BDO
Private Bank

FINDING WAYS

BUILDING LASTING LEGACIES

2021 ANNUAL REPORT
FINANCIAL SUPPLEMENTS

BDO PRIVATE BANK 2021 ANNUAL REPORT
FINANCIAL SUPPLEMENTS

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Corporate Profile

Our Mission

Our purpose is to help clients meet their financial objectives.

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

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

Our executions shall be seamless.

Our service should be par excellence.

Our integrity will not be compromised.

We are BDO Private Bank.

Our Philosophy

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

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

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

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

Our Commitment

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

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

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

To Clients

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

To Shareholders

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

To Associates

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

Summary Financial Review

(Amounts in Philippine Pesos)

	2021	2020
Profitability		
Total Net Interest Income	1,033,483,062	993,939,890
Total Non-interest Income	1,450,866,688	1,551,956,310
Total Non-interest Expenses	1,275,790,589	1,238,387,561
Pre-provision profit	1,228,388,941	1,298,303,752
Allowance (Reversal) for credit losses	(19,829,780)	9,204,887
Net Income	964,730,383	1,007,815,855
Selected Balance Sheet Data		
Liquid Assets	32,346,360,641	35,098,486,123
Gross Loans and Other Receivables	5,000,718,348	6,134,391,094
Total Assets	37,995,786,520	41,436,391,548
Deposits	26,910,628,809	32,587,128,355
Total Equity	6,068,153,321	6,145,464,690
Selected Ratios		
Return on average equity	15.47%	17.39%
Return on average resources	2.45%	2.61%
CET 1 capital ratio	23.65%	26.53%
Tier 1 capital ratio	23.65%	26.53%
Capital Adequacy Ratio	23.83%	26.75%
Per common share data		
Net Income per share:		
Basic	445.60	465.50
Diluted	445.60	465.50
Book Value	2,802.84	2,838.55
Others		
Cash Dividends declared	800,000,000	700,000,000
Headcount		
Officers	180	188
Staff	3	4

Financial Statements

Report of the Audit Committee to the Board of Directors

Empowered by the Board to oversee the financial reporting process, internal control and risk management systems, internal and external audit functions, and compliance with applicable laws and regulations, the Board Audit Committee (BAC) discharged its oversight functions independently. The BAC, composed of three board members (two of whom are newly-elected independent directors) and one (1) non-executive director, had five meetings in 2021.

In 2021, the BAC accomplished the following:

1. On financial reporting, the Board Audit Committee (BAC) reviewed and recommended for approval to the Board the Bank's quarterly unaudited and annual audited financial statements ensuring compliance with accounting standards and tax regulations. On February 10, 2021, it endorsed for approval of the Board the Bank's audited financial statements as of December 31, 2020 including the Notes to the Financial Statements. This was approved by the Board on February 15, 2021, 46 days from the financial year-end following the best practice requirement of the ASEAN Corporate Governance Scorecard (ACGS). It believes that the financial statements are fairly presented in conformity with the relevant financial reporting standards in all material aspects. The related internal controls on financial reporting process, compliance with accounting standards were likewise reviewed.
2. In overseeing the internal audit function, it reviewed and approved the Internal Audit Charter, Audit manuals, and risk-based audit plan after a thorough review of its scope, audit methodology, risk assessment and trading processes, financial budget, manpower resources, as well as changes to the plan during the year. It reviewed audit reports focusing on high and moderate risk findings relating to operational, financial and compliance controls, including risk assessment systems with impact to financial, reputation and information security. It regularly tracked the timely resolution of findings and asked for Management's action plans on items that needed to be addressed. It ensured the Internal Audit's independence and unfettered access to all records, properties and information to be able to fully carry out its function. It also assessed the performance of the Chief Internal Auditor and the internal audit function. The Committee is satisfied that the internal audit function has adequate resources to perform its function effectively.

3. On External Audit, it ensured the independence, qualification, and objectivity of the appointed external auditor, which is accredited by the BSP and SEC. On April 19, 2021, it approved and endorsed for approval of the Board the re-appointment of the Bank's external auditor. It reviewed and discussed the content of the engagement letter, audit plan, scope of work, focus areas, composition of engagement team among others, prior to the commencement of audit work. It comprehensively discussed the external audit reports, focusing on internal controls, risk management, governance and matters with financial impact particularly on the changes in accounting and reporting standards. It reviewed Management's Letter as well as Management's response and action taken on the external auditor's findings and recommendations.
4. In overseeing the compliance function, it reviewed and approved the annual plans and independent compliance testing roadmaps of the Compliance Department including the Anti-Money Laundering (AML) Unit and the Revised Risk Profiling Policy of the Bank to ensure proper risk profile classification of clients. It approved and endorsed for approval of the Board of Directors the Revised Money Laundering and Terrorist Financing Prevention Program (MTPP) Manual, the Compliance Manuals, including the revised Regulatory Compliance and Management Manual, Independent Compliance Testing Manual, which incorporate the recommendations by the BSP and Internal Audit in their examinations. It monitored the progress and reviewed the results of the independent compliance and AML testing, timely submission of regulatory and prudential reports, compliance to mandatory ratios, as well as continuous improvement of the compliance and AML systems. It discussed in detail the BSP Reports of Examination and reviewed Management's replies, thereby ensuring implementation of corrective actions. It also reviewed and provided guidance to Management in its replies to concerns of the regulators to ensure that the Bank's position is appropriately presented.

