Parent Bank's shareholdings after the transaction amounted to 84.87%. The change in ownership interest resulted in a decrease in Surplus Free amounting to P30.

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 or BDO Network, a Rural Bank.

29.7 Purchase of Loans and Deposits of Rural Bank of Pandi by BDO Network

On February 4, 2019, BDO Network, entered into an asset sale and purchase agreement with RBPI to purchase RBPI's gross loan receivables and assume its recorded deposit liabilities. The transaction was entered into to provide BDO Network with a stronger presence in Bulacan and fast track its expansion in Central Luzon.

On August 22, 2019, the Monetary Board of the BSP approved the asset sale and purchase agreement between BDO Network and RBPI. The transaction was completed on October 31, 2019. The total goodwill recognized in 2019, representing cash premium, amounted to P100 and is presented as part of Goodwill under Other Resources account on BDO Unibank Group's statements of financial position (see Note 14.3).

29.8 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 34.4). 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 14.7).

30. TAXES

30.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	BDO Unibank Group		
	2019	2018	2017
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 12,310**	P 9,305	P 8,031
Minimum corporate income tax (MCIT) at 2%	**7**	23	14
Final taxes at 20%, 15%, 10% and 7.5%	**2,248**	1,685	1,371
	14,565	11,013	9,416
Deferred tax expense (income) relating to origination and reversal of temporary differences	**454**	(6)	36
	P 15,019	P 11,007	P 9,452
Reported in other comprehensive income:			
Actuarial losses	**(P 1,016)**	(P 859)	(P 1,125)
Fair value of financial assets at FVOCI	**(30)**	(44)	-
Revaluation increment	**(23)**	-	-
Fair value of AFS securities	**-**	-	20
	(P 1,069)	(P 903)	(P 1,105)

	Parent Bank		
	2019	2018	2017
Reported in profit or loss:			
Current tax expense:			
RCIT at 30%	**P 11,219**	P 8,080	P 7,045
Final taxes at 20%, 15%, 10% and 7.5%	**1,745**	1,234	978
	12,964	9,314	8,023
Deferred tax expense relating to origination and reversal of temporary differences	**412**	198	218
	P 13,376	P 9,512	P 8,241
Reported in other comprehensive income:			
Actuarial losses	**(P 960)**	(P 879)	(P 1,048)
Revaluation increment	**(23)**	-	-
	(P 983)	(P 879)	(P 1,048)

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	BDO Unibank Group		
	2019	2018	2017
Tax on pretax profit at 30%	**P 17,756**	P 13,094	P 11,267
Adjustment for income subjected to lower income tax rates	**(1,072)**	(617)	(379)
Tax effects of:			
Income exempt from tax	**(4,325)**	(3,494)	(2,552)
Non-deductible expenses	**3,557**	2,278	2,545
Deductible temporary differences not recognized	**(551)**	(659)	(908)
Net operating loss carryover (NOLCO) not recognized	**(89)**	127	17
Utilization of previously unrecognized NOLCO	**(25)**	-	-
Application of previously unrecognized MCIT	**(15)**	-	(4)
Others	**(217)**	278	(534)
Tax expense reported in profit or loss	**P 15,019**	P 11,007	P 9,452

	Parent Bank		
	2019	2018	2017
Tax on pretax profit at 30%	**P 17,283**	P 12,667	P 10,874
Adjustment for income subjected to lower income tax rates	**(872)**	(621)	(484)
Tax effects of:			
Income exempt from tax	**(5,729)**	(3,882)	(3,492)
Non-deductible expenses	**3,305**	1,998	2,259
Deductible temporary differences not recognized	**(611)**	(650)	(916)
Tax expense reported in profit or loss	**P 13,376**	P 9,512	P 8,241

Components of the net deferred tax assets (see Note 14) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Deferred tax assets:				
Allowance for impairment	**P 6,536**	P 6,560	**P 5,858**	P 5,858
Unamortized past service costs	**2,185**	1,219	**2,156**	1,182
Retirement obligation	**792**	863	**548**	901
Recognition of right-of-use assets and lease liabilities	**70**	-	**70**	-
Lease income differential	**-**	146	**-**	146
Others	**33**	217	**-**	-
	9,616	9,005	**8,632**	8,087
Deferred tax liabilities:				
Revaluation increment	**409**	432	**408**	431
Capitalized interest	**45**	48	**45**	48
Retirement asset	**17**	-	**-**	-
Changes in fair values of financial assets at FVOCI	**6**	36	**-**	-
Lease income differential	**2**	2	**-**	-
Others	**210**	175	**-**	-
	689	693	**453**	479
Net deferred tax assets	**P 8,927**	P 8,312	**P 8,179**	P 7,608

Movements in net deferred tax assets for the years ended December 31 follow:

BDO Unibank Group

	Statements of Income		
	2019	2018	2017
Retirement obligation	**P 1,292**	P 332	P 23
Unamortized past service costs	**(966)**	(103)	222
Lease income differential	**146**	(25)	(51)
Recognition of right-of-use assets and lease liabilities	**(70)**	-	-
Allowance for impairment	**24**	(175)	(115)
Capitalized interest	**(3)**	(3)	(3)
NOLCO	**-**	-	(2)
Others	**31**	(32)	(38)
Deferred tax expense (income)	**P 454**	(P 6)	P 36

Parent Bank

	Statements of Income		
	2019	2018	2017
Retirement obligation	**P 1,313**	P 328	P 46
Unamortized past service costs	**(974)**	(110)	183
Lease income differential	**146**	(17)	(8)
Recognition of right-of-use assets and lease liabilities	**(70)**	-	-
Capitalized interest	**(3)**	(3)	(3)
Deferred tax expense (income)	**P 412**	P 198	P 218

	Statements of Comprehensive Income					
	BDO Unibank Group			Parent Bank		
	2019	2018	2017	**2019**	2018	2017
Movements in actuarial losses	**(P 1,016)**	(P 859)	(P 1,125)	**(P 960)**	(P 879)	(P 1,048)
Movements in fair value of financial assets at FVOCI	**(30)**	(44)	-	**-**	-	-
Movements in revaluation increment	**(23)**	-	-	**(23)**	-	-
Movements in fair value of AFS securities	**-**	-	20	**-**	-	-
Deferred tax income	**(P 1,069)**	(P 903)	(P 1,105)	**(P 983)**	(P 879)	(P 1,048)

