



2017 ANNUAL REPORT  
FINANCIAL STATEMENTS

OUR FUTURE,  
TODAY.





**BDO**



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# 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.

# 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 Leasing and Financing, Investment Banking, Private Banking, Rural Banking, Life Insurance, Insurance Brokerage, and Stock Brokerage services.

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, accounting, finance, law, risk management, and retailing/marketing.

## Core Values

### Commitment to Customers

We are committed to delivering products and services that surpass customer expectations in value and every aspect of customer services, 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

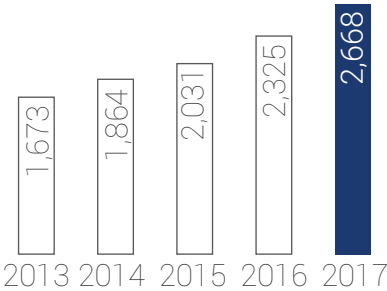
We are committed to our employees' growth and development and we will nurture them in an environment where excellence, integrity, teamwork, professionalism, and performance are valued above all else.

### Commitment to Shareholders

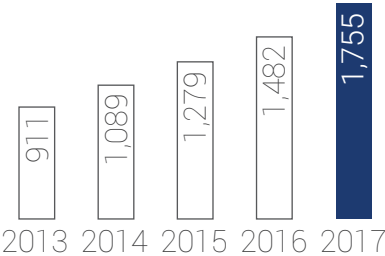
We are committed to providing our shareholders with superior returns over the long term.

# Financial Highlights

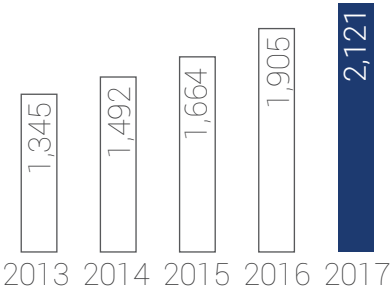
**TOTAL ASSETS**



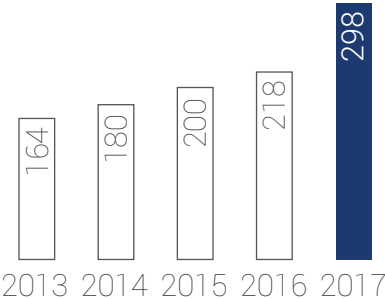
**GROSS CUSTOMER LOANS**



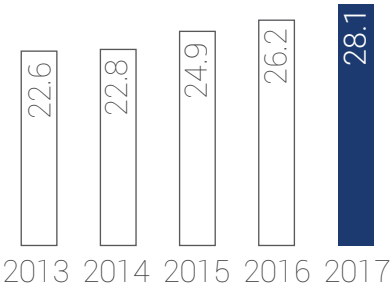
**DEPOSIT LIABILITIES**



**CAPITAL FUNDS**



**NET INCOME\***



\*attributable to shareholders of the parent bank

(In billion Php)



# Financial & Operating Highlights

	Consolidated			Parent Bank		
	2017	2016	Change	2017	2016	Change
<b>BALANCE SHEET</b> (in billion Php)						
Total Assets	2,668.1	2,325.0	15%	2,524.6	2,189.7	15%
Trading and Investment Securities	332.9	269.0	24%	258.2	207.9	24%
Liquid Assets	842.7	779.9	8%	736.4	689.2	7%
Gross Customer Loans	1,754.9	1,482.0	18%	1,700.9	1,426.4	19%
Deposits	2,121.0	1,905.2	11%	2,045.3	1,833.0	12%
Equity <sup>1/</sup>	298.3	217.6	37%	297.7	215.6	38%
<b>INCOME STATEMENT</b> (in billion Php)						
Net Interest Income	81.8	65.6	25%	77.4	61.7	25%
Non-Interest Income	47.2	41.6	13%	33.6	27.5	22%
Gross Operating Income	129.0	107.2	20%	111.0	89.2	24%
Operating Expenses	84.9	70.0	21%	68.9	56.4	22%
Pre-provision Profit	44.1	37.2	19%	42.1	32.8	28%
Allowance for Credit Losses	6.5	3.8	71%	5.8	3.0	93%
Net Profit <sup>2/</sup>	28.1	26.2	7%	28.0	24.1	16%
<b>FINANCIAL PERFORMANCE INDICATORS</b>						
<b>Profitability</b>						
Return on Average Common Equity	10.2%	12.7%		10.2%	11.7%	
Return on Average Equity	10.2%	12.5%		10.2%	11.5%	
Return on Average Assets	1.1%	1.2%		1.2%	1.2%	
<b>Margins and Liquidity</b>						
Net Interest Margin	3.5%	3.2%		3.5%	3.2%	
Gross Customer Loans to Deposit Ratio	82.7%	77.8%		83.2%	77.8%	
Liquid Assets to Total Assets	31.6%	33.5%		29.2%	31.5%	
<b>Cost Efficiency</b>						
Cost to Income Ratio	65.8%	65.3%		62.1%	63.2%	
Cost to Average Assets Ratio	3.4%	3.2%		2.9%	2.8%	
<b>Asset Quality</b>						
NPL to Gross Customer Loans	1.2%	1.3%		1.0%	1.2%	
NPL Cover	146.2%	139.4%		156.7%	148.6%	
<b>Capital and Leverage</b>						
CET 1 Ratio <sup>3/</sup>	12.9%	10.7%		12.2%	9.7%	
Tier 1 Ratio <sup>3/</sup>	13.1%	11.0%		12.4%	10.0%	
Capital Adequacy Ratio <sup>3/</sup>	14.5%	12.4%		13.8%	11.4%	
Assets to Equity	8.9x	10.7x		8.5x	10.2x	
<b>DISTRIBUTION NETWORK AND MANPOWER</b>						
Branches	1,180	1,104	7%	1,053	982	7%
ATMs	4,022	3,655	10%	3,788	3,435	10%
Employees	33,747	31,443	7%	29,567	27,429	8%
<b>SHAREHOLDER INFORMATION</b>						
<b>Market Value</b>						
Share Price (in Php)	164.00	112.10	46%	-	-	
Market Capitalization (in billion Php)	716.50	409.16	75%	-	-	
<b>Valuation</b>						
Basic Earnings per Share (in Php)	6.42	6.81	-6%	6.40	6.23	3%
Diluted Earnings per Share (in Php)	6.42	6.81	-6%	6.40	6.23	3%
Book Value per Share (in Php)	66.91	57.99	15%	66.95	57.65	16%
Price-Earnings Ratio	25.5x	16.5x		-	-	
Price to Book Value	2.5x	1.9x		-	-	
<b>Dividends</b>						
Cash Dividends Paid to Common Shareholders (in billion Php)	5.2	4.4		5.2	4.4	
Cash Dividends per Common Share (in Php)	1.20	1.20		1.20	1.20	
Dividend Payout Ratio <sup>4/</sup>	18.5%	16.8%		-	-	
Dividend Yield <sup>5/</sup>	0.9%	1.1%		-	-	

1/ Total capital accounts, inclusive of non-controlling interest and preferred shares

2/ Net Income attributable to shareholders of the parent bank

3/ Based on audited financial statements

4/ Cash dividends paid during the year divided by net profit for the year

5/ Cash dividends per 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

The Board Audit Committee (BAC) is empowered by the Board to fulfill its oversight function 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 as set forth in its Terms of Reference.

Composed of three board members (all of whom are independent directors), and assisted by three advisers, the BAC conducted twelve regular meetings in 2017.

In 2017, the BAC performed the following:

1. On the financial reporting process:
  - Extensively reviewed and discussed with Management, Internal Audit and External Audit the annual audited financial statements for the year ended December 31, 2017 including the internal controls on the financial reporting process ensuring compliance with accounting standards and tax regulations before endorsing the same to the Board of Directors.
  - Reviewed and discussed with Management the quarterly unaudited financial statements and results of operations prior to endorsement to the Board of Directors for approval.
2. On its oversight function over Internal Audit
  - Approved the Internal Audit's annual plan after a thorough review of its scope, audit methodology, risk assessment and rating processes, financial budget, manpower resources, as well as changes to the plan during the year.
  - Reviewed the Internal Audit Charter.
  - Regularly received audit reports, reviewed and discussed high and moderate risk findings relating to operational, financial and compliance controls including risk management systems with impact to financials, reputation and information security.
  - Invited key management officers to discuss high risk issues and their action plans to resolve or mitigate the same. The Committee continued to keep track of the timely resolution of findings including updates on Information Technology's security controls and action plans in further strengthening IT risk management.
  - Ensured Internal Audit's independence and free access to all records, properties and information to be able to fully carry out its functions.
  - Assessed the performance of the Chief Internal Auditor and key Audit Officers.

### 3. On its oversight function over External Audit

- Approved and endorsed to the Board the re-appointment of the Bank's BSP-accredited External Auditor including the fees after an evaluation of other accredited external auditors, ensuring the change of audit partners in accordance with regulation and standards.
- Discussed and reviewed 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.
- Reviewed the management letter as well as Management's response and action taken on the external auditor's findings.

### 4. On its oversight over the Compliance function:

- Reviewed and approved the annual plans and compliance roadmaps, enhanced manuals and independent testing frameworks of the Compliance and Anti-Money Laundering (AML) Units.
- Reviewed the results and monitored the progress of the Independent Compliance and AML Testing.
- Monitored the 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, observations and recommendations making sure that committed actions are implemented.

Reports on cases in operations, whistle blower accounts as well as non-loan related cases with impact to financials, information systems and reputation were reviewed focusing on risk assessment, legal handling and root cause analyses to identify control weaknesses and provide solutions.

The members and advisers of the BAC attended a Seminar on Corporate Governance on July 19, 2017 as well as the Distinguished Corporate Governance Speaker Series on August 10, 2017, as part of their Continuing Education Program.

The Committee, with the objective of determining its own performance in the year 2017, conducted a self-assessment. The BAC, likewise evaluated the performance of the Internal Audit, the Compliance and Anti-Money Laundering Units and External Audit.

Management's corrective actions on internal control weaknesses, compliance issues and major risk areas cited by BSP, Internal Audit, External Audit, Compliance and AML Units and other regulatory bodies, are constantly monitored by the BAC.

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 information obtained from the External Auditor, the reasonable assurance provided by the 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

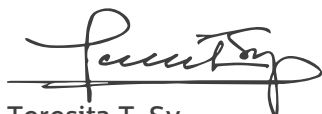
The management of **BDO Unibank, Inc. and Subsidiaries (the BDO Unibank Group)** and of **BDO Unibank, Inc. (the Parent Bank)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, 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'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 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's 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**  
Chairman of the Board



**Nestor V. Tan**  
President



**Pedro M. Florescio III**  
Treasurer

Signed this 24<sup>th</sup> day of February 2018

SUBSCRIBED and SWORN to me before this 26th day of February, 2018 affiants exhibiting to me their Competent Evidence of Identity (CEI), as follows:

NAME	CEI Number	Date & Place Issued
1. Teresita T. Sy	CTC No. – 00052502	02.08.2018/Manila
2. Nestor V. Tan	CTC No. – 24536268	01.09.2018/Makati
3. Pedro M. Florescio III	CTC No. – 11984100	02.19.2018/Manila

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Book No. I  
Series of 2018

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

Atty. JOANNE KAREN S. TATEL  
Appointment No. M-289  
Notary Public until 31 December 2018  
14/F BDO North Tower, BDO Corporate Center  
7899 Makati Avenue, Makati City  
Roll No. 49198  
IBP No. 022872, 03 January 2018, RSM  
PTR No. 6619590, 05 January 2018, Makati City  
MCLE Compliance No. V-0013001, 12/08/2015

# 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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

### ***Basis for Opinion***

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the BDO Unibank Group and of the Parent Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **I. Key Audit Matters Applicable to the BDO Unibank Group and the Parent Bank Financial Statements**

#### **(a) Proper Valuation of Loans and Other Receivables**

##### *Description of the Matter*

As of December 31, 2017, the BDO Unibank Group and the Parent Bank had loans and other receivables amounting to P1,791,786 million and P1,730,732 million, respectively, net of allowance for impairment of P33,057 million and P30,767 million, respectively. Loans and other receivables are the most significant resources of the BDO Unibank Group and the Parent Bank which account for 67% and 69% of the BDO Unibank Group's and the Parent Bank's total resources, respectively.

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

The BDO Unibank Group's and the Parent Bank's gross loan portfolio is composed of different loan products that require different approach in the assessment of allowance by management. Corporate and commercial loans are individually assessed for impairment. For those individually assessed loans where objective evidence of impairment exists, an impairment loss is recognized for the amount of difference between the carrying amount of the loan and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate. For those individually assessed loans where objective evidence of impairment does not exist, the BDO Unibank Group and the Parent Bank include them for collective assessment of impairment. Collective impairment assessment involves grouping of financial assets with similar credit risk characteristics which are collectively evaluated for impairment on the basis of their contractual cash flows and historical loss experiences.

On the other hand, loan portfolio comprising of loans with smaller loan values and spread to great number of borrowers, such as small business loans and consumer loans, are not monitored individually but are grouped by product and are collectively evaluated for impairment. Impairment loss is recognized for the amount computed using the loan impairment factor (LIF) model. Under LIF model, for each loan product, loans are grouped based on their delinquency bucket (based on aging) and an equivalent LIF for each bucket is applied to compute for the amount of impairment loss. LIF pertains to the historical loss experience of each delinquency bucket for each loan product, adjusted on the basis of the current observable data. LIF and delinquency bucket are different for each loan product.

If specific loans, which are collectively assessed for impairment, require a higher amount of allowance for credit losses based on individual credit judgment, the higher amount of allowance will be recognized for those accounts.

The disclosures of the BDO Unibank Group and the Parent Bank on the allowance for impairment of loans 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 were considered to be a significant risk, included:

- testing of controls, as assisted by our own Information Technology specialists, over the approval, recording and monitoring of loans and other receivables, loan classification based on credit ratings, and the calculating and recording of the allowance for impairment;
- obtaining an understanding of the BDO Unibank Group's and the Parent Bank's credit policy and loan impairment process;
- checking and evaluating the methodologies, inputs and assumptions used by the BDO Unibank Group and the Parent Bank in performing both individual and collective impairment assessment in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts;
- on selected non-performing loan accounts, evaluating the management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery from other sources of collection;
- for loan accounts assessed individually, recomputing the recoverable amount determined by the BDO Unibank Group and the Parent Bank and comparing it against the carrying value as of December 31, 2017;
- evaluating the suitability of delinquency bucket used by the BDO Unibank Group and the Parent Bank by comparing the actual payment history and agreed payment schedule for selected loan accounts; and,
- assessing the reasonableness of each loan impairment factor using the historical and current data of the BDO Unibank Group and the Parent Bank.

### **(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 determined using the net present value computation. To the extent practicable, models use observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

As of December 31, 2017, the financial assets and financial liabilities of the BDO Unibank Group that are carried at fair value amounted to P134,097 million and P3,750 million, respectively, while that of the Parent Bank amounted to P74,309 million and P1,798 million, respectively.



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

*How the Matter was Addressed in the Audit*

Our audit procedures, included among others, the following:

- evaluating whether fair value prices used were appropriate by testing the inputs against reliable market sources, such as Philippine Dealing & Exchange Corp., Bloomberg and Philippine Stock Exchange;
- recomputing the fair values based on the inputs and compared with the market values used by the BDO Unibank Group and the Parent Bank;
- testing of controls over the valuation process of the BDO Unibank Group and the Parent Bank on financial instruments, particularly the measurement of derivative valuation adjustments; and,
- checking the formulas used in fair market valuation.

**II. Key Audit Matter Applicable to the BDO Unibank Group Financial Statements**

***Goodwill***

*Description of the Matter*

Under PFRS, BDO Unibank Group is required to annually test the amount of goodwill for impairment. This annual impairment test is significant to our audit because the management's process in assessing recoverability of goodwill is considered complex and involves critical management judgment. The net carrying amount of goodwill of the BDO Unibank Group amounted to P3,044 million as of December 31, 2017. The impairment testing made use of certain judgments, assumptions and estimates including the cash generating units (CGUs) where the goodwill is allocated such as that of One Network Bank (ONB), forecasted statement of financial position and net profit of those particular CGUs and discount rate used, which are affected by expected future market or economic conditions.

The BDO Unibank Group's disclosures about goodwill are included in Notes 4 and 13.

*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 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. In addition, our audit of the financial statements of ONB as of and for the year ended December 31, 2017 did not identify events or conditions that may cast significant doubt on ONB's ability to continue as a going concern.

## ***Other Information***

Management is responsible for the other information. The other information comprises the information included in the BDO Unibank Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, both of which, do not include the financial statements and our auditors' report thereon and, Annual Report for the year ended December 31, 2017. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BDO Unibank Group's and the Parent Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BDO Unibank Group's and the Parent Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the BDO Unibank Group and the Parent Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the BDO Unibank Group and the Parent Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 29 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 and RR No. 19-2011 require the supplementary information to be presented in the notes to the financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under Securities Regulation Code Rule 68, as amended, of the SEC.

The engagement partner on the audit 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. 6616006, January 3, 2018, Makati City  
SEC Group A Accreditation  
Partner - No. 0007-AR-4 (until April 30, 2018)  
Firm - No. 0002-FR-4 (until April 30, 2018)  
BIR AN 08-002511-7-2017 (until June 19, 2020)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until December 31, 2018)

February 24, 2018

# Statements of Financial Position

## BDO UNIBANK, INC. AND SUBSIDIARIES

DECEMBER 31, 2017 AND 2016  
(With Comparative Figures as of January 1, 2016)  
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group			Parent Bank		
		December 31, 2017	December 31, 2016 (As Restated - see Note 2)	January 1, 2016 (As Restated - see Note 2)	December 31, 2017	December 31, 2016 (As Restated - see Note 2)	January 1, 2016 (As Restated - see Note 2)
<b>RESOURCES</b>							
CASH AND OTHER CASH ITEMS	7	P 45,006	P 40,909	P 42,729	P 43,882	P 39,813	P 41,767
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	353,308	318,002	271,808	340,596	304,285	260,841
DUE FROM OTHER BANKS	8	51,479	41,794	24,837	41,088	33,463	20,944
TRADING AND INVESTMENT SECURITIES	9	332,927	269,042	225,759	258,214	207,886	196,500
LOANS AND OTHER RECEIVABLES - Net	10	1,791,786	1,573,965	1,382,752	1,730,732	1,511,981	1,323,311
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	29,346	26,912	24,995	24,917	22,430	21,152
INVESTMENT PROPERTIES - Net	12	18,040	15,188	14,633	14,496	11,784	11,403
OTHER RESOURCES - Net	13	46,212	39,187	43,846	70,700	58,078	62,760
<b>TOTAL RESOURCES</b>		<b>P 2,668,104</b>	<b>P 2,324,999</b>	<b>P 2,031,359</b>	<b>P 2,524,625</b>	<b>P 2,189,720</b>	<b>P 1,938,678</b>
<b>LIABILITIES AND EQUITY</b>							
DEPOSIT LIABILITIES	15	P 2,121,012	P 1,905,204	P 1,663,853	P 2,045,321	P 1,833,013	P 1,603,047
BILLS PAYABLE	16	130,484	100,556	97,543	105,623	75,800	76,867
SUBORDINATED NOTES PAYABLE	17	10,030	10,030	10,030	10,030	10,030	10,030
INSURANCE CONTRACT LIABILITIES	18	25,986	20,565	-	-	-	-
OTHER LIABILITIES	19	82,252	71,085	60,215	65,990	55,320	49,371
Total Liabilities		2,369,764	2,107,440	1,831,641	2,226,964	1,974,163	1,739,315
<b>EQUITY</b>	20						
Attributable to:							
Shareholders of the Parent Bank		297,488	216,816	199,095	297,661	215,557	199,363
Non-controlling Interests		852	743	623	-	-	-
		298,340	217,559	199,718	297,661	215,557	199,363
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 2,668,104</b>	<b>P 2,324,999</b>	<b>P 2,031,359</b>	<b>P 2,524,625</b>	<b>P 2,189,720</b>	<b>P 1,938,678</b>

See Notes to Financial Statements.

# Statements of Income

## BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015  
(Amounts in Millions of Philippine Pesos Except Per Share Data)

	Notes	BDO Unibank Group			Parent Bank		
		2017	2016 (As Restated - see Note 2)	2015 (As Restated - see Note 2)	2017	2016 (As Restated - see Note 2)	2015 (As Restated - see Note 2)
<b>INTEREST INCOME</b>	21	<b>P 99,795</b>	P 82,037	P 72,127	<b>P 93,786</b>	P 76,647	P 68,519
<b>INTEREST EXPENSE</b>	22	<b>18,042</b>	16,413	15,166	<b>16,434</b>	14,989	14,238
<b>NET INTEREST INCOME</b>		<b>81,753</b>	65,624	56,961	<b>77,352</b>	61,658	54,281
<b>IMPAIRMENT LOSSES - Net</b>	9, 13, 14	<b>6,537</b>	3,815	3,000	<b>5,809</b>	3,003	2,709
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES</b>		<b>75,216</b>	61,809	53,961	<b>71,543</b>	58,655	51,572
<b>OTHER OPERATING INCOME</b>	23	<b>47,206</b>	41,613	31,840	<b>33,633</b>	27,494	28,551
<b>OTHER OPERATING EXPENSES</b>	23	<b>84,865</b>	69,988	55,144	<b>68,929</b>	56,379	50,394
<b>PROFIT BEFORE PRE-ACQUISITION INCOME</b>		<b>37,557</b>	33,434	30,657	<b>36,247</b>	29,770	29,729
<b>PRE-ACQUISITION INCOME</b>	28	-	( 391 )	-	-	-	-
<b>PROFIT BEFORE TAX</b>		<b>37,557</b>	33,043	30,657	<b>36,247</b>	29,770	29,729
<b>TAX EXPENSE</b>	29	<b>9,452</b>	6,797	5,701	<b>8,241</b>	5,713	4,829
<b>NET PROFIT</b>		<b>P 28,105</b>	P 26,246	P 24,956	<b>P 28,006</b>	P 24,057	P 24,900
Attributable to:							
Shareholders of the Parent Bank		<b>P 28,070</b>	P 26,234	P 24,917			
Non-controlling Interests		<b>35</b>	12	39			
		<b>P 28,105</b>	P 26,246	P 24,956			
<b>Earnings Per Share:</b>	30						
Basic		<b>P 6.42</b>	P 6.81	P 6.52	<b>P 6.40</b>	P 6.23	P 6.52
Diluted		<b>P 6.42</b>	P 6.81	P 6.52	<b>P 6.40</b>	P 6.23	P 6.52

See Notes to Financial Statements.

# Statements of Comprehensive Income

## BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015  
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group		Parent Bank	
	Notes	2017	2016 (As Restated - see Note 2)	2017	2016 (As Restated - see Note 2)
<b>NET PROFIT</b>		<b>P 28,105</b>	<b>P 26,246</b>	<b>P 28,006</b>	<b>P 24,900</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
<b>Items that are or will be reclassified subsequently to profit or loss:</b>					
Unrealized gains (losses) on available-for-sale (AFS) securities, net of tax	9	622	( 943 )	255	( 899 )
Transfer of realized gains on disposed AFS securities to statements of income, net of tax	9	( 1,474 )	( 2,959 )	( 58 )	( 2,355 )
Transfer of realized losses on impaired AFS securities to statements of income, net of tax	9	139	346	-	-
Transfer of amortized unrealized fair value losses on reclassified AFS securities to held-to-maturity investments to statements of income	9	621	275	288	292
Net gains (losses) on AFS securities, net of tax		( 92 )	( 3,281 )	485	( 1,164 )
Translation adjustment related to foreign operations		8	78	14	2
		( 100 )	( 3,203 )	471	( 1,162 )
<b>Items that will not be reclassified to profit or loss:</b>					
Actuarial losses on remeasurement of retirement benefit obligation, net of tax	24	( 2,550 )	( 645 )	( 2,445 )	( 516 )
Remeasurement on life insurance reserves	2	785	( 324 )	-	-
Reversal of revaluation increment		-	-	-	-
		( 1,765 )	( 969 )	( 2,445 )	( 516 )
<b>Share in other comprehensive income (loss) of subsidiaries and associates accounted for under equity method</b>	13	( 3 )	1	1,702	( 2,413 )
<b>Other Comprehensive Loss, net of tax</b>		<b>( 1,868 )</b>	<b>( 4,171 )</b>	<b>( 272 )</b>	<b>( 4,091 )</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 26,237</b>	<b>P 22,075</b>	<b>P 27,734</b>	<b>P 19,966</b>
Attributable to:					
Shareholders of the Parent Bank		P 26,226	P 22,016	P 21,218	P 21,218
Non-controlling Interests		11	59	46	46
		<b>P 26,237</b>	<b>P 22,075</b>	<b>P 21,264</b>	<b>P 21,264</b>

See Notes to Financial Statements.

# Statements of Changes in Equity

**BDO UNIBANK, INC. AND SUBSIDIARIES**

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015  
(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 Unavailable Fair Value Gains (Losses) on Available-for-Sale Securities	Accumulated Actual Losses	Revaluation Adjustment	Remuneration on Life Insurance Receives	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, 2017																							
As previously stated	P	36,500	P	70,127	P	2,272	P	12	P	192,216	(P)	3,019	(P)	4,259	P	1,008	P	2,743	P	217,538			
Effect of restatement																							
As restated	P	36,500	P	70,127	P	2,272	P	12	P	192,216	(P)	3,019	(P)	4,259	P	1,008	P	2,743	P	217,538			
Transfers with owners																							
Issuance of shares during the year		7,164		52,652		-															59,816		
Redemption of preferred stocks		(26)		(177)		-															(203)		
Cash dividends		(7,200)		(52,809)		(5,582)															(63,673)		
Total comprehensive income (loss)		-		-		-															9,925		
Transfer from Surplus Free		-		-		126															126		
Appropriations during the year	20	-		-		(20)															(20)		
Transfer reserve	20, 26	-		-		(382)															(382)		
Other adjustments		-		-		-															-		
Change in ownership interest in subsidiaries	20, 28	-		-		-															147		
BALANCE AT DECEMBER 31, 2017	P	43,660	P	122,966	P	3,354	P	12	P	113,529	(P)	3,019	(P)	6,863	P	1,008	P	2,743	P	297,488	P	294,940	
BALANCE AT JANUARY 1, 2016																							
Effect of restatement	P	36,453	P	60,056	P	2,696	P	12	P	88,118	(P)	6,221	(P)	3,014	P	1,008	P	-			601	(P)	87
As restated	P	36,453	P	60,056	P	2,696	P	12	P	88,118	(P)	6,221	(P)	3,014	P	1,008	P	-			601	(P)	87
Transfers with owners																							
Issuance of shares during the year		47		191		-																	238
Redemption of preferred stocks		(47)		(191)		(4,716)																	(4,763)
Total comprehensive income (loss)		-		-		-																	28
Transfer from Surplus Free		-		-		36																	36
Appropriations during the year	20	-		-		(20)																(20)	
Transfer reserve	20, 26	-		-		(276)																(276)	
Other adjustments		-		-		-																-	
Effect of restatement on a subsidiary	2	-		-		-																	1297
Effect of restatement on a subsidiary	20, 28	-		-		-																	(1,899)
Consolidation of a new subsidiary		-		-		-																	84
BALANCE AT DECEMBER 31, 2016	P	36,500	P	70,127	P	2,272	P	12	P	111,423	(P)	3,019	(P)	4,259	P	1,008	P	2,743	P	212,148	P	212,148	
BALANCE AT JANUARY 1, 2015																							
Effect of restatement	P	35,898	P	63,998	P	3,454	P	12	P	70,242	(P)	2,700	(P)	3,467	P	1,027	P	-			761	(P)	269
As restated	P	35,898	P	63,998	P	3,454	P	12	P	70,242	(P)	2,700	(P)	3,467	P	1,027	P	-			761	(P)	269
Transfers with owners																							
Issuance of shares during the year		645		6,028		-																	6,673
Redemption of preferred stocks		(645)		(6,028)		(7,208)																	(7,208)
Cash dividends		(645)		(6,028)		-																	(6,673)
Total comprehensive income (loss)		-		-		-																	14
Transfer from Surplus Free		-		-		27																	27
Appropriations during the year	20	-		-		(1,000)																	(1,000)
Reversal of appropriations during the year	20, 26	-		-		(21)																	(21)
Transfer reserve		-		-		(738)																	(738)
BALANCE AT DECEMBER 31, 2015	P	36,453	P	60,056	P	2,696	P	12	P	88,884	(P)	6,221	(P)	3,014	P	1,008	P	-			601	(P)	87

See Notes to Financial Statements.



# Statements of Changes in Equity

**BDO UNIBANK, INC. AND SUBSIDIARIES**

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015  
(Amounts in Millions of Philippine Pesos)

Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Accumulated Gains (Losses) on Available-for-Sale Securities	Accumulated Actual Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity										
<b>BALANCE AT JANUARY 1, 2017</b>																					
As previously stated	P	36,500	P	70,108	P	22,38	P	107,794	(P)	1,688	(P)	4,007	P	1,005	P	12	(P)	2,184	P	214,028	
Effect of restatement																					629
As restated		36,500		70,108		22,38		107,794		1,688		4,007		1,005		12		2,184		214,657	
Transaction with owners		7,164		52,662																	59,826
Stock split issuance		26		177																	203
Issuance of shares during the year																					3,025
Cash dividends		7,109		52,839																	54,447
Total comprehensive income (loss)																					27,234
Transfer from Surplus Free Reserve during the year	20, 20, 26					96															
Trust reserve						190															
Other adjustments						286															
Change in ownership interest in subsidiaries	28																				
<b>BALANCE AT DECEMBER 31, 2017</b>		<b>43,660</b>		<b>123,947</b>		<b>2,524</b>		<b>132,625</b>		<b>1,203</b>		<b>6,452</b>		<b>1,005</b>		<b>2</b>		<b>2,623</b>		<b>297,663</b>	
<b>BALANCE AT JANUARY 1, 2016</b>																					
As previously stated	P	36,653	P	69,917	P	20,28	P	88,894	(P)	524	(P)	3,491	P	1,005	P	10	(P)	80	P	199,263	
Effect of restatement																					100
As restated		36,653		69,917		20,28		88,894		524		3,491		1,005		10		80		199,363	
Transaction with owners	20	47		191																	238
Issuance of shares during the year																					4,216
Cash dividends		47		191																	4,028
Total comprehensive income (loss)																					19,866
Transfer from Surplus Free Reserve during the year	20, 20, 26					28															
Trust reserve						182															
Other adjustments						210															
Effect of restatement on a subsidiary previously classified as an associate	2																				
<b>BALANCE AT DECEMBER 31, 2016</b>		<b>36,900</b>		<b>70,108</b>		<b>22,28</b>		<b>110,564</b>		<b>1,688</b>		<b>4,007</b>		<b>1,005</b>		<b>12</b>		<b>4,323</b>		<b>215,557</b>	
<b>BALANCE AT JANUARY 1, 2015</b>																					
As previously stated	P	35,808	P	63,889	P	18,32	P	71,044	P	2,411	(P)	3,305	P	1,024	P	2	P	325	P	179,040	
Effect of restatement																					65
As restated		35,808		63,889		18,32		71,044		2,411		3,305		1,024		2		325		179,040	
Transaction with owners	20, 26	645		6,028																	6,673
Issuance of shares during the year																					7,898
Cash dividends		645		6,028																	12,223
Total comprehensive income (loss)																					21,685
Transfer from Surplus Free Reserve during the year	20, 26					25															
Trust reserve						171															
Other adjustments						196															
<b>BALANCE AT DECEMBER 31, 2015</b>		<b>36,453</b>		<b>69,917</b>		<b>20,28</b>		<b>89,533</b>		<b>524</b>		<b>3,491</b>		<b>1,005</b>		<b>10</b>		<b>4,323</b>		<b>199,363</b>	

See Notes to Financial Statements.

# Statements of Cash Flows

**BDO UNIBANK, INC. AND SUBSIDIARIES**

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015  
(Amounts in Millions of Philippine Pesos)

Notes	BDO Unibank Group			Parent Bank		
	2016			2016		
	2017	(As Restated - see Note 2)	2015 (As Restated - see Note 2)	2017	(As Restated - see Note 2)	2015 (As Restated - see Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
	P	P	P	P	P	P
Profit before tax	37,557	33,043	30,657	36,247	29,770	29,729
Adjustments for:						
Interest income	(99,795)	(82,037)	(72,127)	(93,786)	(76,647)	(68,519)
Interest received	97,862	80,887	71,124	91,455	75,720	67,778
Interest expense	18,042	16,413	15,166	16,434	14,989	14,238
Impairment losses	(17,650)	(12,488)	(10,577)	(16,085)	(11,117)	(9,730)
Depreciation and amortization	5,337	3,815	3,000	5,809	3,403	2,709
Share in net profit of subsidiaries and associates	5,172	4,782	3,961	3,958	3,668	3,085
Fair value losses (gains)	(199)	(481)	(837)	(4,312)	(3,657)	(2,182)
	(199)	(96)	(121)	(67)	(45)	(167)
Income from acquisition of a subsidiary	-	(2,214)	-	-	-	-
Operating profit before changes in operating resources and liabilities	46,914	41,624	40,246	39,653	35,774	36,941
Decrease (increase) in financial assets at fair value through profit or loss	(1,048)	1,988	(4,714)	(32)	1,076	66
Increase in loans and other receivables	(259,476)	(226,766)	(176,101)	(255,626)	(219,711)	(219,307)
Decrease (increase) in investment properties	(3,573)	(794)	1,072	(3,389)	(624)	(981)
Decrease (increase) in other resources	(17,395)	(3,612)	(9,397)	(16,848)	(2,722)	(5,447)
Increase in deposit liabilities	215,758	241,312	171,671	212,278	229,972	139,112
Increase in insurance contract liabilities	6,206	2,486	-	-	-	-
Increase (decrease) in other liabilities	18,631	13,005	(18,308)	17,244	(10,423)	(13,863)
Cash generated from (used in) operations	6,017	69,245	4,469	6,720	59,632	63,479
Cash paid for income tax	(8,836)	(6,528)	(4,091)	(7,552)	(5,342)	(3,211)
Net Cash From (Used in) Operating Activities	2,819	62,715	379	14,272	54,290	66,690
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Acquisitions of held-to-maturity (HTM) investments	(83,061)	(49,939)	-	(74,111)	(48,139)	-
Acquisitions of available-for-sale securities	(59,161)	(77,520)	(455,010)	(26,052)	(40,953)	(437,205)
Proceeds from disposals of available-for-sale securities (AFS)	46,033	92,532	449,636	17,816	63,539	493,842
Maturities of HTM investments	34,003	13,194	-	33,013	12,832	-
Acquisitions of premises, furniture, fixtures and equipment	(6,158)	(5,537)	(6,963)	(4,989)	(3,811)	(4,439)
Proceeds from disposals of premises, furniture, fixtures and equipment	113	144	126	17	30	73
Acquisition of a subsidiary	-	(2,298)	-	-	(2,298)	-
Net Cash From (Used in) Investing Activities	(67,731)	(29,424)	(10,211)	(54,306)	(18,800)	(52,271)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Net proceeds from issuance of stock rights	59,826	-	-	59,826	-	-
Proceeds from bills payable	342,828	246,547	307,172	172,575	93,177	170,596
Payments of bills payable	(313,242)	(247,421)	(314,679)	(143,071)	(98,122)	(183,460)
Dividends paid	(5,632)	(4,766)	(7,941)	(5,582)	(4,716)	(7,898)
Proceeds from issuance of common stock	203	238	-	203	238	-
Net Cash From (Used in) Financing Activities	83,983	(5,401)	(15,448)	83,951	(9,423)	(20,762)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Carried Forward)	P 13,433	P 27,890	P 25,280	P 15,373	P 26,067	P 35,181

See Notes to Financial Statements.