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

As part of its commitment to excellent corporate governance, the Committee conducted a self-assessment for its 2021 performance based on its Terms of Reference. The BAC likewise evaluated the performance of Internal Audit, Compliance and Anti-Money Laundering Units, and the External Auditor to ensure their effectiveness and achievement of objectives.

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

Statement of Management's Responsibility for Financial Statements

The management of **BDO Private Bank, Inc.** (the Bank), is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Teresita T. Sy
Chairman of the Board

Albert S. Yeo
President

Louise Antonia B. Fookson
Assistant Vice President
Head — Financial Control Department

SUBSCRIBED and SWORN to me before this 28th day of February 2022 affiant exhibiting to me their Competent Evidence of Identity (CEI), as follows:

Name	CEI Number
Teresita T. Sy	SSS No. -03-2832705-4
Albert S. Yeo	SSS No. -03-6738633-1
Louise Antonia B. Fookson	SSS No. -10-0912249-6

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

Doc No. 186
Page No. 39
Book No. XII
Series of 2022

Atty. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Until December 31, 2022
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No. M-82 (2021-2022)
PTR No. 8852511 Jan. 3, 2022
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio Del Pilar, Makati City

Report of Independent Auditors

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Private Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 24 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. The supplementary information for the years ended December 31, 2021 and 2020 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 29 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by the BIR and BSP is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under the Revised Securities Regulation Code Rule 68 of the Philippine Securities and Exchange Commission.

PUNONGBAYAN & ARAULLO

By: Jerald M. Sanchez
Partner

CPA Reg. No. 0121830
TIN: 307-367-174
PTR No. 8852346, January 3, 2022, Makati City
SEC Group A Accreditation
Partner – No. 121830-SEC (until Dec. 31, 2023)
Firm – No. 0002 (until Dec. 31, 2024)
BIR AN 08-002551-041-2019 (until Dec. 15, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 21, 2022

Statements of Financial Position

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

DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
RESOURCES			
DUE FROM BANGKO SENTRAL NG PILIPINAS	6	**P 2,103,786,530**	P 3,176,953,168
DUE FROM OTHER BANKS	6	**3,115,733,229**	1,071,420,470
TRADING AND INVESTMENT SECURITIES			
Financial assets at fair value through profit or loss	7	**4,917,693,915**	3,013,301,524
Financial assets at fair value through other comprehensive income	8	**8,056,991,485**	12,204,872,612
Held-to-collect investments - net	9	**14,152,155,482**	15,631,938,349
LOANS AND RECEIVABLES - Net	10	**4,969,743,626**	6,097,912,196
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**212,477,445**	97,429,030
OTHER RESOURCES - Net	13	**467,204,808**	142,564,199
TOTAL RESOURCES		**P 37,995,786,520**	P 41,436,391,548
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	14		
Demand		**P 21,942,079,366**	P 21,348,101,872
Time		**4,968,549,443**	11,239,026,483
Total Deposit Liabilities		**26,910,628,809**	32,587,128,355
BILLS PAYABLE	15	**1,087,955,395**	-
DERIVATIVE FINANCIAL LIABILITIES	16	**3,311,277,737**	2,154,857,718
ACCRUED EXPENSES AND OTHER LIABILITIES	17	**617,771,258**	548,940,785
Total Liabilities		**31,927,633,199**	35,290,926,858
EQUITY	18	**6,068,153,321**	6,145,464,690
TOTAL LIABILITIES AND EQUITY		**P 37,995,786,520**	P 41,436,391,548

See Notes to Financial Statements.