The 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 the BDO Unibank Group (nil for the Parent Bank):

Year	NOLCO	MCIT	Valid Until
2019	P 136	P -	2022
2018	199	1	2021
2017	56	-	2020
	P 391	P 1	

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2019 and 2018 are as follows:

	BDO Unibank Group							
	2019				2018			
	Tax Base		Tax Effect		Tax Base		Tax Effect	
Allowance for impairment	**P**	**16,694**	**P**	**5,008**	P	13,247	P	3,974
NOLCO		**391**		**117**		299		90
MCIT		**1**		**-**		31		31
Others		**1,205**		**362**		1,206		362
	P	**18,291**	**P**	**5,487**	P	14,783	P	4,457

	Parent Bank							
	2019				2018			
	Tax Base		Tax Effect		Tax Base		Tax Effect	
Allowance for impairment	**P**	**15,954**	**P**	**4,786**	P	12,357	P	3,707
Others		**1,088**		**326**		1,214		364
	P	**17,042**	**P**	**5,112**	P	13,571	P	4,071

The BDO Unibank Group and the Parent Bank continue claiming itemized deduction for income tax purposes.

30.2 Gross Receipts Tax

Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code, is imposed on banks, non-banks financial intermediaries and finance companies (per RA 9238).

GRT is levied on the BDO Unibank Group's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income (per RA 9337).

30.3 Documentary Stamp Tax

Documentary stamp tax (DST) (at varying rates) is imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other notes payable at sight or on demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On December 19, 2017, RA No. 10963 known as train law was passed amending the rates of DST, the significant provisions of which are summarized as follows:

(a) On every issue of debt instruments, there shall be collected a DST of one peso and fifty centavos on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of one peso and 50 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

(c) On all bills of exchange or drafts, there shall be collected a DST of 60 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA No. 9243;
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

30.4 Supplementary Information Required by the Bureau of Internal Revenue (BIR)

The BIR issued Revenue Regulations (RR) No. 15-2010 on November 25, 2010, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under the revised Securities Regulation Code Rule 68.

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

31. EARNINGS PER SHARE

Basic earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	2019	2018	2017
Net profit attributable to shareholders of the Parent Bank	**P 44,194**	P 32,708	P 28,070
Dividends on preferred shares	**(339)**	(339)	(340)
Net profit available to common shares	**43,855**	32,369	27,730
Divided by the weighted average number of outstanding common shares (in millions)	**4,378**	4,372	4,322
Basic earnings per share	**P 10.02**	P 7.40	P 6.42

Diluted earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	2019	2018	2017
Net profit attributable to shareholders of the Parent Bank	**P 43,855***	P 32,369*	P 27,730*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**4,378**	4,372	4,322
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/stock option plan	**4,378**	4,372	4,322
Diluted earnings per share	**P 10.02**	P 7.40	P 6.42

* *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 do not significantly affect the computation of diluted earnings per share.*

32. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some measures of BDO Unibank Group and Parent Bank's financial performance:

	2019	2018	2017
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**12.6%**	10.6%	10.2%
Return on average resources:			
Net profit / Average total resources	**1.4%**	1.1%	1.1%
Net interest margin:			
Net interest income / Average interest earning resources	**4.2%**	3.6%	3.5%
Return on common equity:			
Net profit / Average common equity	**12.8%**	10.7%	10.2%
Liquidity ratio:			
Total liquid resources / Total resources	**27.8%**	30.4%	31.6%
Debt to equity:			
Total liabilities / Total equity	**760.5%**	821.0%	794.3%
Resources to equity:			
Total resources / Total equity	**860.5%**	921.0%	894.3%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**245.5%**	241.9%	308.2%
Profit margin:			
Net profit / Revenues	**20.0%**	18.3%	19.1%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**14.2%**	13.8%	14.5%

* *Computed using balances prepared under PFRS*

	2019	2018	2017
BDO Unibank Group			
Basel III Leverage Ratio:			
Capital Measure / Exposure Measure	**10.0%**	9.3%	**
Liquidity Coverage Ratio:			
Total Stock of High – Quality Liquid Assets / Total Net Cash Outflows	**108.4%**	**	**
Net Stable Funding Ratio:			
Available Stable Funding / Required Stable Funding	**116.7%**	**	N/A

** *Public disclosure is not required by the BSP during this period.*

	2019	2018	2017
Parent Bank			
Return on average equity:			
Net profit / Average total capital accounts	**12.7%**	10.6%	10.2%
Return on average resources:			
Net profit / Average total resources	**1.5%**	1.2%	1.2%
Net interest margin:			
Net interest income / Average interest earning resources	**4.1%**	3.7%	3.5%
Return on common equity:			
Net profit / Average common equity	**12.8%**	10.7%	10.2%
Liquidity ratio:			
Total liquid resources / Total resources	**25.8%**	28.6%	29.2%
Debt to equity:			
Total liabilities / Total equity	**729.6%**	782.7%	748.2%

	2019	2018	2017
Parent Bank			
Resources to equity:			
Total resources / Total equity	**829.6%**	882.7%	848.2%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**249.3%**	247.0%	320.6%
Profit margin:			
Net profit / Revenues	**22.5%**	20.6%	22.0%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**13.7%**	13.3%	13.8%
Basel III Leverage Ratio:			
Capital Measure / Exposure Measure	**9.6%**	8.9%	**
Liquidity Coverage Ratio:			
Total Stock of High – Quality Liquid Assets / Total Net Cash Outflows	**109.2%**	**	**
Net Stable Funding Ratio:			
Available Stable Funding / Required Stable Funding	**117.4%**	**	N/A

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

Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Aggregate amount of secured liabilities	**P -**	P 226	**P -**	P -
Aggregate amount of resources pledged as security	**P 597**	P 1,501	**P -**	P -

33. EVENTS AFTER THE END OF THE REPORTING PERIOD

33.1 Dividends

On February 1, 2020, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.50% per annum of the par value for a total dividend of P339. The dividends will be paid within 60 days from dividend declaration date.