# Statements of Cash Flows

## BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015  
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group		Parent Bank	
		2017	2016	2017	2016
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Brought Forward)</b>		<b>P 13,433</b>	<b>P 27,890</b>	<b>P 15,373</b>	<b>P 26,067</b>
<b>CASH AND CASH EQUIVALENTS ACQUIRED FROM NEW SUBSIDIARY</b>	28	-	851	-	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			3,294		
Cash and other cash items	7	40,909	42,729	39,813	41,767
Due from Bangko Sentral ng Pilipinas	7	318,002	271,808	304,285	260,841
Due from other banks	8	41,794	24,837	33,463	20,944
HTM securities	9	894	-	894	-
Securities purchased under reverse repurchase agreement (SPURRA)	10	14,302	69,490	7,891	58,431
Interbank loans receivables	10	72,749	51,139	72,749	51,139
Foreign currency notes and coins (FCNC)	13	3,338	3,244	3,337	3,243
		<b>491,988</b>	<b>463,247</b>	<b>462,432</b>	<b>436,365</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			485,233		471,546
Cash and other cash items	7	45,006	40,909	43,882	39,813
Due from Bangko Sentral ng Pilipinas	7	353,308	318,002	340,596	304,285
Due from other banks	8	51,479	41,794	41,088	33,463
HTM securities	9	2,097	894	2,097	894
SPURRA	10	18,260	14,302	14,872	7,891
Interbank loans receivables	10	31,576	72,749	31,576	72,749
FCNC	13	3,695	3,338	3,694	3,337
		<b>P 505,421</b>	<b>P 491,988</b>	<b>P 477,805</b>	<b>P 462,432</b>
			463,247		436,365

### Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

- In 2016, after the end of the two-year tainting period, the BDO Unibank Group and the Parent Bank reclassified AFS securities with a carrying value at the reclassification date of P107,502 and P103,014, respectively, and unrealized fair value losses of P2,181 and P2,269, respectively, to HTM investments. Of the reclassified unrealized fair value losses, a total of P621 and P288 in 2017, and P275 and P292 in 2016 were amortized by BDO Unibank Group and the Parent Bank, respectively, resulting in unamortized fair value losses of P1,746 and P1,690 as of December 31, 2017, and P1,906 and P1,977, as of December 31, 2016, respectively (see Note 9).
- On June 30, 2016, the BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life Assurance Holdings Corp. (BDO Life) from the General Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. As of the date of acquisition, the fair value of previously-held interest of the Parent Bank, total resources and total liabilities of BDO Life amounted to P2,549, P27,454 and P21,083, respectively. The transaction resulted in the recognition in 2016 of gain on fair valuation of previously-held interest and gain on bargain purchase or negative goodwill amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214 (see Note 28).
- On July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of One Network Bank, Inc. (ONB) in exchange for 64,499,890 common shares of the Parent Bank equivalent to P6,685. The acquisition resulted to recognition of additional paid-in capital amounting to P6,028. Goodwill amounted to P2,903 and non-controlling share in equity totaled P14 at the date the Parent Bank's control was established. As of the date of acquisition, total resources and total liabilities of ONB amounted to P28,196 and P24,398, respectively. In 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. Total additional goodwill recognized in 2016 amounted to P4 (see Note 28).
- The BDO Unibank Group and the Parent Bank foreclosed real and other properties totalling to P11,975 and P11,784, respectively, in 2017, P10,342 and P10,074, respectively, in 2016, P10,135 and P9,840, respectively, in 2015, in settlement of certain loan accounts (see Note 12).

### Other Information

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

See Notes to Financial Statements.

# Notes to Financial Statements

## BDO UNIBANK, INC. AND SUBSIDIARIES

DECEMBER 31, 2017, 2016 AND 2015

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

### 1. CORPORATE MATTERS

#### *1.1 Incorporation and Operations*

BDO Unibank, Inc. (BDO Unibank, BDO or the Parent Bank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Philippine Securities and Exchange Commission (SEC) granted the Parent Bank extension of its corporate term for another 50 years from December 20, 2017 to until December 20, 2067. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private, insurance and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, life insurance and insurance brokerage, credit card services, stock brokerage, trust and others.

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

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2017, BDO Unibank Group had 1,180 branches (including one foreign branch), 2,152 on-site and 1,870 off-site automated teller machines (ATMs) and 428 cash accept machines (CAMs). As of December 31, 2017, the Parent Bank had 1,053 branches (including one foreign branch), 1,979 on-site and 1,809 off-site ATMs and 428 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 a banking branch in Hong Kong, a real estate and holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and the United States. These foreign operations accounted for 1.2%, 1.1% and 1.1% of BDO Unibank Group's total revenues in 2017, 2016 and 2015, respectively, and 1.4% and 1.2% of BDO Unibank Group's total resources as of December 31, 2017 and 2016, respectively. BDO Unibank Group's subsidiaries and associates are shown in Note 13.1.

## **1.2 Approval of Financial Statements**

The financial statements of the BDO Unibank Group and the Parent Bank as of and for the year ended December 31, 2017 (including the comparative financial statements as of December 31, 2016 and for the years ended December 31, 2016 and 2015, and the corresponding figures as of January 1, 2016) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 24, 2018.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. 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, and approved by the Philippine Board of Accountancy.

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

#### *(b) Presentation of Financial Statements*

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

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

In 2017, the BDO Unibank Group and the Parent Bank made adjustments to its financial statements as of and for the year ended December 31, 2016, and the corresponding figures as of January 1, 2016 as a result of the change in valuation of life insurance reserves of BDO Life Assurance Company, Inc. (BDO Life), from net premium valuation to gross premium valuation as mandated by the Insurance Commission (IC) through its Circular Letter No. 2016-66, *Valuation Standards for Life Insurance Policy Reserves*, effective January 1, 2017. In addition, the Parent Bank restated its equity investments in BDO Life and BDO Nomura Securities, Inc. (BDO Nomura) as the result of the adoption of PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statement* in 2016.

The effects of these restatements in the financial statements as of and for the year ended December 31, 2016, and the corresponding figures as of January 1, 2016 are summarized below and in the succeeding pages:

**BDO Unibank Group**

	<u>As Previously Reported</u>	<u>Effects of Restatement</u>	<u>As Restated</u>
<u>December 31, 2016</u>			
<i>Changes in statement of financial position</i>			
Resources –			
Loans and other receivables	P 1,573,924	<u>P 41</u>	P 1,573,965
Liabilities –			
Insurance contract liabilities	20,548	17	20,565
Equity:			
Surplus free	109,216	2,207	111,423
Remeasurement on life insurance reserves	-	( <u>2,183</u> )	( 2,183 )
		<u>P 41</u>	
<i>Changes in statement of income and other comprehensive income</i>			
Other operating income –			
Foreign exchange gains	P 2,985	( P 7 )	P 2,978
Other operating expense:			
Policy reserves, insurance benefits and claims	5,901	( 159 )	5,742
Fees and commissions	6,632	<u>8</u>	6,640
Net effect in profit or loss		144	
Other comprehensive loss –			
Remeasurement on life insurance reserves	-	( <u>324</u> )	( 324 )
		<u>( P 180 )</u>	
Earnings per share (EPS)			
Basic	P 7.06	( <u>P 0.25</u> )	P 6.81
Diluted	7.06	( <u>0.25</u> )	6.81
<u>January 1, 2016</u>			
<i>Changes in statement of financial position</i>			
Resources –			
Other resources –			
Equity investments - gross	P 5,741	<u>P 105</u>	P 5,846
Equity:			
Surplus free	88,118	766	88,884
Accumulated share in other comprehensive loss of associates	( 87 )	( <u>661</u> )	( 748 )
		<u>P 105</u>	

	<u>As Previously Reported</u>	<u>Effects of Restatement</u>	<u>As Restated</u>
<u>December 31, 2015</u>			
<i>Changes in statement of income and other comprehensive income</i>			
Other operating income – Miscellaneous income	P 2,884	(P 99)	P 2,785
Other comprehensive loss – Share in other comprehensive income of subsidiaries and associates	( 356)	<u>138</u>	( 218)
		<u>P 39</u>	
EPS			
Basic	P 6.84	(P <u>0.32</u> )	P 6.52
Diluted	6.84	( <u>0.32</u> )	6.52

January 1, 2015

<i>Changes in statement of financial position</i>			
Resources –			
Other resources – Equity investment - gross	P 5,891	<u>P 66</u>	P 5,957
Equity:			
Surplus free	70,242	865	71,107
Accumulated share in other comprehensive loss of associates	269	( <u>799</u> )	( 530)
		<u>P 66</u>	

**Parent Bank**

	<u>As Previously Reported</u>	<u>Effects of Restatement</u>	<u>As Restated</u>
<u>December 31, 2016</u>			
<i>Changes in statement of financial position</i>			
Resources –			
Other resources – Equity investments - gross	P 33,444	<u>P 629</u>	P 34,073
Equity:			
Surplus free	107,794	2,770	110,564
Accumulated share in other comprehensive loss of subsidiaries and associates	( 2,184)	( <u>2,141</u> )	( 4,325)
		<u>P 629</u>	
<i>Changes in statement of income and other comprehensive income</i>			
Other operating income – Share in net income of subsidiaries and associates	P 3,516	P 141	P 3,657
Other comprehensive loss – Share in other comprehensive loss of subsidiaries and associates	( 2,095)	( <u>318</u> )	( 2,413)
		( <u>P 177</u> )	
EPS			
Basic	P 6.47	(P <u>0.24</u> )	P 6.23
Diluted	6.47	( <u>0.24</u> )	6.23

		<u>As Previously Reported</u>	<u>Effects of Restatement</u>	<u>As Restated</u>
<u>January 1, 2016</u>				
<i>Changes in statement of financial position</i>				
Resources –				
Other resources –				
Equity investments - gross	P	32,292	<u>P 100</u>	P 32,392
Equity:				
Surplus free		88,804	729	89,533
Accumulated share in other comprehensive loss of subsidiaries and associates	(	89)	<u>( 629)</u>	( 718)
			<u>P 100</u>	

December 31, 2015

<i>Changes in statement of income and other comprehensive income</i>				
Other operating income –				
Share in net income of subsidiaries and associates	P	2,276	(P 94)	P 2,182
Other comprehensive loss –				
Share in other comprehensive income of subsidiaries and associates	(	414)	<u>131</u>	( 283)
			<u>P 37</u>	
EPS				
Basic	P	6.83	<u>(P 0.31)</u>	P 6.52
Diluted		6.83	<u>( 0.31)</u>	6.52

January 1, 2015

<i>Changes in statement of financial position</i>				
Resources –				
Other resources –				
Equity investments - gross	P	17,027	<u>P 63</u>	P 17,090
Equity:				
Surplus free		71,904	823	72,727
Accumulated share in other comprehensive loss of subsidiaries and associates		325	<u>( 760)</u>	( 435)
			<u>P 63</u>	

There were no significant changes in the BDO Unibank Group and the Parent Bank's statements of cash flows for the years ended December 31, 2016 and 2015 as a result of the restatement.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, BDO Unibank Group and the Parent Bank's functional and presentation currency, and all values are presented in millions, except for per share data or when otherwise indicated (see also Note 2.24).



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

## 2.2 Adoption of New and Amended PFRS

### (a) Effective in 2017 that are Relevant to BDO Unibank Group

BDO Unibank Group adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 12	:	Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale

Discussed below is the relevant information about these amendments.

- (i) PAS 7 (Amendments), *Statements of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity’s debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Management has applied these amendments in the current year and has not disclosed comparative figures as allowed by the transitional provisions. A reconciliation between the opening and closing balances of liabilities arising from financing activities, which includes both cash and non-cash changes are presented in Note 16.3.

- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has no significant impact on BDO Unibank Group's financial statements.
- (iii) Annual improvements to PFRS (2014-2016 Cycle) PFRS 12, *Disclosure of Interests in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale*. The amendment clarifies that the disclosure requirements of PFRS 12 applies to interest in other entities classified as held for sale with practical concession in the presentation of summarized financial information. The amendment states that an entity need not present summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale. The amendment did not result in additional or changes in the disclosures in the Group's financial statements as the Group has no interest in other entities classified as held for sale.

(b) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions:

- (i) PAS 40 (Amendment), *Investment Property – Reclassification to and from Investment Property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. Management has assessed that this amendment has no significant impact on BDO Unibank Group's financial statements.
- (ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Classification and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements, which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The standard also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment and comprehensive study of BDO Unibank Group's financial assets and financial liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined the impact of PFRS 9 (2014) on the financial statements as follows:

- BDO Unibank Group's financial assets at FVTPL are composed of listed equity securities that will not qualify under the SPPI test (see Note 9.1). These financial assets will continue to be measured at fair value, with mark-to-market fluctuations directly recognized in profit or loss, upon application of PFRS 9 (2014).
- Loans and other receivables are composed of receivables from customers and other receivables, which are held to collect contractual cash flows representing SPPI (see Note 10). These financial assets will continue to be measured at amortized cost upon application of PFRS 9 (2014).

- Equity securities classified as available-for-sale (AFS) financial assets are composed of listed equity securities, unquoted equity securities, and golf club shares (see Note 9.2). In applying PFRS 9 (2014), BDO Unibank Group shall make an irrevocable designation whether these equity securities shall be classified as financial assets at FVTPL or at fair value through other comprehensive income (FVTOCI). BDO Unibank Group initially assessed that these equity securities shall be designated, on date of initial application, as financial assets at FVTOCI. Thus, these instruments will continue to be measured at fair value, with mark-to-market fluctuations and realized gain (loss) on sale directly recognized in other comprehensive income (OCI).
- Government and other debt securities classified as AFS securities are composed of local and foreign currencies denominated bonds (see Note 9.2). BDO Unibank Group assessed that these bonds qualify under the SPPI test and the held-to-collect and sell business model. Thus, these bonds will continue to be measured at fair value, with mark-to-market fluctuations recognized in OCI subject to recycling upon disposal of the securities.
- Held-to-maturity (HTM) investments are primarily composed of government and private debt securities bearing fixed interest rates and defined maturity dates (see Note 9.3). BDO Unibank Group initially assessed that the contractual cash flows of government and private debt securities classified in this portfolio qualify under the SPPI test, and these instruments qualify under the held-to-collect (HTC) contractual cash flows business model. Thus, upon application of PFRS 9 (2014), these financial assets will continue to be measured at amortized cost.
- Most of the financial liabilities of BDO Unibank Group are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for most of the financial liabilities will be retained.
- In applying the ECL methodology of PFRS 9 (2014), BDO Unibank Group assessed to use the general approach for loan and other receivables, wherein ECL is recognized in one of two measurement bases (12 month ECL or life time ECL). On the other hand, ECL on government and other debt securities classified as AFS financial assets and HTM investments shall be measured using 12-month ECL as these financial assets are assessed to have low credit risk, considering their respective credit ratings. Management has assessed that the application of the ECL model will cause an increase in impairment losses as compared with PAS 39.

- (iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor’s financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combination*, 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 that 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. Management has initially assessed that these amendments have no material impact on the financial statements of BDO Unibank Group.
- (iv) PFRS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in this standard for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management has initially assessed that this new standard has no material impact on BDO Unibank Group’s financial statements.
- (v) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this interpretation has no material impact on BDO Unibank Group’s financial statements.
- (vi) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value* (effective from January 1, 2018) is relevant to BDO Unibank Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. Management has initially assessed that this amendment has no material impact on the BDO Unibank Group’s financial statements.

- (vii) PAS 28 (Amendments), *Investments in Associates – Long-term Interests in Associates and Joint Ventures* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 (2014) 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 (2014), which shall also include long term interests that, in substance, form part of the entity’s net investment in an associate or joint venture. Management is currently assessing the impact of these new amendments in its financial statements.
- (viii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this new standard in its financial statements.
- (ix) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right of use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similarly to a purchased asset and is subject to depreciation or amortization. The lease liability is accounted for similarly to a financial liability, which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in the financial statements.



- (x) IFRIC 23, *Uncertainty Over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires BDO Unibank Group 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, BDO Unibank Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation in its financial statements.
- (xi) Annual Improvements to PFRS 2015 - 2017 Cycle. Among the improvements, the following amendments are relevant to BDO Unibank Group but had no material impact on its financial statements as these amendments merely clarify existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
  - PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

### **2.3 Basis of Consolidation**

The BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Company, and its subsidiaries as enumerated in Note 13.1, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the BDO Unibank Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

The Parent Bank accounts for its investments in subsidiaries 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 2.12). 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.

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 2.12).

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) *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		
	2017	2016	2015
Rural Bank			
One Network Bank, Inc. (A Rural Bank of BDO) (ONB)	99.79%	99.76%	99.63%
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	99.88%	99.88%	100%
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%	100%
BDO Rental, Inc. (BDO Rental)	88.54%	88.54%	88.54%
Securities Companies			
BDO Securities Corporation (BDO Securities)	99.88%	99.88%	100%
BDO Nomura [previously PCIB Securities, Inc. (PCIB Securities)]	51%	51%	100%
Armstrong Securities, Inc. (ASI)	80%	80%	80%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	100%	100%	100%
BDORO Europe Ltd. (BDORO)	100%	100%	100%
Equimark-NFC Development Corporation (Equimark)	60%	60%	60%

Subsidiaries	Percentage of Ownership		
	2017	2016	2015
Insurance Companies			
BDO Life [previously Generali Pilipinas Life Assurance Company, Inc. (GPLAC)]	100%	100%	40%
BDO Insurance Brokers, Inc. (BDOI)	100%	100%	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	-	100%	100%
BDO Life Assurance Holdings Corp. (BDO Life Holdings) [previously Generali Pilipinas Holdings Company, Inc. (GPHCI)]	-	100%	40%
Remittance Companies			
BDO Remit (USA), Inc.	100%	100%	100%
Express Padala (Hongkong), Ltd.	100%	100%	100%
BDO Remit (Italia) S.p.A	100%	100%	100%
BDO Remit (Japan) Ltd.	100%	100%	100%
BDO Remit (Canada) Ltd.	100%	100%	100%
BDO Remit Limited	100%	100%	100%
BDO Remit (Macau) Ltd.	100%	100%	100%
BDO Remit International Holdings B.V. (BDO RIH) [previously CBN Grupo International Holdings B.V. (CBN Grupo)]	96.32%	96.32%	60%
PCIB Europe S.p.A.	100%	100%	100%
Express Padala Frankfurt GmbH (EPFG)	-	-	100%
Thrift Bank			
BDO Elite Savings Bank, Inc. (BDO Elite)	-	-	98.82%
Banco De Oro Savings Bank, Inc. (BDO Savings formerly Citibank Savings, Inc., or CSI)	-	-	99.99%
Others			
PCI Realty Corporation	100%	100%	100%

Non-controlling interests in 2017 and 2016 represent the interests not held by BDO Unibank Group in ONB, BDO Capital, BDO Leasing, Averon, BDO Rental, BDO Securities, BDO Nomura, ASI, Equimark and BDO RIH.

On March 21, 2016, EPFG has been dissolved from the Commercial Register in Frankfurt, Germany after the liquidation proceedings were completed (see Note 13.1).

In July 2016, BDO Capital, BDO Elite and BDO Savings consummated a three-way merger transaction with BDO Capital as the surviving entity (see Note 28.3).

On September 4, 2017, a downstream merger occurred between BDO Life and BDO Life Holdings resulting in the dissolution of the latter (see Note 28.4).

## 2.4 Segment Reporting

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

In identifying its operating segments, management generally follows BDO Unibank Group's products and services as disclosed in Note 5, which represent the main products and services provided by BDO Unibank Group.

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

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

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

There have been significant changes in 2016 from prior period in the measurement methods used to determine reported segment information (see Note 5).

## **2.5 Financial Assets**

Financial assets are recognized when BDO Unibank Group becomes a party to contractual terms of the financial 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.

### *(a) Classification and Measurement of Financial Assets*

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Except for derivative financial instruments and financial assets designated at FVTPL, the designation of financial assets is re-evaluated at the end of each reporting period and at which date, a choice of classification or accounting treatment is available, which is subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the four categories of financial assets is as follows:

#### *(i) Financial Assets at FVTPL*

This category includes derivative financial instruments and financial assets that are either classified as held for trading (HFT) or that meet certain conditions and are designated by BDO Unibank Group to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as HFT unless they are designated and effective as hedging instrument. Financial assets at FVTPL include derivatives, quoted equity securities, government bonds and other debt securities.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

*(ii) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the BDO Unibank Group provides money, goods or services directly to the debtor with no intention of trading the receivables.

BDO Unibank Group's financial assets categorized as loans and receivables are presented as Cash and cash equivalents, Loans and Other Receivables and certain accounts under Other Resources in the statement of financial position. Cash and cash equivalents consist of cash and other cash items, due from BSP and amounts due from other banks. Loans and other receivables also include receivables from customers and other receivables. Loans and other receivables also includes the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, foreign currency notes and coins (FCNC), securities purchased under reverse repurchase agreement (SPURRA), certain interbank bank loans receivables and HTM securities with original maturities of three months or less from placement date.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in the value of loans and receivables is recognized in profit or loss, except for reclassified financial assets under PAS 39 and PFRS 7, *Financial Instruments: Disclosures*. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. SPURRA, wherein BDO Unibank Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP, are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight-line method.

*(iii) HTM Investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that BDO Unibank Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included under this category.

HTM investments consists of government and other debt securities. If BDO Unibank Group were to sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The tainting provision will not apply if the sales or reclassifications of HTM investments: (i) are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; (ii) occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, (iii) are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group. Upon tainting, BDO Unibank Group shall not classify any financial assets as HTM investments for the next two reporting periods after the year of tainting.

Subsequent to initial recognition, HTM investments are measured at amortized costs using effective interest method, less impairment losses, if any.

*(iv) AFS Securities*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. BDO Unibank Group's AFS securities include government and corporate bonds, equity securities and golf club shares.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes, except for interest and dividend income, impairment loss and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, that is when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

Non-derivative financial assets classified as AFS securities may be reclassified to loans and receivable category if that financial asset would have met the definition of loans and receivable and if there is an intention and ability to hold that financial asset for the foreseeable future or until maturity.

If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available or because the two preceding financial years' of tainting have passed, it becomes appropriate to carry a financial asset at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable. Any previous gain or loss that has been recognized in other comprehensive income shall be accounted for depending on whether the financial asset is with or without fixed maturity as discussed in the succeeding page.

Previous gain or loss on reclassified AFS securities that has been recognized in other comprehensive income shall be accounted for as follows:

- (i) In the case of a financial asset with a fixed maturity, the gain or loss shall be amortized to profit or loss over the remaining life of the HTM investment using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.
- (ii) In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

(b) *Impairment of Financial Assets*

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of BDO Unibank Group about certain loss events, including, among others: (i) significant financial difficulty of the issuer or debtor; (ii) a breach of contract, such as a default or delinquency in interest or principal payments; (iii) the probability that the borrower will enter bankruptcy or other financial reorganization; (iv) the disappearance of an active market for that financial asset because of financial difficulties; or, (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets. BDO Unibank Group recognizes impairment loss based on the category of financial assets as follows:

(i) *Carried at Amortized Cost – Loans and Receivables and HTM Investments*

BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets either individually or collectively. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, BDO Unibank Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.



If there is objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, BDO Unibank Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of BDO Unibank Group's or BSP's grading process that considers asset type, industry, collateral type, status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by BDO Unibank Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income, which is reported as part of Miscellaneous – net under Other Operating Income account in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

When possible, BDO Unibank Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the carrying value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses account.

In addition, under Section 9(f) of the Rules and Regulations to implement the provisions of RA No. 8556, *The Financing Company Act of 1998*, a 100% allowance is also set up by BDO Leasing, a subsidiary, for the following:

- clean loans and advances past due for a period of more than six months;
- past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;
- past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
- when the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
- accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,
- accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by BDO Unibank Group in the determination of impairment loss provision on assets carried at amortized cost particularly on receivables related to financing.

Moreover, BDO Unibank Group also considers the requirements of BSP Circular No. 855, *Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions*, wherein for those loans where objective evidence of impairment does not exist, whether individually or collectively assessed for impairment, an impairment loss is recognized equivalent to the amount of expected loss computed using the loan loss methodology of BDO Unibank Group. Expected loss is computed by considering the probability of default, loss given default and exposure at default of each loan.

(ii) *Carried at Cost – AFS Securities*

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.



*(iii) Carried at Fair Value – AFS Securities*

In the case of investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

*(c) Items of Income and Expense Related to Financial Assets*

Gains or losses arising from changes in the fair value of the financial assets at FVTPL category are reported as part of Trading gains – net under Other Operating Income or Expenses accounts in the statement of income in the period in which these arise. Gains or losses arising from changes in the fair value of AFS securities are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding impaired financial assets are recognized in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

*(d) Derecognition of Financial Assets*

The 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, BDO Unibank Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If BDO Unibank Group retains substantially all the risks and rewards of ownership of a transferred financial asset, BDO Unibank Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## **2.6 Derivative Financial Instruments and Hedge Accounting**

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

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

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

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

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

Certain derivatives embedded in other financial instruments are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

Certain derivatives 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 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 2.18).

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

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

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

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

Fully depreciated assets are retained in accounts until they are no longer in use and no further change for depreciation is made in respect of those assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.23).

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

An item of premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and any impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

## **2.8 Investment Properties**

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable costs incurred. This also includes land and building acquired by BDO Unibank Group from defaulting borrowers not held for sale in the next 12 months. For these properties, the cost is recognized initially at fair value. Investment properties, except land, are depreciated on a straight-line basis over a period of 10 to 25 years.

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Notes 2.7 and 2.23).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 23).

### ***2.9 Real Properties for Development and Sale***

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

Real properties for development and sale are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of these properties is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 23).

### ***2.10 Non-current Assets Held for Sale***

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

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

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The BDO Unibank Group shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

If BDO Unibank Group has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the BDO Unibank Group shall cease to classify the asset as held for sale.

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in the statement of income (see Note 23).

### ***2.11 Equity Investments***

In the Parent Bank's financial statements, investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.23). Associates are all entities over which the BDO Unibank Group and the Parent Bank has significant influence but which are neither subsidiaries nor interest in a joint venture.

Investments in subsidiaries and associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in subsidiaries and associates are 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's 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's and the Parent Bank's share in the subsidiaries and associate is included in the amount recognized as investments in subsidiaries or associate.

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.23).

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's 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.

## **2.12 Business Combination**

Business acquisitions are accounted for using the acquisition method of accounting.

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 2.23). 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.

## **2.13 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 2.23).

## **2.14 Intangible Assets**

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



Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. 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 2.23). 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 2.23).

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 2.23).

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 in accordance with PAS 36, *Impairment of Assets*, 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 2.23).

Branch licenses and customer lists are deemed to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate cash inflows for BDO Unibank Group.

Trademark pertains to the license granted to the Parent Bank for the exclusive right to use the trademark, service mark, name or logo of Diners Card International, Ltd (DCI) in connection with the Parent Bank's operation of Diners Club card business in the Philippines. The trademark is covered by a trademark license agreement with a term of 5 years, renewable every 5 years, subject to certain conditions set by trademark owner. This intangible asset is recognized at an amount equal to the excess of purchase price for the acquisition of Diners credit card portfolio over the acquisition-date fair value of the net assets acquired. It is amortized on a straight-line basis over a finite useful life of five years based on the term of the trademark license agreement, which is deemed to have a finite useful life since renewal is not guaranteed.

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

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

## 2.15 Financial Liabilities

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

Financial liabilities are recognized when BDO Unibank Group becomes a party to the contractual terms of the instrument.

- *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.
- *Insurance contract liabilities* arose from the following types of insurance contract:
  - *Life insurance contract*

Liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method and assumptions subject to the provisions of the Insurance Code (the Code) and guidelines set by the IC. The movement in legal policy reserves at each reporting period, except for movements due to the change in valuation discount rate, is recognized in profit or loss.

- *Insurance contracts with fixed and guaranteed terms*

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

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

- *Variable unit-linked insurance contracts.*

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

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

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

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

### ***2.16 Offsetting Financial Instruments***

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

### ***2.17 Terminal Value of Leased Assets and Guaranty Deposits on Finance Lease***

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.

### ***2.18 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 a portion of BDO Unibank Group's income from trust operations set-up on a yearly basis in compliance with BSP regulations. Surplus reserves also consist of reserve for insurance fund and additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 20.5).

Other reserves pertain to amount recognized from increase in percentage of ownership to any of the subsidiaries of BDO Unibank Group (see Note 20.6).

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

Net unrealized fair value gains (losses) on AFS securities arises from cumulative mark-to-market valuation of outstanding AFS securities.

Accumulated actuarial gains (losses) results from the remeasurements of post-employment defined benefit plan.

Revaluation increment pertains to gains from the revaluation of land under premises, furniture, fixtures and equipment, which is now treated as part of the deemed cost of the assets (see Note 2.7).

Remeasurement on life insurance reserves pertains arises from the increase or decrease of the reserves brought about by changes in discount rates.

Accumulated translation adjustment pertains to foreign exchange differences arising on translation of the resources and liabilities of foreign branch and subsidiaries that are taken up in other comprehensive income (see Note 2.24).

Accumulated share in other comprehensive income (loss) of subsidiaries and associates pertains to changes resulting from the BDO Unibank Group's and the Parent Bank's share in other comprehensive income (loss) of subsidiaries and associates or items recognized directly in the subsidiaries' and associates' equity.

Non-controlling interests represent the portion of the net resources and profit or loss not attributable to BDO Unibank Group, which are presented separately in BDO Unibank Group's statement of income, statement of comprehensive income and within the equity in BDO Unibank Group's statement of financial position and changes in equity.

### ***2.19 Related Party Transactions and Relationships***

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with BDO Unibank Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of BDO Unibank Group that gives them significant influence over BDO Unibank Group and close members of the family of any such individual; and, (d) BDO Unibank Group's retirement plan (see Note 24.2).

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

### ***2.20 Revenue and Expense Recognition***

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the BDO Unibank Group; and the expenses and costs incurred and to be incurred can be measured reliably. 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 following specific recognition criteria of income and expenses must also be met before revenue and expense are recognized:

- (a) *Interest* – Interest income and expenses are recognized in profit or loss for all financial assets or liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, BDO Unibank Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income on finance lease is allocated over the lease term on a systematic and rational basis. The recognition of interest income on finance lease is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

- (b) *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.
- (c) *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.
- (d) *Trading gain* – Trading gain is recognized when the ownership of the securities is transferred to the buyer (at an amount equal to the excess of the selling price over the carrying amount of securities) and as a result of the mark-to-market valuation of the securities classified as financial assets at FVTPL.
- (e) *Income 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.

- (f) *Dividend* – Dividend income is recognized when BDO Unibank Group's right to receive dividend is established.
- (g) *Rental income* – Rental income arising from leased properties accounted for as operating lease is recognized on a straight-line basis over the lease terms and is recorded in profit or loss as part of Rental under Other Operating Income account in the statement of income [see Note 2.22 (a)].



- (b) *Insurance premiums* – Premiums from life insurance contracts are recognized as revenue when payable by the policyholders. For single premium contracts, revenue is recognized upon the effective date of the policy. For regular premium contracts, revenues are recorded at the date when payments are due.
- (i) *Insurance benefits and claims* – Life insurance benefits and claims include the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Maturities are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

BDO Unibank Group records its revenue at gross and separately recognizes an expense and liability relative to the fair value of the reward points earned by clients and customers [see Note 3.2(i)] 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.

### ***2.21 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.

## **2.22 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 on a straight-line basis over the lease term.

### *(b) BDO Unibank Group as Lessee*

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

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.

## **2.23 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.

## ***2.24 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 AFS 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 branch and subsidiaries, which are maintained in U.S. dollars, Canadian Dollar (CAD), European Union Euro (Euro), Great Britain Pound (GBP), Japanese Yen (JPY) or Hong Kong Dollars (HKD).

The operating results and financial position of foreign branch and subsidiaries which are measured using the U.S. dollars, CAD, Euro, GBP, JPY or HKD, 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 2.18). 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 or HKD amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

## ***2.25 Compensation and Benefits Expense***

BDO Unibank Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits, which are recognized as follows (see Note 24):

### *(a) Post-employment Defined Benefit*

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

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

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest expense on bills payable and other liabilities under Interest Expense account (see Note 22) in the statement of income.

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

(b) *Post-employment Defined Contribution Plan*

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

(c) *Termination Benefits*

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

(d) *Bonus Plans*

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

(e) *Employee Stock Option Plan*

BDO Unibank Group has an employee stock option plan (ESOP) for its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock options allocated to the qualified officers is based on the performance of the individual officers as determined by management and it requires vesting period of five years. These are adjusted accordingly for any resignation or disqualification. The vested options may be exercised within three years from vesting date. The cost of ESOP is amortized over five years (vesting period) starting from the approval of the BOD. The annual amortization of stock options is included in Compensation and benefits under the Other Operating Expenses account in the statement of income.

(f) *Unavailed Leaves*

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

## ***2.26 Income Taxes***

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority (see Note 29.1).

## ***2.27 Earnings Per Share***

Basic earnings per share is determined by dividing 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 net profit by the weighted average number of common shares issued and outstanding during the period. However, 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.

### ***2.28 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.

### ***2.29 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) Classification of Financial Assets as HTM Investments***

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, BDO Unibank Group evaluates its intention and ability to hold such investments up to maturity. If BDO Unibank Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

In 2016, after the end of the two-year tainting period, BDO Unibank Group and the Parent Bank reclassified AFS securities with a carrying value of P107,362 and P103,014, respectively, to HTM investments (see Note 9.3).

(b) *Impairment of AFS Securities*

BDO Unibank Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, BDO Unibank Group evaluates, among other factors, the significant or prolonged decline in the fair value of an investment below its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy or financial distress, BDO Unibank Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quote prices for distressed securities) since current bid prices are no longer available.

Based on the recent evaluation of information and circumstances affecting the BDO Unibank Group and the Parent Bank's AFS securities, management has recognized impairment loss on certain AFS securities in 2017 and 2016 as disclosed in Note 9.2. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) *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.

(d) *Distinction Between Operating and Finance Leases*

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

(e) *Classification of Acquired Properties and Fair Value Determination for Non-current Assets Held for Sale, Investment Properties and Other 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 PAS 39 or as Other properties (presented under Other Resources account) if held for sale but the depreciable properties (other than building) are not yet disposed within three years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

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

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

ARSA provides that investors shall be entitled to nominate one director for as long as it owns at least 10% of the equity of NLEX Corporation, or shall be entitled to nominate two directors for as long as it owns at least 16.5% of the equity of NLEX Corporation. Failure to make the right judgment will result in either overstatement or understatement of resources, liabilities, income and expenses.

(g) *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 2.21 and relevant disclosures are presented in Note 33.

### **3.2 Key Sources of Estimation Uncertainty**

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

(a) *Estimation of Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)*

BDO Unibank Group reviews its AFS securities [see also Note 3.1 (b)], HTM investments and Loans and other receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 14.

(b) *Fair Value Measurement for Financial Instruments*

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

(c) *Determination of Fair Value of Derivatives*

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions and correlations require management to make estimates. BDO Unibank Group and the Parent Bank use judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

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

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties, including trademark, 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.

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other resources, including trademark, are analyzed in Notes 12 and 13, respectively. Based on management's assessment as of December 31, 2017, there is a change in estimated useful lives for buildings, leasehold rights and improvements, and furniture fixtures and equipment (see Note 2.7) while no changes were assessed as of December 31, 2016. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

Investment properties are measured using the cost model. The fair value disclosed in Note 12 to the financial statements as determined by BDO Unibank Group and the Parent Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition (see Note 6.5).

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

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

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2017 and 2016 is disclosed in Note 29.1.

(g) *Impairment of Non-financial Assets*

Except for certain 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 2.23. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized in profit or loss are disclosed in Note 14.

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

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24.2 and include, among others, discount rates, expected rate of return on plan asset and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 24.2.

(i) *Recognition of Rewards 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. Rewards points are redeemable in a wide selection of rewards categories, including travel, merchandise of third parties, rewards 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 rewards redemptions for points earned to date. The estimated liability is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.



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

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank is presented as part of Accrued expenses under Other Liabilities account in the statements of financial position as disclosed in Note 19.

(j) *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 Code and guidelines set by IC.

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

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

#### 4. RISK MANAGEMENT

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

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

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

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

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

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

The BOD has constituted the Risk Management Committee (RMC) as the Board-Level Committee responsible for the development and oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits.

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

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

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

## 4.1 Liquidity Risk

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

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2017 and 2016 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

	2017				
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Three Years</u>	<u>More Than Three Years</u>	<u>Total</u>
Resources:					
Cash and other cash items	P 45,006	P -	P -	P -	P 45,006
Due from BSP and other banks	398,616	49	-	6,122	404,787
Loans and other receivables - net	408,844	167,513	270,974	944,455	1,791,786
Trading and investment securities	13,356	17,175	99,965	202,431	332,927
Other resources - net*	<u>1</u>	<u>50</u>	<u>236</u>	<u>93,311</u>	<u>93,598</u>
Total Resources	<u>865,823</u>	<u>184,787</u>	<u>371,175</u>	<u>1,246,319</u>	<u>2,668,104</u>
Liabilities and Equity:					
Deposit liabilities	326,951	17,092	31,229	1,745,740	2,121,012
Bills and subordinated notes payable	60,982	3,739	32,589	43,204	140,514
Insurance contract liabilities	( 91)**	( 943)**	( 1,001)**	28,021	25,986
Other liabilities	<u>25,663</u>	<u>3,421</u>	<u>4,044</u>	<u>49,124</u>	<u>82,252</u>
Total Liabilities	413,505	23,309	66,861	1,866,089	2,369,764
Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>298,340</u>	<u>298,340</u>
Total Liabilities and Equity	<u>413,505</u>	<u>23,309</u>	<u>66,861</u>	<u>2,164,429</u>	<u>2,668,104</u>
On-book gap	<u>452,318</u>	<u>161,478</u>	<u>304,314</u>	( <u>918,110</u> )	<u>-</u>
Cumulative on-book gap	<u>452,318</u>	<u>613,796</u>	<u>918,110</u>	<u>-</u>	<u>-</u>
Contingent assets	180,924	20,609	28,751	8,947	239,231
Contingent liabilities	<u>240,663</u>	<u>21,653</u>	<u>28,292</u>	<u>8,824</u>	<u>299,432</u>
Off-book gap	( <u>59,739</u> )	( <u>1,044</u> )	<u>459</u>	<u>123</u>	( <u>60,201</u> )
Net Periodic Gap	<u>392,579</u>	<u>160,434</u>	<u>304,773</u>	( <u>917,987</u> )	<u>60,201</u>
Cumulative Total Gap	<u>P 392,579</u>	<u>P 553,013</u>	<u>P 857,786</u>	( <u>P 60,201</u> )	<u>P -</u>

\* 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.