Statements of Income

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

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
INTEREST INCOME			
Held-to-collect investments	9	**P 539,136,353**	P 561,532,237
Financial assets at fair value through other comprehensive income	8	**316,563,378**	383,369,025
Loans and receivables	10	**217,744,248**	201,840,007
Financial assets at fair value through profit or loss	7	**30,487,156**	34,739,744
Due from Bangko Sentral ng Pilipinas and other banks	6, 13	**4,091,685**	14,413,935
		1,108,022,820	1,195,894,948
INTEREST EXPENSE			
Deposit liabilities	14	**65,361,698**	194,027,408
Bills payable	15	**7,111,587**	2,705,789
Others - net	12, 17, 22	**2,066,473**	5,221,861
		74,539,758	201,955,058
NET INTEREST INCOME		**1,033,483,062**	993,939,890
IMPAIRMENT LOSSES (RECOVERIES) - Net	8, 9, 10	**(19,829,780)**	9,204,887
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES (RECOVERIES)		**1,053,312,842**	984,735,003
OTHER INCOME			
Service charges, fees and commissions	19	**1,078,108,707**	959,381,078
Trading and securities gains - net	7, 8, 9	**314,155,188**	471,541,582
Foreign exchange gains - net		**56,966,426**	118,241,980
Others	11	**1,636,367**	2,791,670
		1,450,866,688	1,551,956,310
OTHER EXPENSES			
Employee benefits	22	**507,370,796**	493,300,929
Taxes and licenses	24	**154,681,949**	158,043,589
Supervision		**153,415,652**	136,053,782
Representation and entertainment		**82,841,758**	91,696,416
Depreciation and amortization	11, 13	**71,641,373**	71,149,322
Insurance	23	**61,884,171**	60,058,855
Third party information	20	**33,950,430**	32,505,757
Transportation and travel		**25,522,732**	35,023,680
Service, management, and professional fees	23	**32,042,599**	25,454,141
Occupancy	12, 23	**6,397,402**	6,745,794
Others	21	**146,041,727**	128,355,296
		1,275,790,589	1,238,387,561
PROFIT BEFORE TAX		**1,228,388,941**	1,298,303,752
TAX EXPENSE	24	**263,658,558**	290,487,897
NET PROFIT		**P 964,730,383**	P 1,007,815,855

See Notes to Financial Statements.

Statements of Comprehensive Income

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

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
NET PROFIT		**P 964,730,383**	P 1,007,815,855
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that are or will be reclassified subsequently to profit or loss			
Unrealized gains (losses) on financial assets at fair value through other comprehensive income (FVOCI)	8, 18	**(125,434,329)**	271,759,928
Transfer of realized gains on disposed FVOCI securities to statements of income	8, 18	**(69,254,631)**	(284,744,557)
Reversal of credit losses on financial assets at FVOCI	8, 18	**(7,352,135)**	(967,777)
		(202,041,095)	(13,952,406)
Item that will not be reclassified to profit or loss			
Actuarial gain (loss) on remeasurement of post-employment defined benefit obligation, net of tax	18, 22	**(40,000,657)**	35,647,830
Total Other Comprehensive Income (Loss), Net of Tax		**(242,041,752)**	21,695,424
TOTAL COMPREHENSIVE INCOME		**P 722,688,631**	P 1,029,511,279

See Notes to Financial Statements.

Statements of Changes in Equity

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

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Share Capital (see Note 18)	Surplus (see Notes 10 and 18)			Revaluation Reserves		Total Equity
		Reserves	Free	Total	Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income (see Note 18)	Accumulated Actuarial Gains (Losses) (see Note 18)	
BALANCE AS OF JANUARY 1, 2021	P 2,165,000,000	P 540,503,995	P 3,122,754,307	P 3,663,258,302	P 365,668,546	(P 48,462,158)	P 6,145,464,690
Total comprehensive income for the year	-	-	964,730,383	964,730,383	(202,041,095)	(40,000,657)	722,688,631
Cash dividend	-	-	(800,000,000)	(800,000,000)	-	-	(800,000,000)
Transfer to surplus reserves	-	485,300	(485,300)	-	-	-	-
BALANCE AS OF DECEMBER 31, 2021	**P 2,165,000,000**	**P 540,989,295**	**P 3,286,999,390**	**P 3,827,988,685**	**P 163,627,451**	**(P 88,462,815)**	**P 6,068,153,321**
BALANCE AS OF JANUARY 1, 2020	P 2,165,000,000	P 491,658,449	P 2,863,783,998	P 3,355,442,447	P 379,620,952	(P 84,109,988)	P 5,815,953,411
Total comprehensive income for the year	-	-	1,007,815,855	1,007,815,855	(13,952,406)	35,647,830	1,029,511,279
Cash dividend	-	-	(700,000,000)	(700,000,000)	-	-	(700,000,000)
Transfer to surplus reserves	-	48,845,546	(48,845,546)	-	-	-	-
BALANCE AS OF DECEMBER 31, 2020	P 2,165,000,000	P 540,503,995	P 3,122,754,307	P 3,663,258,302	P 365,668,546	(P 48,462,158)	P 6,145,464,690

See Notes to Financial Statements.