33.2 Sale of BDO Leasing

On January 24, 2020, the Parent Bank and BDO Capital entered into an agreement to sell their entire controlling stake in BDO Leasing to a third party as part of the Parent Bank's restructuring of its leasing business. The completion of the transaction is still subject to regulatory approvals and the fulfillment of other closing conditions.

33.3 Issuance of Fixed Rate Peso Bonds

On February 3, 2020, the Parent Bank issued P40,100 fixed rate peso bonds. The bonds have a tenor of 2.5 years and bear a coupon rate of 4.408%. Interest will be paid and calculated on a quarterly basis. This follows the P35,000 fixed rate peso bond issuance in February 11, 2019 and is a component of the P100,000 peso bond program approved by the BOD on August 31, 2018 (see Note 17.2). The issuance is part of the Parent Bank's continuing efforts to diversify its funding sources and support its lending activities.

34. COMMITMENTS AND CONTINGENCIES

34.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2019, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

34.1.1 Applicability of RR 4-2011

On March 15, 2011, the BIR issued 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.

In a Resolution dated March 27, 2019, the Supreme Court ordered Respondents to file their Comment on the Petition. On August 5, 2019, the Respondents filed its Comment on/Opposition to the Petition for Review on Certiorari.

All other Respondents have their respective Comments and/or Oppositions to the Petition.

The case remains pending as of December 31, 2019.

34.1.2 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 judgment dated May 31, 2018, RTC Makati dismissed the complaint, granted BDO Unibank's counterclaim and ordered BDO - TIG to immediately release the remaining escrow amount, plus interests, to BDO Unibank. PDIC filed Motion for Reconsideration but the same was denied by RTC Makati. PDIC filed Notice of Appeal.

On June 18, 2018, the Parent Bank received an amount of P1,243 for the full termination of escrow. As of December 31, 2019, the difference between the amount received and the balance of the amount in escrow is presented as part of Others under Other Liabilities account, pending the resolution of the Appeal filed by the counterparty (see Note 20).

The case is still pending before the Court of Appeals as of December 31, 2019.

34.1.3 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 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.

34.2 Lease Commitments – as Lessee (2018)

BDO Unibank Group, as a lessee, 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 BDO Unibank Group's statements of income, amounted to P3,597 and P3,220 in 2018 and 2017, respectively, for the BDO Unibank Group and P3,385 and P3,012 in 2018 and 2017, respectively, in the Parent Bank (see Note 24).

As of December 31, 2018, the estimated minimum future annual receivables of the BDO Unibank Group and the Parent Bank follow:

	BDO Unibank Group	Parent Bank
Within one year	P 3,466	P 3,457
After one year but not more five years	8,618	8,591
More than five years	4,890	4,927
	P 16,974	P 16,975

34.3 Lease Commitments – as Lessor

34.3.1 Finance Leases

BDO Unibank Group, as a lessor, enters into a finance leases covering various equipment and vehicles with lease term ranging from one to five. To manage its risks over these finance leases, the BDO Unibank Group retains its legal title over the underlying assets, and are used as securities over the finance lease receivables. Future minimum lease payments receivable (MLPR) under this finance lease together with the present value of net minimum lease payments receivable (NMLPR) follow:

	2019		2018	
	Future MLPR	**PV of NMLPR**	Future MLPR	PV of NMLPR
Within one year	**P 5,377**	**P 5,311**	P 7,868	P 7,793
After one year but not more than two years	**4,183**	**4,013**	5,700	5,555
After two years but not more than three years	**3,006**	**2,609**	4,357	3,913
After three years but not more than five years	**2,458**	**1,838**	4,009	3,054
Total MLPR	**15,024**	**13,771**	21,934	20,315
Unearned lease income	**(1,253)**	**-**	(1,619)	-
Present value of MLPR	**P 13,771**	**P 13,771**	P 20,315	P 20,315

34.3.2 Operating Leases

The BDO Unibank Group and the Parent Bank entered into various operating leases covering land, offices and equipment with lease terms ranging from 1 to 10 years. Operating lease income, presented under Rental account as part of Other Operating Income and Expenses in the BDO Unibank Group's statements of income for the years ended December 31, 2019, 2018 and 2017, amounted to P1,526, P1,653 and P1,588, respectively, for the BDO Unibank Group and P523, P583 and P534, respectively, for the Parent Bank (see Note 24).

Future minimum rental receivables as of December 31, 2019 under operating leases follow:

	BDO Unibank Group	Parent Bank
Within one year	P 1,464	P 566
More than one year to two years	959	401
More than two years to three years	499	227
More than three years to four years	237	132
More than four years to five years	147	73
More than five years	228	10
	P 3,534	P 1,409

34.4 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, 2019 and 2018, 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 in the succeeding page.

	Notes	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Trust department accounts	27	**P 1,336,368**	P 1,161,717	**P 979,045**	P 849,684
Committed credit lines	4.3.2	**404,078**	349,732	**404,078**	349,732
Forward exchange sold		**140,128**	132,422	**126,189**	118,276
Forward exchange bought		**141,969**	122,948	**126,377**	105,811
Unused commercial letters of credit	4.3.2	**53,703**	48,950	**53,703**	48,950
Interest rate swap receivable		**15,446**	19,201	**4,319**	5,978
Interest rate swap payable		**15,446**	19,201	**4,319**	5,978
Spot exchange sold		**20,148**	10,818	**19,287**	10,290
Bills for collection		**10,846**	10,716	**10,846**	10,716
ROP warrants		**8,475**	8,475	**8,475**	8,475
Spot exchange bought		**9,764**	7,273	**8,902**	6,745
Export letters of credit confirmed		**7,868**	6,180	**7,868**	6,180
Other contingent accounts		**3,038**	3,038	**3,038**	3,038
Late deposits/payments received		**3,174**	2,674	**3,150**	2,654
Outstanding guarantees issued		**2,942**	1,715	**2,942**	1,715

Supplementary Management Discussion

The capital-to-risk assets ratio of BDO Unibank Group as presented in the Capital Adequacy Ratio (Basel III) reports as of December 31, 2019 and 2018 are shown in the table below.