BDO Unibank Group

2016 (As Restated - see Note 2.1)						
	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 40,909	P -	P -	P -	P 40,909	
Due from BSP and other banks	359,777	12	3	4	359,796	
Loans and other receivables - net	449,361	166,898	207,283	750,423	1,573,965	
Trading and investment securities	49,247	11,451	71,814	136,530	269,042	
Other resources - net*	-	-	-	81,287	81,287	
<b>Total Resources</b>	<b>899,294</b>	<b>178,361</b>	<b>279,100</b>	<b>968,244</b>	<b>2,324,999</b>	
Liabilities and Equity:						
Deposit liabilities	316,442	4,949	18,924	1,564,889	1,905,204	
Bills and subordinated notes payable	43,573	8,429	33,641	24,943	110,586	
Insurance contract liabilities	( 218)**	( 1,292)**	( 1,130)**	23,205	20,565	
Other liabilities	20,569	3,944	3,965	42,607	71,085	
<b>Total Liabilities</b>	<b>380,366</b>	<b>16,030</b>	<b>55,400</b>	<b>1,655,644</b>	<b>2,107,440</b>	
Equity	-	-	-	217,559	217,559	
<b>Total Liabilities and Equity</b>	<b>380,366</b>	<b>16,030</b>	<b>55,400</b>	<b>1,873,203</b>	<b>2,324,999</b>	
On-book gap	518,928	162,331	223,700	( 904,959)	-	
Cumulative on-book gap	518,928	681,259	904,959	-	-	
Contingent assets	109,497	44,011	21,765	15,064	190,337	
Contingent liabilities	149,235	46,744	21,322	14,807	232,108	
Off-book gap	( 39,738)	( 2,733)	443	257	( 41,771)	
Net Periodic Gap	479,190	159,598	224,143	( 904,702)	41,771	
Cumulative Total Gap	<u>P 479,190</u>	<u>P 638,788</u>	<u>P 862,931</u>	<u>(P 41,771)</u>	<u>P -</u>	

\* 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**

	2017				
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Three Years</u>	<u>More Than Three Years</u>	<u>Total</u>
Resources:					
Cash and other cash items	P 43,882	P -	P -	P -	P 43,882
Due from BSP and other banks	381,681	-	-	3	381,684
Loans and other receivables - net	384,751	151,588	246,066	948,327	1,730,732
Trading and investment securities	4,164	13,773	88,021	152,256	258,214
Other resources - net*	-	-	-	110,113	110,113
Total Resources	<u>814,478</u>	<u>165,361</u>	<u>334,087</u>	<u>1,210,699</u>	<u>2,524,625</u>
Liabilities and Equity:					
Deposit liabilities	311,235	15,948	29,734	1,688,404	2,045,321
Bills and subordinated notes payable	39,966	2,411	23,031	50,245	115,653
Other liabilities	22,399	749	-	42,842	65,990
Total Liabilities	373,600	19,108	52,765	1,781,491	2,226,964
Equity	-	-	-	297,661	297,661
Total Liabilities and Equity	<u>373,600</u>	<u>19,108</u>	<u>52,765</u>	<u>2,079,152</u>	<u>2,524,625</u>
On-book gap	<u>440,878</u>	<u>146,253</u>	<u>281,322</u>	<u>( 868,453)</u>	<u>-</u>
Cumulative on-book gap	<u>440,878</u>	<u>587,131</u>	<u>868,453</u>	<u>-</u>	<u>-</u>
Contingent assets	175,855	17,901	7,009	715	201,480
Contingent liabilities	235,649	19,086	6,917	697	262,349
Off-book gap	<u>( 59,794)</u>	<u>( 1,185)</u>	<u>92</u>	<u>18</u>	<u>( 60,869)</u>
Net Periodic Gap	<u>381,084</u>	<u>145,068</u>	<u>281,414</u>	<u>( 868,435)</u>	<u>60,869</u>
Cumulative Total Gap	<u>P 381,084</u>	<u>P 526,152</u>	<u>P 807,566</u>	<u>(P 60,869)</u>	<u>P -</u>

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

## Parent Bank

	2016 (As Restated - see Note 2.1)				
	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 39,813	P -	P -	P -	P 39,813
Due from BSP and other banks	337,744	-	-	4	337,748
Loans and other receivables - net	406,639	149,649	182,503	773,190	1,511,981
Trading and investment securities	40,886	9,141	66,022	91,837	207,886
Other resources - net*	-	-	-	92,292	92,292
Total Resources	<u>825,082</u>	<u>158,790</u>	<u>248,525</u>	<u>957,323</u>	<u>2,189,720</u>
Liabilities and Equity:					
Deposit liabilities	301,516	4,137	17,447	1,509,913	1,833,013
Bills and subordinated notes payable	28,301	6,827	25,760	24,942	85,830
Other liabilities	<u>19,325</u>	<u>1,491</u>	<u>-</u>	<u>34,504</u>	<u>55,320</u>
Total Liabilities	349,142	12,455	43,207	1,569,359	1,974,163
Equity	-	-	-	215,557	215,557
Total Liabilities and Equity	<u>349,142</u>	<u>12,455</u>	<u>43,207</u>	<u>1,784,916</u>	<u>2,189,720</u>
On-book gap	<u>475,940</u>	<u>146,335</u>	<u>205,318</u>	<u>( 827,593)</u>	<u>-</u>
Cumulative on-book gap	<u>475,940</u>	<u>622,275</u>	<u>827,593</u>	<u>-</u>	<u>-</u>
Contingent assets	102,251	20,914	4,781	2,140	130,086
Contingent liabilities	<u>141,816</u>	<u>23,905</u>	<u>4,690</u>	<u>2,120</u>	<u>172,531</u>
Off-book gap	<u>( 39,565)</u>	<u>( 2,991)</u>	<u>91</u>	<u>20</u>	<u>( 42,445)</u>
Net Periodic Gap	<u>436,375</u>	<u>143,344</u>	<u>205,409</u>	<u>( 827,573)</u>	<u>42,445</u>
Cumulative Total Gap	<u>P 436,375</u>	<u>P 579,719</u>	<u>P 785,128</u>	<u>(P 42,445)</u>	<u>P -</u>

\* 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, whichever is lower, on the group excess foreign exchange holding of banks in the Philippines. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

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

The breakdown of the financial assets and financial liabilities as to foreign and peso-denominated balances as of December 31, 2017 and 2016 follows:

**BDO Unibank Group**

	2017			2016 (As Restated - see Note 2.1)		
	Foreign Currencies	Philippine Pesos	Total	Foreign Currencies	Philippine Pesos	Total
<b>Resources:</b>						
Cash and other cash items						
and due from BSP	P 222	P 398,092	P 398,314	P 183	P 358,728	P 358,911
Due from other banks	50,499	980	51,479	38,360	3,434	41,794
Trading and investment securities:						
At FVTPL	5,181	9,529	14,710	4,091	9,933	14,024
AFS securities	72,443	48,576	121,019	70,746	37,386	108,132
HTM securities	119,011	78,187	197,198	103,493	43,393	146,886
Loans and other receivables	277,416	1,514,370	1,791,786	257,580	1,316,385	1,573,965
Other resources	4,997	558	5,555	5,562	370	5,932
	<u>P 529,769</u>	<u>P 2,050,292</u>	<u>P 2,580,061</u>	<u>P 480,015</u>	<u>P 1,769,629</u>	<u>P 2,249,644</u>
<b>Liabilities:</b>						
Deposit liabilities	P 395,183	P 1,725,829	P 2,121,012	P 384,021	P 1,521,183	P 1,905,204
Bills payable	106,293	24,191	130,484	76,177	24,379	100,556
Subordinated notes payable	-	10,030	10,030	-	10,030	10,030
Insurance contract liabilities	7,081	18,905	25,986	6,498	14,067	20,565
Other liabilities	6,387	66,978	73,365	5,794	60,068	65,862
	<u>P 514,944</u>	<u>P 1,845,933</u>	<u>P 2,360,877</u>	<u>P 472,490</u>	<u>P 1,629,727</u>	<u>P 2,102,217</u>

**Parent Bank**

	2017			2016		
	Foreign Currencies	Philippine Pesos	Total	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items						
and due from BSP	P 50	P 384,428	P 384,478	P 35	P 344,063	P 344,098
Due from other banks	41,031	57	41,088	33,424	39	33,463
Trading and investment securities:						
At FVTPL	3,689	571	4,260	2,917	1,381	4,298
AFS securities	57,078	13,154	70,232	53,862	8,775	62,637
HTM securities	116,987	66,735	183,722	102,895	38,056	140,951
Loans and other receivables	275,362	1,455,370	1,730,732	258,902	1,253,079	1,511,981
Other resources	3,969	272	4,241	3,468	272	3,740
	<u>P 498,166</u>	<u>P 1,920,587</u>	<u>P 2,418,753</u>	<u>P 455,503</u>	<u>P 1,645,665</u>	<u>P 2,101,168</u>
Liabilities:						
Deposit liabilities	P 373,386	P 1,671,935	P 2,045,321	P 368,656	P 1,464,357	P 1,833,013
Bills payable	105,623		105,623	75,796	4	75,800
Subordinated notes payable	-	10,030	10,030	-	10,030	10,030
Other liabilities	6,078	52,554	58,632	4,644	46,472	51,116
	<u>P 485,087</u>	<u>P 1,734,519</u>	<u>P 2,219,606</u>	<u>P 449,096</u>	<u>P 1,520,863</u>	<u>P 1,969,959</u>

**4.2.2 Interest Rate Risk**

BDO Unibank Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all resources and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2017 and 2016 based on the expected interest realization or recognition are shown in the succeeding pages.

**BDO Unibank Group**

	2017					
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Five Years</u>	<u>More Than Five Years</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 45,006	P 45,006
Due from BSP and other banks	24,454	-	-	-	380,333	404,787
Loans and other Receivables - net	934,347	168,161	476,642	212,636	-	1,791,786
Trading and investment securities	6,373	17,422	177,254	117,167	14,711	332,927
Other resources - net*	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,598</u>	<u>93,598</u>
Total Resources	<u>965,174</u>	<u>185,583</u>	<u>653,896</u>	<u>329,803</u>	<u>533,648</u>	<u>2,668,104</u>
Liabilities and Equity:						
Deposit liabilities	431,836	71,020	90,666	26,796	1,500,694	2,121,012
Bills and subordinated notes payable	74,537	2,874	34,805	27,998	300	140,514
Insurance contract liabilities**	( 360)	( 1,074)	( 21)	21,256	6,185	25,986
Other liabilities	<u>1,272</u>	<u>2,044</u>	<u>4,013</u>	<u>74</u>	<u>74,849</u>	<u>82,252</u>
Total Liabilities	507,285	74,864	129,463	76,124	1,582,028	2,369,764
Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>298,340</u>	<u>298,340</u>
Total Liabilities and Equity	<u>507,285</u>	<u>74,864</u>	<u>129,463</u>	<u>76,124</u>	<u>1,880,368</u>	<u>2,668,104</u>
On-book gap	<u>457,889</u>	<u>110,719</u>	<u>524,433</u>	<u>253,679</u>	<u>( 1,346,720)</u>	<u>-</u>
Cumulative on-book gap	<u>457,889</u>	<u>568,608</u>	<u>1,093,041</u>	<u>1,346,720</u>	<u>-</u>	<u>-</u>
Contingent assets	8,134	777	-	-	-	8,911
Contingent liabilities	<u>8,023</u>	<u>749</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,772</u>
Off-book gap	<u>111</u>	<u>28</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139</u>
Net Periodic Gap	<u>458,000</u>	<u>110,747</u>	<u>524,433</u>	<u>253,679</u>	<u>( 1,346,720)</u>	<u>( 139)</u>
Cumulative Total Gap	<u>P 458,000</u>	<u>P 568,747</u>	<u>P 1,093,180</u>	<u>P 1,346,859</u>	<u>P 139</u>	<u>P -</u>

\* 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.

BDO Unibank Group

	2016 (As Restated - see Note 2.1)					
	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 40,909	P 40,909
Due from BSP and other banks	26,578	6	5	-	333,207	359,796
Loans and other Receivables - net	852,349	115,508	379,742	226,366	-	1,573,965
Trading and investment securities	43,297	11,451	130,840	69,430	14,024	269,042
Other resources - net*	-	-	-	-	81,287	81,287
<b>Total Resources</b>	<b>922,224</b>	<b>126,965</b>	<b>510,587</b>	<b>295,796</b>	<b>469,427</b>	<b>2,324,999</b>
Liabilities and Equity:						
Deposit liabilities	398,410	58,857	92,720	17,402	1,337,815	1,905,204
Bills and subordinated notes payable	49,903	8,429	41,337	10,030	887	110,586
Insurance contract liabilities	-	-	-	-	20,565	20,565
Other liabilities	925	2,652	4,086	64	63,358	71,085
<b>Total Liabilities</b>	<b>449,238</b>	<b>69,938</b>	<b>138,143</b>	<b>27,496</b>	<b>1,422,625</b>	<b>2,107,440</b>
Equity	-	-	-	-	217,559	217,559
<b>Total Liabilities and Equity</b>	<b>449,238</b>	<b>69,938</b>	<b>138,143</b>	<b>27,496</b>	<b>1,640,184</b>	<b>2,324,999</b>
On-book gap	472,986	57,027	372,444	268,300	(1,170,757)	-
Cumulative on-book gap	472,986	530,013	902,457	1,170,757	-	-
Contingent assets	15,388	1,727	-	-	-	17,115
Contingent liabilities	15,530	1,740	-	-	-	17,270
Off-book gap	(142)	(13)	-	-	-	(155)
<b>Net Periodic Gap</b>	<b>472,844</b>	<b>57,014</b>	<b>372,444</b>	<b>268,300</b>	<b>(1,170,757)</b>	<b>155</b>
<b>Cumulative Total Gap</b>	<b>P 472,844</b>	<b>P 529,858</b>	<b>P 902,302</b>	<b>P 1,170,602</b>	<b>(P 155)</b>	<b>P -</b>

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

**Parent Bank**

	2017					
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Five Years</u>	<u>More Than Five Years</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 43,882	P 43,882
Due from BSP and other banks	22,869	-	-	-	358,815	381,684
Loans and other Receivables - net	908,641	143,781	452,603	225,707	-	1,730,732
Trading and investment securities	1,506	14,020	155,250	83,178	4,260	258,214
Other resources - net*	-	-	-	-	110,113	110,113
Total Resources	<u>933,016</u>	<u>157,801</u>	<u>607,853</u>	<u>308,885</u>	<u>517,070</u>	<u>2,524,625</u>
Liabilities and Equity:						
Deposit liabilities	395,423	65,866	84,701	30,546	1,468,785	2,045,321
Bills and subordinated notes payable	46,639	1,273	32,471	35,270	-	115,653
Other liabilities	-	749	-	-	65,241	65,990
Total Liabilities	<u>442,062</u>	<u>67,888</u>	<u>117,172</u>	<u>65,816</u>	<u>1,534,026</u>	<u>2,226,964</u>
Equity	-	-	-	-	297,661	297,661
Total Liabilities and Equity	<u>442,062</u>	<u>67,888</u>	<u>117,172</u>	<u>65,816</u>	<u>1,831,687</u>	<u>2,524,625</u>
On-book gap	<u>490,954</u>	<u>89,913</u>	<u>490,681</u>	<u>243,069</u>	<u>( 1,314,617)</u>	<u>-</u>
Cumulative on-book gap	<u>490,954</u>	<u>580,867</u>	<u>1,071,548</u>	<u>1,314,617</u>	<u>-</u>	<u>-</u>
Contingent assets	3,779	-	-	-	-	3,779
Contingent liabilities	<u>3,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,779</u>
Off-book gap	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Periodic Gap	<u>490,954</u>	<u>89,913</u>	<u>490,681</u>	<u>243,069</u>	<u>( 1,314,617)</u>	<u>-</u>
Cumulative Total Gap	<u><b>P 490,954</b></u>	<u><b>P 580,867</b></u>	<u><b>P 1,071,548</b></u>	<u><b>P 1,314,617</b></u>	<u><b>P -</b></u>	<u><b>P -</b></u>

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

Parent Bank

	2016 (As Restated - see Note 2.1)					
	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 39,813	P 39,813
Due from BSP and other banks	16,550	-	-	-	321,198	337,748
Loans and other Receivables - net	852,895	93,332	354,502	211,252	-	1,511,981
Trading and investment securities	38,922	9,141	114,999	40,526	4,298	207,886
Other resources - net*	-	-	-	-	92,292	92,292
<b>Total Resources</b>	<b>908,367</b>	<b>102,473</b>	<b>469,501</b>	<b>251,778</b>	<b>457,601</b>	<b>2,189,720</b>
Liabilities and Equity:						
Deposit liabilities	358,995	55,880	87,386	17,402	1,313,350	1,833,013
Bills and subordinated notes payable	28,138	6,827	40,835	10,030	-	85,830
Other liabilities	-	1,491	-	-	53,829	55,320
Total Liabilities	387,133	64,198	128,221	27,432	1,367,179	1,974,163
Equity	-	-	-	-	215,557	215,557
<b>Total Liabilities and Equity</b>	<b>387,133</b>	<b>64,198</b>	<b>128,221</b>	<b>27,432</b>	<b>1,582,736</b>	<b>2,189,720</b>
On-book gap	521,234	38,275	341,280	224,346	(1,125,135)	-
Cumulative on-book gap	521,234	559,509	900,789	1,125,135	-	-
Contingent assets	9,867	-	-	-	-	9,867
Contingent liabilities	9,961	-	-	-	-	9,961
Off-book gap	(94)	-	-	-	-	(94)
Net Periodic Gap	521,140	38,275	341,280	224,346	(1,125,135)	94
Cumulative Total Gap	P 521,140	P 559,415	P 900,695	P 1,125,041	(P 94)	P -

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



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

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level, which is a percentage of projected earnings. The BDO Unibank Group and the Parent Bank uses the VaR model to estimate the daily potential loss that the BDO Unibank Group and the Parent Bank can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over limits should only arise in very exceptional circumstances.
- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.
- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.
- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.
- Earnings-at-risk – The RMG computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

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

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

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

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

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

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

**BDO Unibank Group**

	<u>2017</u>		<u>2016</u>	
	<u>VaR</u>	<u>Stress VaR</u>	<u>VaR</u>	<u>Stress VaR</u>
Foreign currency risk	(P 11)	(P 217)	(P 16)	(P 252)
Interest rate risk – Peso	( 59)	( 651)	( 104)	( 1,104)
Interest rate risk – USD	( 15)	( 489)	( 23)	( 339)
	<u>(P 85)</u>	<u>(P 1,357)</u>	<u>(P 143)</u>	<u>(P 1,695)</u>

**Parent Bank**

	<u>2017</u>		<u>2016</u>	
	<u>VaR</u>	<u>Stress VaR</u>	<u>VaR</u>	<u>Stress VaR</u>
Foreign currency risk	(P 9)	(P 191)	(P 15)	(P 248)
Interest rate risk – Peso	( 19)	( 241)	( 51)	( 345)
Interest rate risk – USD	( 11)	( 340)	( 17)	( 203)
	<u>(P 39)</u>	<u>(P 772)</u>	<u>(P 83)</u>	<u>(P 796)</u>

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2017 and 2016 is shown below.

**BDO Unibank Group**

	2017			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	<u>(P 4,719)</u>	<u>P 4,719</u>	<u>(P 2,360)</u>	<u>P 2,360</u>
As a percentage of the BDO Unibank Group's net interest income for 2017	<u>(6%)</u>	<u>6%</u>	<u>(3%)</u>	<u>3%</u>
Earnings-at-risk	<u>P 8,972</u>			
	2016			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	<u>(P 4,675)</u>	<u>P 4,675</u>	<u>(P 2,337)</u>	<u>P 2,337</u>
As a percentage of the BDO Unibank Group's net interest income for 2016	<u>(7.1%)</u>	<u>7.1%</u>	<u>(3.5%)</u>	<u>3.5%</u>
Earnings-at-risk	<u>P 11,180</u>			

**Parent Bank**

	2017			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	<u>(P 4,966)</u>	<u>P 4,966</u>	<u>(P 2,483)</u>	<u>P 2,483</u>
As a percentage of the Parent Bank's net interest income for 2017	<u>(6%)</u>	<u>6%</u>	<u>(3%)</u>	<u>3%</u>
Earnings-at-risk	<u>P 9,528</u>			
	2016			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	<u>(P 4,796)</u>	<u>P 4,796</u>	<u>(P 2,398)</u>	<u>P 2,398</u>
As a percentage of the Parent Bank's net interest income for 2016	<u>(7.8%)</u>	<u>7.8%</u>	<u>(3.9%)</u>	<u>3.9%</u>
Earnings-at-risk	<u>P 11,776</u>			

### 4.2.3 Price Risk

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

The table below summarizes the impact of equity prices on listed equity securities classified as HFT securities or financial assets at FVTPL and AFS securities on BDO Unibank Group and Parent Bank's net profit after tax and equity as of December 31, 2017 and 2016. The results are based on the volatility assumption of the benchmark equity index, which was 2.04% in 2017 and 2016 for securities classified as HFT securities or financial assets at FVTPL and AFS securities, with all other variables held constant and all the BDO Unibank Group and the Parent Bank's equity instruments moved according to the historical correlation with the index.

#### BDO Unibank Group

	Impact on Net Profit After Tax			Impact on Other Comprehensive Income		
	Increase			Increase		
	2017	2016	2015	2017	2016	2015
HFT securities or financial assets at FVTPL	P 93	P 75	P 8	P -	P -	P -
AFS securities	-	-	-	861	414	211
	<u>P 93</u>	<u>P 75</u>	<u>P 8</u>	<u>P 861</u>	<u>P 414</u>	<u>P 211</u>

#### Parent Bank

	Impact on Net Profit After Tax			Impact on Other Comprehensive Income		
	Increase			Increase		
	2017	2016	2015	2017	2016	2015
AFS securities	P -	P -	P -	P 55	P 93	P 145

### 4.3 Credit Risk

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

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

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

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

#### ***4.3.1 Exposure to Credit Risk***

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

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

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

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

##### *(a) Unclassified*

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

##### *(b) Watchlisted*

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

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

(c) *Adversely Classified*

(i) *Loans Especially Mentioned (LEM)*

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

(ii) *Substandard*

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

(iii) *Doubtful*

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

(iv) *Loss*

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets is 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.



The following table shows the exposure to credit risk as of December 31, 2017 and 2016 for each internal risk grade and the related allowance for impairment:

**BDO Unibank Group**

	<u>2017</u>		
	<u>Loans and Other Receivables</u>	<u>Due from Other Banks</u>	<u>Trading and Investment Securities*</u>
<b>Carrying Amount</b>	<b><u>P 1,791,786</u></b>	<b><u>P 51,479</u></b>	<b><u>P 311,163</u></b>
<b>Individually Impaired</b>			
Unclassified	P 717	P -	P -
Grade B: Watchlisted	253	-	-
Grade C: LEM	4,351	-	-
Grade D: Substandard	5,345	-	-
Grade E: Doubtful	4,270	-	-
Grade F: Loss	<u>3,680</u>	<u>-</u>	<u>243</u>
Gross amount	18,616	-	243
Allowance for impairment	<u>( 7,653)</u>	<u>-</u>	<u>( 243)</u>
Carrying amount	<u>10,963</u>	<u>-</u>	<u>-</u>
<b>Collectively Impaired</b>			
Unclassified	1,098	-	-
Grade C: LEM	4,162	-	-
Grade D: Substandard	7,436	-	-
Grade E: Doubtful	3,134	-	-
Grade F: Loss	<u>6,248</u>	<u>-</u>	<u>-</u>
Gross amount	22,078	-	-
Allowance for impairment	<u>( 8,927)</u>	<u>-</u>	<u>-</u>
Carrying amount	<u>13,151</u>	<u>-</u>	<u>-</u>
<b>Past Due But Not Impaired</b>			
Unclassified	<u>1,501</u>	<u>-</u>	<u>-</u>
<b>Neither Past Due Nor Impaired</b>			
Unclassified	<u>1,766,171</u>	<u>51,479</u>	<u>311,163</u>
<b>Total Carrying Amount</b>	<b><u>P 1,791,786</u></b>	<b><u>P 51,479</u></b>	<b><u>P 311,163</u></b>

\*Trading and Investment Securities do not include equity securities.

BDO Unibank Group

	2016 (As Restated - see Note 2.1)		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,573,965	P 41,794	P 252,198
Individually Impaired			
Unclassified	P 2,713	P -	P -
Grade B: Watchlisted	345	-	-
Grade C: LEM	5,590	-	-
Grade D: Substandard	5,255	-	-
Grade E: Doubtful	3,548	-	1,121
Grade F: Loss	4,917	-	264
Gross amount	22,368	-	1,385
Allowance for impairment	(7,813)	-	(1,385)
Carrying amount	14,555	-	-
Collectively Impaired			
Unclassified	1,436	-	-
Grade C: LEM	3,031	-	-
Grade D: Substandard	6,137	-	-
Grade E: Doubtful	2,128	-	-
Grade F: Loss	5,195	-	-
Gross amount	17,927	-	-
Allowance for impairment	(6,920)	-	-
Carrying amount	11,007	-	-
Past Due But Not Impaired			
Unclassified	999	-	-
Neither Past Due Nor Impaired			
Unclassified	1,547,404	41,794	252,198
Total Carrying Amount	P 1,573,965	P 41,794	P 252,198

\*Trading and Investment Securities do not include equity securities.

An aging of past due but not impaired accounts of BDO Unibank Group reckoned from the past due date per BSP definition follows:

	Loans and Other Receivables	
	2017	2016
Up to 30 days	P 362	P 453
31 to 60 days	115	169
61 to 90 days	130	32
91 to 180 days	70	76
More than 180 days	824	269
	P 1,501	P 999

An aging of neither past due nor impaired accounts of BDO Unibank Group reckoned from the last unpaid due date follows:

	<b>Loans and Other Receivables</b>	
	<u>2017</u>	2016 As Restated - (see Note 2.1)
Up to 30 days	P 1,746,777	P 1,517,882
31 to 60 days	6,051	2,519
61 to 90 days	1,803	27,003
61 to 90 days	<u>11,540</u>	<u>-</u>
	<u>P 1,766,171</u>	<u>P 1,547,404</u>

**Parent Bank**

	<u>2017</u>		
	<u>Loans and Other Receivables</u>	<u>Due from Other Banks</u>	<u>Trading and Investment Securities*</u>
<b>Carrying Amount</b>	<u>P 1,730,732</u>	<u>P 41,088</u>	<u>P 254,204</u>
<b>Individually Impaired</b>			
Unclassified	P -	P -	P -
Grade C: LEM	3,974	-	-
Grade D: Substandard	5,128	-	-
Grade E: Doubtful	4,096	-	-
Grade F: Loss	<u>3,487</u>	<u>-</u>	<u>243</u>
Gross amount	16,685	-	243
Allowance for impairment	<u>( 7,295)</u>	<u>-</u>	<u>( 243)</u>
Carrying amount	<u>9,390</u>	<u>-</u>	<u>-</u>
<b>Collectively Impaired</b>			
Grade C: LEM	3,419	-	-
Grade D: Substandard	7,303	-	-
Grade E: Doubtful	2,895	-	-
Grade F: Loss	<u>5,287</u>	<u>-</u>	<u>-</u>
Gross amount	18,904	-	-
Allowance for impairment	<u>( 7,067)</u>	<u>-</u>	<u>-</u>
Carrying amount	<u>11,837</u>	<u>-</u>	<u>-</u>
<b>Past Due But Not Impaired</b>			
Unclassified	<u>439</u>	<u>-</u>	<u>-</u>
<b>Neither Past Due Nor Impaired</b>			
Unclassified	<u>1,709,066</u>	<u>41,088</u>	<u>254,204</u>
<b>Total Carrying Amount</b>	<u>P 1,730,732</u>	<u>P 41,088</u>	<u>P 254,204</u>

\*Trading and Investment Securities do not include equity securities.

Parent Bank

	2016		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,511,981	P 33,463	P 203,808
Individually Impaired			
Grade C: LEM	P 5,096	P -	P -
Grade D: Substandard	4,910	-	-
Grade E: Doubtful	3,250	-	1,121
Grade F: Loss	<u>3,899</u>	<u>-</u>	<u>264</u>
Gross amount	17,155	-	1,385
Allowance for impairment	<u>(6,523)</u>	<u>-</u>	<u>(1,385)</u>
Carrying amount	<u>10,632</u>	<u>-</u>	<u>-</u>
Collectively Impaired			
Grade C: LEM	3,031	-	-
Grade D: Substandard	6,137	-	-
Grade E: Doubtful	2,128	-	-
Grade F: Loss	<u>5,195</u>	<u>-</u>	<u>-</u>
Gross amount	16,491	-	-
Allowance for impairment	<u>(6,437)</u>	<u>-</u>	<u>-</u>
Carrying amount	<u>10,054</u>	<u>-</u>	<u>-</u>
Past Due But Not Impaired			
Unclassified	<u>565</u>	<u>-</u>	<u>-</u>
Neither Past Due Nor Impaired			
Unclassified	<u>1,490,730</u>	<u>33,463</u>	<u>203,808</u>
Total Carrying Amount	<u>P 1,511,981</u>	<u>P 33,463</u>	<u>P 203,808</u>

\*Trading and Investment Securities do not include equity securities.

An aging of past due but not impaired accounts of the Parent Bank reckoned from past due date per BSP definition as follows:

	<b>Loans and Other Receivables</b>	
	<u>2017</u>	<u>2016</u>
Up to 30 days	<b>P 104</b>	P 266
31 to 60 days	<b>115</b>	156
61 to 90 days	<b>24</b>	26
91 to 180 days	<b>70</b>	53
More than 180 days	<u><b>126</b></u>	<u>64</u>
	<u><b>P 439</b></u>	<u>P 565</u>

An aging of neither past due nor impaired accounts of Parent Bank reckoned from the last unpaid due date as follows:

	<b>Loans and Other Receivables</b>	
	<u>2017</u>	<u>2016</u>
Up to 30 days	<b>P 1,706,565</b>	P 1,488,557
31 to 60 days	<b>2,416</b>	2,132
61 to 90 days	<u><b>85</b></u>	<u>41</u>
	<u><b>P 1,709,066</b></u>	<u>P 1,490,730</u>

Exposure to credit risk also includes unused commercial letters of credits and committed credit lines amounting to P47,553 and P303,425, respectively, for 2017 and P48,108 and P221,579, respectively, for 2016 in BDO Unibank Group's financial statements and P47,536 and P303,353, respectively, for 2017 and P48,092 and P221,339, respectively, for 2016 in the Parent Bank's financial statements (see Note 33.3).

#### ***4.3.2 Collateral Held as Security and Other Credit Enhancements***

The BDO Unibank Group and the Parent Bank holds collateral against loans and receivables from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically, e.g., annually for real estate properties, as provided in the Parent Bank's Credit Policy Manual. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity. The BDO Unibank Group and the Parent Bank holds collateral against loans and other receivables 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 loans and other receivables risk groupings as of December 31 follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Individually impaired				
Property	<b>P 10,509</b>	P 12,536	<b>P 7,358</b>	P 7,380
Hold-out deposits	<b>1</b>	1	<b>1</b>	1
Debt security	<b>2</b>	1	<b>1</b>	1
Others	<b>708</b>	1,671	<b>708</b>	1,671
	<b><u>11,220</u></b>	<u>14,209</u>	<b><u>8,068</u></b>	<u>9,053</u>
Collectively impaired				
Property	<b>12,789</b>	11,027	<b>12,414</b>	11,027
Equity	<b>2</b>	2	<b>2</b>	2
Hold-out deposits	<b>-</b>	194	<b>-</b>	194
Others	<b>5,540</b>	6,041	<b>5,540</b>	6,041
	<b><u>18,331</u></b>	<u>17,264</u>	<b><u>17,956</u></b>	<u>17,264</u>
Past due but not impaired				
Property	<b>2,059</b>	2,046	<b>2,033</b>	2,038
Hold-out deposits	<b>2</b>	2	<b>2</b>	2
Others	<b>855</b>	643	<b>855</b>	643
	<b><u>2,916</u></b>	<u>2,691</u>	<b><u>2,890</u></b>	<u>2,683</u>
Neither past due nor impaired				
Property	<b>646,986</b>	531,536	<b>594,443</b>	476,470
Equity security	<b>163,076</b>	150,469	<b>162,383</b>	149,238
Hold-out deposits	<b>176,654</b>	122,117	<b>176,654</b>	122,009
Debt security	<b>4,311</b>	3,723	<b>3,713</b>	3,296
Others	<b>348,023</b>	343,960	<b>345,336</b>	343,459
	<b><u>1,339,050</u></b>	<u>1,151,805</u>	<b><u>1,282,529</u></b>	<u>1,094,472</u>
	<b><u>P 1,371,517</u></b>	<u>P 1,185,969</u>	<b><u>P 1,311,443</u></b>	<u>P 1,123,472</u>

As of December 31, 2017 and 2016, 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.



### 4.3.3 Concentrations of Credit Risk

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

#### BDO Unibank Group

	2017			2016 (As Restated - see Note 2.1)		
	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 504,779	P 195,923	P 212,314	P 491,324	P 150,735	P 174,628
Real estate activities	1	227,050	22,426	4	205,376	16,236
Wholesale and retail trade	-	237,104	1,336	-	206,205	581
Electricity, gas, steam and air-conditioning supply	-	200,952	-	-	137,381	-
Manufacturing	-	186,779	12,509	-	191,720	9,458
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	-	175,196	-	-	127,236	-
Transportation and storage	-	112,307	2,719	-	99,871	1,842
Arts, entertainment and recreation	-	68,853	-	-	54,401	-
Accommodation and food service activities	-	41,662	-	-	43,837	-
Information and communication	-	38,707	-	-	27,334	-
Construction	-	36,605	-	-	29,856	-
Mining and quarrying	-	24,054	-	-	9,632	-
Human health and social work activities	-	16,461	-	-	16,282	-
Education	-	13,614	-	-	10,840	-
Agriculture, forestry and fishing	-	13,007	-	-	14,054	-
Water supply, sewerage waste management and remediation activities	-	11,813	-	-	12,278	-
Professional, scientific and technical services	-	10,782	-	-	11,042	-
Administrative and support services	-	9,204	-	-	8,662	-
Public administrative and defense; compulsory social security	-	703	-	-	535	-
Activities of extraterritorial and organizations and bodies	-	66	-	-	66	-
Other service activities	641	134,046	58,005	660	124,661	49,944
	<b>P 505,421</b>	<b>P 1,754,888</b>	<b>P 309,309</b>	<b>P 491,988</b>	<b>P 1,482,004</b>	<b>P 252,689</b>
Concentration by location:						
Philippines	P 425,617	P 1,631,084	P 241,154	P 381,228	P 1,384,532	P 204,356
Others	79,804	123,804	68,155	110,760	97,472	48,333
	<b>P 505,421</b>	<b>P 1,754,888</b>	<b>P 309,309</b>	<b>P 491,988</b>	<b>P 1,482,004</b>	<b>P 252,689</b>

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

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

**Parent Bank**

	2017			2016		
	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 477,805	P 191,194	P 181,378	P 462,432	P 147,427	P 131,492
Wholesale and retail traded	-	231,386	1,281	-	201,026	528
Real estate activities	-	223,746	17,910	-	198,216	14,358
Manufacturing	-	183,382	9,903	-	186,870	6,825
Electricity, gas, steam and air-conditioning supply	-	200,106	-	-	136,018	-
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	-	168,423	-	-	122,716	-
Transportation and storage	-	108,496	2,403	-	93,783	1,723
Arts, entertainment and recreation	-	66,040	-	-	51,771	-
Accommodation and food service activities	-	41,307	-	-	43,570	-
Information and communication	-	38,081	-	-	26,691	-
Construction	-	32,032	-	-	25,319	-
Mining and quarrying	-	22,344	-	-	8,573	-
Human health and social work activities	-	15,724	-	-	15,506	-
Agriculture, forestry and fishing	-	11,342	-	-	11,434	-
Water supply, sewerage waste management and remediation activities	-	11,286	-	-	11,683	-
Professional, scientific and technical services	-	10,517	-	-	10,850	-
Administrative and support services	-	7,867	-	-	7,578	-
Education	-	5,201	-	-	3,259	-
Public administrative and defense; compulsory social security	-	639	-	-	431	-
Activities of extraterritorial and organizations bodies	-	66	-	-	66	-
Other service activities	-	131,720	39,475	-	123,662	49,374
	<b>P 477,805</b>	<b>P 1,700,899</b>	<b>P 252,350</b>	<b>P 462,432</b>	<b>P 1,426,449</b>	<b>P 204,300</b>
Concentration by location:						
Philippines	P 406,394	P 1,579,763	P 190,008	P 356,638	P 1,332,300	P 159,915
Others	71,411	121,136	62,342	105,794	94,149	44,385
	<b>P 477,805</b>	<b>P 1,700,899</b>	<b>P 252,350</b>	<b>P 462,432</b>	<b>P 1,426,449</b>	<b>P 204,300</b>

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

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

#### **4.4 Operational Risk**

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

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

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

##### ***Framework***

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

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

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

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

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

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

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

## 5. SEGMENT REPORTING

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

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

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

These segments are the 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.