Statements of Cash Flows

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

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 1,228,388,941	P 1,298,303,752
Adjustments for:			
Interest income	6, 7, 8, 9, 10, 13	(1,108,022,820)	(1,195,894,948)
Interest received		931,341,766	1,196,157,033
Unrealized foreign exchange losses (gains) - net	8, 9, 15	(659,654,816)	725,618,954
Interest paid		(86,350,521)	(256,906,196)
Interest expense	12, 14, 15, 17, 22	74,539,758	201,955,058
Amortization of premium on held-to-collect (HTC) investments	9	72,876,256	88,177,054
Depreciation and amortization	11, 13	71,641,373	71,149,322
Unrealized fair value losses (gains) from financial assets at fair value through profit or loss (FVTPL)	7	71,164,373	(4,197,034)
Gain on sale of financial assets at fair value through other comprehensive income (FVOCI)	8, 18	(69,254,631)	(284,744,557)
Gain on disposal and redemption of HTC investments - net	9	(48,053,730)	-
Provision for (reversal of) allowance for impairment - net	8, 9, 10	(19,829,780)	9,204,887
Gain on disposal of bank premises, furniture, fixtures and equipment	11	(34,913)	(16,219)
Operating profit before changes in resources and liabilities		458,751,256	1,848,807,106
Decrease (increase) in financial assets at FVTPL		(1,751,533,987)	1,428,188,022
Increase in loans and receivables		(173,834,692)	(23,716,538)
Decrease (increase) in other resources		(383,030,255)	46,046,284
Increase (decrease) in deposit liabilities		(5,665,387,060)	5,647,201,206
Increase in derivative financial liabilities		1,156,420,019	705,606,058
Increase (decrease) in accrued expenses and other liabilities		(31,506,441)	105,695,144
Cash generated from (used in) operations		(6,390,121,160)	9,757,827,282
Cash paid for income taxes		(261,650,304)	(244,090,495)
Net Cash From (Used in) Operating Activities		(6,651,771,464)	9,513,736,787
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of financial assets at FVOCI	8	11,489,280,646	13,676,350,884
Proceeds from maturity and disposal of HTC investments	9	7,089,198,657	1,709,678,951
Acquisition of financial assets at FVOCI	8	(7,082,792,209)	(15,273,187,478)
Acquisition of HTC investments	9	(5,329,969,754)	(3,620,501,993)
Acquisitions of bank premises, furniture, fixtures and equipment	11	(22,669,438)	(10,094,553)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	11	34,933	16,228
Net Cash From (Used in) Investing Activities		6,143,082,835	(3,517,737,961)
CASH FLOW FROM FINANCING ACTIVITIES			
Additional borrowings	15	3,569,849,801	8,567,817,326
Repayment of borrowings	15	(2,543,875,288)	(8,812,052,522)
Dividends paid	18, 23	(800,000,000)	(700,000,000)
Repayments of lease liabilities	12	(44,643,515)	(40,768,041)
Net Cash From (Used in) Financing Activities		181,330,998	(985,003,237)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(327,357,631)	5,010,995,589
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from Bangko Sentral ng Pilipinas	6	3,176,953,168	1,331,616,252
Due from Other Banks	6	1,071,420,470	499,431,082
Securities purchased under reverse repurchase agreement	10	2,593,669,285	-
		6,842,042,923	1,831,047,334
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Due from Bangko Sentral ng Pilipinas	6	2,103,786,530	3,176,953,168
Due from Other Banks	6	3,115,733,229	1,071,420,470
Securities purchased under reverse repurchase agreement	10	1,295,165,533	2,593,669,285
		P 6,514,685,292	P 6,842,042,923

Supplemental Information on Noncash Financing Activities –

The Bank recognized additional right-of-use assets and lease liabilities in 2021 and 2020, both amounting to P153.9 million and P7.5 million, respectively, due to new lease agreements entered by the Bank as a lessee (see Notes 11 and 12).

Other Information –

Securities purchased under reverse repurchased agreement are included as part of cash and cash equivalents for cash flow purposes but are presented as part of Loans and Receivables in the statements of financial position (see Notes 2 and 10).

See Notes to Financial Statements.

Notes to Financial Statements

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

DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Organization and Operations

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

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

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

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

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2021 (including the comparative financial statements as of and for the year ended December 31, 2020) were authorized for issue by the Bank's Board of Directors (BOD) on February 21, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

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

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

(b) *Presentation of Financial Statements*

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

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

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2021 that are Relevant to the Bank*

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2021:

PFRS 4, PFRS 7, PFRS 9 and PFRS 16 (Amendments)	:	Insurance Contracts, Financial Instruments: Disclosures, Financial Instruments, and Leases – Interest Rate Benchmark Reform Phase 2
PFRS 16 (Amendments)	:	Leases – Coronavirus Disease 2019 (COVID-19)-Related Rent Concessions Beyond June 30, 2021

Discussed below are the relevant information about these amendments to existing standards.