	BDO Unibank Group	**Parent Bank**	BDO Unibank Group	Parent Bank
	December 31, 2019		December 31, 2018	
	(in Millions)		(in Millions)	
Common equity tier 1 capital	**349,780**	**350,362**	309,694	310,281
Additional tier 1 capital	**5,150**	**5,150**	5,150	5,150
Tier 1 capital	**354,930**	**355,512**	314,844	315,431
Tier 2 capital	**33,399**	**32,632**	31,799	30,925
Gross qualifying capital	**388,329**	**388,144**	346,643	346,356
Less: Regulatory adjustments/deductions	**34,013**	**59,216**	32,872	56,908
Total qualifying capital	**354,316**	**328,928**	313,771	289,448
Credit risk-weighted assets	**2,258,209**	**2,181,596**	2,077,623	1,990,282
Market risk-weighted assets	**17,612**	**16,670**	17,378	16,341
Operational risk-weighted assets	**217,069**	**197,279**	184,863	165,276
Risk weighted assets	**2,492,890**	**2,395,545**	2,279,864	2,171,899
Total capital ratio	**14.2%**	**13.7%**	13.8%	13.3%
Tier 1 capital ratio	**12.9%**	**12.4%**	12.4%	11.9%
Common equity tier 1 ratio	**12.7%**	**12.2%**	12.1%	11.7%
Capital conservation buffer	***6.7%***	***6.2%***	***6.1%***	***5.7%***

Capital ratios involving components of regulatory capital are calculated as follows:

Total capital ratio :	Total Qualifying Capital	**354,316**	**328,928**	313,771	289,448
	Risk-Weighted Assets	**2,492,890**	**2,395,545**	2,279,864	2,171,899
Tier 1 capital ratio :	Tier 1 Capital (net of Regulatory Deductions)	**320,917**	**296,296**	281,972	258,523
	Risk-Weighted Assets	**2,492,890**	**2,395,545**	2,279,864	2,171,899
Common equity ratio :	Common Equity Tier 1 (net of Regulatory Deductions)	**315,767**	**291,146**	276,822	253,373
	Risk-Weighted Assets	**2,492,890**	**2,395,545**	2,279,864	2,171,899

The regulatory qualifying capital of the Parent Bank consists of Tier 1 capital which comprises paid-up common and preferred, surplus including current year profit, surplus reserves (excluding appropriated surplus free for deficiency in BSP-required 1% general provision), other comprehensive income {net unrealized gains or losses on AFS securities and cumulative foreign currency translation and actuarial gain/(loss)}, and minority interest less regulatory deductions such as unsecured credit accommodations to directors, officers, stockholders and their related interests (DOSRI), unsecured loans, other credit accommodations and guarantees granted to subsidiaries, deferred tax assets, goodwill, other intangible assets, and defined benefit pension fund assets. The other component of regulatory capital is Tier 2 capital, which includes unsecured subordinated debt, appraisal increment reserve, and general loan loss provision (including appropriated surplus free for deficiency in BSP-required 1% general provision).

The components of Tier 1 capital and deductions follow:

	BDO Unibank Group	Parent Bank	BDO Unibank Group	Parent Bank
	December 31, 2019		December 31, 2018	
	(in Millions)		(in Millions)	
Common Equity Tier 1 (CET1) Capital				
Paid-up common stock	**43,814**	**43,814**	43,740	43,740
Additional paid-in capital	**125,799**	**125,780**	123,377	123,358
Retained earnings	**150,082**	**150,397**	125,308	125,575
Undivided profits	**44,104**	**44,233**	32,681	32,712
Net unrealized gains or losses on AFS securities	**(191)**	**83**	(8,733)	(8,534)
Cumulative foreign currency translation	**11**	**12**	12	13
Remeasurements of Net Defined Benefit Liability/(Asset)	**(9,603)**	**(9,977)**	(6,691)	(6,583)
Others	**(4,315)**	**(3,980)**	-	-
Minority interest in subsidiary banks which are less than wholly-owned	**79**	**-**	-	-
Sub-total	**349,780**	**350,362**	309,694	310,281
Less: Regulatory adjustments/deductions				
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	**1,863**	**1,863**	1,725	1,725
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries	**259**	**3,663**	1,232	5,618
Deferred tax assets	**8,879**	**8,179**	8,277	7,608
Goodwill	**3,075**	-	3,044	-
Other intangible assets	**5,392**	**5,270**	5,326	5,193
Defined benefit pension fund assets (liabilities)	-	-	-	-
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable)	-	**25,692**	-	23,663
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	**9,652**	- **9,656**	7,857	- 8,411
Other equity investments in non-financial allied undertakings and non-allied undertakings	**4,893**	**4,893**	5,411	4,690
Sub-total	**34,013**	**59,216**	32,872	56,908
Total Common Equity Tier 1 Capital	**315,767**	**291,146**	276,822	253,373
Additional Tier 1 Capital				
Perpetual preferred shares	**5,150**	**5,150**	5,150	5,150
Additional paid-in capital	-	-	-	-
	5,150	**5,150**	5,150	5,150
Total Tier 1 Capital	**320,917**	**296,296**	281,972	258,523

The components of Tier 2 capital follow:

	BDO Unibank Group	Parent Bank	BDO Unibank Group	Parent Bank
	December 31, 2019		December 31, 2018	
	(in Millions)		(in Millions)	
Tier 2 Capital				
Instruments issued by the bank that are eligible as Tier 2 capital	**10,000**	**10,000**	10,000	10,000
Appraisal increment reserve-bank premises, as authorized by the Monetary Board	**797**	**797**	1,013	1,009
General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	**22,602**	**21,835**	20,786	19,916
	33,399	**32,632**	**31,799**	**30,925**

Below is the full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements for 2019 AND 2018:

	December 31, 2019					
	BDO Unibank Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
Qualifying Capital		(in Millions)			(in Millions)	
A.1 Common Equity Tier 1 (CET1) Capital	**350,579**	**(799)**	**349,780**	**351,741**	**(1,379)**	**350,362**
Paid-up common stock	43,814	-	43,814	43,814	-	43,814
Additional paid-in capital	125,780	19	125,799	125,780	-	125,780
Retained earnings	149,382	700	150,082	150,294	103	150,397
Undivided profits	44,217	(113)	44,104	44,239	(6)	44,233
Other comprehensive income	(12,693)	(1,405)	(14,098)	(12,386)	(1,476)	(13,862)
Net unrealized gains or losses on AFS securities	(248)	57	(191)	65	18	83
Cumulative foreign currency translation	11	-	11	5	7	12
Actuarial gain/(loss)	(11,261)	1,658	(9,603)	(11,260)	1,283	(9,977)
Others	(1,195)	(3,120)	(4,315)	(1,196)	(2,784)	(3,980)
Minority interest in subsidiary banks which are less than wholly-owned	79	-	79	-	-	-
A.2 Regulatory adjustments to CET1 capital	**(36,088)**	**2,075**	**(34,013)**	**(60,652)**	**1,436**	**(59,216)**
Total outstanding unsecured credit accommodations both direct and indirect, to DOSRI	(1,863)	-	(1,863)	(1,863)	-	(1,863)
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries	(259)	-	(259)	(3,663)	-	(3,663)
Deferred tax assets	(8,941)	62	(8,879)	(8,221)	42	(8,179)
Goodwill	(3,075)	-	(3,075)	-	-	-
Other intangible assets	(5,312)	(80)	(5,392)	(5,190)	(80)	(5,270)
Defined benefit pension fund assets (liabilities)	-	-	-	-	-	-
Investment in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable)	-	-	-	(25,725)	33	(25,692)
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	(11,255)	1,603	(9,652)	(11,093)	1,437	(9,656)
Other equity investments in non-financial allied undertakings and non-allied undertakings	(5,383)	490	(4,893)	(4,897)	4	(4,893)
Total Common Equity Tier 1 Capital	**314,491**	**1,276**	**315,767**	**291,089**	**57**	**291,146**
Additional tier 1 capital	5,150	-	5,150	5,150	-	5,150
TOTAL TIER 1 CAPITAL	**319,641**	**1,276**	**320,917**	**296,239**	**57**	**296,296**
Tier 2 Capital	**33,362**	**37**	**33,399**	**32,617**	**15**	**32,632**
Instruments issued by the bank that are eligible as Tier 2 capital	10,000	-	10,000	10,000	-	10,000
Deposit for subscription of Tier 2 capital	-	-	-	-	-	-
Appraisal increment reserve-bank premises, as authorized by the MB	797	-	797	797	-	797
General loan loss provision, limited to a maximum of 1% of CRWA, and any amount in excess thereof shall be deducted from the CRWA in computing the denominator of the risk-based capital ratio	22,565	37	22,602	21,820	15	21,835
TOTAL QUALIFYING CAPITAL	**353,003**	**1,313**	**354,316**	**328,856**	**72**	**328,928**

*Per summary of adjustments as of December 31, 2019 as submitted to the Bangko Sentral ng Pilipinas

	December 31, 2018					
	BDO Unibank Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
Qualifying Capital		(in Millions)			(in Millions)	
A.1 Common Equity Tier 1 (CET1) Capital	**309,889**	**(195)**	**309,694**	**310,362**	**(81)**	**310,281**
Paid-up common stock	43,740	-	43,740	43,740	-	43,740
Additional paid-in capital	123,358	19	123,377	123,358	-	123,358
Retained earnings	125,369	(61)	125,308	125,551	24	125,575
Undivided profits	32,706	(25)	32,681	32,708	4	32,712
Other comprehensive income	(15,284)	(128)	(15,412)	(14,995)	(109)	(15,104)
Net unrealized gains or losses on AFS securities	(8,805)	72	(8,733)	(8,488)	(46)	(8,534)
Cumulative foreign currency translation	10	2	12	9	4	13
Actuarial gain/(loss)	(6,489)	(202)	(6,691)	(6,516)	(67)	(6,583)
Minority interest in subsidiary banks which are less than wholly-owned	-	-	-	-	-	-
A.2 Regulatory adjustments to CET1 capital	**(33,848)**	**976**	**(32,872)**	**(57,337)**	**429**	**(56,908)**
Total outstanding unsecured credit accommodations both direct and indirect, to DOSRI	(1,725)	-	(1,725)	(1,725)	-	(1,725)
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries	(1,232)	-	(1,232)	(5,618)	-	(5,618)
Deferred tax assets	(8,341)	64	(8,277)	(7,675)	67	(7,608)
Goodwill	(3,044)	-	(3,044)	-	-	-
Other intangible assets	(5,508)	182	(5,326)	(5,375)	182	(5,193)
Defined benefit pension fund assets (liabilities)	-	-	-	-	-	-
Investment in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable)	-	-	-	(23,679)	16	(23,663)
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	(8,596)	739	(7,857)	(8,575)	164	(8,411)
Other equity investments in non-financial allied undertakings and non-allied undertakings	(5,402)	(9)	(5,411)	(4,690)	-	(4,690)
Total Common Equity Tier 1 Capital	**276,041**	**781**	**276,822**	**253,025**	**348**	**253,373**
Additional tier 1 capital	5,150	-	5,150	5,150	-	5,150
TOTAL TIER 1 CAPITAL	**281,191**	**781**	**281,972**	**258,175**	**348**	**258,523**
Tier 2 Capital	**31,619**	**180**	**31,799**	**30,764**	**161**	**30,925**
Instruments issued by the bank that are eligible as Tier 2 capital	10,000	-	10,000	10,000	-	10,000
Deposit for subscription of Tier 2 capital	-	-	-	-	-	-
Appraisal increment reserve-bank premises, as authorized by the MB	850	163	1,013	850	159	1,009
General loan loss provision, limited to a maximum of 1% of CRWA, and any amount in excess thereof shall be deducted from the CRWA in computing the denominator of the risk-based capital ratio	20,769	17	20,786	19,914	2	19,916
TOTAL QUALIFYING CAPITAL	**312,810**	**961**	**313,771**	**288,939**	**509**	**289,448**

*Per summary of adjustments as of December 31, 2018 as submitted to the Bangko Sentral ng Pilipinas

Comparative risk-weighted assets by type of exposure as of December 31, 2019 and 2018 consist of the following:

	Credit Risk *		Market Risk **		Operational Risk	
	December 31, 2019					
	Group	Parent	Group	Parent	Group	Parent
	(in Millions)					
On-Balance Sheet	2,231,492	2,157,024				
Off-Balance Sheet	24,190	24,190				
Counterparty (Banking/Trading Book)	4,518	2,367				
Credit-Linked Notes in the Banking Book	-	-				
Securitization Exposures	-	-				
Deductions ***	(1,991)	(1,985)				
Interest Rate Exposures			3,943	2,154		
Equity Exposures			45	-		
Foreign Exchange Exposures			13,624	14,516		
Options			-	-		
Basic Indicator					217,069	197,279
Total	2,258,209	2,181,596	17,612	16,670	217,069	197,279
Capital Requirements	225,821	218,160	1,761	1,667	21,707	19,728

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

** Excludes interest rate risks in the banking book (IRRBB). For IRRBB, please refer to 2019 NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly.