In the 2015 segment reporting, the assets, liabilities, income and expenses of insurance brokerage entities are transferred to the insurance segment from others to conform to the 2016 grouping and classification.

Segment information (by service lines) as of and for the years ended December 31, 2017, 2016 and 2015 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
<b>December 31, 2017</b>								
<b>Statement of Income</b>								
Total interest income								
External	P 95,224	P 62	P 1,779	P 1,913	P 806	P 11	P -	P 99,795
Intersegment	<u>232</u>	<u>5</u>	<u>-</u>	<u>1</u>	<u>16</u>	<u>14</u>	<u>( 268)</u>	<u>-</u>
	<u>95,456</u>	<u>67</u>	<u>1,779</u>	<u>1,914</u>	<u>822</u>	<u>25</u>	<u>( 268)</u>	<u>99,795</u>
Total interest expense								
External	16,686	-	599	690	65	2	-	18,042
Intersegment	<u>23</u>	<u>48</u>	<u>-</u>	<u>154</u>	<u>-</u>	<u>43</u>	<u>( 268)</u>	<u>-</u>
	<u>16,709</u>	<u>48</u>	<u>599</u>	<u>844</u>	<u>65</u>	<u>45</u>	<u>( 268)</u>	<u>18,042</u>
Net interest income	<u>78,747</u>	<u>19</u>	<u>1,180</u>	<u>1,070</u>	<u>757</u>	<u>( 20)</u>	<u>-</u>	<u>81,753</u>
Other operating income								
Investment banking fees	-	1,766	-	-	-	-	-	1,766
Others	<u>34,646</u>	<u>412</u>	<u>855</u>	<u>1,242</u>	<u>12,642</u>	<u>457</u>	<u>( 4,814)</u>	<u>45,440</u>
	<u>34,646</u>	<u>2,178</u>	<u>855</u>	<u>1,242</u>	<u>12,642</u>	<u>457</u>	<u>( 4,814)</u>	<u>47,206</u>
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	<u>67,025</u>	<u>897</u>	<u>1,367</u>	<u>693</u>	<u>10,389</u>	<u>349</u>	<u>( 1,027)</u>	<u>79,693</u>
	<u>77,528</u>	<u>961</u>	<u>1,398</u>	<u>1,593</u>	<u>10,574</u>	<u>375</u>	<u>( 1,027)</u>	<u>91,402</u>
Profit before tax	35,865	1,236	637	719	2,825	62	( 3,787)	37,557
Tax expense	<u>8,138</u>	<u>340</u>	<u>223</u>	<u>148</u>	<u>587</u>	<u>16</u>	<u>-</u>	<u>9,452</u>
Net profit	<u>P 27,727</u>	<u>P 896</u>	<u>P 414</u>	<u>P 571</u>	<u>P 2,238</u>	<u>P 46</u>	<u>(P 3,787)</u>	<u>P 28,105</u>
<b>Statement of Financial Position</b>								
Total resources								
Segment assets	P 2,540,028	P 7,153	P 64,439	P 42,676	P 38,454	P 5,486	(P 46,038)	P 2,652,198
Intangible assets	5,374	134	26	29	32	1	2,907	8,503
Deferred tax assets (liabilities) - net	<u>7,441</u>	<u>( 182)</u>	<u>31</u>	<u>111</u>	<u>26</u>	<u>( 24)</u>	<u>-</u>	<u>7,403</u>
	<u>P 2,552,843</u>	<u>P 7,105</u>	<u>P 64,496</u>	<u>P 42,816</u>	<u>P 38,512</u>	<u>P 5,463</u>	<u>(P 43,131)</u>	<u>P 2,668,104</u>
Total liabilities	<u>P 2,250,781</u>	<u>P 2,690</u>	<u>P 59,147</u>	<u>P 37,374</u>	<u>P 31,391</u>	<u>P 2,292</u>	<u>(P 13,911)</u>	<u>P 2,369,764</u>
<b>Other segment information</b>								
Capital expenditures	<u>P 9,414</u>	<u>P 42</u>	<u>P 18</u>	<u>P 788</u>	<u>P 26</u>	<u>P 386</u>	<u>P -</u>	<u>P 10,674</u>
Investment in associates under equity method	<u>P 4,678</u>	<u>P -</u>	<u>P -</u>	<u>P 267</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 4,945</u>
Share in the profit of associates	<u>P 626</u>	<u>P -</u>	<u>P -</u>	<u>(P 14)</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 612</u>

December 31, 2016  
(As Restated - see Note 2.1)

Statement of Income

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
Total interest income								
External	P 78,062	P 88	P 1,434	P 1,751	P 691	P 11	P -	P 82,037
Intersegment	<u>127</u>	<u>3</u>	<u>-</u>	<u>1</u>	<u>8</u>	<u>1</u>	<u>(140)</u>	<u>-</u>
	<u>78,189</u>	<u>91</u>	<u>1,434</u>	<u>1,752</u>	<u>699</u>	<u>12</u>	<u>(140)</u>	<u>82,037</u>
Total interest expense								
External	15,278	1	436	627	71	-	-	16,413
Intersegment	<u>14</u>	<u>51</u>	<u>-</u>	<u>38</u>	<u>-</u>	<u>38</u>	<u>(141)</u>	<u>-</u>
	<u>15,292</u>	<u>52</u>	<u>436</u>	<u>665</u>	<u>71</u>	<u>38</u>	<u>(141)</u>	<u>16,413</u>
Net interest income	<u>62,897</u>	<u>39</u>	<u>998</u>	<u>1,087</u>	<u>628</u>	<u>(26)</u>	<u>1</u>	<u>65,624</u>
Other operating income								
Investment banking fees	-	1,215	-	-	-	-	-	1,215
Others	<u>28,643</u>	<u>297</u>	<u>1,181</u>	<u>1,100</u>	<u>10,138</u>	<u>585</u>	<u>(1,546)</u>	<u>40,398</u>
	<u>28,643</u>	<u>1,512</u>	<u>1,181</u>	<u>1,100</u>	<u>10,138</u>	<u>585</u>	<u>(1,546)</u>	<u>41,613</u>
Other operating expenses								
Depreciation and amortization	3,880	56	24	738	65	19	-	4,782
Impairment losses	3,367	158	-	50	240	-	-	3,815
Others	<u>54,409</u>	<u>817</u>	<u>1,254</u>	<u>647</u>	<u>8,269</u>	<u>287</u>	<u>(477)</u>	<u>65,206</u>
	<u>61,656</u>	<u>1,031</u>	<u>1,278</u>	<u>1,435</u>	<u>8,574</u>	<u>306</u>	<u>(477)</u>	<u>73,803</u>
Profit before pre-acquisition	29,884	520	901	752	2,192	253	(1,068)	33,434
Pre-acquisition income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(391)</u>	<u>(391)</u>
Profit before tax	29,884	520	901	752	2,192	253	(1,459)	33,043
Tax expense	<u>5,759</u>	<u>201</u>	<u>219</u>	<u>181</u>	<u>429</u>	<u>8</u>	<u>-</u>	<u>6,797</u>
Net profit	<u>P 24,125</u>	<u>P 319</u>	<u>P 682</u>	<u>P 571</u>	<u>P 1,763</u>	<u>P 245</u>	<u>(P 1,459)</u>	<u>P 26,246</u>

Statement of Financial Position

Total resources								
Segment assets	P 2,205,184	P 5,794	P 62,258	P 38,802	P 30,087	P 5,270	(P 37,100)	P 2,310,295
Intangible assets	5,212	135	26	43	46	1	2,907	8,370
Deferred tax assets								
(liability) - net	<u>6,455</u>	<u>(184)</u>	<u>37</u>	<u>41</u>	<u>11</u>	<u>(26)</u>	<u>-</u>	<u>6,334</u>
	<u>P 2,216,851</u>	<u>P 5,745</u>	<u>P 62,321</u>	<u>P 38,886</u>	<u>P 30,144</u>	<u>P 5,245</u>	<u>(P 34,193)</u>	<u>P 2,324,999</u>
Total liabilities	<u>P 1,997,541</u>	<u>P 2,378</u>	<u>P 57,064</u>	<u>P 33,536</u>	<u>P 24,747</u>	<u>P 1,968</u>	<u>(P 9,794)</u>	<u>P 2,107,440</u>
Other segment information								
Capital expenditures	<u>P 5,808</u>	<u>P 22</u>	<u>P 24</u>	<u>P 941</u>	<u>P 95</u>	<u>P 264</u>	<u>P -</u>	<u>P 7,154</u>
Investment in associates under equity method	<u>P 4,169</u>	<u>P -</u>	<u>P -</u>	<u>P 280</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 4,449</u>
Share in the profit of associates	<u>P 501</u>	<u>P -</u>	<u>P -</u>	<u>(P 20)</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 481</u>



	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2015, (As Restated - see Note 2.1)								
Statement of Income								
Total interest income								
External	P 69,204	P 83	P 1,215	P 1,566	P -	P 59	P -	P 72,127
Intersegment	<u>207</u>	<u>2</u>	<u>-</u>	<u>1</u>	<u>8</u>	<u>- 1</u>	<u>( 219)</u>	<u>-</u>
	<u>69,411</u>	<u>85</u>	<u>1,215</u>	<u>1,567</u>	<u>8</u>	<u>60</u>	<u>( 219)</u>	<u>72,127</u>
Total interest expense								
External	14,410	1	289	466	-	-	-	15,166
Intersegment	<u>17</u>	<u>70</u>	<u>-</u>	<u>99</u>	<u>-</u>	<u>35</u>	<u>( 221)</u>	<u>-</u>
	<u>14,427</u>	<u>71</u>	<u>289</u>	<u>565</u>	<u>-</u>	<u>35</u>	<u>( 221)</u>	<u>15,166</u>
Net interest income	<u>54,984</u>	<u>14</u>	<u>926</u>	<u>1,002</u>	<u>8</u>	<u>25</u>	<u>2</u>	<u>56,961</u>
Other operating income								
Investment banking fees	-	1,110	-	-	-	-	-	1,110
Others	<u>29,181</u>	<u>363</u>	<u>1,096</u>	<u>1,039</u>	<u>1,249</u>	<u>441</u>	<u>( 2,639)</u>	<u>30,730</u>
	<u>29,181</u>	<u>1,473</u>	<u>1,096</u>	<u>1,039</u>	<u>1,249</u>	<u>441</u>	<u>( 2,639)</u>	<u>31,840</u>
Other operating expenses								
Depreciation and amortization	3,161	54	48	670	14	14	-	3,961
Impairment losses	2,887	2	25	83	2	1	-	3,000
Others	<u>48,109</u>	<u>640</u>	<u>1,060</u>	<u>564</u>	<u>635</u>	<u>316</u>	<u>( 141)</u>	<u>51,183</u>
	<u>54,157</u>	<u>696</u>	<u>1,133</u>	<u>1,317</u>	<u>651</u>	<u>331</u>	<u>( 141)</u>	<u>58,144</u>
Profit before tax	30,008	791	889	724	606	135	( 2,496)	30,657
Tax expense	<u>4,875</u>	<u>234</u>	<u>221</u>	<u>167</u>	<u>179</u>	<u>25</u>	<u>-</u>	<u>5,701</u>
Net profit	<u>P 25,133</u>	<u>P 557</u>	<u>P 668</u>	<u>P 557</u>	<u>P 427</u>	<u>P 110</u>	<u>( P 2,496)</u>	<u>P 24,956</u>
Statement of Financial Position								
Total resources								
Segment assets	P 1,953,558	P 6,856	P 51,527	P 34,510	P 957	P 6,644	( P 36,386)	P 2,017,666
Intangible assets	4,517	102	13	51	26	2	2,903	7,614
Deferred tax assets (liabilities) - net	<u>6,271</u>	<u>( 216)</u>	<u>58</u>	<u>( 14)</u>	<u>10</u>	<u>( 30)</u>	<u>-</u>	<u>6,079</u>
	<u>P 1,964,346</u>	<u>P 6,742</u>	<u>P 51,598</u>	<u>P 34,547</u>	<u>P 993</u>	<u>P 6,616</u>	<u>( P 33,483)</u>	<u>P 2,031,359</u>
Total liabilities	<u>P 1,761,203</u>	<u>P 5,082</u>	<u>P 46,024</u>	<u>P 29,331</u>	<u>P 777</u>	<u>P 1,641</u>	<u>( P 12,417)</u>	<u>P 1,831,641</u>
Other segment information								
Capital expenditures	<u>P 8,919</u>	<u>P 20</u>	<u>P 17</u>	<u>P 1,150</u>	<u>P 4</u>	<u>P 141</u>	<u>P -</u>	<u>P 10,251</u>
Investment in associates under equity method	<u>P 5,656</u>	<u>P 85</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 5,741</u>
Share in the profit of associates	<u>P 817</u>	<u>P 20</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 837</u>

Currently, BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong, 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 1.2%, 1.1% and 1.1% of BDO Unibank Group's total revenues in 2017, 2016 and 2015, respectively, and 1.4% and 1.2% of BDO Unibank Group's total resources as of December 31, 2017 and 2016, respectively (see Note 1.1).

## 6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.1 Comparison of Carrying Amounts and Fair Values

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

#### **BDO Unibank Group**

		2017			
		<u>Classes</u>			
		<u>At Amortized Cost</u>	<u>At Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets					
Loans and receivables:					
Cash and other cash items	P	45,006	P -	P 45,006	P 45,006
Due from BSP		353,308	-	353,308	353,308
Due from other banks		51,479	-	51,479	51,479
Loans and other receivables		1,791,786	-	1,791,786	1,806,119
Other resources		5,555	-	5,555	5,955
Financial assets at FVTPL		-	14,710	14,710	14,710
AFS securities*		-	119,387	119,387	119,387
HTM investments		<u>197,198</u>	<u>-</u>	<u>197,198</u>	<u>197,211</u>
		<b><u>P 2,444,332</u></b>	<b><u>P 134,097</u></b>	<b><u>P 2,578,429</u></b>	<b><u>P 2,593,175</u></b>
Financial liabilities					
At amortized cost:					
Deposit liabilities	P	2,121,012	P -	P 2,121,012	P 2,135,373
Bills payable		130,484	-	130,484	129,802
Subordinated notes payable		10,030	-	10,030	9,996
Insurance contract liabilities		25,986	-	25,986	25,986
Other liabilities		69,615	-	69,615	69,615
At fair value –					
Other liabilities		<u>-</u>	<u>3,750</u>	<u>3,750</u>	<u>3,750</u>
		<b><u>P 2,357,127</u></b>	<b><u>P 3,750</u></b>	<b><u>P 2,360,877</u></b>	<b><u>P 2,374,522</u></b>
		2016 (As Restated – see Note 2.1)			
		<u>Classes</u>			
		<u>At Amortized Cost</u>	<u>At Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets					
Loans and receivables:					
Cash and other cash items	P	40,909	P -	P 40,909	P 40,909
Due from BSP		318,002	-	318,002	318,008
Due from other banks		41,794	-	41,794	41,794
Loans and other receivables		1,573,965	-	1,573,965	1,582,419
Other resources		5,932	-	5,932	6,332
Financial assets at FVTPL		-	14,024	14,024	14,024
AFS securities*		-	107,889	107,889	107,889
HTM investments		<u>146,886</u>	<u>-</u>	<u>146,886</u>	<u>146,853</u>
		<b><u>P 2,127,488</u></b>	<b><u>P 121,913</u></b>	<b><u>P 2,249,401</u></b>	<b><u>P 2,258,228</u></b>

BDO Unibank Group

2016 (As Restated – see Note 2.1)				
Classes				
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 1,905,204	P -	P 1,905,204	P 1,908,327
Bills payable	100,556	-	100,556	100,296
Subordinated notes payable	10,030	-	10,030	10,088
Insurance contract liabilities	20,565	-	20,565	20,565
Other liabilities	60,387	-	60,387	60,387
At fair value –				
Other liabilities	-	5,475	5,475	5,475
	<u>P 2,096,742</u>	<u>P 5,475</u>	<u>P 2,102,217</u>	<u>P 2,105,138</u>

Parent Bank

2017				
Classes				
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 43,882	P -	P 43,882	P 43,882
Due from BSP	340,596	-	340,596	340,596
Due from other banks	41,088	-	41,088	41,088
Loans and other receivables	1,730,732	-	1,730,732	1,746,202
Other resources	4,241	-	4,241	4,641
Financial assets at FVTPL	-	4,260	4,260	4,260
AFS securities*	-	70,049	70,049	70,049
HTM investments	183,722	-	183,722	183,918
	<u>P 2,344,261</u>	<u>P 74,309</u>	<u>P 2,418,570</u>	<u>P 2,434,636</u>
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,045,321	P -	P 2,045,321	P 2,055,400
Bills payable	105,623	-	105,623	105,141
Subordinated notes payable	10,030	-	10,030	9,996
Other liabilities	56,834	-	56,834	56,834
At fair value –				
Other liabilities	-	1,798	1,798	1,798
	<u>P 2,217,808</u>	<u>P 1,798</u>	<u>P 2,219,606</u>	<u>P 2,229,169</u>

## Parent Bank

		2016			
		Classes			
		At Amortized	At Fair	Carrying	Fair
		Cost	Value	Amount	Value
Financial assets					
Loans and receivables:					
Cash and other cash items	P	39,813	P -	P 39,813	P 39,813
Due from BSP		304,285	-	304,285	304,291
Due from other banks		33,463	-	33,463	33,463
Loans and other receivables		1,511,981	-	1,511,981	1,525,420
Other resources		3,740	-	3,740	4,140
Financial assets at FVTPL		-	4,298	4,298	4,298
AFS securities*		-	62,446	62,446	62,446
HTM investments		<u>140,951</u>	<u>-</u>	<u>140,951</u>	<u>140,990</u>
		<u>P 2,034,233</u>	<u>P 66,744</u>	<u>P 2,100,977</u>	<u>P 2,114,861</u>
Financial liabilities					
At amortized cost:					
Deposit liabilities	P	1,833,013	P -	P 1,833,013	P 1,832,464
Bills payable		75,800	-	75,800	75,556
Subordinated notes payable		10,030	-	10,030	10,088
Other liabilities		49,298	-	49,298	49,298
At fair value –					
Other liabilities		<u>-</u>	<u>1,818</u>	<u>1,818</u>	<u>1,818</u>
		<u>P 1,968,141</u>	<u>P 1,818</u>	<u>P 1,969,959</u>	<u>P 1,969,224</u>

\* Unquoted AFS securities (amounting to P1,632 and P243 for BDO Unibank Group in 2017 and 2016, respectively, and P183 and P191 for the Parent Bank in 2017 and 2016, respectively) have no available fair value data, hence, are excluded for the purpose of this disclosure.

## 6.2 Fair Value Hierarchy

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

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

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

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

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

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

### 6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2017 and 2016 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted debt and equity securities classified as AFS securities amounting to P1,632 and P243 as of December 31, 2017 and 2016, respectively, in BDO Unibank Group financial statements and P183 and P191 as of December 31, 2017 and 2016, respectively, in the Parent Bank's financial statements are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

#### BDO Unibank Group

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2017</u></b>					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 5,024	P -	P 5,024
Equity securities – quoted		4,433	-	-	4,433
Government bonds		3,139	-	-	3,139
Other debt securities		469	1,645	-	2,114
		<u>8,041</u>	<u>6,669</u>	<u>-</u>	<u>14,710</u>
AFS securities – net:	9.2				
Government debt securities		55,529	-	-	55,529
Other debt securities		48,159	-	-	48,159
Equity securities – quoted		15,543	156	-	15,699
		<u>119,231</u>	<u>156</u>	<u>-</u>	<u>119,387</u>
		<u>P 127,272</u>	<u>P 6,825</u>	<u>P -</u>	<u>P 134,097</u>
Liabilities –					
Derivatives with negative fair values	19	P 38	P 3,712	P -	P 3,750

BDO Unibank Group

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2016</u>					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets	P	-	P 6,845	P -	P 6,845
Government bonds		3,001	-	-	3,001
Equity securities – quoted		2,337	-	-	2,337
Other debt securities		<u>1,841</u>	<u>-</u>	<u>-</u>	<u>1,841</u>
		<u>7,179</u>	<u>6,845</u>	<u>-</u>	<u>14,024</u>
AFS securities – net:	9.2				
Government debt securities		49,457	-	-	49,457
Other debt securities		44,169	-	-	44,169
Equity securities – quoted		<u>14,124</u>	<u>139</u>	<u>-</u>	<u>14,263</u>
		<u>107,750</u>	<u>139</u>	<u>-</u>	<u>107,889</u>
		<u>P 114,929</u>	<u>P 6,984</u>	<u>P -</u>	<u>P 121,913</u>
Liabilities –					
Derivatives with negative fair values	19	<u>P 65</u>	<u>P 5,410</u>	<u>P -</u>	<u>P 5,475</u>

Parent Bank

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2017</u>					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets	P	-	P 2,279	P -	P 2,279
Government bonds		1,976	-	-	1,976
Other debt securities		<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>
		<u>1,981</u>	<u>2,279</u>	<u>-</u>	<u>4,260</u>
AFS securities – net:	9.2				
Government debt securities		31,938	-	-	31,938
Other debt securities		34,285	-	-	34,285
Equity securities – quoted		<u>3,673</u>	<u>153</u>	<u>-</u>	<u>3,826</u>
		<u>69,896</u>	<u>153</u>	<u>-</u>	<u>70,049</u>
		<u>P 71,877</u>	<u>P 2,432</u>	<u>P -</u>	<u>P 74,309</u>
Liabilities:					
Derivatives with negative fair values	19	<u>P 38</u>	<u>P 1,760</u>	<u>P -</u>	<u>P 1,798</u>



Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
<u>December 31, 2016</u>					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 2,260	P -	P 2,260
Government bonds		2,031	-	-	2,031
Other debt securities		<u>7</u>	<u>-</u>	<u>-</u>	<u>7</u>
		<u>2,038</u>	<u>2,260</u>	<u>-</u>	<u>4,298</u>
AFS securities – net:	9.2				
Government debt securities		26,395	-	-	26,395
Other debt securities		32,165	-	-	32,165
Equity securities – quoted		<u>3,747</u>	<u>139</u>	<u>-</u>	<u>3,886</u>
		<u>62,307</u>	<u>139</u>	<u>-</u>	<u>62,446</u>
		<u>P 64,345</u>	<u>P 2,399</u>	<u>P -</u>	<u>P 66,744</u>
Liabilities:					
Derivatives with negative fair values	19	<u>P 65</u>	<u>P 1,753</u>	<u>P -</u>	<u>P 1,818</u>

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

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

(a) Equity securities

As of December 31, 2017 and 2016, instruments included in Level 1 consist of quoted equity securities classified as financial assets at FVTPL or AFS securities. These securities were valued based on their closing prices on the PSE.

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

(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) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals, the simple average of all firm bids per benchmark tenor or interpolated yields. This is consistent with BSP Circular No. 813, *Amendment on Market Valuation of Government Securities*, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

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

Other debt securities categorized within Level 2 comprised mostly of investments in unit investment trust funds (UITFs) classified as financial assets at FVTPL. The fair value of investments in UITFs has been determined based on the net asset value per unit of the fund which uses a mark-to-market valuation.

(c) Derivatives

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

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

The table below and in the succeeding page summarizes the fair value hierarchy of BDO Unibank Group and Parent Bank's financial assets and financial liabilities, which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

**BDO Unibank Group**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2017</u></b>				
Resources:				
Cash and other cash items	P 45,006	P -	P -	P 45,006
Due from BSP	353,308	-	-	353,308
Due from other banks	51,479	-	-	51,479
Loans and other receivable	-	-	1,806,119	1,806,119
HTM investments	197,211	-	-	197,211
Other resources	<u>4,961</u>	<u>-</u>	<u>994</u>	<u>5,955</u>
	<b><u>P 651,965</u></b>	<b><u>P -</u></b>	<b><u>P 1,807,113</u></b>	<b><u>P 2,459,078</u></b>
Liabilities:				
Deposit liabilities	P 2,014,201	P 121,172	P -	P 2,135,373
Bills payable	-	129,802	-	129,802
Insurance contract liabilities	-	-	25,986	25,986
Subordinated notes payable	-	9,996	-	9,996
Other liabilities	<u>-</u>	<u>-</u>	<u>69,615</u>	<u>69,615</u>
	<b><u>P 2,014,201</u></b>	<b><u>P 260,970</u></b>	<b><u>P 95,601</u></b>	<b><u>P 2,370,772</u></b>
December 31, 2016 (As Restated - see Note 2.1)				
Resources:				
Cash and other cash items	P 40,909	P -	P -	P 40,909
Due from BSP	318,008	-	-	318,008
Due from other banks	41,794	-	-	41,794
Loans and other receivable	-	-	1,582,419	1,582,419
HTM investments	146,853	-	-	146,853
Other resources	<u>5,563</u>	<u>-</u>	<u>769</u>	<u>6,332</u>
	<b><u>P 553,127</u></b>	<b><u>P -</u></b>	<b><u>P 1,583,188</u></b>	<b><u>P 2,136,315</u></b>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities:				
Deposit liabilities	P 1,800,148	P 108,179	P -	P 1,908,327
Bills payable	29,460	70,836	-	100,296
Insurance contract liabilities	-	-	20,565	20,565
Subordinated notes payable	-	10,088	-	10,088
Other liabilities	-	-	60,387	60,387
	<u>P 1,829,608</u>	<u>P 189,103</u>	<u>P 80,952</u>	<u>P 2,099,663</u>

### **Parent Bank**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2017</u></b>				
Resources:				
Cash and other cash items	<b>P 43,882</b>	<b>P -</b>	<b>P -</b>	<b>P 43,882</b>
Due from BSP	340,596	-	-	340,596
Due from other banks	41,088	-	-	41,088
HTM investments	183,918	-	-	183,918
Loans and other receivables	-	-	1,746,202	1,746,202
Other resources	3,970	-	671	4,641
	<u><b>P 613,454</b></u>	<u><b>P -</b></u>	<u><b>P 1,746,873</b></u>	<u><b>P 2,360,327</b></u>
Liabilities:				
Deposit liabilities	<b>P 1,944,020</b>	<b>P 111,380</b>	<b>P -</b>	<b>P 2,055,400</b>
Bills payable	-	105,141	-	105,141
Subordinated notes payable	-	9,996	-	9,996
Other liabilities	-	-	56,834	56,834
	<u><b>P 1,944,020</b></u>	<u><b>P 226,517</b></u>	<u><b>P 56,834</b></u>	<u><b>P 2,227,371</b></u>

### **December 31, 2016**

Resources:				
Cash and other cash items	P 39,813	P -	P -	P 39,813
Due from BSP	304,291	-	-	304,291
Due from other banks	33,463	-	-	33,463
HTM investments	140,990	-	-	140,990
Loans and other receivables	-	-	1,525,420	1,525,420
Other resources	3,468	-	672	4,140
	<u>P 522,025</u>	<u>P -</u>	<u>P 1,526,092</u>	<u>P 2,048,117</u>
Liabilities:				
Deposit liabilities	P 1,729,673	P 102,791	P -	P 1,832,464
Bills payable	29,460	46,096	-	75,556
Subordinated notes payable	-	10,088	-	10,088
Other liabilities	-	-	49,298	49,298
	<u>P 1,759,133</u>	<u>P 158,975</u>	<u>P 49,298</u>	<u>P 1,967,406</u>

For financial assets and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(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) *AFS Securities and HTM Investments*

The fair value of AFS securities and HTM investments are determined by direct reference to published price quoted in an active market for traded debt and equity securities. On the other hand, unquoted AFS securities are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Currently, there is no available market to sell the unquoted equity AFS securities. BDO Unibank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(c) *Loans and Other Receivables*

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

(d) *Deposits and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of Senior Notes presented as part of Bills Payable account in the statements of financial position is computed based on the average of ask and bid prices as appearing on Bloomberg.

(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, 2017 and 2016 are shown below.

### BDO Unibank Group

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2017</u></b>				
Investment properties				
Land	P -	P -	P 17,544	P 17,544
Building and improvements	-	-	13,917	13,917
Non-current assets held for sale	<u>-</u>	<u>-</u>	<u>672</u>	<u>672</u>
	<u>P -</u>	<u>P -</u>	<u>P 32,133</u>	<u>P 32,133</u>
<b><u>December 31, 2016</u></b>				
Investment properties				
Land	P -	P -	P 15,184	P 15,184
Building and improvements	-	-	11,095	11,095
Non-current assets held for sale	<u>-</u>	<u>-</u>	<u>661</u>	<u>661</u>
	<u>P -</u>	<u>P -</u>	<u>P 26,940</u>	<u>P 26,940</u>

### Parent Bank

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2017</u></b>				
Investment properties				
Land	P -	P -	P 15,774	P 15,774
Building and improvements	-	-	11,492	11,492
Non-current assets held for sale	<u>-</u>	<u>-</u>	<u>661</u>	<u>661</u>
	<u>P -</u>	<u>P -</u>	<u>P 27,927</u>	<u>P 27,927</u>
<b><u>December 31, 2016</u></b>				
Investment properties				
Land	P -	P -	P 13,845	P 13,845
Building and improvements	-	-	8,900	8,900
Non-current assets held for sale	<u>-</u>	<u>-</u>	<u>660</u>	<u>660</u>
	<u>P -</u>	<u>P -</u>	<u>P 23,405</u>	<u>P 23,405</u>

The fair value of the investment properties of the BDO Unibank Group and the Parent Bank as of December 31, 2017 and 2016 (see Note 12) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of the BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers were used by the BDO Unibank Group and the Parent Bank in determining the fair value of discounted cash flows of the Investment Properties.

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

(a) *Fair Value Measurement for Land*

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

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

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

(c) *Fair Value Measurement for Assets held for sale*

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

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2017 and 2016.



## 6.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2017 and 2016 are subject to offsetting, enforceable master netting arrangements and similar agreements:

### BDO Unibank Group

	<u>Financial Assets</u>	<u>Financial Liabilities Available for Set-off</u>	<u>Collateral Received</u>	<u>Net Amount</u>
<b><u>December 31, 2017</u></b>				
AFS securities	P 1,912	P 857	P -	P 1,055
HTM securities	1,075	907	-	168
<b>Financial assets at FVTPL:</b>				
Currency swaps	310	282	-	28
Interest rate swaps	90	35	-	55
<b>Loans and receivables –</b>				
Receivables from customers	<u>65,327</u>	<u>558</u>	<u>63,950</u>	<u>819</u>
	<b><u>P 68,714</u></b>	<b><u>P 2,639</u></b>	<b><u>P 63,950</u></b>	<b><u>P 2,125</u></b>
<b><u>December 31, 2016</u></b>				
AFS securities	P 1,970	P 309	P -	P 1,661
HTM securities	780	602	-	178
<b>Financial assets at FVTPL:</b>				
Currency swaps	2,846	710	-	2,136
Interest rate swaps	57	57	-	-
<b>Loans and receivables –</b>				
Receivables from customers	44,494	889	42,647	958
<b>Other resources –</b>				
Margin deposits	<u>2,087</u>	<u>2,087</u>	<u>-</u>	<u>-</u>
	<b><u>P 52,234</u></b>	<b><u>P 4,654</u></b>	<b><u>P 42,647</u></b>	<b><u>P 4,933</u></b>

**Parent Bank**

	<u>Financial Assets</u>	<u>Financial Liabilities Available for Set-off</u>	<u>Collateral Received</u>	<u>Net Amount</u>
<b><u>December 31, 2017</u></b>				
HTM securities	P 1,075	P 907	P -	P 168
<b>Financial assets at FVTPL:</b>				
Interest rate swaps	55	-	-	55
<b>Loans and receivables –</b>				
Receivables from customers	<u>63,864</u>	<u>-</u>	<u>63,864</u>	<u>-</u>
	<b><u>P 64,994</u></b>	<b><u>P 907</u></b>	<b><u>P 63,864</u></b>	<b><u>P 223</u></b>
<b><u>December 31, 2016</u></b>				
HTM securities	P 780	P 602	P -	P 178
<b>Financial assets at FVTPL:</b>				
Currency swaps	11	11	-	-
Interest rate swaps	30	30	-	-
<b>Loans and receivables –</b>				
Receivables from customers	<u>42,243</u>	<u>-</u>	<u>42,243</u>	<u>-</u>
	<b><u>P 43,064</u></b>	<b><u>P 643</u></b>	<b><u>P 42,243</u></b>	<b><u>P 178</u></b>

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

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

**BDO Unibank Group**

	<u>Financial Liabilities</u>	<u>Financial Assets Available for Set-off</u>	<u>Collateral Given</u>	<u>Net Amount</u>
<b><u>December 31, 2017</u></b>				
Deposit liabilities	P 165,234	P 63,950	P -	P 101,284
Bills payable	2,322	-	2,322	-
<b>Derivatives with negative fair values:</b>				
Currency swaps	1,267	282	985	-
Interest rate swaps	<u>95</u>	<u>35</u>	<u>-</u>	<u>60</u>
	<b><u>P 168,918</u></b>	<b><u>P 64,267</u></b>	<b><u>P 3,307</u></b>	<b><u>P 101,344</u></b>

	<u>Financial Liabilities</u>	<u>Financial Assets Available for Set-off</u>	<u>Collateral Given</u>	<u>Net Amount</u>
<u>December 31, 2016</u>				
Deposit liabilities	P 99,443	P 42,647	P -	P 56,796
Bills payable	1,800	-	1,800	-
Derivatives with negative fair values:				
Currency forwards	2,087	-	2,087	-
Currency swaps	710	710	-	-
Interest rate swaps	<u>71</u>	<u>57</u>	<u>-</u>	<u>14</u>
	<u>P 104,111</u>	<u>P 43,414</u>	<u>P 3,887</u>	<u>P 56,810</u>

Parent Bank

	<u>Financial Liabilities</u>	<u>Financial Assets Available for Set-off</u>	<u>Collateral Given</u>	<u>Net Amount</u>
<u>December 31, 2017</u>				
Deposit liabilities	P 165,147	P 63,864	P -	P 101,283
Bills payable	907	-	907	-
Derivatives with negative fair values –				
Interest rate swaps	<u>51</u>	<u>-</u>	<u>-</u>	<u>51</u>
	<u>P 166,105</u>	<u>P 63,864</u>	<u>P 907</u>	<u>P 101,334</u>

<u>December 31, 2016</u>				
Deposit liabilities	P 99,111	P 42,243	P -	P 56,868
Bills payable	602	-	602	-
Derivatives with negative fair values:				
Currency swaps	19	11	-	8
Interest rate swaps	<u>37</u>	<u>30</u>	<u>-</u>	<u>7</u>
	<u>P 99,769</u>	<u>P 42,284</u>	<u>P 602</u>	<u>P 56,883</u>

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

## 7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Cash and other cash items	<u>P 45,006</u>	<u>P 40,909</u>	<u>P 43,882</u>	<u>P 39,813</u>
Due from BSP:				
Mandatory reserves	<u>333,302</u>	<u>292,720</u>	<u>324,794</u>	<u>284,685</u>
Other than mandatory reserves	<u>20,006</u>	<u>25,282</u>	<u>15,802</u>	<u>19,600</u>
	<u>353,308</u>	<u>318,002</u>	<u>340,596</u>	<u>304,285</u>
	<u><b>P 398,314</b></u>	<u><b>P 358,911</b></u>	<u><b>P 384,478</b></u>	<u><b>P 344,098</b></u>

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims (see Note 15). Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate ranging from 2.5% to 3.5% in 2017 and annual interest rate of 2.5% both in 2016 and 2015. Total interest income earned amounted to P1,441, P564 and P738 in 2017, 2016 and 2015, respectively, in BDO Unibank Group's financial statements and P1,165, P474 and P592 in 2017, 2016 and 2015, respectively, in the Parent Bank's financial statements (see Note 21).

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

## 8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Foreign banks	<u>P 48,740</u>	<u>P 37,357</u>	<u>P 39,969</u>	<u>P 32,881</u>
Local banks	<u>2,739</u>	<u>4,437</u>	<u>1,119</u>	<u>582</u>
	<u><b>P 51,479</b></u>	<u><b>P 41,794</b></u>	<u><b>P 41,088</b></u>	<u><b>P 33,463</b></u>

The breakdown of this account as to currency follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
U.S. dollars	<u>P 38,049</u>	<u>P 28,587</u>	<u>P 29,620</u>	<u>P 24,873</u>
Other foreign currencies	<u>12,450</u>	<u>9,773</u>	<u>11,411</u>	<u>8,551</u>
Philippine pesos	<u>980</u>	<u>3,434</u>	<u>57</u>	<u>39</u>
	<u><b>P 51,479</b></u>	<u><b>P 41,794</b></u>	<u><b>P 41,088</b></u>	<u><b>P 33,463</b></u>

Annual interest rates on these deposits range from 0.00% to 3.00% in 2017, from 0.01% to 2.38% in 2016, and from 0.01% to 1.50% in 2015 in BDO Unibank Group's financial statements and from 0.00% to 1.35% in 2017, from 0.01% to 1.05% in 2016, and from 0.01% to 0.80% in 2015 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 P301, P132, and P57 in 2017, 2016, and 2015, respectively, in BDO Unibank Group's financial statements and P234, P91, and P43 in 2017, 2016, and 2015, respectively, in the Parent Bank's financial statements (see Note 21).

Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

## 9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

	Notes	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
		<b>2017</b>	2016	<b>2017</b>	2016
Financial assets					
at FVTPL	9.1	<b>P 14,710</b>	P 14,024	<b>P 4,260</b>	P 4,298
AFS securities – net	9.2	<b>121,019</b>	108,132	<b>70,232</b>	62,637
HTM investments	9.3	<b>197,198</b>	146,886	<b>183,722</b>	140,951
		<b><u>P 332,927</u></b>	<u>P 269,042</u>	<b><u>P 258,214</u></b>	<u>P 207,886</u>

### 9.1 Financial Assets at FVTPL

This account is composed of the following:

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
Derivative financial assets	<b>P 5,024</b>	P 6,845	<b>P 2,279</b>	P 2,260
Government bonds	<b>3,139</b>	3,001	<b>1,976</b>	2,031
Other debt securities	<b>2,114</b>	1,841	<b>5</b>	7
	<b>10,277</b>	11,687	<b>4,260</b>	4,298
Equity securities – quoted	<b>4,433</b>	2,337	<b>-</b>	-
	<b><u>P 14,710</u></b>	<u>P 14,024</u>	<b><u>P 4,260</u></b>	<u>P 4,298</u>

All financial assets at FVTPL are held for trading. For government bonds and other debt securities, the amounts presented have been determined either directly or indirectly by reference to published prices quoted in an active market. On the other hand, the fair value of certain derivative financial assets is determined through valuation technique using net present value of future cash flows method. BDO Unibank Group recognized total fair value gain (loss) on financial assets at FVTPL amounting to P199, P96, and P121 in 2017, 2016, and 2015, respectively, in BDO Unibank Group's financial statements and P67, (P45), and P167 in 2017, 2016, and 2015, respectively, in the Parent Bank's financial statements. These are included as part of Trading gains under Other Operating Income account in the statements of income (see Note 23). The BDO Unibank Group's government bonds and other debt securities earn interest at annual rates ranging from 0.00% to 10.63% and from 0.09% to 10.63% in 2017 and 2016, respectively, while the Parent Bank's government bonds and other debt securities earn interest at annual rates ranging from 0.38% to 10.63% in 2017 and 2016, respectively.

Foreign currency-denominated securities amounted to P5,181 and P4,091 as of December 31, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P3,689 and P2,917 as of December 31, 2017 and 2016, respectively, in the Parent Bank's financial statements.

Derivative instruments used by BDO Unibank Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Foreign currency and interest rate forwards/futures represent commitments to purchase/sell or contractual obligations to receive or pay a new amount based on changes in currency rates or interest rates on a future date at a specified price. Foreign currency and interest rate swaps are commitments to exchange one set of cash flows for another.

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and financial liabilities are shown below [see Notes 19 and 25 (d)(4)].

**BDO Unibank Group**

	2017			2016		
	Notional Amount	Fair Values		Notional Amount	Fair Values	
		Assets	Liabilities		Assets	Liabilities
Currency forwards/futures	P 234,561	P 1,868	P 1,433	P 111,834	P 853	P 799
Gross currency swaps	31,123	2,987	2,144	57,612	5,806	4,533
Interest rate swaps	32,962	169	135	39,399	186	105
Republic of the Philippines (ROP) warrants	15,021	-	38	15,021	-	38
Others	604	-	-	192	-	-
	<u>P 314,271</u>	<u>P 5,024</u>	<u>P 3,750</u>	<u>P 224,058</u>	<u>P 6,845</u>	<u>P 5,475</u>

**Parent Bank**

	2017			2016		
	Notional Amount	Fair Values		Notional Amount	Fair Values	
		Assets	Liabilities		Assets	Liabilities
Currency forwards/futures	P 229,429	P 1,741	P 1,433	P 104,920	P 843	P 715
Gross currency swaps	8,239	483	276	17,993	1,341	1,022
Interest rate swaps	12,526	55	51	19,581	76	43
ROP warrants	15,021	-	38	15,021	-	38
	<u>P 265,215</u>	<u>P 2,279</u>	<u>P 1,798</u>	<u>P 157,515</u>	<u>P 2,260</u>	<u>P 1,818</u>

**9.2 AFS Securities**

AFS securities consist of the following:

	Note	BDO Unibank Group		Parent Bank	
		2017	2016	2017	2016
Government debt securities		P 55,529	P 49,478	P 31,937	P 26,416
Other debt securities:					
Quoted		48,159	45,289	34,285	33,285
Not quoted		243	243	243	243
Equity securities:					
Quoted		18,291	16,711	5,858	5,918
Not quoted		2,127	729	559	563
		<u>124,349</u>	<u>112,450</u>	<u>72,882</u>	<u>66,425</u>
Allowance for impairment	14	( 3,330)	( 4,318)	( 2,650)	( 3,788)
		<u>P 121,019</u>	<u>P 108,132</u>	<u>P 70,232</u>	<u>P 62,637</u>

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

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Foreign currencies	<b>P 72,443</b>	P 70,746	<b>P 57,078</b>	P 53,862
Philippine peso	<b>48,576</b>	37,386	<b>13,154</b>	8,775
	<b><u>P 121,019</u></b>	<u>P 108,132</u>	<b><u>P 70,232</u></b>	<u>P 62,637</u>

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 0.0% to 12.1% in 2017, from 2.0% to 12.1% in 2016 and from 0.0% to 11.6% in 2015 for BDO Unibank Group's financial statements while from 2.1% to 10.6% in 2017, from 2.0% to 10.6% in 2016, and from 1.6% to 11.6% in 2015 in the Parent Bank's financial statements.

As of December 31, 2017 and 2016, other debt securities also include investments in foreign financial institutions under bankruptcy amounting to nil and P1,107, respectively, in the Parent Bank's financial statements. These investments are fully provided with allowance for impairment as of December 31, 2017 and 2016.

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

The fair values of government debt and quoted equity and other debt securities have been determined directly by reference to published prices generated in an active market (see Note 6.3).

For unquoted AFS securities, the fair value 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. Accordingly, unquoted AFS securities are carried at cost less impairment, if any.

The reconciliation of the carrying amounts of AFS securities is as follows:

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Balance at beginning of year	<b>P 108,132</b>	P 212,192	<b>P 62,637</b>	P 191,084
Additions	<b>59,161</b>	77,520	<b>26,052</b>	40,953
Disposals	<b>( 46,167)</b>	( 99,975)	<b>( 18,999)</b>	( 70,543)
Impairment loss – net	<b>( 154)</b>	( 382)	<b>( 3)</b>	3
Unrealized fair value gains (losses)	<b>622</b>	( 943)	<b>255</b>	899
Foreign currency revaluation	<b>( 575)</b>	3,639	<b>290</b>	3,255
Reclassification from AFS securities to HTM investments (see Note 9.4)	-	( 107,362)	-	( 103,014)
Addition due to acquisition of new subsidiaries	-	23,443	-	-
Balance at end of year	<b><u>P 121,019</u></b>	<u>P 108,132</u>	<b><u>P 70,232</u></b>	<u>P 62,637</u>



Government securities of BDO Unibank Group and the Parent Bank with an aggregate principal amount of P1,912 and nil, respectively, as of December 31, 2017 and P2,750 and P780, respectively, as of December 31, 2016, were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 31). These government securities are part of AFS securities except that of the Parent Bank amounting to P780, which were included in the reclassification from AFS securities to HTM investments in 2016 (see Note 9.3).

In 2017 and 2016, BDO Unibank Group has determined that there is an objective evidence that certain equity securities have shown significant or prolonged decline. Accordingly, BDO Unibank Group and Parent Bank recognized impairment loss amounting to P139 and nil, respectively, in 2017, and P346 and nil, respectively, in 2016. This is presented as part of Impairment Loss in the statements of income and under items that are reclassified subsequently to profit or loss in the statements of comprehensive income (see Note 14).

In 2013, BDO Unibank Group and the Parent Bank reclassified its entire HTM investments to AFS securities with a carrying value of P95,860 and P88,840, respectively, in anticipation of its planned disposal in accordance with PAS 39. As of December 31, 2017 and 2016, the market value of the remaining reclassified investments amounted to P1,074 and P1,939, respectively, for both the BDO Unibank Group and Parent Bank's financial statements.

As mentioned in Note 26, certain government debt securities are deposited with the BSP.

### 9.3 HTM Investments

This account consists of:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Government debt securities	<b>P 166,282</b>	P 119,182	<b>P 153,362</b>	P 113,247
Other debt securities:				
Quoted	<b>30,360</b>	26,742	<b>30,360</b>	26,742
Not quoted	<u><b>556</b></u>	<u>962</u>	<u>-</u>	<u>962</u>
	<b><u>P 197,198</u></b>	<u>P 146,886</u>	<b><u>P 183,722</u></b>	<u>P 140,951</u>

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

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Foreign currencies	<b>P 119,011</b>	P 103,493	<b>P 116,987</b>	P 102,895
Philippine peso	<u><b>78,187</b></u>	<u>43,393</u>	<u><b>66,735</b></u>	<u>38,056</u>
	<b><u>P 197,198</u></b>	<u>P 146,886</u>	<b><u>P 183,722</u></b>	<u>P 140,951</u>

The reconciliation of the carrying amounts of HTM investments is as follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 146,886	P -	P 140,951	P -
Additions	83,061	49,939	74,111	48,139
Maturities	( 33,169)	( 15,733)	( 31,745)	( 15,413)
Foreign currency gains – net	420	5,235	405	5,211
Reclassification from AFS securities to HTM investments (see Note 9.4)	-	107,362	-	103,014
Addition due to acquisition of new subsidiary	-	83	-	-
Balance at end of year	<u>P 197,198</u>	<u>P 146,886</u>	<u>P 183,722</u>	<u>P 140,951</u>

Annual coupon interest rates on government and other debt securities range from 0.00% to 10.63% in 2017 and from 1.15% to 10.63% in 2016 both in BDO Unibank Group and Parent Bank's financial statements.

Government securities with an aggregate principal amount of P1,075 for both BDO Unibank Group and the Parent Bank as of December 31, 2017 were pledged as collateral for bills payable under repurchase agreements (see Notes 16 and 31).

#### 9.4 *Reclassification of Investment Securities*

In 2016, after the end of the two-year tainting period, BDO Unibank Group and the Parent Bank reclassified certain AFS securities with a carrying value as of reclassification date of P107,362 and P103,014, respectively, and unrealized fair value losses of P2,181 and P2,269, respectively, to HTM investments. Of the reclassified unrealized fair value losses, a total of P621 and P288 in 2017, and P275 and P292 in 2016 were amortized by BDO Unibank Group and the Parent Bank, respectively, resulting in unamortized fair value losses of P1,746 and P1,690 as of December 31, 2017, and P1,906 and P1,977 as of December 31, 2016, respectively. The outstanding balance of the reclassified securities of BDO Unibank Group and the Parent Bank amounted to P86,027 and P81,766 as of December 31, 2017, respectively, and P100,291 and P96,020 as of December 31, 2016, respectively.

## 10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2017</u>	<u>2016</u> (As Restated - see Note 2.1)	<u>2017</u>	<u>2016</u>
Receivables from customers:					
Loans and discounts	25, 28.8	P 1,631,280	P 1,376,870	P 1,575,990	P 1,320,102
Customers' liabilities under letters of credit and trust receipts		53,246	49,148	53,246	49,148
Bills purchased		10,156	10,527	10,144	10,527
Credit card receivables		61,621	46,761	61,621	46,761
		<u>1,756,303</u>	<u>1,483,306</u>	<u>1,701,001</u>	<u>1,426,538</u>
Unearned interests or discounts		( 1,415)	( 1,302)	( 102)	( 89)
Allowance for impairment	14	( 29,892)	( 26,162)	( 27,827)	( 24,602)
		<u>( 31,307)</u>	<u>( 27,464)</u>	<u>( 27,929)</u>	<u>( 24,691)</u>
Balance carried forward		<u>P 1,724,996</u>	<u>P 1,455,842</u>	<u>P 1,673,072</u>	<u>P 1,401,847</u>

Notes	BDO Unibank Group		Parent Bank	
	2017	2016 (As Restated - see Note 2.1)	2017	2016
<i>Balance brought forward</i>	<b>P 1,724,996</b>	P 1,455,842	<b>P 1,673,072</b>	P 1,401,847
Other receivables:				
Interbank loans receivables	37,733	73,440	37,733	73,440
SPURRA	18,260	14,302	14,872	7,891
Accounts receivable 25, 33.1.1	7,038	7,681	5,459	6,408
Unquoted debt securities classified as loans (UDSCL)	5,267	22,546	1,332	22,546
Sales contract receivables	1,327	1,678	1,204	1,561
Others	330	401	-	-
	<b>69,955</b>	120,048	<b>60,600</b>	111,846
Allowance for impairment 14	( 3,165)	( 1,925)	( 2,940)	( 1,712)
	<b>66,790</b>	118,123	<b>57,660</b>	110,134
	<b>P 1,791,786</b>	P 1,573,965	<b>P 1,730,732</b>	P 1,511,981

Non-performing loans (NPL) included in the total loan portfolio of BDO Unibank Group and the Parent Bank as of December 31, 2017 and 2016 are presented below as net of specific allowance for impairment in compliance with BSP Circular 772, *Amendments to Regulations on Non-Performing Loans*.

	BDO Unibank Group		Parent Bank	
	2017	2016	2017	2016
NPL	<b>P 19,648</b>	P 17,943	<b>P 17,044</b>	P 15,855
Allowance for impairment	( 11,540)	( 12,037)	( 10,352)	( 11,169)
	<b>P 8,108</b>	P 5,906	<b>P 6,692</b>	P 4,686

Per MORB, non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches 10% of the total loan/receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and the insured improvements and such other first class collaterals.

The credit concentration of receivables from customers (net of unearned interests or discounts) as to industry follows:

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Wholesale and retail trade	P 237,104	P 206,205	P 231,386	P 201,026
Real estate activities	227,050	205,376	223,746	198,216
Electricity, gas, steam and air-conditioning supply	200,952	137,381	200,106	136,018
Financial and insurance activities	195,923	150,735	191,194	147,427
Manufacturing	186,779	191,720	183,382	186,870
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	175,196	127,236	168,423	122,716
Transportation and storage	112,307	99,871	108,496	93,783
Arts, entertainment and recreation	68,853	54,401	66,040	51,771
Accommodation and food service activities	41,662	43,837	41,307	43,570
Information and communication	38,707	27,334	38,081	26,691
Construction	36,605	29,856	32,032	25,319
Mining and quarrying	24,054	9,632	22,344	8,573
Human health and social work activities	16,461	16,282	15,724	15,506
Education	13,614	10,840	5,201	3,259
Agriculture, forestry and fishing	13,007	14,054	11,342	11,434
Water supply, sewerage, waste management and remediation activities	11,813	12,278	11,286	11,683
Professional, scientific and technical services	10,782	11,042	10,517	10,850
Administrative and support services	9,204	8,662	7,867	7,578
Public administrative and defense; compulsory social security	703	535	639	431
Activities of extraterritorial organizations and bodies	66	66	66	66
Other service activities	134,046	124,661	131,720	123,662
	<b><u>P 1,754,888</u></b>	<b><u>P 1,482,004</u></b>	<b><u>P 1,700,899</u></b>	<b><u>P 1,426,449</u></b>

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to secured and unsecured follows:

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Secured:				
Real estate mortgage	P 260,645	P 196,963	P 255,029	P 192,537
Chattel mortgage	97,013	98,619	76,144	78,960
Other securities	137,233	116,737	136,063	114,631
	494,891	412,319	467,236	386,128
Unsecured	1,259,997	1,069,685	1,233,663	1,040,321
	<b><u>P 1,754,888</u></b>	<b><u>P 1,482,004</u></b>	<b><u>P 1,700,899</u></b>	<b><u>P 1,426,449</u></b>

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

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Variable interest rates	<b>P 1,366,610</b>	P 1,083,616	<b>P 1,335,078</b>	P 1,058,182
Fixed interest rates	<b>388,278</b>	398,388	<b>365,821</b>	368,267
	<b><u>P 1,754,888</u></b>	<u>P 1,482,004</u>	<b><u>P 1,700,899</u></b>	<u>P 1,426,449</u>

Loans and receivables bear annual interest rates of 0.0% (e.g. non-performing loans and zero percent credit card installment program) to 4.1% per month in 2017 and 0.0% to 4.0% per month in both 2016 and 2015 (see Note 21).

The BDO Unibank Group's and the Parent Bank's receivables from customers amounting to P1,046 and nil, respectively, as of December 31, 2017 and P1,847 and nil, respectively, as of December 31, 2016 are pledged as collaterals to secure borrowings under rediscounting privileges (see Notes 16 and 31).

## 11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016 are shown below and in the succeeding page.

### **BDO Unibank Group**

	<b>Land</b>	<b>Furniture, Fixtures and Equipment</b>	<b>Buildings</b>	<b>Leasehold Rights and Improvements</b>	<b>Construction in Progress</b>	<b>Total</b>
December 31, 2017						
Cost	P 6,155	P 24,452	P 16,744	P 6,201	P 711	P 54,263
Accumulated depreciation and amortization	-	( 14,837)	( 5,368)	( 4,197)	-	( 24,402)
Allowance for Impairment (see Note 14)	( 140)	-	( 375)	-	-	( 515)
Net carrying amount	<b><u>P 6,015</u></b>	<b><u>P 9,615</u></b>	<b><u>P 11,001</u></b>	<b><u>P 2,004</u></b>	<b><u>P 711</u></b>	<b><u>P 29,346</u></b>
December 31, 2016						
Cost	P 6,118	P 21,051	P 15,739	P 5,512	P 289	P 48,709
Accumulated depreciation and amortization	-	( 12,947)	( 4,749)	( 3,589)	-	( 21,285)
Allowance for Impairment (see Note 14)	( 137)	-	( 375)	-	-	( 512)
Net carrying amount	<b><u>P 5,981</u></b>	<b><u>P 8,104</u></b>	<b><u>P 10,615</u></b>	<b><u>P 1,923</u></b>	<b><u>P 289</u></b>	<b><u>P 26,912</u></b>
January 1, 2016						
Cost	P 6,027	P 18,778	P 14,678	P 4,621	P 251	P 44,355
Accumulated depreciation and amortization	-	( 11,625)	( 4,230)	( 2,993)	-	( 18,848)
Allowance for Impairment (see Note 14)	( 137)	-	( 375)	-	-	( 512)
Net carrying amount	<b><u>P 5,890</u></b>	<b><u>P 7,153</u></b>	<b><u>P 10,073</u></b>	<b><u>P 1,628</u></b>	<b><u>P 251</u></b>	<b><u>P 24,995</u></b>

**Parent Bank**

	<u>Land</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Buildings</u>	<u>Leasehold Rights and Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2017						
Cost	P 5,414	P 18,395	P 15,588	P 5,659	P 711	P 45,767
Accumulated depreciation and amortization	-	( 11,461)	( 5,043)	( 3,850)	-	( 20,354)
Allowance for Impairment (see Note 14)	( 125)	-	( 371)	-	-	( 496)
Net carrying amount	<u>P 5,289</u>	<u>P 6,934</u>	<u>P 10,174</u>	<u>P 1,809</u>	<u>P 711</u>	<u>P 24,917</u>
December 31, 2016						
Cost	P 5,378	P 15,448	P 14,752	P 5,037	P 265	P 40,880
Accumulated depreciation and amortization	-	( 10,158)	( 4,494)	( 3,304)	-	( 17,956)
Allowance for Impairment (see Note 14)	( 123)	-	( 371)	-	-	( 494)
Net carrying amount	<u>P 5,255</u>	<u>P 5,290</u>	<u>P 9,887</u>	<u>P 1,733</u>	<u>P 265</u>	<u>P 22,430</u>
January 1, 2016						
Cost	P 5,287	P 14,132	P 13,849	P 4,360	P 248	P 37,876
Accumulated depreciation and amortization	-	( 9,447)	( 3,967)	( 2,816)	-	( 16,230)
Allowance for Impairment (see Note 14)	( 123)	-	( 371)	-	-	( 494)
Net carrying amount	<u>P 5,164</u>	<u>P 4,685</u>	<u>P 9,511</u>	<u>P 1,544</u>	<u>P 248</u>	<u>P 21,152</u>

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016 of premises, furniture, fixtures and equipment is shown below and in the succeeding page.

**BDO Unibank Group**

	<u>Land</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Buildings</u>	<u>Leasehold Rights and Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation, amortization and impairment	P 5,981	P 8,104	P 10,615	P 1,923	P 289	P 26,912
Additions	-	4,336	659	508	655	6,158
Disposals	-	( 110)	-	( 7)	-	( 117)
Reclassifications	34	9	302	270	( 233)	382
Depreciation and amortization charges for the year	-	( 2,724)	( 575)	( 690)	-	( 3,989)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	<u>P 6,015</u>	<u>P 9,615</u>	<u>P 11,001</u>	<u>P 2,004</u>	<u>P 711</u>	<u>P 29,346</u>
Balance at January 1, 2016, net of accumulated depreciation, amortization and impairment	P 5,890	P 7,153	P 10,073	P 1,628	P 251	P 24,995
Additions	89	3,685	960	603	200	5,537
Disposals	-	( 77)	( 5)	( 8)	-	( 90)
Reclassifications	2	( 5)	159	297	( 162)	291
Depreciation and amortization charges for the year	-	( 2,652)	( 572)	( 597)	-	( 3,821)
Balance at December 31, 2016, net of accumulated depreciation, amortization and impairment	<u>P 5,981</u>	<u>P 8,104</u>	<u>P 10,615</u>	<u>P 1,923</u>	<u>P 289</u>	<u>P 26,912</u>

**Parent Bank**

	<u>Land</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Buildings</u>	<u>Leasehold Rights and Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation, amortization and impairment	P 5,255	P 5,290	P 9,887	P 1,733	P 265	P 22,430
Additions	-	3,375	526	444	644	4,989
Disposals	-	( 14)	-	( 6)	-	( 20)
Reclassifications	34	20	266	261	( 198)	383
Depreciation and amortization charges for the year	-	( 1,737)	( 505)	( 623)	-	( 2,865)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	<u>P 5,289</u>	<u>P 6,934</u>	<u>P 10,174</u>	<u>P 1,809</u>	<u>P 711</u>	<u>P 24,917</u>
Balance at January 1, 2016, net of accumulated depreciation, amortization and impairment	P 5,164	P 4,685	P 9,511	P 1,544	P 248	P 21,152
Additions	89	2,363	742	438	179	3,811
Disposals	-	( 23)	-	( 7)	-	( 30)
Reclassifications	2	9	159	300	( 162)	308
Depreciation and amortization charges for the year	-	( 1,744)	( 525)	( 542)	-	( 2,811)
Balance at December 31, 2016, net of accumulated depreciation, amortization and impairment	<u>P 5,255</u>	<u>P 5,290</u>	<u>P 9,887</u>	<u>P 1,733</u>	<u>P 265</u>	<u>P 22,430</u>

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2017 and 2016, BDO Unibank Group and the Parent Bank has complied with this requirement.

In 2015 (nil in 2017 and 2016), reversal of appraisal increment and impairment losses amounting to P9 was recognized by the BDO Unibank Group and the Parent Bank to write-down to recoverable amount certain parcels of land. The recoverable amount of land and building as of December 31, 2017 and 2016, respectively, was based on the appraised values of such asset.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2017 and 2016 are still being used in operations with acquisition costs amounting to P6,846 and P6,794, respectively, for the BDO Unibank Group's financial statements and P6,696 and P5,967, respectively, for the Parent Bank's financial statements.

## 12. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P290 and P71 in 2017, P247 and P70 in 2016, P217 and P72 in 2015 in BDO Unibank Group and Parent Bank's financial statements, respectively, and are presented as part of Rental under Other Operating Income account (see Note 23). Direct expenses incurred from these properties such as taxes and licenses amounted to P19 and P2 in 2017, P55 and P2 in 2016, and P2 and P2 in 2015 in BDO Unibank Group's and Parent Bank's financial statements, respectively, and are presented as part of Taxes and licenses under Other Operating Expenses account in the Unibank Group and Parent Bank's financial statements, respectively (see Note 23).



The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2017 and 2016 are shown below and in the succeeding page.

**BDO Unibank Group**

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
December 31, 2017			
Cost	P 9,429	P 13,471	P 22,900
Accumulated depreciation	-	( 3,217)	( 3,217)
Allowance for impairment (see Note 14)	( 1,539)	( 104)	( 1,643)
Net carrying amount	<u>P 7,890</u>	<u>P 10,150</u>	<u>P 18,040</u>
December 31, 2016			
Cost	P 9,923	P 10,227	P 20,150
Accumulated depreciation	-	( 2,893)	( 2,893)
Allowance for impairment (see Note 14)	( 1,962)	( 107)	( 2,069)
Net carrying amount	<u>P 7,961</u>	<u>P 7,227</u>	<u>P 15,188</u>
January 1, 2016			
Cost	P 10,008	P 9,494	P 19,502
Accumulated depreciation	-	( 2,564)	( 2,564)
Allowance for impairment (see Note 14)	( 2,205)	( 100)	( 2,305)
Net carrying amount	<u>P 7,803</u>	<u>P 6,830</u>	<u>P 14,633</u>

**Parent Bank**

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
December 31, 2017			
Cost	P 8,129	P 10,874	P 19,003
Accumulated depreciation	-	( 2,943)	( 2,943)
Allowance for impairment (see Note 14)	( 1,504)	( 60)	( 1,564)
Net carrying amount	<u>P 6,625</u>	<u>P 7,871</u>	<u>P 14,496</u>
December 31, 2016			
Cost	P 8,533	P 7,855	P 16,388
Accumulated depreciation	-	( 2,630)	( 2,630)
Allowance for impairment (see Note 14)	( 1,911)	( 63)	( 1,974)
Net carrying amount	<u>P 6,622</u>	<u>P 5,162</u>	<u>P 11,784</u>

Parent Bank

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
January 1, 2016			
Cost	P 8,602	P 7,340	P 15,942
Accumulated depreciation	-	( 2,328)	( 2,328)
Allowance for impairment (see Note 14)	( 2,155)	( 56)	( 2,211)
Net carrying amount	<u>P 6,447</u>	<u>P 4,956</u>	<u>P 11,403</u>

A reconciliation of the carrying amounts, at the beginning and end of 2017 and 2016, of investment properties is shown below and in the succeeding page.

BDO Unibank Group

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation and impairment	<b>P 7,961</b>	<b>P 7,227</b>	<b>P 15,188</b>
Additions	623	3,893	4,516
Disposals	( 676)	( 268)	( 944)
Reclassifications	( 18)	( 82)	( 100)
Depreciation for the year	<u>-</u>	<u>( 620)</u>	<u>( 620)</u>
Balance at December 31, 2017, net of accumulated depreciation and impairment	<u><b>P 7,890</b></u>	<u><b>P 10,150</b></u>	<u><b>P 18,040</b></u>
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 7,803	P 6,830	P 14,633
Additions	484	1,133	1,617
Disposals	( 557)	( 222)	( 779)
Reclassifications	231	( 7)	224
Depreciation for the year	<u>-</u>	<u>( 507)</u>	<u>( 507)</u>
Balance at December 31, 2016, net of accumulated depreciation and impairment	<u>P 7,961</u>	<u>P 7,227</u>	<u>P 15,188</u>

Parent Bank

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation and impairment	<b>P 6,622</b>	<b>P 5,162</b>	<b>P 11,784</b>
Additions	621	3,623	4,244
Disposals	( 583)	( 268)	( 851)
Reclassifications	( 35)	( 65)	( 100)
Depreciation for the year	<u>-</u>	<u>( 581)</u>	<u>( 581)</u>
Balance at December 31, 2017, net of accumulated depreciation and impairment	<u><b>P 6,625</b></u>	<u><b>P 7,871</b></u>	<u><b>P 14,496</b></u>

Parent Bank

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 6,447	P 4,956	P 11,403
Additions	480	901	1,381
Disposals	( 538)	( 219)	( 757)
Reclassifications	233	( 8)	225
Depreciation for the year	<u>-</u>	<u>(468)</u>	<u>(468)</u>
Balance at December 31, 2016, net of accumulated depreciation and impairment	<u>P 6,622</u>	<u>P 5,162</u>	<u>P 11,784</u>

The fair value of investment properties as of December 31, 2017 and 2016, determined using observable recent prices of the reference properties and replacement cost approach, amounted to P31,461 and P26,279, respectively, for BDO Unibank Group's financial statements and P27,266 and P22,745, 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, 2017 and 2016 was based on value in use computed through discounted cash flows method at an effective rate of 1.39% and 1.26% in 2017 and 2016, 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, non-current assets held for sale, AFS securities or other resources. As of December 31, 2017 and 2016, ROPA, gross of allowance, comprise of the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Investment properties	<b>P 10,357</b>	P 8,817	<b>P 10,182</b>	P 8,550
AFS securities	<b>918</b>	813	<b>918</b>	813
Non-current assets held for sale	<u><b>700</b></u>	<u>712</u>	<u><b>684</b></u>	<u>711</u>
	<u><b>P 11,975</b></u>	<u>P 10,342</u>	<u><b>P 11,784</b></u>	<u>P 10,074</u>

### 13. OTHER RESOURCES

The components of this account are shown below.

	Notes	BDO Unibank Group		Parent Bank	
		2017	2016	2017	2016 (As Restated - see Note 2.1)
Credit card acquiring		<b>P 7,857</b>	P 3,113	<b>P 7,857</b>	P 3,113
Deferred tax assets – net	29.1	<b>7,403</b>	6,334	<b>6,927</b>	6,097
Deferred charges		<b>6,260</b>	4,842	<b>6,259</b>	4,840
Equity investments	13.1	<b>4,945</b>	4,449	<b>36,611</b>	34,073
Goodwill	13.3, 28.1, 28.7	<b>4,435</b>	4,435	<b>1,391</b>	1,391
Foreign currency notes and coins on hand		<b>3,695</b>	3,338	<b>3,694</b>	3,337
Branch licenses	13.4, 28.8	<b>3,020</b>	3,020	<b>3,020</b>	3,020
Computer software – net		<b>1,817</b>	1,649	<b>1,713</b>	1,494
Real properties for development and sale		<b>1,631</b>	1,671	-	-
Margin deposits		<b>1,265</b>	2,223	<b>276</b>	131
Non-current assets held for sale	13.5	<b>700</b>	712	<b>684</b>	711
Deposits under escrow	13.2	<b>672</b>	672	<b>672</b>	672
Customer lists – net	13.7, 28.9	<b>487</b>	487	<b>487</b>	487
Prepaid documentary stamps		<b>358</b>	467	<b>326</b>	421
Returned checks and other cash items		<b>165</b>	100	<b>162</b>	100
Trademark – net	13.6, 28.2	<b>124</b>	157	<b>124</b>	157
Dividend receivable		<b>76</b>	71	-	-
Retirement benefit asset	24.2	-	709	-	796
Others	13.7, 18	<b>3,964</b>	3,304	<b>2,636</b>	2,083
		<b>48,874</b>	41,753	<b>72,839</b>	62,923
Allowance for impairment	14	<b>( 2,662 )</b>	( 2,566 )	<b>( 2,139 )</b>	( 4,845 )
		<b>P 46,212</b>	P 39,187	<b>P 70,700</b>	P 58,078

### 13.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	BDO Unibank Group		Parent Bank	
		2017	2016	2017	2016 (As Restated- see Note 2.1)
<b>Acquisition costs:</b>					
<b>Philippine subsidiaries</b>					
ONB	99.79%	P -	P -	P 7,696	P 6,696
BDOSHI	100%	-	-	5,684	5,684
BDO Life**	97%	-	-	3,403	3,403
BDO Private	100%	-	-	2,579	2,579
BDO Leasing	87.43%	-	-	1,878	1,878
BDO Capital	99.88%	-	-	1,878	1,878
BDO Nomura	51%	-	-	39	39
PCI Realty Corporation	100%	-	-	34	34
BDOI	100%	-	-	11	11
Equimark	60%	-	-	4	4
PCI Insurance	100%	-	-	-	8
		-	-	<b>23,206</b>	<b>22,214</b>
<b>Foreign subsidiaries</b>					
BDORO	100%	-	-	169	169
BDO Remit (Japan) Ltd.	100%	-	-	92	92
Express Padala (Hongkong), Ltd.	100%	-	-	28	28
BDO Remit (USA), Inc.	100%	-	-	26	26
BDO Remit (Canada) Ltd.	100%	-	-	42	18
PCIB Europe S.p.A.	100%	-	-	1	1
		-	-	<b>358</b>	<b>334</b>
<b>Associates and Joint Venture</b>					
SM Keppel Land, Inc. (SM Keppel)	50%	1,658	1,658	1,658	1,658
NLEX Corporation	12.40%	1,405	1,405	1,405	1,405
MMPAC Auto-Financial Services Corporation (MAFSC)	34.97%	300	300	-	-
Northpine Land Incorporated	20%	232	232	232	232
Taal Land, Inc.	33.33%	170	170	170	170
Others	*	5	10	5	10
		<b>3,770</b>	<b>3,775</b>	<b>3,470</b>	<b>3,475</b>
<b>Accumulated equity in total comprehensive income:</b>					
Balance at beginning of year		674	1,031	8,050	8,674
Equity in net profit		612	481	4,312	3,657
Reclassifications***		116	-	(2,687)	-
Equity in other comprehensive income (loss)		(3)	1	1,702	(2,413)
Dividends		(224)	(505)	(1,876)	(2,574)
Change in percentage ownership in subsidiaries		-	-	(77)	706
BDO Life step-up acquisition**		-	(334)	-	-
Balance at end of year		<b>1,175</b>	<b>674</b>	<b>9,424</b>	<b>8,050</b>
Deposit for future stock subscription on BDO Nomura****		-	-	153	-
Net investments in associates/subsidiaries		4,945	4,449	36,611	34,073
Allowance for impairment		(155)	(39)	(155)	(2,850)
		<b>P 4,790</b>	<b>P 4,410</b>	<b>P 36,456</b>	<b>P 31,223</b>

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

\*\* BDO Life is an associate of BDO Unibank Group and the Parent Bank in 2015. It became a subsidiary when the Parent Bank acquired full ownership in 2016 (see Note 28.4).

\*\*\* This relates to the reclassification of previously recognized impairment losses to accumulated equity in total comprehensive income.

\*\*\*\* This pertains to additional capital infusion of the Parent Bank on BDO Nomura (see Note 28.5).

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2017 and 2016, except for BDO Leasing, which is at 88.54% in BDO Unibank Group (see Note 2.3) and 87.43% in the Parent Bank, as discussed above, in both years.

The fair value of BDO Leasing amounts to P7,314 and P7,257 in 2017 and 2016, 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, 2017 are all incorporated in the Philippines, except for the following:

<u>Foreign Subsidiaries*</u>	<u>Country of Incorporation</u>
Express Padala (Hongkong), Ltd.	Hong Kong
BDO Remit (USA), Inc.	United States of America
PCIB Europe S.p.A	Italy
BDORO	United Kingdom
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

*\*EPFG has been dissolved from the Commercial Register in Frankfurt, Germany after the liquidation proceedings were completed in 2016 (see Note 2.3).*

*\*\*Wholly-owned subsidiaries of BDOSHI.*

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 5<sup>th</sup> floor, 6 St. Andrew Street, London. BDORO will provide commercial banking services in UK and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. In 2012, BDORO applied for a banking license in the UK, but the approval is still pending as of December 31, 2017. In 2012, the Parent Bank has an outstanding investment in BDORO amounting to P133 (absolute amount) representing the minimal capitalization of 2 GBP as an initial contribution to incorporate BDORO. Starting in 2013, the Parent Bank's outstanding investment in BDORO increased to P169.

In May 2013, BDO Capital obtained control over CBN Grupo through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established. In October 2016, BDO Capital acquired additional shares in CBN Grupo, which increased its ownership interest to 96.32%. Additional goodwill acquired amounted to P32 (see Note 28.1).

On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon, a company engaged primarily in the leasing business.

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.995% of the total issued and outstanding capital of BDO Savings (formerly Citibank Savings, Inc.), a thrift bank registered in the Philippines resulting to recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively (see Note 13.4). In 2016, BDO Savings was merged with BDO Capital together with BDO Elite with BDO capital as surviving entity (see Note 28.3).

On January 30, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Japan) Ltd., in Tokyo, Japan, to operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on October 10, 2013 and was incorporated on August 6, 2014. In April 2016, BDO Remit (Japan) Ltd. started its operations. The Parent Bank paid P62 and P30 as capital contribution in 2016 and 2015, respectively.

On March 23, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Canada) Ltd., in Vancouver, Canada. BDO Remit (Canada) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on November 28, 2013 and was incorporated on June 23, 2014. In 2015, the Parent Bank paid CND500,000 for the subscribed shares. On October 29, 2016, the Parent Bank's BOD approved an increase in the capitalization of BDO Remit (Canada) Ltd. by an amount of CND600,000, which was later approved by the BSP on December 23, 2016. On February 22, 2017, the Parent Bank paid CND600,000 for the subscribed shares.

BDO Unibank Group includes one subsidiary, BDO Leasing, with significant NCI:

Name	Proportion of Ownership Interest and Voting Rights Held by NCI		Profit Allocated to NCI		Accumulated NCI	
	2017	2016	2017	2016	2017	2016
BDO Leasing	11.46%	11.46 %	P 65	P 65	P 624	P 613

Dividends amounting to P50 were paid to the NCI in both 2017 and 2016 (see Note 20.4).