(i) PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments: Disclosures*, PFRS 16 (Amendments), *Leases*, and PFRS 4 (Amendments), *Insurance Contracts – Interest Rate Benchmark Reform Phase 2*. The amendments address issues that may affect financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments are relevant to Bank because it is exposed to the effects of the LIBOR reform on its financial instruments that will mature post-2021 (the date by which the reform is expected to be implemented).

Discussed below are the relevant information arising from Bank's adoption of these amendments.

- When the contractual terms of the Bank's borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Bank changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of PFRS 9 are applied to the other changes.

- When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Bank remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

For the year ended December 31, 2021, the interest rate benchmark reform has no impact on the Bank's financial assets and liabilities. The changes in the Bank's risk management strategy arising from the LIBOR reform and other required disclosures are disclosed in Note 4.7.

(ii) The Bank elected to adopt early PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions beyond June 30, 2021*, which is effective from April 1, 2021. The amendment extends for one year the use of practical expedient of not assessing whether rent concessions reducing payments up until June 30, 2022 occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The application of these amendments had no significant impact to the Bank's financial statements as the Bank did not receive any rent concession from its lessors in 2021.

(b) Effective Subsequent to 2021 but not Adopted Early

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2021, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements.

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract* (effective January 1, 2022)

(iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Bank:

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*

(iv) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023)

(v) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective January 1, 2023)

(vi) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective January 1, 2023)

(vii) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective January 1, 2023)

2.3 Financial Assets and Financial Liabilities

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

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

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions.

Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

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

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

(i) *Financial Assets at Amortized Cost*

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

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

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

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(c)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Due from BSP, Due from Other Banks, Loans and Receivables, Held-to-Collect (HTC) Investments, and Margin deposits (under Other Resources).

Due from BSP and Due from Other Banks are considered cash and cash equivalents, which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Loans and receivables include receivables from customers and all other receivables from customers and other banks.

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

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

The Bank accounts for financial assets at fair value through other comprehensive income (FVOCI) if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVTPL. The Bank does not hold equity instruments as at December 31, 2021 and 2020.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Surplus Free account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Any dividends earned on holding equity instruments, if any, are recognized in the statement of income, when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

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

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

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

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

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

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

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

(b) Effective Interest Rate Method and Interest Income

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

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

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

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

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

(c) Impairment of Financial Assets

The Bank assesses its expected credit loss (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI and other contingent accounts. No impairment loss is recognized on equity investments, if any. The Bank considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

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

- debt securities that are identified to have 'low credit risk' at the reporting date; and,

- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

Measurement of ECL

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

- *Probability of default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation (see Note 4.3.5) over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss given default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at default (EAD)* – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

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

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

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in Unrealized Gains (Losses) on Financial Assets at FVOCI, and does not reduce the carrying amount of the financial asset in the statement of financial position, and other contingent accounts, for which the loss allowance is recognizes in the other liability account.

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

(d) Derecognition of Financial Assets

(i) Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

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

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

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

(ii) Derecognition of Financial Assets Other than Modification

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

(e) Classification and Measurement of Financial Liabilities

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

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

Derivative financial liabilities are recognized initially at fair value and subsequently valued at fair value with changes in fair value charged to profit or loss (see Note 2.4).

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

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank.

(f) Derecognition of Financial Liabilities

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

2.4 Derivative Financial Instruments

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

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognizes the profit or loss at initial recognition.

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

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

2.5 Offsetting Financial Instruments

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

2.6 Other Resources

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

2.7 Intangible Assets

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

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

2.8 Bank Premises, Furniture, Fixtures and Equipment

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

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

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

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 2.15).

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

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

2.9 Provisions and Contingencies

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

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

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

2.10 Equity

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

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

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

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

2.11 Related Party Transactions and Relationships

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

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

2.12 Other Income and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenues from Contracts with Customers*. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is within the scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract.

Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

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

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

(a) Individual and Corporate Banking Services

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

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

(b) *Asset Management Services*

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

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

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

2.13 Leases – Bank as Lessee

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

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

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

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

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.15).

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

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

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

2.14 Foreign Currency Transactions and Translation

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

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of income under Foreign exchange gain (loss). Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income (loss).

2.15 Impairment of Non-financial Assets

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

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

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's recoverable amount exceeds its carrying amount.

2.16 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

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

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

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

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

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

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

(d) Bonus Plans

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

(e) Compensated Absences

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

(f) Employee Stock Option Plan

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

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

2.17 Income Taxes

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

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

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

Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.18 Trust Operations

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

2.19 Events After the End of the Reporting Period

Any post year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may likely differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Application of ECL to HTC Investments and Financial Assets at FVOCI

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

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

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

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Bank as those relate to the Bank's investment, trading and lending strategies.