***General loan loss provision (in excess of the amount permitted to be included in Tier 2).

On-Balance Sheet Assets

BDO Unibank Group

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	69,429	69,429	69,429	-	-	-	-	-	69,429
Checks and Other Cash Items	55	55	-	55	-	-	-	-	55
Due from Bangko Sentral ng Pilipinas	309,040	309,040	309,040	-	-	-	-	-	309,040
Due from Other Banks	38,596	38,596	-	3,665	34,379	-	552	-	38,596
Financial Assets Designated at Fair Value through Profit or Loss	377	377	10	-	-	-	367	-	377
Available for Sale Securities	110,457	110,457	24,627	1,501	45,807	-	38,522	-	110,457
Held-to-Maturity (HTM) Securities	261,774	251,965	118,682	7,617	94,075	-	31,591	-	251,965
Unquoted Debt Securities Classified as Loans	-	-	-	-	-	-	-	-	-
Loans and Receivables	2,230,002	2,128,026	-	139,358	69,081	54,629	1,858,984	5,974	2,128,026
Loans and Receivables Arising from Repurchase Agreements	-	-	-	-	-	-	-	-	-
Sales Contract Receivable	813	813	-	-	-	-	690	123	813
Real and Other Properties Acquired	11,172	11,172	-	-	-	-	-	11,172	11,172
Other Assets	79,641	79,641	-	-	-	-	79,641	-	79,641
Total Exposures	3,111,356	2,999,571	521,788	152,196	243,342	54,629	2,010,347	17,269	2,999,571
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	30,439	121,671	40,972	2,010,347	25,904	2,229,333
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	6	-	-	2,153	-	2,159
Total Risk-weighted On-Balance Sheet Assets			-	30,445	121,671	40,972	2,012,500	25,904	2,231,492

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	37	-	-	-	-	37	-	37
Transaction-related contingencies	17,628	-	174	-	-	16,758	-	16,932
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	7,239	-	4	-	-	7,217	-	7,221
	24,904	-	178	-	-	24,012	-	24,190

On-Balance Sheet Assets

Parent Bank

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights 0%	20%	50%	75%	100%	150%	Total
Cash on Hand	68,015	68,015	68,015	-	-	-	-	-	68,015
Checks and Other Cash Items	55	55	-	55	-	-	-	-	55
Due from Bangko Sentral ng Pilipinas	306,938	306,938	306,938	-	-	-	-	-	306,938
Due from Other Banks	35,820	35,820	-	1,689	34,080	-	51	-	35,820
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	-	-	-
Available for Sale Securities	93,800	93,800	23,117	1,294	38,012	-	31,377	-	93,800
Held-to-Maturity (HTM) Securities	247,308	237,500	109,609	6,378	89,931	-	31,582	-	237,500
Unquoted Debt Securities Classified as Loans	-	-	-	-	-	-	-	-	-
Loans and Receivables	2,180,977	2,079,123	-	139,174	66,892	46,754	1,821,562	4,741	2,079,123
Loans and Receivables Arising from Repurchase Agreements	-	-	-	-	-	-	-	-	-
Sales Contract Receivable	739	739	-	-	-	-	677	62	739
Real and Other Properties Acquired	10,998	10,998	-	-	-	-	-	10,998	10,998
Other Assets	66,673	66,673	-	-	-	-	66,673	-	66,673
Total Exposures	3,011,323	2,899,661	507,679	148,590	228,915	46,754	1,951,922	15,801	2,899,661
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	29,718	114,458	35,066	1,951,922	23,701	2,154,865
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	6	-	-	2,153	-	2,159
Total Risk-weighted On-Balance Sheet Assets			-	29,724	114,458	35,066	1,954,075	23,701	2,157,024

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights 0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	37	-	-	-	-	37	-	37
Transaction-related contingencies	17,628	-	174	-	-	16,758	-	16,932
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	7,239	-	4	-	-	7,217	-	7,221
	24,904	-	178	-	-	24,012	-	24,190

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

December 31, 2018

(in Millions)

	Credit Risk * Group	Credit Risk * Parent	Market Risk ** Group	Market Risk ** Parent	Operational Risk Group	Operational Risk Parent
On-Balance Sheet	2,046,028	1,962,749				
Off-Balance Sheet	25,942	25,942				
Counterparty (Banking/Trading Book)	6,672	2,924				
Credit-Linked Notes in the Banking Book	-	-				
Securitization Exposures	-	-				
Deductions ***	(1,019)	(1,333)				
Interest Rate Exposures			2,502	1,588		
Equity Exposures			103	-		
Foreign Exchange Exposures			14,773	14,753		
Options			-	-		
Basic Indicator					184,863	165,276
Total	2,077,623	1,990,282	17,378	16,341	184,863	165,276
Capital Requirements	207,762	199,028	1,738	1,634	18,486	16,528

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

** Excludes interest rate risks in the banking book (IRRBB). For IRRBB, please refer to NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly.