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

	2017	2016
<i>Statements of financial position:</i>		
Total resources	P 42,842	P 38,886
Total liabilities	37,400	33,537
Equity attributable to owners of the parent	4,818	4,736
Non-controlling interest	624	613
<i>Statements of comprehensive income:</i>		
Total interest income	1,914	1,751
Total other operating income	1,242	1,100
Profit attributable to		
owners of the parent	506	505
Profit attributable to NCI	65	65
Profit	571	570
Total comprehensive income attributable to owners of the parent	465	501
Total comprehensive income attributable to NCI	60	65
<b>Total comprehensive income</b>	<b>P 525</b>	<b>P 566</b>
<i>Statements of cash flows:</i>		
Net cash used in operating activities	(P 889)	(P 2,065)
Net cash used in investing activities	( 1,710)	( 838)
Net cash from financing activities	2,686	2,941
<b>Net cash inflow</b>	<b>P 87</b>	<b>P 38</b>



The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2017, 2016 and 2015:

	<u>NLEX Corporation</u>		<u>BDO Life*</u>		<u>SM Keppel</u>		<u>Others</u>		<u>Total</u>	
<b><u>December 31, 2017</u></b>										
<b><u>(Unaudited)</u></b>										
Assets	P	40,144	P	-	P	9,130	P	3,218	P	52,492
Liabilities		29,488		-		6,810		1,271		37,569
Equity		10,656		-		2,320		1,947		14,923
Revenues		11,880		-		391		1,256		13,527
Net profit		4,644		-		23		159		4,826
<b><u>December 31, 2016</u></b>										
<b><u>(Audited)</u></b>										
Assets	P	35,289	P	-	P	5,406	P	2,472	P	43,167
Liabilities		25,677		-		3,109		626		29,412
Equity		9,612		-		2,297		1,846		13,755
Revenues		10,769		-		156		697		11,622
Net profit		4,087		-		23		98		4,208
<b><u>December 31, 2015</u></b>										
<b><u>(Audited)</u></b>										
Assets	P	30,885	P	22,971	P	2,667	P	2,359	P	58,882
Liabilities		22,751		19,006		393		575		42,725
Equity		8,134		3,965		2,274		1,784		16,157
Revenues		8,690		7,230		177		695		16,792
Net profit		2,993		1,102		22		109		4,226

\* BDO Life is an associate of BDO Unibank Group in 2015. It became a subsidiary when the Parent Bank acquired full ownership in 2016 (see Note 28.4).

### **13.2 Deposits Under Escrow**

Deposits under escrow pertain to the portion of the cash received by the Parent Bank in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by the Parent Bank with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement. On August 26, 2016, the Parent Bank received an amount of P4,650 for the partial termination of escrow. Deposits under escrow earned a return on investment of 2.2% and 3.3% in 2017 and 2016, respectively. In 2016 and 2015, BDO Unibank Group and Parent Bank recognized income amounting to P95 and P1,269 (nil in 2017), which is presented as part of Miscellaneous under Other Operating Income account in the statements of income (see Note 23). As of December 31, 2017 and 2016, the BDO Unibank Group and the Parent Bank provided an allowance for impairment both amounting to P400.

### **13.3 Goodwill**

Goodwill represents the excess of the cost of acquisition of the Parent Bank over the fair value of the net assets acquired at the date of acquisition and relates mainly to business synergy for economics of scale and scope. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines (UOBP), American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc., Rural Bank of San Enrique, Inc., BDO RIH, BDO Savings and ONB, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015 and 2016, respectively (see Note 28).

The Parent Bank recognized impairment loss of P2, P4 and P4 in 2017, 2016, and 2015, respectively, to write-down the value of the goodwill to their recoverable amount (see Note 14). The Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. There is no impairment loss recognized on the goodwill at the BDO Unibank Group's financial statements, except those related to the Parent Bank.

#### ***13.4 Branch Licenses***

Branch licenses represent the rights granted by the BSP to the Parent Bank to establish certain number of branches as an incentive in acquiring The Real Bank (A Thrift Bank), Inc. [TRB] and BDO Savings in addition to the current branches of the acquired banks (see Notes 13.1 and 28.8). There is no impairment loss recognized on the branch licenses at the BDO Unibank Group's financial statements since the impairment will be upon the expiry on 2019 of the term given by the BSP to the Parent Bank in establishing certain number of branches.

#### ***13.5 Non-current Assets Held for Sale***

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group and the Parent Bank intends to sell within one year from the date of classification as held for sale. No impairment loss was recognized in 2015 to 2017 in both BDO Unibank Group and Parent Bank's financial statements.

#### ***13.6 Trademark***

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio (see Note 28.2) amounted to P33 and P8 in 2017 and 2016, respectively. This is recorded under Miscellaneous expenses under Other Operating Expenses account in the statements of income (see Note 23).

#### ***13.7 Others***

Amortization expense on computer software licenses amounted to P528, P436 and P285 in 2017, 2016, and 2015, respectively, in BDO Unibank Group's financial statements and P477, P372 and P249 in 2017, 2016, and 2015, respectively, in the Parent Bank's financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 23).

Depreciation expense on certain assets amounting to P2, P2 and P43 in 2017, 2016, and 2015, respectively, in BDO Unibank Group's financial statements and P2, P1 and P43 in 2017, 2016, and 2015, respectively, in the Parent Bank's financial statements are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 23).

In 2016 and 2015, the Parent Bank recognized impairment loss amounting to P15 and P26 (nil in 2017), respectively, to write-down the value of customer list to its recoverable amount (see Note 14). The impairment provision was recognized through direct write-off of the cost of the asset. The customer list was recognized as a result of the Parent Bank's acquisition of a trust business in 2014 (see Note 28.9).

## 14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	BDO Unibank Group		Parent Bank	
		2017	2016	2017	2016
Balance at beginning of year:					
AFS securities	9.2	P 4,318	P 3,936	P 3,788	P 3,792
Loans and other receivables	10	28,087	27,659	26,314	26,194
Bank premises	11	512	512	494	494
Investment properties	12	2,069	2,305	1,974	2,211
Other resources	13	2,566	2,553	4,845	4,824
		<b>37,552</b>	<b>36,965</b>	<b>37,415</b>	<b>37,515</b>
Impairment losses - net		<b>6,537</b>	<b>3,749</b>	<b>5,809</b>	<b>2,988</b>
Write-offs		( 3,013 )	( 3,330 )	( 2,927 )	( 3,328 )
Adjustments		121	( 141 )	( 2,687 )	5
Foreign currency revaluation		13	237	14	235
Reversals		( 3 )	( 117 )	( 8 )	-
Business combination		-	189	-	-
		<b>P 41,207</b>	<b>P 37,552</b>	<b>P 37,616</b>	<b>P 37,415</b>
Balance at end of year:					
AFS securities	9.2	P 3,330	P 4,318	P 2,650	P 3,788
Loans and other receivables	10	33,057	28,087	30,767	26,314
Bank premises	11	515	512	496	494
Investment properties	12	1,643	2,069	1,564	1,974
Other resources	13	2,662	2,566	2,139	4,845
		<b>P 41,207</b>	<b>P 37,552</b>	<b>P 37,616</b>	<b>P 37,415</b>

Total impairment losses on financial assets amounted to P6,531, P3,789, and P2,970 in 2017, 2016, and 2015, respectively, in BDO Unibank Group's financial statements and P5,807, P3,029, and P2,679 in 2017, 2016, and 2015, respectively, in the Parent Bank's financial statements.

Total impairment losses (recoveries) on non-financial assets amounted to P6, (P40), and P4 in 2017, 2016, and 2015, respectively, in BDO Unibank Group's financial statements and P2, (P41), and P4 in 2017, 2016, and 2015, respectively, in the Parent Bank's financial statements.

Total allowance for impairment transferred upon consolidation of BDO Life in 2016 and ONB in 2015 amounted to P189 and P752, respectively (see Notes 28.4 and 28.7).

## 15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Demand	P 134,931	P 114,284	P 91,592	P 72,579
Savings	1,409,256	1,267,983	1,396,404	1,257,571
Time	<u>576,825</u>	<u>522,937</u>	<u>557,325</u>	<u>502,863</u>
	<b><u>P 2,121,012</u></b>	<b><u>P 1,905,204</u></b>	<b><u>P 2,045,321</u></b>	<b><u>P 1,833,013</u></b>

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

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Due to other banks:				
Demand	P 1,396	P 1,718	P 1,395	P 1,718
Savings	7,469	2,991	7,466	2,988
Time	<u>4,280</u>	<u>1,358</u>	<u>3,972</u>	<u>1,058</u>
	<u>13,145</u>	<u>6,067</u>	<u>12,833</u>	<u>5,764</u>
Due to customers:				
Demand	133,536	112,566	90,197	70,861
Savings	1,401,787	1,264,992	1,388,939	1,254,583
Time	<u>572,544</u>	<u>521,579</u>	<u>553,352</u>	<u>501,805</u>
	<u>2,107,867</u>	<u>1,899,137</u>	<u>2,032,488</u>	<u>1,827,249</u>
	<b><u>P 2,121,012</u></b>	<b><u>P 1,905,204</u></b>	<b><u>P 2,045,321</u></b>	<b><u>P 1,833,013</u></b>

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

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Philippine pesos	P 1,725,829	P 1,521,183	P 1,671,935	P 1,464,357
Foreign currencies	<u>395,183</u>	<u>384,021</u>	<u>373,386</u>	<u>368,656</u>
	<b><u>P 2,121,012</u></b>	<b><u>P 1,905,204</u></b>	<b><u>P 2,045,321</u></b>	<b><u>P 1,833,013</u></b>

The maturity profile of this account is presented below.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Less than one year	P 1,976,582	P 1,759,153	P 1,906,842	P 1,692,447
One to five years	48,379	62,299	42,428	56,814
Beyond five years	<u>96,051</u>	<u>83,752</u>	<u>96,051</u>	<u>83,752</u>
	<b><u>P 2,121,012</u></b>	<b><u>P 1,905,204</u></b>	<b><u>P 2,045,321</u></b>	<b><u>P 1,833,013</u></b>

The BDO Unibank Group's and Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates ranging from 0.0% to 5.3% in 2017, 2016, and 2015. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 22).

The BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Deposits (LTNCD) as of December 31, 2017 and 2016 as follows:

BSP Approval	Effective Rate	Outstanding Balance		Issue Date	Maturity Date
		2017	2016		
June 23, 2017	3.625%	P 11,800	P -	August 18, 2017	February 18, 2023
July 10, 2014	3.75%	7,500	7,500	April 6, 2015	October 6, 2020
October 25, 2013	3.125%	5,000	5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.50%	5,000	5,000	September 12, 2013	September 12, 2020
January 31, 2013	3.80%	5,000	5,000	March 25, 2013	September 25, 2018
May 3, 2012	5.25%	5,000	5,000	October 15, 2012	October 15, 2019
		<b>P 39,300</b>	<b>P 27,500</b>		

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 May 30, 2014, 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 20%, 7% and 4%, respectively, in compliance with the BSP Circular No. 832 issued on May 27, 2014 (see Note 7).

## 16. BILLS PAYABLE

This account is composed of the following borrowings from:

	Notes	BDO Unibank Group		Parent Bank	
		2017	2016	2017	2016
Senior notes	16.2	P 50,093	P 30,150	P 50,093	P 30,150
Foreign banks	16.1	48,499	36,545	48,430	36,522
Local banks		15,658	10,334	1,500	-
Deposit substitutes		907	602	907	602
Others		15,327	22,925	4,693	8,526
		<b>P 130,484</b>	<b>P 100,556</b>	<b>P 105,623</b>	<b>P 75,800</b>

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2017	2016	2017	2016
Foreign currencies	P 106,293	P 76,177	P 105,623	P 75,796
Philippine pesos	24,191	24,379	-	4
	<b>P 130,484</b>	<b>P 100,556</b>	<b>P 105,623</b>	<b>P 75,800</b>

The maturity profile of this account is presented below.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
One to three months	<b>P 63,243</b>	P 51,456	<b>P 40,386</b>	P 28,825
More than three months to one year	<b>4,271</b>	8,544	<b>2,491</b>	6,425
More than one to three years	<b>57,912</b>	25,643	<b>57,755</b>	25,637
More than three years	<b><u>5,058</u></b>	<u>14,913</u>	<b><u>4,991</u></b>	<u>14,913</u>
	<b><u>P 130,484</u></b>	<u>P 100,556</u>	<b><u>P 105,623</u></b>	<u>P 75,800</u>

Bills payable bear annual interest rates of 0.6% to 3.5% in 2017, 1.0% to 6.3% in 2016, and 0.1% to 12.0% in 2015 (see Note 22). Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9.2, 10 and 31).

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 22):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>BDO Unibank Group</u>			
Senior notes	<b>P 823</b>	P 902	P 1,166
Foreign banks	<b>814</b>	533	335
Local banks	<b>339</b>	223	165
Deposit substitutes	<b>91</b>	11	27
Others	<b><u>503</u></b>	<u>605</u>	<u>490</u>
	<b><u>P 2,570</u></b>	<u>P 2,274</u>	<u>P 2,183</u>
<u>Parent Bank</u>			
Senior notes	<b>P 823</b>	P 902	P 1,166
Foreign banks	<b>814</b>	533	335
Deposit substitutes	<b>91</b>	11	27
Local banks	<b>3</b>	-	-
Others	<b><u>146</u></b>	<u>196</u>	<u>178</u>
	<b><u>P 1,877</u></b>	<u>P 1,642</u>	<u>P 1,706</u>

### **16.1 Foreign Banks**

In 2015, the Bank borrowed \$500 through a term loan facility from a syndicate of foreign banks. This transaction was a combination of a re-financing of an existing loan of \$350 and an increase in the transaction amount to \$500 for general financing purposes. The loan facility has a three-year tenor with a floating interest rate payable quarterly. As of December 31, 2017 and 2016, the related syndicated term loan has outstanding balance of nil and P24,770, respectively, net of related debt transaction costs.

## 16.2 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance	
				2017	2016
September 6, 2017	March 6, 2023	2.95%	US\$ 700	P 35,047	P -
October 24, 2016	October 24, 2021	2.63%	300	15,046	14,986
February 16, 2012	February 16, 2017	4.50%	300	-	15,164
				<b>P 50,093</b>	<b>P 30,150</b>

The issuance of senior notes in 2017 and 2016 is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds.

The net proceeds from the issuance of senior notes in 2012 were used for general funding and relending purposes.

## 16.3 Reconciliation of Liabilities Arising from Financing Activities

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

### BDO Unibank Group

	Foreign Banks	Senior Notes	Local Banks	Deposit Substitutes	Others	Total
Balance as of January 1, 2017	P 36,545	P 30,150	P 10,334	P 602	P 22,925	P 100,556
Cash flows from financing activities						
Additional borrowings	105,134	35,599	74,139	30,328	97,628	342,828
Repayment of borrowings	( 93,479 )	( 15,586 )	( 68,790 )	( 30,159 )	( 105,228 )	( 313,242 )
Non-cash financing activities						
Interest amortization	500	( 70 )	25	136	( 11 )	580
Revaluation	( 201 )	-	( 50 )	-	13	( 238 )
<b>Balance as of December 31, 2017</b>	<b>P 48,499</b>	<b>P 50,093</b>	<b>P 15,658</b>	<b>P 907</b>	<b>P 15,327</b>	<b>P 130,484</b>

### Parent Bank

	Foreign Banks	Senior Notes	Local Banks	Deposit Substitutes	Others	Total
Balance as of January 1, 2017	P 36,522	P 30,150	P -	P 602	P 8,526	P 75,800
Cash flows from financing activities						
Additional borrowings	103,130	35,599	2,381	30,328	1,137	172,575
Repayment of borrowings	( 91,521 )	( 15,586 )	( 833 )	( 30,159 )	( 4,972 )	( 143,071 )
Non-cash financing activities						
Interest amortization	500	( 70 )	2	136	( 11 )	557
Revaluation	( 201 )	-	( 50 )	-	13	( 238 )
<b>Balance as of December 31, 2017</b>	<b>P 48,430</b>	<b>P 50,093</b>	<b>P 1,500</b>	<b>P 907</b>	<b>P 4,693</b>	<b>P 105,623</b>



## 17. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (Notes) represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation, 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, 2017 and 2016, 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 2017, 2016 and 2015 both in BDO Unibank Group and Parent Bank statements of income (see Note 22).

## 18. INSURANCE CONTRACT LIABILITIES

This account consists of:

	<u>2017</u>	2016 (As Restated - see Note 2.1)
Legal policy reserves	<b>P 24,602</b>	P 19,531
Policy and contract claims payable	<b>1,051</b>	788
Policyholders' dividends	<u>333</u>	<u>246</u>
	<b><u>P 25,986</u></b>	<b><u>P 20,565</u></b>

Insurance contract liabilities may be analyzed as follows:

	<u>Insurance Contract Liabilities</u>		<u>Reinsurer's Share of Liabilities</u>		<u>Net</u>	
	2017	2016 (As Restated - see Note 2.1)	2017	2016 (As Restated - see Note 2.1)	2017	2016 (As Restated - see Note 2.1)
Aggregate reserves for:						
Ordinary life policies	<b>P 18,753</b>	P 16,470	<b>P -</b>	P -	<b>P 18,753</b>	P 16,470
Variable unit-linked (VUL) contracts	<b>5,649</b>	2,931	<b>-</b>	-	<b>5,649</b>	2,931
Group life insurance policies	<b>192</b>	130	<b>27</b>	12	<b>165</b>	118
Accident and health policies	<b>8</b>	-	<b>-</b>	-	<b>8</b>	-
Policy and contract claims	<b>1,051</b>	788	<b>36</b>	5	<b>1,015</b>	783
Policyholders' dividends	<u>333</u>	<u>246</u>	<u>-</u>	<u>-</u>	<u>333</u>	<u>246</u>
	<b><u>P 25,986</u></b>	<b><u>P 20,565</u></b>	<b><u>P 63</u></b>	<b><u>P 17</u></b>	<b><u>P 25,923</u></b>	<b><u>P 20,548</u></b>

The movements in legal policy reserves are as follows:

	Legal Policy Reserves				Reinsurer's Share of Liabilities				Net				
	2016		2016		2016		2016		2016		2016		
	(As Restated - see Note 2.1)		(As Restated - see Note 2.1)		(As Restated - see Note 2.1)		(As Restated - see Note 2.1)		(As Restated - see Note 2.1)		(As Restated - see Note 2.1)		
	2017		2017	2017		2017		2017	2017		2017		2017
Balance at the beginning of the year	P 19,531	P 14,708	P 12	P 95	P 19,519	P 14,613							
Premiums received	6,139	5,852	27	12	6,112	5,840							
Liability released for payments of death, maturity and surrender benefits and claims	( 1,439)	( 2,428)	( 12)	( 95)	( 1,427)	( 2,333)							
Accretion of investment income or change in unit prices	254	1,059	-	-	254	1,059							
Changes in mortality Assumptions	90	-	-	-	90	-							
Foreign exchange adjustments	27	340	-	-	27	340							
Balance at end of year	<u>P 24,602</u>	<u>P 19,531</u>	<u>P 27</u>	<u>P 12</u>	<u>P 24,575</u>	<u>P 19,519</u>							

Reinsurers' share of liabilities is recorded as part of Others under Other Resources in the BDO Unibank Group's statement of financial position (see Note 13).

The movement in Legal policy reserves for the period ended December 31, 2017 and 2016 is recognized as part of Policy reserves, insurance benefits and claims under Other Operating Expenses in the BDO Unibank Group's statements of income (see Note 23).

## 19. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	BDO Unibank Group		Parent Bank	
		2017	2016	2017	2016
Accounts payable		P 17,914	P 14,446	P 15,379	P 12,585
Manager's checks		14,160	12,086	14,016	11,938
Bills purchased – contra		9,984	10,486	9,984	10,486
Accrued expenses		9,895	8,234	9,037	7,555
Lease deposits		6,106	5,693	109	104
Outstanding acceptances payable		4,059	3,194	4,059	3,194
Derivatives with negative fair values	9.1, 25(d)	3,750	5,475	1,798	1,818
Premium on deposit fund		3,078	2,533	-	-
Retirement benefit obligation	24.2	2,779	-	2,542	-
Withholding taxes payable		1,825	1,568	1,679	1,451
Capitalized interest and other charges		408	393	358	349
Due to principal		394	385	-	-
Due to BSP and Treasurer of the Philippines		103	81	99	78
Unearned income		20	3	17	-
Others		7,777	6,508	6,913	5,762
		<u>P 82,252</u>	<u>P 71,085</u>	<u>P 65,990</u>	<u>P 55,320</u>

Accounts payable includes the amount pertaining to BDO Unibank Group's ESOP which is equivalent to the cumulative amount of amortized awarded share options and the amounts paid by the eligible senior officers who exercised their options (see Notes 20.7 and 24.3).

The liability for unredeemed reward points amounting to P3,015 and P2,355 as of December 31, 2017 and 2016, respectively, presented as part of Accrued expenses above represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.20).

Others include margin deposits, life insurance deposits, cash letters of credit and other miscellaneous liabilities.

Interest expense on certain liabilities amounting to P76, P80 and P7 in 2017, 2016, and 2015, respectively, in BDO Unibank Group's financial statements and P10, P6, and P7 in 2017, 2016, and 2015, respectively, in Parent Bank's financial statements are presented as part of Interest expense on bills payable and other liabilities under Interest Expense account in the statements of income (see Note 22).

## 20. EQUITY

### *20.1 Capital Management and Regulatory Capital*

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

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

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

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

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

- (a) Common Equity Tier 1 (CET 1) of at least 6.0% of risk-weighted assets;
- (b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
- (c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets;  
and,
- (d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET 1 Capital.

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

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

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

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

Under an existing BSP circular, expanded commercial banks with more than 100 branches are required to comply with the minimum capital requirement of P20,000. As of December 31, 2017 and 2016, the Parent Bank has complied with the above capitalization requirement.

On October 29, 2014, the BSP issued the guidelines on the framework for dealing with domestic systemically important banks (DSIB) that is consistent with the Basel principles. Banks, which are identified as DSIB shall be required to have a higher loss absorbency (HLA). The HLA requirement is aimed at ensuring that DSIBs, have a higher share of their statements of financial position funded by instruments, which increase their resilience as a going concern. The HLA requirement is to be met with CET 1 capital.

Banks identified by the BSP as DSIB will be asked to put up additional CET 1 capital ranging from 1.50% to 3.50%, to be implemented on a staggered basis from January 1, 2017 until January 1, 2019.

BDO Unibank Group's and the Parent Bank's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of December 31, 2017 and 2016 follows:

	<b>BDO</b>	
	<u><b>Unibank Group</b></u>	<u><b>Parent Bank</b></u>
<b><u>December 31, 2017</u></b>		
Tier 1 Capital		
CET 1	P 291,215	P 291,507
Additional Tier 1	<u>5,150</u>	<u>5,150</u>
	296,365	296,657
Tier 2 Capital	<u>27,551</u>	<u>26,767</u>
Total Regulatory Capital	323,916	323,424
Deductions	( <u>29,573</u> )	( <u>57,905</u> )
Total Qualifying Capital	<u>P 294,343</u>	<u>P 265,519</u>
Total Risk-Weighted Assets	<u>P 2,032,004</u>	<u>P 1,919,673</u>
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.5%	13.8%
Tier 1 Capital Ratio	13.1%	12.4%
Total CET 1 Ratio	12.9%	12.2%
<b><u>December 31, 2016</u></b>		
Tier 1 Capital		
CET 1	P 210,072	P 209,403
Additional Tier 1	<u>5,150</u>	<u>5,150</u>
	215,222	214,553
Tier 2 Capital	<u>24,762</u>	<u>24,088</u>
Total Regulatory Capital	239,984	238,641
Deductions	( <u>21,345</u> )	( <u>50,262</u> )
Total Qualifying Capital	<u>P 218,639</u>	<u>P 188,379</u>
Total Risk-Weighted Assets	<u>P 1,769,246</u>	<u>P 1,645,550</u>
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	12.4%	11.4%
Tier 1 Capital Ratio	11.0%	10.0%
Total CET 1 Ratio	10.7%	9.7%

## 20.2 Capital Stock

Capital stock consists of the following:

	<u>Number of Shares</u>		<u>Amount</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Preferred shares – P10 par value				
Authorized – 2,000,000,000 shares				
Issued, fully paid and outstanding	<u>515,000,000</u>	<u>515,000,000</u>	<u>P 5,150</u>	<u>P 5,150</u>
Common shares – P10 par value				
Authorized – 4,500,000,000 shares				
Issued, fully paid and outstanding:				
Balance at beginning of year	<u>3,649,967,648</u>	<u>3,645,375,218</u>	<u>P 36,500</u>	<u>P 36,453</u>
Issued during the year	<u>719,006,906</u>	<u>4,592,430</u>	<u>7,190</u>	<u>47</u>
Balance at end of year	<u>4,368,974,554</u>	<u>3,649,967,648</u>	<u>P 43,690</u>	<u>P 36,500</u>

### 20.2.1 Preferred Shares

The following are the features of the BDO Unibank Group and the Parent Bank's preferred shares:

- (a) Perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A shares;
- (b) Convertible to common shares at the option of the holder after five years from the issue date or at the option of BDO Unibank Group at any time after issue date; and,
- (c) Dividend rate is 6.5% per annum of the par value.

On January 7, 2017, the Parent Bank's BOD authorized the conversion of 1,000,000,000 unissued shares of the Parent Bank, consisting of 500,000,000 unissued Series A Preferred Shares and 500,000,000 unissued ordinary Preferred Shares, each with a par value of P10 per share, into 1,000,000,000 common shares with par value of P10 per share. This will provide BDO with the flexibility to issue common shares should the need arise in the future. The conversion is still subject to regulatory approvals. The BSP approved the transaction on December 22, 2017 and endorsed it to the SEC on January 15, 2018. Review by the SEC is still on-going.

### 20.2.2 Common Shares

The Parent Bank's application for listing of its common shares was approved by the PSE on April 24, 2002. The application is for the initial listing of up to 952,708,650 common shares, with par value of P10 per share, at an offer price range of P17.80 to P23.80 per share. The proceeds from the sale of BDO Unibank's listed shares amounted to about P2,200.

On September 24, 2016, the Parent Bank's BOD authorized the Parent Bank to raise P60,000 in additional core capital through a stock rights offer. The BSP and the PSE approved the transaction on November 23, 2016 and December 14, 2016, respectively. On January 3, 2017, the Parent Bank fixed the final terms for the stock rights offer which entitled eligible shareholders to subscribe to one common share for every 5.095 common shares held as of January 5, 2017 record date at an offer price of P83.75 per Rights Share. The offer period ran from January 16, 2017 to January 24, 2017. Following the close of the offer period, the Parent Bank successfully completed its stock rights offer and 716,402,886 common shares were issued and subsequently listed on the PSE on January 31, 2017. The issuance resulted in recognition of Additional Paid-in Capital amounting to P52,662, net of related transaction costs totalling to P172. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

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

<u>Transaction</u>	<u>Subscriber</u>	<u>Issue Date</u>	<u>Number of Shares Issued</u>
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
Private placement	Sybase Equity Investments Corp.	July 20, 2015	64,499,890
Stock options	Various employee	June 6, 2016 to December 31, 2016	4,592,430
Stock Options	Various employee	January 3, 2017 to December 27, 2017	2,604,020
Stock Rights	Various	January 31, 2017	716,402,886
			<u>4,368,974,554</u>

As of December 31, 2017 and 2016, there are 12,649 and 12,761, respectively, holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P164.00 and P112.10 per share as of December 29, 2017 and 2016, respectively (the last trading day in 2017 and 2016).



### ***20.3 BDO American Depositary Receipt Program***

On April 18, 2013, the Parent Bank launched its Sponsored Level 1 American Depositary Receipt (ADR) Program by which negotiable securities representing underlying BDO common shares can be traded in the U.S. over-the-counter (OTC) market. This provides flexibility for U.S. investors to trade BDO common shares in their time zone and settle their transactions locally. It is meant to tap the pool of U.S. ADR investors, enhance visibility and global presence and diversify and broaden the Parent Bank's shareholder base. ADRs are quoted and traded in U.S. dollars, and cash dividends received on the underlying shares are paid to investors also in U.S. dollars. The ADR ratio for BDO's sponsored Level 1 ADR Program is 1:10, with each ADR representing ten underlying BDO common shares.

The sponsored Level 1 ADR Program does not necessitate the issuance of new shares as ADRs are traded on the U.S. OTC/secondary market using existing shares, in contrast to the sponsored Level II ADR or sponsored Level III ADR where shares are fully listed on a recognized U.S. exchange (e.g., NYSE, NASDAQ). As such, a Level 1 ADR is not a capital raising transaction, to differentiate it from Level III ADR, which allows the issuer to raise capital through a public offering of ADRs in the U.S.

The sponsored Level 1 ADR is exempt, under U.S. SEC Rule 12g3-2(b), from SEC registration, disclosure requirements and reporting obligations, including Sarbanes-Oxley and U.S. generally accepted accounting principles.

Given its sponsored Level 1 ADR Program, the Bank appointed Deutsche Bank (DB) as the exclusive depositary of ADRs for a period of five years. As depositary bank, DB is responsible for the issuance and cancellation, as well as the registration of the ADRs; custody of the underlying BDO common shares and maintenance of the register of holders; the distribution of dividends; and execution of corporate actions and services to the Issuer (i.e., BDO)/Investor/Broker.

As of December 31, 2017 and 2016, 351,492 and 288 ADRs valued at US\$11,170,416 and US\$6,333 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US\$31.78/share and US\$21.99/share respectively).

### ***20.4 Surplus Free***

On December 2, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of December 19, 2017 and paid on December 29, 2017.

On August 26, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of September 13, 2017 and paid on September 29, 2017.

On May 26, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,310. The dividends were declared to stockholders of record as of June 15, 2017 and paid on June 30, 2017.

On February 24, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,310. The dividends were declared to stockholders of record as of March 14, 2017 and paid on March 31, 2017.

On February 22, 2017, the BOD of BDO Leasing approved the declaration of cash dividends at P0.20 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P433. The dividends were declared to stockholders of record as of March 10, 2017 and paid on March 29, 2017, of which, total dividends paid to non-controlling interest amounted to P50.

On January 27, 2017, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P340. The dividends were paid on February 17, 2017.

On December 3, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,095. The dividends were declared to stockholders of record as of December 19, 2016 and paid on December 29, 2016.

On August 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,094. The dividends were declared to stockholders of record as of September 15, 2016 and paid on September 26, 2016.

On February 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share in respect of the 2015 earnings. On May 28, 2016, the Parent Bank's BOD declared another cash dividend of P0.30 per share. Total dividends are P0.60 per share or P2,188. The dividends were paid on March 28, 2016 and June 27, 2016, respectively.

On February 24, 2016, the BOD of BDO Leasing, a subsidiary of the Parent Bank approved the declaration of cash dividends at P0.20 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P432. The dividends were declared to stockholders of record as of March 11, 2016 and paid on March 30, 2016, of which, total dividends paid to non-controlling interest amounted to P50.

On January 30, 2016, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P339. The dividends were paid on February 16, 2016.

On February 25, 2015, the BOD of BDO Leasing approved the declaration of cash dividends at P0.175 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P378. The dividends were declared to stockholders of record as of March 11, 2015 and payable on March 24, 2015, of which, total dividends paid to non-controlling interest amounted to P43.

On January 31, 2015, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P339. BSP approval was obtained on March 5, 2015 and the dividends were paid on April 15, 2015.

On January 10, 2015, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P1.20 per share in respect of the 2014 earnings. On April 24, 2015, the Parent Bank's BOD also declared special cash dividend of P0.90 per share. Total dividends are P2.10 per share or P7,559. The dividends for the 2014 earnings and the special cash dividends were approved by the BSP on March 5, 2015 and June 10, 2015, respectively. All related dividends declared were paid in 2015.

### ***20.5 Surplus Reserves***

The Parent Bank appropriated its Surplus Free amounting to P96, P28 and P25 in 2017, 2016 and 2015, respectively, representing insurance fund on losses due to fire, robbery and other cash losses. This was approved by the Parent Bank's President. In 2017, ONB appropriated its Surplus Free amounting to P25 representing insurance fund on losses due to fire, robbery and other cash losses, which was approved by its Chairman.

Also, included in the 2017, 2016 and 2015 surplus reserve are the appropriations made by BDO Securities, BDO Nomura and Armstrong Securities, Inc. totaling P5, P8 and P14, respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/ Ratio for Broker Dealers*.

On March 28, 2015, the BOD of BDO Capital approved the appropriation of its surplus free amounting to P1,000 as additional working capital for its underwriting activities and investments. Subsequently, on May 30, 2015, the BOD of BDO Capital approved the reversal thereof amounting to P100. Also, on June 27, 2015, the BOD of BDO Capital approved the reversal of the remaining appropriated retained earnings amounting to P1,900 in connection with the merger with BDO Elite and BDO Savings (see Note 28.3).

In compliance with BSP regulations, 10% of BDO Unibank Group's and the Parent Bank's profit from trust business amounting to P256, P240 and P215 in 2017, 2016 and 2015 respectively, and P190, P182 and P171 in 2017, 2016 and 2015 respectively, is appropriated to surplus reserves (see Note 26).

### ***20.6 Other Reserves***

On February 16, 2015, the BOD of Equimark approved the decrease of its authorized capital stock amounting to P67.5 divided into 675,000 common shares with P100 par value per share, of which P27 is to be paid to non-controlling interest. Such redemption of capital stock was approved by the SEC on May 18, 2015.

### ***20.7 ESOP***

For options that were vested in 2017 and 2016, BDO Unibank Group issued new common shares of 2,604,020 and 4,592,430, respectively from its authorized capital stock. Prior to 2016, shares for vested options were sourced from the secondary market (see Notes 19 and 24.3).

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

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	3,557,111	833,276	2,981,499	666,574
Vested during the year	9,720,328	10,788,464	7,850,278	9,876,464
Exercised during the year	(8,100,156)	(8,064,629)	(7,104,564)	(7,561,539)
Balance at end of year	<u>5,177,283</u>	<u>3,557,111</u>	<u>3,727,213</u>	<u>2,981,499</u>

## 21. INTEREST INCOME

Interest income consists of the following:

	<u>Notes</u>	<u>BDO Unibank Group</u>		
		<u>2017</u>	<u>2016</u>	<u>2015</u>
Loans and other receivables	10, 25	<b>P 88,178</b>	P 73,171	P 63,836
Trading and investment securities	9	<b>9,691</b>	8,142	7,477
Due from BSP and other banks	7, 8	<b>1,742</b>	696	795
Others		<b>184</b>	28	19
		<b><u>P 99,795</u></b>	<u>P 82,037</u>	<u>P 72,127</u>
	<u>Notes</u>	<u>Parent Bank</u>		
		<u>2017</u>	<u>2016</u>	<u>2015</u>
Loans and other receivables	10, 25	<b>P 84,431</b>	P 69,570	P 61,128
Trading and investment securities	9	<b>7,782</b>	6,494	6,743
Due from BSP and other banks	7, 8	<b>1,399</b>	565	635
Others		<b>174</b>	18	13
		<b><u>P 93,786</u></b>	<u>P 76,647</u>	<u>P 68,519</u>

## 22. INTEREST EXPENSE

Interest expense is composed of the following:

	<u>Notes</u>	<u>BDO Unibank Group</u>		
		<u>2017</u>	<u>2016</u>	<u>2015</u>
Deposit liabilities	15	<b>P 14,919</b>	P 13,623	P 12,526
Bills payable and other liabilities	16, 17, 19, 24.2	<b>3,123</b>	2,790	2,640
		<b><u>P 18,042</u></b>	<u>P 16,413</u>	<u>P 15,166</u>

	Notes	Parent Bank		
		2017	2016	2015
Deposit liabilities	15	P 14,076	P 12,898	P 12,075
Bills payable and other liabilities	16, 17, 19, 24.2	2,358	2,091	2,163
		<b>P 16,434</b>	<b>P 14,989</b>	<b>P 14,238</b>

### 23. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	BDO Unibank Group		
		2017	2016 (As Restated - see Note 2.1)	2015 (As Restated - see Note 2.1)
Service charges, fees and commissions	25	P 25,701	P 19,074	P 16,478
Insurance premiums		9,871	8,051	-
Foreign exchange gains		3,412	2,978	2,433
Trust fees	26	3,246	3,123	2,909
Rental	12	1,588	1,475	1,262
Income from assets sold or exchanged	12	798	809	774
Dividend		551	440	459
Trading gains – net	9.1, 9.2	450	1,860	4,740
Miscellaneous – net	13, 28	1,589	3,803	2,785
		<b>P 47,206</b>	<b>P 41,613</b>	<b>P 31,840</b>

	Notes	Parent Bank		
		2017	2016 (As Restated - see Note 2.1)	2015 (As Restated - see Note 2.1)
Service charges, fees and commissions	25	P 21,755	P 15,510	P 13,685
Share in net income of subsidiaries and associates	13.1	4,312	3,657	2,182
Foreign exchange gains		3,072	2,703	2,120
Trust fees	26	2,647	2,491	2,322
Income from assets sold or exchanged	12	751	767	686
Rental	12	534	494	356
Trading gains – net	9.1, 9.2	( 405)	1,061	4,167
Dividend		184	132	211
Miscellaneous – net	13, 28	783	679	2,822
		<b>P 33,633</b>	<b>P 27,494</b>	<b>P 28,551</b>

Other operating expenses consist of the following:

		<b>BDO Unibank Group</b>				
		2016				
		(As Restated - see Note 2.1)				
	Notes	2017		2015		
Compensation and benefits	24.1	<b>P 27,405</b>	P	24,698	P	21,120
Fees and commissions		<b>12,095</b>		6,640		4,762
Occupancy	13.7, 25, 33.2	<b>8,412</b>		7,661		6,675
Taxes and licenses	12	<b>8,270</b>		7,224		6,683
Policy reserves, insurance benefits and claims	18	<b>7,463</b>		5,742		-
Insurance		<b>4,144</b>		3,802		3,300
Advertising		<b>3,431</b>		2,711		2,155
Security, clerical, messengerial and janitorial		<b>3,276</b>		2,914		2,628
Representation and entertainment		<b>1,861</b>		1,594		1,442
Repairs and maintenance		<b>1,316</b>		1,123		1,036
Travelling		<b>1,308</b>		1,204		1,059
Power, light and water		<b>1,058</b>		959		903
Supplies		<b>943</b>		691		522
Telecommunication		<b>557</b>		488		420
Information technology		<b>538</b>		443		427
Amortization of computer software	13.7	<b>528</b>		444		285
Litigation on assets acquired		<b>473</b>		408		152
Freight		<b>307</b>		302		259
Miscellaneous	13.6	<b>1,480</b>		940		1,316
		<b>P 84,865</b>	P	69,988	P	55,144
		<b>Parent Bank</b>				
	Notes	2017		2016		2015
Compensation and benefits	24.1	<b>P 23,909</b>	P	21,508	P	19,593
Fees and commissions		<b>11,372</b>		5,747		4,458
Taxes and licenses	12	<b>7,222</b>		6,227		5,904
Occupancy	13.7, 25, 33.2	<b>7,046</b>		6,459		5,723
Insurance		<b>3,911</b>		3,593		3,181
Advertising		<b>3,319</b>		2,600		2,026
Security, clerical, messengerial and janitorial		<b>3,054</b>		2,728		2,521
Representation and entertainment		<b>1,623</b>		1,401		1,270
Repairs and maintenance		<b>1,218</b>		1,052		994
Travelling		<b>1,089</b>		1,003		909
Power, light and water		<b>953</b>		862		839
Supplies		<b>827</b>		567		465
Information technology		<b>510</b>		408		400
Amortization of computer software	13.7	<b>477</b>		380		249
Telecommunication		<b>465</b>		384		358
Litigation on assets acquired		<b>431</b>		378		121
Freight		<b>285</b>		282		253
Miscellaneous	13.6	<b>1,218</b>		800		1,130
		<b>P 68,929</b>	P	56,379	P	50,394

## 24. COMPENSATION AND BENEFITS

### 24.1 Compensation and Benefits

Expenses recognized for compensation and benefits (see Note 23) are presented below.