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

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

(d) Determination of Timing of Satisfaction of Performance Obligations

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

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

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.9 and relevant disclosures are presented in Note 26.

3.2 Key Sources of Estimation Uncertainty

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

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

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

(b) Estimation of Allowance for ECL

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.5.

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

(c) Fair Value Measurements for Financial Instruments

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

The carrying values of the Bank's financial assets at FVTPL and FVOCI and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 7 and 8, respectively.

(d) *Determination of Fair Value of Derivatives*

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

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

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

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

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

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

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2021 and 2020 will be fully utilized in the subsequent reporting periods. The carrying value of deferred tax assets as of those dates is disclosed in Notes 13 and 24.

(g) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.15). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses on non-financial assets were recognized in 2021 and 2020.

(h) Valuation of Post-employment Defined Benefit Obligation

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 22.2.

4. RISK MANAGEMENT

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

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

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

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

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

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

The BOD has constituted the Risk Management Committee (RMC) as the board-level committee responsible for the development and oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Executive Committee. The Executive Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving risk appetite levels, policies, and risk tolerance limits related to credit portfolio risk, market risk, liquidity risk, interest rate risk, operational risk (including business continuity risk, IT risk, information security risk, data privacy risk and social media risk), consumer protection risk and environmental and social risk to ensure that current and emerging risk exposures are consistent with Bank's strategic direction and overall risk appetite.

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

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

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

There is no significant change on the policies and process for managing the risks and the methods used to measure the risks of the Bank, except for the performance of the comprehensive review of the financial instruments, particularly for loan accounts, to assess vulnerability to the significant increase in credit risk in response to the continuing impact of COVID-19 pandemic, updating of the Bank's trading system to capture the complex computation of Secured Overnight Financing Rate (SOFR) in relation to the LIBOR phase out and adhering to the protocols set by the International Swaps and Derivatives Association (ISDA) on LIBOR reform.

4.1 Market Risk

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

4.1.1 Foreign Exchange Risk

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

The Bank's net foreign exchange exposure is computed as its foreign currency resources less foreign currency liabilities plus contingent assets less contingent liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the consolidated excess foreign exchange holdings of banks in the Philippines. The Bank's foreign exchange exposure is primarily foreign exchange trading with corporate accounts and other financial institutions. The Bank, as a market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations. The Bank's foreign exchange exposure at end-of-day is guided by the limits set forth in the Bank's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the Bank reports to the BSP on its compliance with the mandated foreign currency exposure limits.

The following tables set out the composition of the Bank's financial resources and financial liabilities as to currency as of December 31, 2021 and 2020 (amounts in thousands):

		2021	
	Foreign Currencies	**Philippine Peso**	**Total**
Resources:			
Due from BSP	P -	P 2,103,787	P 2,103,787
Due from other banks	3,095,461	20,272	3,115,733
Financial assets at FVTPL	824,426	4,093,268	4,917,694
Financial assets at FVOCI	5,837,221	2,219,770	8,056,991
HTC investments - net	5,294,284	8,857,871	14,152,155
Loans and receivables - net	692,280	4,277,464	4,969,744
Other resources	393,821	1,001	394,822
	P 16,137,493	**P 21,573,433**	**P 37,710,926**
Liabilities:			
Deposit liabilities	P 13,854,433	P 13,056,196	P 26,910,629
Bills payable	1,087,955	-	1,087,955
Derivative financial liabilities	-	3,311,278	3,311,278
Other liabilities	200,313	276,382	476,695
	P 15,142,701	**P 16,643,856**	**P 31,786,557**

	2020		
	Foreign Currencies	Philippine Peso	Total
Resources:			
Due from BSP	P -	P 3,176,953	P 3,176,953
Due from other banks	1,055,957	15,463	1,071,420
Financial assets at FVTPL	289,253	2,724,049	3,013,302
Financial assets at FVOCI	9,973,764	2,231,109	12,204,873
HTC investments - net	6,735,193	8,896,745	15,631,938
Loans and receivables - net	778,877	5,319,035	6,097,912
Other resources	36,183	891	37,074
	P 18,869,227	P 22,364,245	P 41,233,472
Liabilities:			
Deposit liabilities	P 17,641,385	P 14,945,743	P 32,587,128
Derivative financial liabilities	3,024	2,151,834	2,154,858
Other liabilities	2,069	402,886	404,955
	P 17,646,478	P 17,500,463	P 35,146,941

4.1.2 Interest Rate Risk

The Bank prepares an interest rate gap analysis in the Banking Book to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The Banking Book is a term for resources on a bank's statement of financial position that are expected to be held to maturity, usually consisting of customer loans to and deposits from retail and corporate customers. The Banking Book can also include those derivatives that are used to hedge exposures arising from the Banking Book activity, including interest rate risk. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the repricing profile of its interest sensitive resources and liabilities in the Banking Book.