***General loan loss provision (in excess of the amount permitted to be included in Tier 2).

On-Balance Sheet Assets

BDO Unibank Group

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	58,518	58,518	58,518	-	-	-	-	-	58,518
Checks and Other Cash Items	58	58	-	58	-	-	-	-	58
Due from Bangko Sentral ng Pilipinas	354,132	354,132	354,132	-	-	-	-	-	354,132
Due from Other Banks	54,446	54,446	-	5,139	48,543	-	764	-	54,446
Financial Assets Designated at Fair Value through Profit or Loss	56	56	5	-	-	-	51	-	56
Available for Sale Securities	94,914	94,914	11,551	1,996	43,578	-	37,789	-	94,914
Held-to-Maturity (HTM) Securities	242,769	232,578	95,571	7,320	106,119	-	23,568	-	232,578
Unquoted Debt Securities Classified as Loans	-	-	-	-	-	-	-	-	-
Loans and Receivables	2,056,988	1,943,756	13	124,327	68,618	53,741	1,692,066	4,991	1,943,756
Loans and Receivables Arising from Repurchase Agreements	22,009	22,009	22,009	-	-	-	-	-	22,009
Sales Contract Receivable	920	920	-	-	-	-	603	317	920
Real and Other Properties Acquired	9,994	9,994	-	-	-	-	-	9,994	9,994
Other Assets	63,991	63,991	-	-	-	-	63,991	-	63,991
Total Exposures	2,958,795	2,835,372	541,799	138,840	266,858	53,741	1,818,832	15,302	2,835,372
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	27,768	133,429	40,306	1,818,832	22,953	2,043,288
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	10	49	-	2,681	-	2,740
Total Risk-weighted On-Balance Sheet Assets			-	27,778	133,478	40,306	1,821,513	22,953	2,046,028

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	37	-	-	-	-	37	-	37
Transaction-related contingencies	22,871	-	724	-	-	19,249	-	19,973
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	5,932	-	-	-	-	5,932	-	5,932
	28,840	-	724	-	-	25,218	-	25,942

On-Balance Sheet Assets

Parent Bank

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	57,262	57,262	57,262	-	-	-	-	-	57,262
Checks and Other Cash Items	58	58	-	58	-	-	-	-	58
Due from Bangko Sentral ng Pilipinas	349,017	349,017	349,017	-	-	-	-	-	349,017
Due from Other Banks	48,780	48,780	-	2,276	46,448	-	56	-	48,780
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	-	-	-
Available for Sale Securities	77,115	77,115	7,335	1,229	39,509	-	29,042	-	77,115
Held-to-Maturity (HTM) Securities	222,909	212,718	84,231	6,080	98,846	-	23,561	-	212,718
Unquoted Debt Securities Classified as Loans	-	-	-	-	-	-	-	-	-
Loans and Receivables	2,002,791	1,889,725	13	124,140	67,125	46,253	1,648,236	3,958	1,889,725
Loans and Receivables Arising from Repurchase Agreements	22,009	22,009	22,009	-	-	-	-	-	22,009
Sales Contract Receivable	803	803	-	-	-	-	573	230	803
Real and Other Properties Acquired	9,852	9,852	-	-	-	-	-	9,852	9,852
Other Assets	50,119	50,119	-	-	-	-	50,119	-	50,119
Total Exposures	2,840,715	2,717,458	519,867	133,783	251,928	46,253	1,751,587	14,040	2,717,458
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	26,757	125,964	34,690	1,751,587	21,060	1,960,058
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	10	-	-	2,681	-	2,691
Total Risk-weighted On-Balance Sheet Assets			-	26,767	125,964	34,690	1,754,268	21,060	1,962,749

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	37	-	-	-	-	37	-	37
Transaction-related contingencies	22,871	-	724	-	-	19,249	-	19,973
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	5,932	-	-	-	-	5,932	-	5,932
	28,840	-	724	-	-	25,218	-	25,942

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

Basel III Leverage Ratios of BDO Unibank Group and Parent Bank as of December 31, 2019 and 2018 as submitted to the Bangko Sentral ng Pilipinas (BSP).

Basel III Leverage Ratio Common Disclosure Template

In Million Pesos; Ratios in Percent

	Item	2019		2018	
		BDO Unibank Group	Parent Bank	BDO Unibank Group	Parent Bank
	On-balance sheet exposures				
1	On-balance sheet items 1/	3,153,859.368	3,079,148.960	2,972,744.058	2,879,225.761
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	-36,087.870	-60,651.611	-33,847.827	-57,337.212
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**3,117,771.498**	**3,018,497.349**	**2,938,896.231**	**2,821,888.549**
	Derivative exposures				
4	Replacement Cost associated with all derivatives transactions	3,096.141	1,453.389	5,696.264	2,475.120
5	Add-on amounts for Potential Future Exposure associated with all derivative transactions	4,031.450	2,904.720	3,529.325	2,622.392
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework 2/				
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions) 2/				
8	(Exempted CCP leg of client-cleared trade exposures) 2/				
9	Adjusted effective notional amount of written credit derivatives	0.000	0.000	0.000	0.000
10	(Adjusted effective offsets and add-on deductions for written credit derivatives)				
11	**Total derivative exposures (sum of lines 4 to 10)**	**7,127.591**	**4,358.109**	**9,225.590**	**5,097.512**
	Securities financing transaction exposures				
12	Gross SFT assets (with no recognition of netting)	0.000	0.000	22,000.000	22,000.000
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)2/				
14	CCR exposures for SFT assets			0.000	
15	Agent transaction exposures 3/				
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**0.000**	**0.000**	**22,000.000**	**22,000.000**
	Other off-balance sheet exposures				
17	Off-balance sheet exposure at gross notional amount	514,540.570	513,642.909	440,527.921	439,979.329
18	(Adjustments for conversion to credit equivalent amounts)				
19	**Off-balance sheet items**	**69,209.077**	**69,119.311**	**65,347.993**	**65,293.134**
	Capital and total exposures				
20	**Tier 1 capital**	**319,641.386**	**296,238.582**	**281,190.676**	**258,174.786**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**3,194,108.166**	**3,091,974.768**	**3,035,469.814**	**2,914,279.195**
	Leverage ratio				
22	**Basel III leverage ratio**	**10.01%**	**9.58%**	**9.26%**	**8.86%**

1/ Gross of General Loan Loss Provision (GLLP) and excluding derivatives and SFTs

2/ Not included under the framework

3/ When a bank/non-bank acting as an agent in an SFT provides an indemnity or guarantee to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of the collateral the borrower has provided

Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure
In Million Pesos

	Item	2019		2018	
		BDO Unibank Group	Parent Bank	BDO Unibank Group	Parent Bank
1	Total consolidated assets as per published financial statements 1/	3,145,157.804	3,069,394.975	2,989,951.847	2,893,588.313
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation 2/				
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure 2/				
4	Adjustments for derivative financial instruments	4,031.450	2,904.720	3,529.325	2,622.392
5	Adjustments for securities financial transactions (i.e., repos and similar secured lending)	0.000	0.000	0.000	0.000
6	Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	69,209.077	69,119.311	65,347.993	65,293.134
7	Other adjustments	-24,290.165	-49,444.238	-23,359.351	-47,224.644
8	**Leverage ratio exposure 3/**	**3,194,108.166**	**3,091,974.768**	**3,035,469.814**	**2,914,279.195**

[1/] Refers to total on-balance sheet assets per quarterly published balance sheet
[2/] Not included under the framework
[3/] Sum of Items 1 to 7. Should be consistent with item 21 of the Basel III Leverage Ratio Common Disclosure Template

There is no significant difference between the banks' total balance sheet assets in its financial statements and the on-balance sheet exposures in the Leverage Ratio Report.

The Bank's Leverage Ratio remains well above the regulatory minimum requirement of 5%. The leverage ratio has improved year-on-year (Y-o-Y) by about 72 basis points (bps) and 75bps on Solo and Consolidated Basis, respectively. The improvement was mainly due to a Y-o-Y increase of about 14% in Tier 1 Capital, despite an increase of about 6% in total exposures.

Basel III Liquidity Coverage Ratio (LCR) of BDO Unibank Group as of December 31, 2019 per Bangko Sentral ng Pilipinas (BSP) required disclosure.

LIQUIDITY COVERAGE RATIO DISCLOSURE TEMPLATE - CONSOLIDATED
(In Single Currency, Absolute Amount)

NATURE OF ITEM	TOTAL UNWEIGHTED [1] VALUE (AVERAGE)	TOTAL WEIGHTED [2] VALUE (AVERAGE)
STOCK OF HIGH-QUALITY LIQUID ASSETS (HQLA)		
1. TOTAL STOCK OF HQLA		604,496,193,013.68
2. Deposits, of which:	**2,327,358,985,695.37**	**621,753,528,211.75**
3. Retail funding	1,340,619,103,436.64	147,459,335,512.42
4. Wholesale Funding of which:	986,739,882,258.73	474,294,192,699.32
5. Operational deposits	*507,075,562,851.58*	*152,122,668,855.47*
6. Non-operational deposits (all counterparties)	*479,664,319,407.15*	*322,171,523,843.85*
7. Unsecured wholesale funding (all counterparties)	**26,027,893,828.39**	**25,811,982,344.25**
8. Secured Funding		**49,107,509.81**
9. Derivatives contracts, of which:	**88,279,106,321.53**	**88,279,106,321.53**
10. Outflows related to derivatives exposures (net)	88,279,106,321.53	88,279,106,321.53
11. Outflows related to collateral requirements	0.00	0.00
12. Structured financing instruments	**0.00**	**0.00**
13. Committed business facilities (all counterparties)	**11,869,841,325.76**	**4,070,077,527.91**
14. Other contractual obligations within a 30-day period	**15,731,205,929.03**	**15,731,205,929.03**
15. Other contingent funding obligations	**2,159,183,217,699.98**	**64,775,496,531.00**
16 TOTAL EXPECTED CASH OUTFLOWS		**820,470,504,375.28**
17. Secured lending	**829,177,929.11**	**6,835,759.01**
18. Fully performing exposures (all counterparties)	**321,656,528,244.87**	**204,247,157,720.84**
19. Other cash inflows	**100,858,917,865.76**	**100,858,917,865.76**
20. TOTAL EXPECTED CASH INFLOWS	**423,344,624,039.74**	**305,112,911,345.62**
		Total Adjusted [3] Value
21. TOTAL STOCK OF HQLA		**604,496,193,013.68**
22. TOTAL EXPECTED NET CASH OUTFLOWS		**515,357,593,029.66**
23. LIQUIDITY COVERAGE RATIO (%)		**117.30%**

[1] Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

[2] Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

[3] Adjusted values must be calculated after the application of both: (i) haircuts (for Total HQLA) and inflow and outflow rates (for Total Net Cash Outflows); and (ii) applicable cap and ceiling (i.e., cap on Level 2 assets for HQLA and ceiling on inflows).

The LCR results have been stable over the past 4 quarters in 2019. The main drivers of which are essentially stable HQLA and stable cashflows. Majority of the Group's HQLA is comprised of Level 1 assets, primarily in the form of cash on hand, cash reserves with the BSP, overnight and term deposits with the BSP, and eligible securities representing claims on or guaranteed by the Philippine National Government.

One of the operating principles of the Group is to ensure that it has a diversified funding base, taking into account all available market opportunities. Sound liquidity management requires that the sources of funds available are diversified, particularly in terms of maturities and market share. The Group's primary funding source comes from regular customer deposits, which is composed largely of lower-cost funds. In addition to regular deposits, the Group also opportunistically raises funding through the issuance of Long Term Negotiable Certificate of Deposits (LTNCD), peso denominated bonds, unsecured subordinated debt, and foreign currency senior debt instruments. The Group aims to finance current and future asset growth in the most cost-effective manner possible.

The Group's outstanding derivative contracts are comprised mainly of short-term foreign exchange (FX) forwards and swaps, and any potential collateral calls by counterparties are not significant to impact liquidity. There are also no significant currency mismatches in the LCR.

The Asset-Liability Committee (ALCO) has responsibility for ensuring that Group policy for liquidity management is adhered to on a continual basis, and that Treasury is responsible for executing liquidity directives and operating within the liquidity policy. Treasury ensures that the funding requirements of all the Business Units (Bus) are addressed, excess funds are deployed to maximize returns, and regulatory requirements on reserves are complied. As such, all the BUs closely interact and coordinate with Treasury. The Liquidity Management function is centralized under the Treasury Group for the Parent Bank, and similarly for each major subsidiary of the Group.

All material and significant inflows and outflows that are relevant to the Group's liquidity profile are captured in the LCR.

Thrift, Commerce, and Industry
Vicente Manansala
Oil on canvas, 1942

From the BDO Art Collection

BDO