		<b>BDO Unibank Group</b>		
Notes	<b>2017</b>	2016	2015	
	<b>P</b>	<b>16,732</b>	P 15,009	P 12,320
Salaries and wages		<b>5,255</b>	4,608	4,091
Bonuses		<b>1,432</b>	1,296	1,211
Retirement – defined benefit plan	24.2	<b>629</b>	583	503
Social security costs		<b>518</b>	836	860
Employee stock option plan	24.3	<b>2,839</b>	2,366	2,135
Other benefits		<b>27,405</b>	P 24,698	P 21,120
	23	<b>27,405</b>	P 24,698	P 21,120
		<b>Parent Bank</b>		
Notes	<b>2017</b>	2016	2015	
	<b>P</b>	14,432	P 12,811	P 11,330
Salaries and wages		<b>4,696</b>	4,193	3,799
Bonuses		<b>1,248</b>	1,134	1,105
Retirement – defined benefit plan	24.2	<b>539</b>	500	460
Social security costs		<b>464</b>	739	860
Employee stock option plan	24.3	<b>2,530</b>	2,131	2,039
Other benefits		<b>23,909</b>	P 21,508	P 19,593
	23	<b>23,909</b>	P 21,508	P 19,593

### 24.2 Post-employment Benefits

#### (a) Characteristics of the Defined Benefit Plan

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

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provided for an early retirement at age of 50 with a minimum of 10 years of credited service and late retirement up to age 65, both subject to the approval of Parent Bank's BOD. Normal retirement benefit is an amount equivalent to a percentage ranging from 50% to 200% of plan salary for every year of credited service.

#### (b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2017 and 2016.



The amounts of Retirement benefit obligation (asset) recognized under Other Liabilities (Resources) accounts (see Notes 13 and 19) in the statements of financial position are determined as follows:

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Present value of the DBO	<b>P 25,347</b>	P 21,072	<b>P 23,171</b>	P 19,253
Fair value of plan assets	( <b>22,575</b> )	( 21,850 )	( <b>20,629</b> )	( 20,093 )
Deficiency (excess) of plan assets	<b>2,772</b>	( 778 )	<b>2,542</b>	( 840 )
Effect of asset ceiling	<b>7</b>	<b>69</b>	<b>-</b>	<b>44</b>
	<b>P 2,779</b>	( P 709 )	<b>P 2,542</b>	( P 796 )

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

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Balance at beginning of year	<b>P 21,072</b>	P 18,695	<b>P 19,253</b>	P 17,321
Current service cost	<b>1,432</b>	1,296	<b>1,248</b>	1,134
Interest expense	<b>1,159</b>	922	<b>1,059</b>	847
Benefits paid by the plan	( <b>1,252</b> )	( 814 )	( <b>1,208</b> )	( 739 )
Addition due to acquisition of a new subsidiary*	-	85	-	-
Remeasurements:				
Actuarial losses (gains) arising from changes in:				
- experience adjustments	<b>13,860</b>	674	<b>13,272</b>	538
- demographic assumptions	( <b>9,699</b> )	23	( <b>9,237</b> )	-
- financial assumption	( <b>1,225</b> )	191	( <b>1,216</b> )	152
Balance at end of year	<b>P 25,347</b>	P 21,072	<b>P 23,171</b>	P 19,253

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

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Balance at beginning of year	<b>P 21,850</b>	P 20,146	<b>P 20,093</b>	P 18,626
Contributions paid into the plan	<b>1,533</b>	1,471	<b>1,355</b>	1,355
Interest income	<b>1,210</b>	1,009	<b>1,109</b>	926
Benefits paid by the plan	( <b>1,252</b> )	( 814 )	( <b>1,208</b> )	( 739 )
Remeasurement loss - return on plan assets (excluding amounts included in net interest)	( <b>766</b> )	( 69 )	( <b>720</b> )	( 75 )
Addition due to acquisition of a new subsidiary*	-	107	-	-
Balance at end of year	<b>P 22,575</b>	P 21,850	<b>P 20,629</b>	P 20,093

\* Addition due to acquisition of a new subsidiary pertains to the retirement plan of BDO Life, which was acquired in 2016 (see Note 28.4).

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.

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Placements in debt instruments:				
Government bonds	<b>P 7,374</b>	P 8,884	<b>P 6,711</b>	P 8,190
Corporate bonds	<b>4,629</b>	3,957	<b>4,268</b>	3,669
UITFs	<b>4,835</b>	4,015	<b>4,534</b>	3,771
Cash and cash equivalents	<b>2,483</b>	2,495	<b>2,321</b>	2,343
Loans and other receivables	<b>982</b>	180	<b>928</b>	167
Equity instruments	<b>807</b>	735	<b>485</b>	464
Other properties	<b>1,465</b>	1,584	<b>1,382</b>	1,489
	<b><u>P 22,575</u></b>	<u>P 21,850</u>	<b><u>P 20,629</u></b>	<u>P 20,093</u>

Actual returns on plan assets were P444 and P389 in 2017 and P940 and P851 in 2016 in the BDO Unibank Group and the Parent Bank's financial statements, respectively.

Certain plan assets include BDO Unibank Group's own financial instruments [see Note 25(c)].

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for UITFs which are at Level 2, loans and other receivables and other properties, which are at Level 3.

The components of amounts recognized in profit or loss and in other comprehensive income of the BDO Unibank Group and the Parent Bank in respect of the defined benefit plan as follows:

	<b>BDO Unibank Group</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<i>Recognized in profit or loss:</i>			
Current service costs	<b>P 1,432</b>	P 1,296	P 1,211
Interest income	<b>( 51)</b>	( 87)	( 72)
	<b><u>P 1,381</u></b>	<u>P 1,209</u>	<u>P 1,139</u>
<i>Recognized in other comprehensive income, net of tax (see Note 29.1):</i>			
Actuarial losses (gains) arising from:			
- experience adjustments	<b>P 9,702</b>	P 472	P 101
- changes in demographic assumptions	<b>( 6,790)</b>	16	( 292)
- changes in financial assumptions	<b>( 857)</b>	134	( 91)
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	<b>536</b>	48	420
- changes in the effect of the asset ceiling	<b>( 41)</b>	( 22)	17
Share in actuarial gains of associates	<b>-</b>	( 3)	( 8)
	<b><u>P 2,550</u></b>	<u>P 645</u>	<u>P 147</u>

	<b>Parent Bank</b>		
	<b>2017</b>	2016	2015
<i>Recognized in profit or loss:</i>			
Current service costs	P 1,248	P 1,134	P 1,105
Interest income	( 50)	( 79)	( 69)
	<b>P 1,198</b>	<b>P 1,055</b>	<b>P 1,036</b>
<i>Recognized in other comprehensive income, net of tax (see Note 29.1):</i>			
Actuarial losses (gains) arising from change in:			
- experience adjustments	P 9,290	P 377	P 133
- demographic assumptions	( 6,466)	-	( 275)
- financial assumptions	( 851)	106	( 57)
Re-measurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	504	53	381
- changes in the effect of the asset ceiling	( 32)	( 20)	4
	2,445	516	186
Share in actuarial losses (gains) of subsidiaries and associates	( 92)	129	( 3)
	<b>P 2,353</b>	<b>P 645</b>	<b>P 183</b>

Current service costs are presented as part of Compensation and benefits under Other Operating Expenses account (see Note 23) while interest income are netted against Interest Expense account (see Note 22) in the statements of income of BDO Unibank Group and the Parent Bank.

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

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

	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
Discount rates	<b>5.7%</b>	5.5%	<b>5.70%</b>	5.5%
Expected rate of salary increases	<b>2.0 - 11.0%</b>	9.0%	<b>6.0 - 8.0%</b>	9.0%

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 27 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Risks*

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

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

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

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit asset as of December 31, 2017 and 2016:

	<u>Impact on Retirement Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b><u>BDO Unibank Group</u></b>			
<b><u>December 31, 2017</u></b>			
Discount rate	+/-1%	(P 1,190)	P 1,337
Salary increase rate	+/-1%	1,082	( 985)
<b><u>December 31, 2016</u></b>			
Discount rate	+/-1%	(P 703)	P 791
Salary increase rate	+/-1%	680	( 621)

<u>Impact on Retirement Benefit Obligation</u>				
	<u>Change in Assumption</u>		<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>

**Parent Bank**

**December 31, 2017**

Discount rate	+/-1%	(P	982) P	1,087
Salary increase rate	+/-1%		864 (	798)

**December 31, 2016**

Discount rate	+/-1%	(P	565) P	630
Salary increase rate	+/-1%		538 (	496)

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, 2017 and 2016 consists of debt instruments and UITFs, although the BDO Unibank Group and the Parent Bank also invest in cash and cash equivalents and properties. The debt instruments include government bonds and corporate bonds.

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

(iii) *Funding Arrangements and Expected Contributions*

As of December 31, 2017, the plan of the BDO Unibank Group and the Parent Bank is underfunded by P2,779 and P2,542, respectively, based on the latest actuarial valuation report. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The BDO Unibank Group and the Parent Bank expects to pay P2,845 and P2,542 respectively, as contributions to retirement benefit plans in 2018.

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:

	<b><u>BDO Unibank Group</u></b>	<b><u>Parent Bank</u></b>
Between one to five years	P 16,786	P 15,866
Between six to ten years	<u>12,018</u>	<u>10,887</u>
	<b><u>P 28,804</u></b>	<b><u>P 26,753</u></b>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20.6 to 29.1 years for the BDO Unibank Group and 26.9 years for the Parent Bank.

### **24.3 ESOP**

BDO Unibank Group's ESOP expense includes the amounts recognized by the Parent Bank and its subsidiaries over the vesting period. In 2017 and 2016, vested shares totaled 9,720,328 and 10,788,464, respectively for BDO Unibank Group, and 7,850,278 and 9,876,464 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 P518, P836 and P860 in 2017, 2016, and 2015, respectively, and in the Parent Bank's statements of income, amounted to P464, P739 and P860, respectively (see Note 24.1).

## **25. RELATED PARTY TRANSACTIONS**

The Parent Bank created a Related Party Transaction Committee composed of independent directors and non-executive directors, with independent directors comprising majority of the members as required by the BSP. The said Committee exercises oversight role to ensure bank compliance with BSP regulations on related party transactions.

The summary of BDO Unibank Group's significant transactions with its related parties as of December 31, 2017 and 2016 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction			Outstanding Balance	
		2017	2016	2015	2017	2016
<b>DOSRI Loans</b>	25(a)					
Stockholders		P 78,597	P 16,529	P 12,588	P 51,916	P 11,309
Related Parties Under Common Ownership		3,314	42,812	26,745	2,066	10,333
Officers and Employees		1,504	1,296	1,112	1,860	1,598
<b>Deposit Liabilities</b>	25(b)					
Stockholders		554,530	386,266	339,476	52,886	68,009
Related Parties Under Common Ownership		80,630	403,677	498,553	3,790	6,745
Officers and Employees		349	36	3	93	7
<b>Other Transactions with Associates</b>	25(d)					
Loans and Advances		-	-	5	5,920	3,228
Interest Income		254	88	17	52	20
<b>Related Parties Under Common Ownership</b>						
Rent Expense	25(d)	1,031	915	760	109	103
<b>Key Management Personnel Compensation</b>	25(d)	1,413	1,501	1,494	-	-
<b>Retirement Plan</b>	25(c)	64	109	224	5,058	3,731

The summary of the Parent Bank's significant transactions with its related parties as of December 31, 2017 and 2016 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction			Outstanding Balance	
		2017	2016	2015	2017	2016
<b>DOSRI Loans</b>	25(a)					
Stockholders		P 78,597	P 16,529	P 12,586	P 51,916	P 11,309
Related Parties Under Common Ownership		3,314	42,812	26,702	2,064	10,330
Officers and Employees		1,500	1,289	1,094	1,853	1,587
<b>Deposit Liabilities</b>	25(b)					
Stockholders		554,530	386,266	339,476	52,886	68,009
Related Parties Under Common Ownership		80,630	403,677	498,553	3,790	6,745
Officers and Employees		349	36	3	93	7
<b>Other Transactions with Subsidiaries</b>	25(d)					
Loans and Advances		69,613	42,035	45,119	8,539	5,960
Derivative Assets		100	742	99	1	22
Derivative Liabilities		1,276	600	574	25	4
Deposit Liabilities		697	699	198	4,398	3,701
Interest Income		232	128	207	9	6
Rent Income		115	96	58	-	-
Service Fees		539	222	65	-	-
Interest Expense		23	13	11	1	-
Rent Expense		9	9	9	-	-
<b>Related Parties Under Common Ownership</b>						
Rent Expense	25(d)	912	820	699	109	103
<b>Key Management Personnel Compensation</b>	25(d)	985	976	1,053	-	-
<b>Retirement Plan</b>	25(c)	64	109	224	5,055	3,728



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

(a) *Loans to Related Parties*

Under existing policies of BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.0% to 3.5% per annum in 2017, 2016, and 2015, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2017 and 2016, the BDO Unibank Group and the Parent Bank is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Total DOSRI loans	<b>P 55,842</b>	P 23,240	<b>P 55,833</b>	P 23,226
Unsecured DOSRI loans	<b>1,573</b>	1,297	<b>1,572</b>	1,295
Past due DOSRI loans	<b>1</b>	-	<b>1</b>	-
Non-performing DOSRI loans	-	-	-	-
% of DOSRI loans to total loan portfolio	<b>3.18%</b>	1.57%	<b>3.28%</b>	1.63%
% of unsecured DOSRI loans to total DOSRI loans	<b>2.82%</b>	5.58%	<b>2.82%</b>	5.58%
% of past due DOSRI loans to total DOSRI loans	<b>0.00%</b>	0.00%	<b>0.00%</b>	0.00%
% of non-performing DOSRI loans to total DOSRI loans	<b>0.00%</b>	0.00%	<b>0.00%</b>	0.00%

DOSRI loans of BDO Unibank Group and the Parent Bank bear annual interest rates of 0.0% to 10.6% in 2017 and 0.0% to 12.0% both in 2016 and 2015, (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

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

Total loan releases and collections in 2017 amounted to P83,415 and P50,813 for BDO Unibank Group and P83,411 and P50,805 for the Parent Bank, respectively. Total loan releases and collections in 2016 amounted to P60,637 and P67,087 for BDO Unibank Group and P60,630 and P66,961 for the Parent Bank, respectively. Total loan releases and collections in 2015, on the other hand, amounted to P40,445 and P58,613 for BDO Unibank Group and P40,382 and P58,593 for the Parent Bank, respectively.

BDO Unibank Group and the Parent Bank assessed that these loans are not impaired in 2017 and 2016.

(b) *Deposits from Related Parties*

Total deposits made by the related parties to BDO Unibank Group and the Parent Bank both amounted to P635,509, P789,979 and P838,032 in 2017, 2016 and 2015, respectively, and bearing interest rates range of 0.0% to 4.32% in 2017 and 0.0% to 5.30% in 2016 and in 2015. The related interest expense from deposits amounted to P2,181 and P2,391 and P1,672 in 2017, 2016, and 2015, respectively (see Note 22).

(c) *Transactions with Retirement Plan*

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group as of December 31, 2017 and 2016 and for each of the three years ended are as follows:

<b>Related Party Category</b>	<b>Amounts of Transaction</b>			<b>Outstanding Balance</b>	
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2017</b>	<b>2016</b>
Loans to employees					
BDO Unibank, Inc.	P -	P -	P -	P 27	P 40
BDO Leasing	-	-	-	1	1
Investment in shares of -					
BDO Unibank, Inc.	-	-	-	26	15
BDO Leasing	-	-	-	2	2
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	-	-	-	5,002	3,673
Trading gain					
BDO Unibank, Inc.	59	105	219	-	-
Interest expense					
BDO Unibank, Inc.	5	4	5	-	-

BDO Unibank Group's retirement fund has transactions directly and indirectly with Parent Bank as of December 31, 2017 and 2016 and for each of the three years ended are as follows:

<b>Related Party Category</b>	<b>Amounts of Transaction</b>			<b>Outstanding Balance</b>	
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2017</b>	<b>2016</b>
Loans to employees					
BDO Unibank, Inc.	P -	P -	P -	P 27	P 40
Investment in shares of -					
BDO Unibank, Inc.	-	-	-	26	15
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	-	-	-	5,002	3,673
Trading gain					
BDO Unibank, Inc.	59	105	219	-	-
Interest expense					
BDO Unibank, Inc.	5	4	5	-	-

Details of the contributions of BDO Unibank Group and Parent Bank, and benefits paid out by the plan to the employees are presented in Note 24.

*(d) Other Transactions with Related Parties*

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown in the section that follows. These transactions are generally unsecured and payable in cash, unless otherwise stated.

*(i)* Transactions with and between subsidiaries have been eliminated in the BDO Unibank Group's financial statements. Significant transactions with subsidiaries are as follows:

*(1) Loans and Advances to Subsidiaries*

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. Total advances granted and collected amounted to P85 and P29, P344 and P478 and P417 and P346, in 2017, 2016 and 2015, 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 P85 and P29 as of December 31, 2017 and 2016, respectively (see Note 10).

The Parent Bank also grants both secured and unsecured interest-bearing loans to subsidiaries with outstanding balance of P8,454 and P5,931 as of December 31, 2017 and 2016, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 10). Total loans granted amounted to P69,528, P41,691 and P44,702 while total loans collected amounted to P67,005, P42,578 and P45,751 for 2017, 2016 and 2015, respectively. These loans are payable in cash with a term between one month to five years. Interest income recognized on these is presented as part of Interest Income in the Parent Bank's statements of income (see Note 21). Interest rate on these loans ranges from 2.0% to 3.5% per annum in 2017, 2016, and 2015.

*(2) Income to the Parent Bank*

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank. Total service fees are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). There are no outstanding balance arising from these transactions as of December 31, 2017 and 2016.

BDO Life, a former associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life pays the Parent Bank management fees in cash equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. Total service fees is presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). Outstanding balances arising from this as of December 31, 2017 and 2016 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 income in the Parent Bank's statements of income (see Note 23). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2017 and 2016.

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 P67, P90 and P82 in 2017, 2016, and 2015, respectively. There are no outstanding receivable from subsidiaries as of December 31, 2017 and 2016.

### *(3) Expenses of the Parent Bank*

The Parent Bank leases space from BDOSHI for its branch operations. Total rent paid is included as part of Occupancy account under Other Operating Expenses account in the Parent Bank statements of income (see Note 23). The lease term is between 10 to 20 years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2017 and 2016.

### *(4) Derivatives*

In 2017 and 2016, 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, 2017 and 2016, 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 Derivative with negative fair values under Other Liabilities account in the statements of financial position (see Note 19).

### *(5) Deposit Liabilities*

Total deposits made by the subsidiaries to the Parent Bank bear interest rates of 0.0% to 2.5% in 2017, 0.0% to 2.6% in 2016 and 0.0% to 1.5% in 2015. These related interest expense from these deposits are included as part of Interest Expense account on deposit liabilities in the statements of financial position (see Note 22).

(ii) Other transactions with associates are shown below.

*Loans and Advances to Associates*

As of December 31, 2017 and 2016, there is an outstanding secured and unsecured interest-bearing loans and advances to associates amounting to P5,920 and P3,228 for the BDO Unibank Group and P5,200 and P2,500 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 five to 12 years. Total collections on loans and advances amounted to P8, P488 and P13 in 2017, 2016 and 2015, respectively.

Annual interest rate on these loans ranges from 3.0% to 7.7% for the years 2017, 2016 and 2015. The related interest income is presented as part of Interest Income on loans and other receivables in the BDO Unibank Group's statements of income (see Note 21). As of December 31, 2017, 2016 and 2015, there were no impairment losses recognized on these loans and advances.

(iii) Transaction of the Parent Bank with related parties under common ownership is shown below.

The Parent Bank leases space from related parties for its branch operations. For the years ended December 31, 2017, 2016 and 2015, total rent paid to related parties amounted to P912, P820 and P699, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 23). The terms of the lease are from two to five years and is payable in cash. Outstanding balances arising from this transaction amounted to P109 and P103 as of December 31, 2017 and 2016, respectively and is included as part of Accounts payable under Other Liabilities (see Note 19).

(iv) Key Management Personnel Compensation

The compensation and benefits given to BDO Unibank Group and the Parent Bank's key management are as follows (see Note 24.1):

	<b>BDO Unibank Group</b>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Salaries and other benefits	<b>P 1,267</b>	P 1,348	P 1,352
Retirement expense	<u>146</u>	<u>153</u>	<u>142</u>
	<b><u>P 1,413</u></b>	<b><u>P 1,501</u></b>	<b><u>P 1,494</u></b>
	<b>Parent Bank</b>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Salaries and other benefits	<b>P 886</b>	P 878	P 950
Retirement expense	<u>99</u>	<u>98</u>	<u>103</u>
	<b><u>P 985</u></b>	<b><u>P 976</u></b>	<b><u>P 1,053</u></b>

## 26. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group and the Parent Bank's statements of financial position since these are not resources of the BDO Unibank Group (see Note 33.3).

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Investments	<b>P 1,036,651</b>	P 1,021,927	<b>P 743,955</b>	P 749,768
Others	<u>9,507</u>	<u>7,186</u>	<u>7,806</u>	<u>6,095</u>
	<b><u>P 1,046,158</u></b>	<b><u>P 1,029,113</u></b>	<b><u>P 751,761</u></b>	<b><u>P 755,863</u></b>

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 AFS securities (see Note 9.2) with a total face value of P11,008 and P11,249 as of December 31, 2017 and 2016, respectively, in BDO Unibank Group and, P7,830 and P7,650 as of December 31, 2017 and 2016, 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, 2017 and 2016, the additional reserve for trust functions amounted to P256 and P240, respectively, for BDO Unibank Group and P190 and P182, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 20.5).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P3,246, P3,123 and P2,909 for the years ended December 31, 2017, 2016 and 2015, respectively, in BDO Unibank Group statements of income and P2,647, P2,491, and P2,322 for the years ended December 31, 2017, 2016 and 2015, respectively, in the Parent Bank statements of income (see Note 23).

## 27. UNIT-LINKED FUNDS

VUL life insurance contracts of BDO Life are life insurance policies wherein a portion of the premiums received are invested in VUL funds, which are composed mainly of investments in equity and debt securities. The withdrawal or surrender amount of a VUL policy can be computed by multiplying the total units held by the policyholder by the fund's Net Asset Value (NAV) per unit, which changes daily depending on the fund's performance.

In 2013, BDO Life obtained the approval from IC to issue VUL products, where payments to policyholders are linked to internal investment funds set up by BDO Life. The VUL funds are managed by the Trust and Investment Group of the Parent Bank.

As of December 31, 2017 and 2016, BDO Life has 12 and 10 VUL funds, respectively. The details of the investment funds, which comprise the assets backing the unit-linked liabilities, are presented in the table below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the BDO Unibank Group's financial statements.

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	P 62	P 78
Financial assets at FVTPL	5,658	2,916
Other receivables	<u>7</u>	<u>6</u>
	<u>P 5,727</u>	<u>P 3,000</u>
Liabilities and Equity:		
Other liabilities	P 32	P 27
Net assets attributable to unitholders	<u>5,695</u>	<u>2,973</u>
	<u>P 5,727</u>	<u>P 3,000</u>

## 28. MERGERS AND ACQUISITIONS

### *28.1 Subscription of Additional Shares in CBN Grupo*

On June 27, 2015, the Parent Bank's BOD authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo for €3. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued the shares to BDO Capital, making BDO Capital the owner of approximately 96% of the outstanding capital stock of CBN Grupo (see Note 13.1). CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered, thereafter, with The Netherlands Chamber of Commerce on October 24, 2016. The total goodwill recognized in 2016 amounted to P32 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

### *28.2 Acquisition of Credit Card Portfolio*

On June 14, 2016, the Parent Bank signed an agreement with SB Cards to be the exclusive issuer and acquirer of Diners Club credit cards in the Philippines. The acquisition includes SB Cards' existing Diners Club portfolio and its cardholder base. The agreement took effect on September 30, 2016.

The Parent Bank recognized the acquisition-date fair value of the existing credit card receivables and liabilities assumed and compared the net assets acquired with the cash consideration given up resulting in the recognition of Trademark for the excess relating to the use of Diners Club trade name by the Parent Bank for a period of five years. Presented below is the analysis of the transaction.

Credit card receivables	P 586
Liabilities	( <u>18</u> )
Net asset acquired	568
Cash consideration	( <u>733</u> )
Trademark (see Note 13.6)	<u>P 165</u>



### ***28.3 Three Way Merger among BDO Capital, BDO Savings and BDO Elite***

On July 22, 2015, the shareholders of BDO Capital, BDO Savings and BDO Elite approved the merger among the three companies with BDO Capital as the surviving entity. BDO Unibank Group owns 98.82% of BDO Elite, 99.99% of BDO Savings and 100% of BDO Capital.

The SEC approved the merger on June 30, 2016. Approval documents were received only on July 21, 2016; thus, the consolidation took effect on July 31, 2016 (see Note 2.3). In the implementation of the merger, all the shares of the capital stock of BDO Elite and BDO Savings issued and outstanding on the effective date of the merger were cancelled. A total of 7,000,399 new shares of stock of BDO Capital were then issued in exchange for the cancelled BDO Elite and BDO Savings shares of stock, as follows:

- (a) 1,000,000 shares out of the unissued authorized capital stock; and,
- (b) 6,000,399 shares out of the increase in authorized capital stock.

The BDO Elite and BDO Savings shareholders were issued a total of 3,391,113 and 3,609,286 BDO Capital shares, respectively.

### ***28.4 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. The transaction resulted in the recognition of a gain on fair valuation of previously-held interest and gain on bargain purchase (negative goodwill) amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214. This is recorded as part of Miscellaneous under Other Operating Income account in the 2016 financial statements of BDO Unibank Group (see Note 23).

BDO Unibank Group is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market. By assuming full control of BDO Life Assurance's operations, BDO Unibank Group will be able to adapt more readily to the demands of its target markets.

On the date of acquisition, the equity share in BDO Life was re-measured at fair value, as follows:

Fair value	P	2,549
Book value	(	<u>1,921</u> )
Gain on fair valuation of previously-held interest	P	<u><u>628</u></u>

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		<u>104</u>
Total resources		<u>27,454</u>
Insurance contract liabilities		17,910
Other liabilities		<u>3,173</u>
Total liabilities		<u>21,083</u>
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)	(	<u>2,236</u> )
Gain on bargain purchase	P	<u><u>1,586</u></u>

Pre-acquisition income arising from the step-up acquisition amounted to P391. Subsequently, GPHCI was renamed to BDO Life Holdings (see Notes 2.3 and 13.1).

On November 24, 2016, the BOD of BDO Life Holdings and BDO Life, at their respective meetings, approved the merger of the two companies, with BDO Life as the surviving entity, and the Plan of Merger. The same were likewise approved by the respective stockholders of the companies on December 3, 2016. The merger was approved by the SEC on September 4, 2017 and was implemented on the same date.

Under the Articles of Merger, the capital stock owned by the Parent Bank and BDO Capital in BDO Life Holdings shall be exchanged for shares in the capital stock of BDO Life on the basis of the net asset value of BDO Life Holdings. BDO Life issued a total of 15,931,324 shares with a par value of P100 per share to the shareholders of BDO Life Holdings in exchange for the net asset of BDO Life Holdings, composed of 15,150,505 shares reacquired by BDO Life as a consequence of the merger, since it was previously wholly-owned by BDO Life Holdings, and 780,819 shares from the unissued authorized capital stock of BDO Life. The shareholdings of the Parent Bank and BDO Capital after the merger is 97.0% and 3.0%, respectively.

### ***28.5 Investment Agreement with Nomura***

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in an Investment Agreement (the Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share. Such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 new common shares of PCIB Securities at P370.34 per share, resulting to new percentage of ownership of the Parent Bank to 51.0% and Nomura having 49.0% over PCIB Securities. Subsequently, PCIB Securities was renamed as BDO Nomura.

On July 20, 2017, BDO Nomura's BOD and stockholders approved the increase in its authorized capital stock from P100, divided into 1,000,000 shares with P100 par value per share to P1,000, divided into 10,000,000 shares with P100 par value per share. In relation to the increase in authorized capital stock, BDO Nomura received a cash infusion from the Parent Bank and Nomura Asia Investment (Singapore) Pte. Ltd. amounting to P153 and P147, respectively, for future subscription of additional shares of stock of BDO Nomura with a total par value of P300. The deposit for future stock subscription were recorded as part of Equity investments under Other Resources account in the Parent Bank's 2017 statement of financial position (see Note 13.1). The application for the increase in authorized capital stock was filed with SEC on December 20, 2017 and was subsequently approved on February 5, 2018 (see Note 32.3).

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

On January 28, 2016, BDO Leasing entered into a joint venture investment agreement with MMPC, SJC and JACCS to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles in the Philippines. The joint venture, to be named MAFSC, is seen harnessing the complementary strengths of the partners of the joint venture to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and a growing population. Upon the incorporation of MAFSC on May 31, 2016, BDO Leasing contributed P300 for 3,000,000 common shares, thereby owning 40% of the company while MMPC, SJC and JACCS jointly hold the remaining 60% stake (see Note 13.1).

### ***28.7 Acquisition of One Network Bank, Inc. (A Rural Bank)***

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of Additional Paid-in Capital amounting to P6,028, net of related transaction costs amounting to P3. Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%. The total goodwill recognized in 2015 amounting to P2,903 is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

As of December 31, 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. These additional purchases of ONB common shares by the Parent Bank increased its total shareholdings in ONB to 99.76%. Total additional goodwill recognized in 2016 amounted to P4.

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	3,294
Trading and investment securities		2,457
Loans and other receivables		20,532
Bank premises, furniture, fixtures and equipment		1,510
Other resources		<u>403</u>
Total resources		<u>28,196</u>
Deposit liabilities		20,920
Other liabilities		<u>3,478</u>
Total liabilities		<u>24,398</u>
Net asset position		3,798
Non-controlling share in equity	(	14)
Cost of investment	(	<u>6,687)</u>
Goodwill (see Note 13.3)	P	<u><u>2,903</u></u>

On June 17, 2016, the Parent Bank entered into a Sale and Purchase Agreement with TPG Growth III SF PTE. Ltd (TPG) whereby the latter shall purchase 98,949,533 common shares of ONB (constituting 40%) held by the Parent Bank. The transaction has been approved by the BSP on December 8, 2016 and is still subject to the completion of certain closing conditions as of December 31, 2017.

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. The Parent Bank on September 13, 2017 subscribed to an additional 32,386,356 of new ONB shares thereby increasing its total shareholdings in ONB to 99.79%.

**28.8 Purchase of Assets and Assumption of Liabilities of The Real Bank (A Thrift Bank), Inc.**

On August 8, 2014, the Parent Bank and TRB executed a Memorandum of Agreement to transfer the latter's assets and liabilities to the Parent Bank. The BSP approved the transaction on July 2, 2014. The Parent Bank recognized the fair value of assets and liabilities of TRB as presented.

Cash and other cash items	P	97
Due from BSP		797
Due from other banks		49
Trading and other investments		125
Loans and other receivables		978
Premises, furniture, fixtures and equipment		77
Investment properties		358
Other resources		<u>10</u>
Total resources		<u>2,491</u>
Deposit liabilities		6,922
Bills payable		11
Other liabilities		<u>185</u>
Total liabilities		<u>7,118</u>
Net liability position	P	<u>4,627</u>

As settlement on the net liability position assumed by the Parent Bank, the majority shareholder/s of TRB will shoulder the P2,000 deficiencies, through a term loan covered by acceptable hard assets, while the remaining deficiency is recognized by the Parent Bank as part of Branch licenses as granted by the BSP (see Note 13.4). In 2015, the P2,000 deficiencies were settled through issuance of term loan under contract-to-sell financing. As of December 31, 2017 and 2016, the outstanding balance amounted to nil and P1,916, and is presented as part of Loans and discounts under Loans and Other Receivables account in the statements of financial position (see Note 10).

**28.9 Acquisition of Trust Business**

On February 21, 2014, the Parent Bank entered into a definitive agreement for the acquisition of the trust business of Deutsche Bank AG's Manila branch (Deutsche) comprising of trust, other fiduciary and investment management activities amounting to P35,751 and presented as part of contingent accounts under Trust department accounts (see Note 33.3). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources account in the statements of financial position (see Note 13.7).

## 29. TAXES

### 29.1 Current and Deferred Taxes

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

	<b>BDO Unibank Group</b>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	<b>P 8,031</b>	P 5,528	P 3,510
Minimum corporate income tax (MCIT) at 2%	<b>14</b>	16	665
Final taxes at 20%, 15%, 10% and 7.5%	<u><b>1,371</b></u>	<u>1,220</u>	<u>1,305</u>
	<b>9,416</b>	6,764	5,480
Deferred tax expense relating to origination and reversal of temporary differences	<u>36</u>	<u>33</u>	<u>221</u>
	<u><b>P 9,452</b></u>	<u>P 6,797</u>	<u>P 5,701</u>
<i>Reported in other comprehensive income:</i>			
Actuarial losses	<b>(P 1,125)</b>	(P 267)	(P 100)
Fair value of AFS securities	<b>20</b>	( 21)	( 67)
Reversal of revaluation increment	<u>-</u>	<u>-</u>	<u>( 8)</u>
	<u><b>(P 1,105)</b></u>	<u>(P 288)</u>	<u>(P 175)</u>
	<b>Parent Bank</b>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
RCIT at 30%	<b>P 7,045</b>	P 4,651	P 3,510
Final taxes at 20%, 15%, 10% and 7.5%	<u><b>978</b></u>	<u>870</u>	<u>1,086</u>
	<b>8,023</b>	5,521	4,596
Deferred tax expense relating to origination and reversal of temporary differences	<u>218</u>	<u>192</u>	<u>233</u>
	<u><b>P 8,241</b></u>	<u>P 5,713</u>	<u>P 4,829</u>
<i>Reported in other comprehensive income:</i>			
Actuarial losses	<b>(P 1,048)</b>	(P 221)	(P 80)
Reversal of revaluation increment	<u>-</u>	<u>-</u>	<u>( 8)</u>
	<u><b>(P 1,048)</b></u>	<u>(P 221)</u>	<u>(P 88)</u>

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

	<b>BDO Unibank Group</b>					
	<b>2017</b>		<b>2016</b>		<b>2015</b>	
Tax on pretax profit at 30%	<b>P</b>	<b>11,267</b>	<b>P</b>	9,913	<b>P</b>	9,197
Adjustment for income subjected to lower income tax rates	(	<b>379)</b>	(	349)	(	657)
Tax effects of:						
Income exempt from tax	(	<b>2,552)</b>	(	2,868)	(	3,076)
Non-deductible expenses		<b>2,545</b>		1,734		891
Deductible temporary differences not recognized	(	<b>908)</b>	(	1,022)	(	713)
Net operating loss carryover (NOLCO) not recognized		<b>17</b>		20	(	9)
Application of previously unrecognized MCIT	(	<b>4)</b>	-		-	
Utilization of previously unrecognized NOLCO	-		(	30)	-	
Others	(	<b>534)</b>	(	631)		68
Tax expense reported in profit or loss	<b>P</b>	<b>9,452</b>	<b>P</b>	6,797	<b>P</b>	5,701
	<b>Parent Bank</b>					
	<b>2017</b>		<b>2016</b>		<b>2015</b>	
Tax on pretax profit at 30%	<b>P</b>	<b>10,874</b>	<b>P</b>	8,931	<b>P</b>	8,919
Adjustment for income subjected to lower income tax rates	(	<b>484)</b>	(	399)	(	431)
Tax effects of:						
Income exempt from tax	(	<b>3,492)</b>	(	3,216)	(	3,653)
Non-deductible expenses		<b>2,259</b>		1,460		740
Deductible temporary differences not recognized	(	<b>916)</b>	(	1,021)	(	773)
Others	-		(	42)		27
Tax expense reported in profit or loss	<b>P</b>	<b>8,241</b>	<b>P</b>	5,713	<b>P</b>	4,829

Components of the net deferred tax assets (see Note 13) as of December 31 follow:

	<b>Statements of Financial Position</b>							
	<b>BDO Unibank Group</b>				<b>Parent Bank</b>			
	<b>2017</b>		<b>2016</b>		<b>2017</b>		<b>2016</b>	
Deferred tax assets:								
Allowance for impairment	<b>P</b>	<b>6,386</b>	<b>P</b>	6,271	<b>P</b>	<b>5,858</b>	<b>P</b>	5,858
Unamortized past service costs		<b>1,116</b>		1,338		<b>1,070</b>		1,253
Retirement obligation		<b>495</b>		-		<b>351</b>		-
Lease income differential		<b>128</b>		121		<b>129</b>		121
NOLCO		<b>3</b>		1		-		-
Others		<b>1</b>		34		-		-
		<b>8,129</b>		7,765		<b>7,408</b>		7,232
Deferred tax liabilities:								
Revaluation increment		<b>432</b>		432		<b>431</b>		431
Changes in fair values of AFS securities		<b>80</b>		60		-		-
Capitalized interest		<b>50</b>		53		<b>50</b>		53
Lease income differential		<b>10</b>		54		-		-
Retirement asset		-		607		-		651
Others		<b>154</b>		225		-		-
		<b>726</b>		1,431		<b>481</b>		1,135
Net deferred tax assets	<b>P</b>	<b>7,403</b>	<b>P</b>	6,334	<b>P</b>	<b>6,927</b>	<b>P</b>	6,097



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

**BDO Unibank Group**

	<b>Statements of Income</b>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unamortized past service costs	P 222	P 154	P 163
Allowance for impairment	( 115)	( 117)	-
Lease income differential	( 51)	( 46)	( 42)
Retirement asset (obligation)	23	87	116
Capitalized interest	( 3)	( 3)	( 2)
NOLCO	( 2)	17	14
Others	( 38)	( 59)	( 28)
Deferred tax expense	<u>P 36</u>	<u>P 33</u>	<u>P 221</u>

**Parent Bank**

	<b>Statements of Income</b>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unamortized past service costs	P 183	P 155	P 147
Retirement asset (obligation)	46	89	96
Lease income differential	( 8)	( 14)	( 7)
Capitalized interest	( 3)	( 3)	( 3)
Allowance for impairment	-	( 35)	-
Deferred tax expense	<u>P 218</u>	<u>P 192</u>	<u>P 233</u>

	<b>Statements of Comprehensive Income</b>					
	<b>BDO Unibank Group</b>			<b>Parent Bank</b>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Movements in actuarial losses	(P 1,125)	(P 267)	(P 100)	(P 1,048)	(P 221)	(P 80)
Movements in fair value of AFS securities	20	( 21)	( 67)	-	-	-
Movements in revaluation Increment	-	-	( 8)	-	-	( 8)
Deferred tax income	<u>(P 1,105)</u>	<u>(P 288)</u>	<u>(P 175)</u>	<u>(P 1,048)</u>	<u>(P 221)</u>	<u>(P 88)</u>

BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods follows for BDO Unibank Group (nil for the Parent Bank):

<u>Year</u>	<u>NOLCO</u>	<u>MCIT</u>	<u>Valid Until</u>
2017	P 57	P 13	2020
2016	69	11	2019
2015	<u>2</u>	<u>12</u>	2018
	<u>P 128</u>	<u>P 36</u>	

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2017 and 2016 are as follows:

	<b>BDO Unibank Group</b>			
	<u>2017</u>		<u>2016</u>	
	<u>Tax Base</u>	<u>Tax Effect</u>	<u>Tax Base</u>	<u>Tax Effect</u>
Allowance for impairment	<b>P 22,088</b>	<b>P 6,626</b>	P 20,579	P 6,174
NOLCO	128	38	717	215
MCIT	36	36	31	31
Others	<u>1,238</u>	<u>371</u>	<u>1,885</u>	<u>565</u>
	<b><u>P 23,490</u></b>	<b><u>P 7,071</u></b>	<b><u>P 23,212</u></b>	<b><u>P 6,985</u></b>
	<b>Parent Bank</b>			
	<u>2017</u>		<u>2016</u>	
	<u>Tax Base</u>	<u>Tax Effect</u>	<u>Tax Base</u>	<u>Tax Effect</u>
Allowance for impairment	<b>P 20,778</b>	<b>P 6,233</b>	P 19,899	P 5,970
Others	<u>1,341</u>	<u>402</u>	<u>1,948</u>	<u>584</u>
	<b><u>P 22,119</u></b>	<b><u>P 6,635</u></b>	<b><u>P 21,847</u></b>	<b><u>P 6,554</u></b>

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

### ***29.2 Gross Receipts Tax***

On January 29, 2004, RA No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

### ***29.3 Documentary Stamp Tax***

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

- (a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;
- (b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;
- (c) Acceptance of bills of exchange and letters of credit; and,
- (d) Bills of lading or receipt.

On February 17, 2004, RA No. 9243 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 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 75 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 30 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.
- (d) The following instruments, documents and papers shall be exempt from DST:
  - Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
  - Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
  - Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the affectivity of RA No. 9243;
  - Fixed income and other securities traded in the secondary market or through an exchange;
  - Derivatives including repurchase agreements and reverse repurchase agreements;
  - Bank deposit accounts without a fixed term or maturity; and,
  - Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

#### ***29.4 Supplementary Information Required by the Bureau of Internal Revenue (BIR)***

The BIR issued Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 on November 25, 2010 and December 9, 2011, respectively, 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 Securities Regulation Code Rule 68, as amended.

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

### 30. EARNINGS PER SHARE

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

	<u>BDO Unibank Group</u>		
	2017	2016 (As Restated - see Note 2.1)	2015 (As Restated - see Note 2.1)
Net profit attributable to shareholders of the Parent Bank	<b>P 28,070</b>	P 26,234	P 24,917
Dividends on preferred shares	<u>(340)</u>	<u>(339)</u>	<u>(339)</u>
Net profit available to common shares	<b>27,730</b>	25,895	24,578
Divided by the weighted average number of outstanding common shares (in millions)	<u><b>4,322</b></u>	<u>3,805</u>	<u>3,768</u>
Basic earnings per share	<u><b>P 6.42</b></u>	<u>P 6.81</u>	<u>P 6.52</u>

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

	<u>BDO Unibank Group</u>		
	2017	2016 (As Restated - see Note 2.1)	2015 (As Restated see Note 2.1)
Net profit attributable to shareholders of the Parent Bank	<u><b>P 27,730*</b></u>	<u>P 25,895*</u>	<u>P 24,578*</u>
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	<b>4,322</b>	3,805	3,768
Potential common shares from assumed conversion of preferred shares	<b>*</b>	<b>*</b>	<b>*</b>
Potential common shares from assumed conversion of stock option plan	<u><b>**</b></u>	<u>**</u>	<u>**</u>
Total weighted average number of common shares after assumed conversion of convertible preferred shares	<u><b>4,322</b></u>	<u>3,805</u>	<u>3,768</u>
Diluted earnings per share	<u><b>P 6.42</b></u>	<u>P 6.81</u>	<u>P 6.52</u>

\* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

\*\* *Potential common shares from assumed conversion of stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

Basic earnings per share in the Parent Bank's financial statements were computed as follows:

	<b>Parent Bank</b>		
	<u>2017</u>	2016 (As Restated - see Note 2.1)	2015 (As Restated see Note 2.1)
Net profit	<b>P 28,006</b>	P 24,057	P 24,900
Dividends on preferred shares	<u>( 340)</u>	<u>( 339)</u>	<u>( 339)</u>
Net profit available to common shares	<b>27,666</b>	23,718	24,561
Divided by the weighted average number of outstanding common shares (in millions)	<u><b>4,322</b></u>	<u>3,805</u>	<u>3,768</u>
Basic earnings per share	<u><b>P 6.40</b></u>	<u>P 6.23</u>	<u>P 6.52</u>

Diluted earnings per share in the Parent Bank's financial statements were computed as follows:

	<b>Parent Bank</b>		
	<u>2017</u>	2016 (As Restated - see Note 2.1)	2015 (As Restated see Note 2.1)
Net profit	<u><b>P 27,666*</b></u>	<u>P 23,718*</u>	<u>P 24,561*</u>
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	<b>4,322</b>	3,805	3,768
Potential common shares from assumed conversion of convertible preferred shares	<b>*</b>	*	*
Potential common shares from assumed conversion of stock option plan	<u><b>**</b></u>	<u>**</u>	<u>**</u>
Total weighted average number of common shares after assumed conversion of convertible preferred shares	<u><b>4,322</b></u>	<u>3,805</u>	<u>3,768</u>
Diluted earnings per share	<u><b>P 6.40</b></u>	<u>P 6.23</u>	<u>P 6.52</u>

\* *Net profit of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

\*\* *Potential common shares from assumed conversion of stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

### 31. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b><u>BDO Unibank Group</u></b>			
Return on average equity:			
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	<b>10.2%</b>	12.5%	13.4%
Return on average resources:			
$\frac{\text{Net profit}}{\text{Average total resources}}$	<b>1.1%</b>	1.2%	1.3%
Net interest margin:			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	<b>3.5%</b>	3.2%	3.2%
Return on common equity:			
$\frac{\text{Net profit}}{\text{Average common equity}}$	<b>10.2%</b>	12.7%	13.6%
Liquidity ratio:			
$\frac{\text{Total liquid resources}}{\text{Total resources}}$	<b>31.6%</b>	33.5%	33.8%
Debt to equity:			
$\frac{\text{Total liabilities}}{\text{Total equity}}$	<b>794.3%</b>	968.7%	917.1%
Resources to equity:			
$\frac{\text{Total resources}}{\text{Total equity}}$	<b>894.3%</b>	1,068.7%	1,017.1%
Interest rate coverage:			
$\frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$	<b>308.2%</b>	301.3%	302.1%
Profit margin:			
$\frac{\text{Net profit}}{\text{Revenues}}$	<b>19.1%</b>	21.2%	24.0%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	<b>14.5%</b>	12.4%	13.3%

\* Computed using balances prepared under PFRS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b><u>Parent Bank</u></b>			
Return on average equity:			
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	<b>10.2%</b>	11.5%	13.8%
Return on average resources:			
$\frac{\text{Net profit}}{\text{Average total resources}}$	<b>1.2%</b>	1.2%	1.4%
Net interest margin:			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	<b>3.5%</b>	3.2%	3.2%
Return on common equity:			
$\frac{\text{Net profit}}{\text{Average common equity}}$	<b>10.2%</b>	11.7%	14.1%
Liquidity ratio:			
$\frac{\text{Total liquid resources}}{\text{Total resources}}$	<b>29.2%</b>	31.5%	32.6%
Debt to equity:			
$\frac{\text{Total liabilities}}{\text{Total equity}}$	<b>748.2%</b>	915.8%	872.4%
Resources to equity:			
$\frac{\text{Total resources}}{\text{Total equity}}$	<b>848.2%</b>	1,015.8%	972.4%
Interest rate coverage:			
$\frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$	<b>320.6%</b>	298.6%	308.8%
Profit margin:			
$\frac{\text{Net profit}}{\text{Revenues}}$	<b>22.0%</b>	23.1%	25.7%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	<b>13.8%</b>	11.4%	12.2%

\* Computed using balances prepared under PFRS



(b) Secured liabilities and resources pledged as security are shown below.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Aggregate amount of secured liabilities	<u>P 2,322</u>	<u>P 1,800</u>	<u>P 907</u>	<u>P 602</u>
Aggregate amount of resources pledged as security	<u>P 4,033</u>	<u>P 4,597</u>	<u>P 1,075</u>	<u>P 780</u>

## 32. EVENTS AFTER THE END OF THE REPORTING PERIOD

### *32.1 Dividends*

On January 27, 2018, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.5% per annum of the par value for a total dividend of P339. The dividends will be paid within 60 days from dividend declaration date.

### *32.2 Additional Capital Infusion on ONB*

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 investment into ONB on December 13, 2017. The Parent Bank on January 18, 2018 subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.81%.

### *32.3 Additional Capital Infusion on BDO Nomura*

On February 5, 2018, the application for the increase in authorized capital stock of BDO Nomura was approved by the SEC. In relation to this, 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 (see Note 28.5).

## 33. COMMITMENTS AND CONTINGENCIES

### *33.1 Litigations*

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2017, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

#### *33.1.1 PEACe bonds*

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers. Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

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

On October 7, 2011, or nearly 10 years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT. On October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the Bureau of Treasury (BTr) and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling. On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds. On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On August 16, 2016, the Supreme Court ordered the BTr to immediately release and pay the bondholders the amount of P4,966, representing the 20% FWT on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

On October 19, 2016, the Respondents filed Motions where they respectfully prayed that the Honorable Court grant them leave to file the Motion for Partial Reconsideration and admit the Motion for Partial Reconsideration. The Respondents also prayed that the Resolution dated August 16, 2016 be partially reconsidered and for judgment to be rendered stating that (1) jurisdiction to hear actions assailing the validity of the exercise of quasi-legislative powers of the Commissioner of Internal Revenue pertains to the regular courts after review by the Secretary of Finance; and, (2) the 6% interest on the withheld amount of P4,966 be deleted or in the alternative, and only when respondents are held liable for interest, computation thereof shall be reckoned from the date of finality of the Decision dated January 13, 2015 at the prevailing market rate of comparable short term government debt securities at the time of payment.

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

As of December 31, 2016, the Parent Bank presented the 20% FWT amounting to P690 as part of Accounts receivable account under Loans and Other Receivables in the statement of financial position (see Note 10).

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

- The BTr paid the 20% final withholding tax withheld on the PEACe bonds amounting to P690, plus interest of 4% per annum from October 19, 2011 to April 10, 2017 amounting to P151; and,
- The payment was made in the form of 3-Year Retail Treasury Bonds, with interest of 4.25 % per annum.

The 3-Year Retail Treasury Bonds settlement was recognized by the Parent Bank as part of financial assets at FVTPL (see Note 9.1). The interest was recognized as part of Others under Interest Income account (see Note 21) in the 2017 statement of income.

### ***33.1.2 Applicability of RR 4-2011***

On March 15, 2011, the BIR issued RR No. 4-2011 regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

RR No. 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

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

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR No. 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR No. 4-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

The case remains pending as of December 31, 2017.

### ***33.1.3 First e-Bank***

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting Philippine Deposit Insurance Corporation ("PDIC") to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with BDO Unibank, Inc. wherein consideration of the assumption by BDO Unibank of FeB's liabilities in the maximum amount of P10,000, PDIC will provide BDO Unibank P10,000 of Financial Assistance and PDIC will receive FeB's assets to recover said financial assistance.

About P5,000 of the financial assistance was released to BDO Unibank and the remaining P5,000 was deposited in escrow with BDO Trust and Investments Group ("BDO-TIG") in accordance with the escrow agreement dated October 23, 2002 entered into by BDO Unibank, PDIC, and BDO-TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets BDO Unibank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon.

Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against BDO, which case was raffled to RTC Makati City Branch 60. On October 14, 2016, BDO filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

The case remains pending as of December 31, 2017.

### **33.1.4 Others**

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2017, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

### **33.2 Leases**

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the statements of income, amounted to P3,220, P2,846 and P2,569 in 2017, 2016 and 2015, respectively, in BDO Unibank Group's financial statements and P3,012, P2,670 and P2,415 in 2017, 2016 and 2015, respectively, in the Parent Bank's financial statements (see Note 23).

As of December 31, 2017 and 2016, the estimated minimum future annual rentals of BDO Unibank, Inc. and Parent Bank follow:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Within one year	<b>P 2,089</b>	P 2,528	<b>P 1,864</b>	P 2,370
More than one year but not more than five years	<b>12,282</b>	12,532	<b>11,512</b>	11,964
More than five years	<u><b>4,714</b></u>	<u>4,788</u>	<u><b>4,575</b></u>	<u>4,604</u>
	<u><b>P 19,085</b></u>	<u>P 19,848</u>	<u><b>P 17,951</b></u>	<u>P 18,938</u>

### **33.3 Others**

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2017 and 2016, 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.

Following is a summary of BDO Unibank Group's commitments and contingent accounts:

	Notes	<b>BDO Unibank Group</b>		<b>Parent Bank</b>	
		<b>2017</b>	2016	<b>2017</b>	2016
Trust department accounts	26	<b>P 1,046,158</b>	P 1,029,113	<b>P 751,761</b>	P 755,863
Committed credit lines	4.3.1	<b>303,425</b>	221,579	<b>303,353</b>	221,399
Forward exchange sold		<b>128,650</b>	89,028	<b>116,021</b>	67,344
Forward exchange bought		<b>137,034</b>	80,419	<b>121,647</b>	55,570
Unused commercial letters of credit	4.3.1	<b>47,553</b>	48,108	<b>47,536</b>	48,092
Outstanding guarantees issued		<b>20,221</b>	33,891	<b>20,209</b>	33,879
Interest rate swap receivable		<b>16,481</b>	19,699	<b>6,263</b>	9,791
Interest rate swap payable		<b>16,481</b>	19,699	<b>6,263</b>	9,791
ROP warrants		<b>15,021</b>	15,021	<b>15,021</b>	15,021
Spot exchange sold		<b>14,054</b>	13,224	<b>13,740</b>	12,592
Spot exchange bought		<b>6,546</b>	5,182	<b>6,232</b>	4,550
Bills for collection		<b>5,125</b>	5,090	<b>5,125</b>	5,090
Export letters of credit confirmed		<b>2,351</b>	1,552	<b>2,351</b>	1,552
Late deposits/payments received		<b>1,436</b>	2,584	<b>1,426</b>	2,580
Other contingent accounts		<b>2,643</b>	2,055	<b>2,038</b>	2,036

# 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, 2017 and 2016 are shown in the table below.

	BDO Unibank Group	Parent Bank	BDO Unibank Group	Parent Bank
	(in Millions)		(in Millions)	
	December 31, 2017		December 31, 2016 (Restated)	
Common equity tier 1 capital	291,215	291,507	210,072	209,403
Additional tier 1 capital	5,150	5,150	5,150	5,150
Tier 1 capital	296,365	296,657	215,222	214,553
Tier 2 capital	27,551	26,767	24,762	24,088
Gross qualifying capital	323,916	323,424	239,984	238,641
Less: Regulatory adjustments/deductions	29,573	57,905	21,345	50,262
Total qualifying capital	294,343	265,519	218,639	188,379
Credit risk-weighted assets	1,844,983	1,751,453	1,625,540	1,512,854
Market risk-weighted assets	28,057	26,923	8,332	5,690
Operational risk-weighted assets	158,964	141,297	135,374	127,006
Risk weighted assets	2,032,004	1,919,673	1,769,246	1,645,550
Total capital ratio	14.5%	13.8%	12.4%	11.4%
Tier 1 capital ratio	13.1%	12.4%	11.0%	10.0%
Common equity tier 1 ratio	12.9%	12.2%	10.7%	9.7%
<i>Capital conservation buffer</i>	6.9%	6.2%	4.7%	3.7%

Capital ratios involving components of regulatory capital are calculated as follows:				
Total capital ratio	:	Total Qualifying Capital	:	188,379
		Risk-Weighted Assets	:	1,645,550
Tier 1 capital ratio	:	Tier 1 Capital (net of Regulatory Deductions)	:	164,291
		Risk-Weighted Assets	:	1,645,550
Common equity ratio	:	Common Equity Tier 1 (net of Regulatory Deductions)	:	159,141
		Risk-Weighted Assets	:	1,645,550

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, 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 and affiliates, deferred tax assets, goodwill, other intangible assets, and defined benefit pension fund assets (liabilities). The other component of regulatory capital is Tier 2 capital, which includes unsecured subordinated debt, appraisal increment reserve, and general loan loss provision.

The components of Tier 1 capital and deductions follow:

	BDO Unibank Group	Parent Bank December 31, 2017	BDO Unibank Group	Parent Bank December 31, 2016 (Restated)
	(in Millions)			
Common Equity Tier 1 (CET1) Capital				
Paid-up common stock	43,690	43,690	36,500	36,500
Additional paid-in capital	122,966	122,947	70,127	70,107
Retained earnings	105,745	105,787	85,779	86,605
Undivided profits	28,026	28,006	25,842	24,057
Net unrealized gains or losses on AFS securities	(2,396)	(2,086)	(3,923)	(3,575)
Cumulative foreign currency translation	(23)	(23)	(14)	(14)
Remeasurements of Net Defined Benefit Liability/(Asset)	(6,793)	(6,814)	(4,239)	(4,277)
Minority interest in subsidiary banks which are less than wholly-owned	-	-	-	-
Sub-total	291,215	291,507	210,072	209,403
Less: Regulatory adjustments/deductions				
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	1,570	1,570	1,295	1,294
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	367	7,607	248	5,690
Deferred tax assets	7,376	6,927	6,326	6,097
Goodwill	3,044	-	3,046	2
Other intangible assets	5,427	5,345	5,295	5,158
Defined benefit pension fund assets (liabilities)	-	-	709	796
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)	-	24,806	-	26,487
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)	6,931	7,127	608	608
Other equity investments in non-financial allied undertakings and non-allied undertakings	4,858	4,523	3,818	4,130
Sub-total	29,573	57,905	21,345	50,262
Total Common Equity Tier 1 Capital	261,642	233,602	188,727	159,141
Additional Tier 1 Capital				
Perpetual preferred shares	5,150	5,150	5,150	5,150
Additional paid-in capital	-	-	-	-
Total Tier 1 Capital	266,792	238,752	193,877	164,291





**December 31, 2016 (Restated)**

	BDO Group			Parent Bank		
	Regulatory Capital	Adjustments (in Millions)	Per AFS	Regulatory Capital	Adjustments*	Per AFS
<b>Qualifying Capital</b>						
<b>A.1 Common Equity Tier 1 (CET1) Capital</b>						
<i>Paid-up common stock</i>	209,827	245	210,072	210,328	(925)	209,403
<i>Additional paid-in capital</i>	36,500	-	36,500	36,500	-	36,500
<i>Retained earnings</i>	69,971	156	70,127	69,971	136	70,107
<i>Undivided profits</i>	85,841	(62)	85,779	86,059	546	86,605
<i>Other comprehensive income</i>	24,681	1,161	25,842	24,661	(604)	24,057
<i>Net unrealized gains or losses on AFS securities</i>	(7,166)	(1,010)	(8,176)	(6,863)	(1,003)	(7,866)
<i>Cumulative foreign currency translation</i>	(2,765)	(1,158)	(3,923)	(2,438)	(1,137)	(3,575)
<i>Actuarial gain/(loss)</i>	117	(131)	(14)	118	(132)	(14)
<i>Minority interest in subsidiary banks which are less than wholly-owned</i>	(4,518)	279	(4,239)	(4,543)	266	(4,277)
<b>A.2 Regulatory adjustments to CET1 capital</b>						
<i>Total outstanding unsecured credit accommodations both direct and indirect, to DOSRI affiliates</i>	(22,179)	834	(21,345)	(51,532)	1,270	(50,262)
<i>Other credit accommodations and guarantees granted to subsidiaries and affiliates</i>	(1,295)	-	(1,295)	(1,295)	1	(1,294)
<i>Deferred tax assets</i>	(248)	-	(248)	(5,690)	-	(5,690)
<i>Goodwill</i>	(6,514)	188	(6,326)	(6,165)	68	(6,097)
<i>Other intangible assets</i>	(3,046)	-	(3,046)	(2)	-	(2)
<i>Defined benefit pension fund assets (liabilities)</i>	(5,295)	-	(5,295)	(5,158)	-	(5,158)
<i>Investment in equity of unconsolidated subsidiary banks and insurance companies, after deducting related goodwill, if any (for solo basis only and as applicable)</i>	(321)	(388)	(709)	(796)	-	(796)
<i>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)</i>	-	-	-	(27,616)	1,129	(26,487)
<i>Other equity investments in non-financial allied undertakings and non-allied undertakings</i>	(607)	(1)	(608)	(678)	70	(608)
	(4,853)	1,035	(3,818)	(4,132)	2	(4,130)
<b>Total Common Equity Tier 1 Capital</b>	187,648	1,079	188,727	158,796	345	159,141
<b>Additional tier 1 capital</b>	5,150	-	5,150	5,150	-	5,150
<b>TOTAL TIER 1 CAPITAL</b>	192,798	1,079	193,877	163,946	345	164,291
<b>Tier 2 Capital</b>						
<i>Instruments issued by the bank that are eligible as Tier 2 capital</i>	24,919	(157)	24,762	24,132	(44)	24,088
<i>Deposit for subscription of Tier 2 capital</i>	10,000	-	10,000	10,000	-	10,000
<i>Appraisal increment reserve-bank premises, as authorized by the MB</i>	-	-	-	-	-	-
<i>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</i>	850	-	850	850	-	850
	14,069	(157)	13,912	13,282	(44)	13,238
<b>TOTAL QUALIFYING CAPITAL</b>	217,717	922	218,639	188,078	301	188,379

\* Restated adjustments as of December 31, 2016 due to change in valuation of BDO Life's insurance reserves and restatement of equity investment in BDO Life and BDO Nomura Securities as a result of the adoption of PAS 27 (Amendments) in 2016.

Comparative risk-weighted assets by type of exposure as of December 31, 2017 and 2016 consist of the following:

	Credit Risk *		Market Risk **		Operational Risk	
	Group	Parent	Group	Parent	Group	Parent
	December 31, 2017					
	(in Millions)					
On-Balance Sheet	1,800,830	1,710,480				
Off-Balance Sheet	37,761	37,734				
Counterparty (Banking/Trading Book)	6,392	3,239				
Credit-Linked Notes in the Banking Book	-	-				
Securitization Exposures	-	-				
Deductions	-	-				
Interest Rate Exposures	-	-	4,183	2,587		
Equity Exposures	-	-	216	-		
Foreign Exchange Exposures	-	-	23,658	24,336		
Options	-	-	-	-		
Basic Indicator	1,844,963	1,751,453	28,057	26,923	158,964	141,297
Total	1,844,963	1,751,453	28,057	26,923	158,964	141,297
Capital Requirements	184,498	175,145	2,806	2,692	15,896	14,130

\* 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 2017 NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly, using 5 years historical data of yearly changes at 99% confidence level.

#### On-Balance Sheet Assets

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights					Total	
			0%	20%	50%	75%	100%		150%
Cash on Hand	48,599	48,599	-	-	-	-	-	-	48,599
Checks and Other Cash Items	101	101	-	-	-	-	-	-	101
Due from Bangko Sentral ng Pilipinas	353,308	353,308	353,308	-	-	-	-	-	353,308
Due from Other Banks	51,266	51,266	-	6,013	44,336	-	-	-	51,266
Financial Assets Designated at Fair Value through Profit or Loss	871	871	-	35	449	-	-	387	871
Available for Sale Securities	91,541	91,541	10,609	2,276	39,991	-	-	38,665	91,541
Held-to-Maturity (HTM) Securities	197,051	187,379	73,659	4,369	91,633	-	-	17,718	187,379
Unquoted Debt Securities Classified as Loans	3,497	3,479	-	-	-	-	-	-	3,479
Loans and Receivables	1,781,666	1,684,534	10	84,505	70,807	-	-	1,472,339	1,684,534
Loans and Receivables Arising from Repurchase Agreements	18,260	18,260	18,260	-	-	-	-	-	18,260
Sales Contract Receivable	1,124	1,124	-	-	-	-	563	-	1,124
Real and Other Properties Acquired	9,520	9,520	-	-	-	-	-	9,520	9,520
Other Assets	60,718	60,718	-	-	-	-	-	60,718	60,718
Total Exposures	2,617,522	2,510,700	504,445	97,299	250,695	51,695	1,591,307	15,259	2,510,700
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM				19,459	125,348	38,771	1,591,307	22,889	1,797,774
Total Risk-weighted On-Balance Sheet Assets Covered by CRM				-	5	36	-	3,015	3,056
Total Risk-weighted On-Balance Sheet Assets				19,464	125,384	38,771	1,594,322	22,889	1,800,830

#### Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights					Total
		0%	20%	50%	75%	100%	
Direct credit substitutes	49	-	-	-	-	49	49
Transaction-related contingencies	28,711	47	7	28,462	-	-	28,516
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	9,200	-	-	9,196	-	-	9,196
	37,960	47	7	37,707	-	-	37,761

On-Balance Sheet Assets

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Parent Bank						Total
			0%	20%	50%	75%	100%	150%	
Cash on Hand	47,474	47,474	-	-	-	-	-	-	47,474
Checks and Other Cash Items	101	101	-	101	-	-	-	-	101
Due from Bangko Sentral ng Pilipinas	340,596	340,596	-	-	-	-	-	-	340,596
Due from Other Banks	41,089	41,089	-	2,960	-	-	-	65	41,089
Financial Assets Designated at Fair Value through Profit or Loss Available for Sale Securities	-	-	-	-	-	-	-	-	-
Held-to-Maturity (HTM) Securities	70,032	70,032	3,716	1,254	-	-	-	28,528	70,032
Unquoted Debt Securities Classified as Loans	183,722	174,050	62,922	3,813	-	-	-	17,705	174,050
Loans and Receivables	1,727,224	1,630,366	10	83,783	-	-	-	1,428,068	1,630,366
Loans and Receivables Arising from Repurchase Agreements	14,872	14,872	-	-	-	-	-	-	14,872
Sales Contract Receivable	1,008	1,008	-	-	-	-	-	536	1,008
Real and Other Properties Acquired	9,366	9,366	-	-	-	-	-	-	9,366
Other Assets	42,870	42,870	-	-	-	-	-	42,870	42,870
Total Exposures	2,478,372	2,371,825	469,590	91,911	233,976	44,728	33,546	1,517,772	2,371,826
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM	-	-	-	18,382	116,988	-	-	3,015	1,707,460
Total Risk-weighted On-Balance Sheet Assets Covered by CRM	-	-	-	5	-	-	-	-	3,020
Total Risk-weighted On-Balance Sheet Assets	-	-	-	18,387	116,988	-	-	1,520,787	1,710,480

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						Total
		0%	50%	75%	100%	150%		
Direct credit substitutes	36	-	-	-	-	-	36	36
Transaction-related contingencies	28,711	-	47	-	7	-	28,462	28,516
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	9,182	-	-	-	-	-	9,182	9,182
	37,929	-	47	-	7	-	37,680	37,734

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.

	Credit Risk *		Market Risk **		Operational Risk	
	Group	Parent	Group	Parent	Group	Parent
On-Balance Sheet	1,584,027	1,476,158	-	-	-	-
Off-Balance Sheet	34,191	34,143	-	-	-	-
Counterparty (Banking/Trading Book)	7,322	2,553	-	-	-	-
Credit-Linked Notes in the Banking Book	-	-	-	-	-	-
Securitization Exposures	-	-	-	-	-	-
Deductions	-	-	-	-	-	-
Interest Rate Exposures	-	-	4,413	1,786	-	-
Equity Exposures	-	-	292	-	-	-
Foreign Exchange Exposures	-	-	3,627	3,904	-	-
Options	-	-	-	-	-	-
Basic Indicator	-	-	-	-	135,374	127,006
Total	1,625,540	1,512,854	8,332	5,690	135,374	127,006
Capital Requirements	162,554	151,285	833	569	13,637	12,701

\* 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 2016 NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly, using 5 years historical data of yearly changes at the 99% confidence level.

On-Balance Sheet Assets

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights							Total
			0%	20%	50%	75%	100%	150%		
Cash on Hand	44,015	44,015	-	-	-	-	-	-	44,015	
Checks and Other Cash Items	231	231	-	-	-	-	-	-	231	
Due from Bangko Sentral ng Pilipinas	318,002	318,002	-	-	-	-	-	-	318,002	
Due from Other Banks	41,794	41,794	-	-	36,113	-	-	3,399	41,794	
Financial Assets Designated at Fair Value through Profit or Loss	4,193	197	-	-	32	-	-	3,635	4,193	
Available for Sale Securities	107,919	107,917	-	-	2,766	-	-	51,417	107,917	
Held-to-Maturity (HTM) Securities	146,886	136,260	-	-	40,579	-	-	30,491	136,260	
Unquoted Debt Securities Classified as Loans	22,376	22,338	-	-	-	-	-	-	22,338	
Loans and Receivables	1,544,863	1,463,350	-	-	84,698	-	-	1,235,423	1,463,350	
Loans and Receivables Arising from Repurchase Agreements	14,302	14,302	-	-	-	-	-	-	14,302	
Sales Contract Receivable	1,453	1,428	-	-	-	-	-	1,060	1,428	
Real and Other Properties Acquired	7,426	7,426	-	-	-	-	-	-	7,426	
Other Assets	54,176	54,176	-	-	-	-	-	-	54,176	
Total Exposures	2,307,636	2,215,432	433,064	90,009	244,959	55,078	1,379,601	54,176	2,215,432	
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			18,002	18,002	122,479	41,309	1,379,601	19,081	1,580,472	
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	4	-	84	-	3,467	3,555	
Total Risk-weighted On-Balance Sheet Assets			-	18,006	122,563	41,309	1,383,068	19,081	1,584,027	

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights							Total
		0%	20%	50%	75%	100%	150%		
Direct credit substitutes	49	-	-	-	-	-	49	-	49
Transaction-related contingencies	23,063	-	53	-	-	-	22,815	-	22,868
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	11,277	-	-	-	-	-	11,274	-	11,274
	34,409	-	53	-	-	-	34,138	-	34,191

On-Balance Sheet Assets

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights							Total
			0%	20%	50%	75%	100%	150%		
Cash on Hand	42,950	42,950	-	-	-	-	-	-	42,950	
Checks and Other Cash Items	200	200	-	-	200	-	-	-	200	
Due from Bangko Sentral ng Pilipinas	304,285	304,285	-	-	-	-	-	-	304,285	
Due from Other Banks	33,463	33,463	-	-	1,318	-	-	70	33,463	
Financial Assets Designated at Fair Value through Profit or Loss										
Available for Sale Securities	62,430	62,427	-	-	152	-	-	31,142	62,427	
Held-to-Maturity (HTM) Securities	140,951	130,325	-	-	38,055	-	-	61,779	130,325	
Unquoted Debt Securities Classified as Loans	22,376	22,338	-	-	-	-	-	22,338	22,338	
Loans and Receivables	1,488,980	1,407,827	-	-	83,968	-	-	82,831	1,407,827	
Loans and Receivables Arising from Repurchase Agreements	7,891	7,891	-	-	-	-	-	1,187,760	7,891	
Sales Contract Receivable	1,342	1,317	-	-	-	-	-	983	1,317	
Real and Other Properties Acquired	7,207	7,207	-	-	-	-	-	-	7,207	
Other Assets	35,713	35,713	-	-	-	-	-	-	35,713	
Total Exposures	2,147,788	2,055,943	393,181	85,638	230,156	49,187	1,286,159	11,622	2,055,943	
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			17,127	17,127	115,078	36,880	1,286,159	17,433	1,472,887	
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	4	-	-	3,467	-	3,471	
Total Risk-weighted On-Balance Sheet Assets			-	17,131	115,078	36,880	1,289,626	17,433	1,476,158	

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights							Total
		0%	20%	50%	75%	100%	150%		
Direct credit substitutes	37	-	-	-	-	-	37	-	37
Transaction-related contingencies	23,063	-	54	-	-	-	22,814	-	22,868
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	11,238	-	-	-	-	-	11,238	-	11,238
	34,358	-	54	-	-	-	34,089	-	34,143

Risk-weighted on balance sheet assets covered by credit risk mitigants are mostly exposures covered by credit derivatives, 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.



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