An interest rate gap report is prepared by classifying all resources and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioural assumptions if more applicable.

In the interest rate gap presented, loans and investments are profiled based on next repricing if floating; or contracted maturity if fixed; while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income. Interest rate financial instruments (e.g., interest rate derivatives) may be used to hedge the interest rate exposures in the Banking Book.

The following table shows the amounts of the Bank's resources and liabilities that are subject to different interest rate arrangements as of December 31, 2021 and 2020 (amounts in thousands):

	2021		2020	
	Resources	**Liabilities**	Resources	Liabilities
Subject to floating interest rates	**P 3,274,183**	**P -**	P 1,626,552	P -
Subject to fixed interest rates	**27,020,441**	**19,112,701**	34,849,739	26,184,770
Noninterest-bearing	**7,701,163**	**12,814,932**	4,960,101	9,106,157
	P 37,995,787	**P 31,927,633**	P 41,436,392	P 35,290,927

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2021 and 2020 based on expected interest realization or recognition are as follows (amounts in millions):

	2021					
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Non-Rate Sensitive**	**Total**
Resources:						
Due from BSP	P -	P -	P -	P -	P 2,104	P 2,104
Due from other banks	2,770	325	21	-	-	3,116
Trading and investment securities	1,374	776	14,344	5,715	4,918	27,127
Loans and receivables - net	3,223	513	1,233	-	-	4,969
Other resources - net*	-	-	-	-	680	680
Total Resources	**7,367**	**1,614**	**15,598**	**5,715**	**7,702**	**37,996**
Liabilities and Equity:						
Deposit liabilities	12,921	2,723	123	2,258	8,886	26,911
Bills payable	651	437	-	-	-	1,088
Other liabilities**	-	-	-	-	3,929	3,929
Total Liabilities	13,572	3,160	123	2,258	12,815	31,928
Equity	-	-	-	-	6,068	6,068
Total Liabilities and Equity	**13,572**	**3,160**	**123**	**2,258**	**18,883**	**37,996**
On-book Gap	(6,205)	(1,546)	15,475	3,457	(11,181)	-
Cumulative On-book Gap	**(6,205)**	**(7,751)**	**7,724**	**11,181**	**-**	**-**
Contingent Resources	2,352	1,517	-	-	-	3,869
Contingent Liabilities	2,392	1,530	-	-	-	3,922
Off-book Gap	(40)	(13)	-	-	-	(53)
Net Periodic Gap	(6,245)	(1,559)	15,475	3,457	(11,181)	53
Cumulative Total Gap	**(P 6,245)**	**(P 7,804)**	**P 7,671**	**P 11,128**	**(P 53)**	**P -**

	2020					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-Rate Sensitive	Total
Resources:						
Due from BSP	P 1,470	P -	P -	P -	P 1,707	P 3,177
Due from other banks	1,046	25	-	-	-	1,071
Trading and investment securities	5,336	1,122	14,292	7,087	3,013	30,850
Loans and receivables - net	4,091	857	141	1,009	-	6,098
Other resources - net*	-	-	-	-	240	240
Total Resources	P 11,943	P 2,004	P 14,433	P 8,096	P 4,960	P 41,436

	2020					
	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
Liabilities and Equity:						
Deposit liabilities	P 19,445	P 4,023	P 583	P 2,134	P 6,402	P 32,587
Other liabilities**	-	-	-	-	2,704	2,704
Total Liabilities	19,445	4,023	583	2,134	9,106	35,291
Equity	-	-	-	-	6,145	6,145
Total Liabilities and Equity	19,445	4,023	583	2,134	15,251	41,436
On-book Gap	(7,502)	(2,019)	13,850	5,962	(10,291)	-
Cumulative On-book Gap	(7,502)	(9,521)	4,329	10,291	-	-
Contingent Resources	3,433	492	-	-	-	3,925
Contingent Liabilities	3,362	480	-	-	-	3,842
Off-book Gap	71	12	-	-	-	83
Net Periodic Gap	(7,431)	(2,007)	13,850	5,962	(10,291)	(83)
Cumulative Total Gap	(P 7,431)	(P 9,438)	P 4,412	P 10,374	P 83	P -

* *Other resources include bank premises, furniture, fixtures and equipment, margin deposits, petty cash, and other deposits.*
** *Other liabilities include derivative financial liabilities, and accrued expenses and other liabilities.*

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

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

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

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

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

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

VaR is one of the key measures in the Bank's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. The Bank uses a 99% confidence level and a 260-day observation period in VaR calculation. The Bank's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in the Bank's portfolios exceed tolerable levels.

Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

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

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

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

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

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

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

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the Bank's trading portfolios as of December 31, 2021 and 2020 are as follows:

	December 31, 2021		December 31, 2020	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**P 4,138,960**	**P 51,560,846**	P 762,769	P 9,034,055
Interest rate risk – Peso	**12,165,185**	**191,667,172**	15,337,568	217,303,915
Interest rate risk – USD	**10,442,338**	**353,862,729**	14,008,247	328,015,513
	P 26,746,483	**P 597,090,747**	P 30,108,584	P 554,353,483

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

The EAR before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2021 and 2020 is shown as follows (amounts in millions):

	2021			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change in annualized net interest income	**(P 20.48)**	**P 20.48**	**(P 10.24)**	**P 10.24**
As a percentage of the Bank's net interest income for 2021	**(1.98%)**	**1.98%**	**(0.99%)**	**0.99%**
EAR	**P 164.53**			
As a percentage of the Bank's net interest income for 2021	**15.92%**			
Average (1yr) EAR	**P 161.65**			
Stress EAR	**P 198.73**			

	2020			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change in annualized net interest income	P 5.07	(P 5.07)	P 2.53	(P 2.53)
As a percentage of the Bank's net interest income for 2020	0.51%	(0.51%)	0.26%	(0.26%)
EAR	P 237.90			
As a percentage of the Bank's net interest income for 2020	23.93%			
Average (1yr) EAR	P 164.05			
Stress EAR	P 393.60			

4.2 Liquidity Risk

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

The analyses of the maturity groupings of resources, liabilities and off-book items as of December 31, 2021 and 2020, in accordance with the account classifications of the BSP, are presented below and in the succeeding page (amounts in millions). The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows using the primary contractual maturities or behavioural assumptions on core levels (e.g. core deposit liabilities), if the latter is more relevant in profiling the liquidity gap.

	2021				
	One to Three Months	**More Than Three Months To One Year**	**More Than One Year To Five Years**	**More Than Five Years**	**Total**
Resources:					
Due from BSP	P 1,227	P 34	P 2	P 841	P 2,104
Due from other banks	2,770	325	21	-	3,116
Trading and investment securities	2,485	776	14,344	9,522	27,127
Loans and receivables - net	1,917	318	1,193	1,541	4,969
Other resources - net*	-	-	194	486	680
Total Resources	**8,399**	**1,453**	**15,754**	**12,390**	**37,996**
Liabilities and Equity:					
Deposit liabilities	6,854	1,147	53	18,857	26,911
Bills payable	651	437	-	-	1,088
Other liabilities**	-	-	-	3,929	3,929
Total Liabilities	7,505	1,584	53	22,786	31,928
Equity	-	-	-	6,068	6,068
Total Liabilities and Equity	**7,505**	**1,584**	**53**	**28,854**	**37,996**
On-book Gap	894	(131)	15,701	(16,464)	-
Cumulative On-book Gap	**894**	**763**	**16,464**	**-**	**-**
Contingent Resources	3,363	18,199	31,958	6,113	59,633
Contingent Liabilities	3,360	18,052	31,606	6,107	59,125
Off-book Gap	3	147	352	6	508
Net Periodic Gap	897	16	16,053	(16,458)	(508)
Cumulative Total Gap	**P 897**	**P 913**	**P 16,966**	**P 508**	**P -**

	2020				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Total
Resources:					
Due from BSP	P 2,173	P 12	P 10	P 982	P 3,177
Due from other banks	1,046	25	-	-	1,071
Trading and investment securities	5,318	1,122	14,292	10,118	30,850
Loans and receivables - net	3,507	1,359	223	1,009	6,098
Other resources - net*	-	-	215	25	240
Total Resources	P 12,044	P 2,518	P 14,740	P 12,134	P 41,436

	2020				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Total
Liabilities and Equity:					
Deposit liabilities	P 9,400	P 1,629	P 250	P 21,308	P 32,587
Other liabilities**	253	-	-	2,451	2,704
Total Liabilities	9,653	1,629	250	23,759	35,291
Equity	-	-	-	6,145	6,145
Total Liabilities and Equity	9,653	1,629	250	29,904	41,436
On-book Gap	2,391	889	14,490	(17,770)	-
Cumulative On-book Gap	2,391	3,280	17,770	-	-
Contingent Resources	8,864	2,261	31,789	6,300	49,214
Contingent Liabilities	8,837	2,071	31,427	6,280	48,615
Off-book Gap	27	190	362	20	599
Net Periodic Gap	2,418	1,079	14,852	(17,750)	(599)
Cumulative Total Gap	P 2,418	P 3,497	P 18,349	P 599	P -

* *Other resources include banks premises, furniture, fixtures and equipment, margin deposits, petty cash and other deposits.*
** *Other liabilities include derivative financial liabilities, and accrued expenses and other liabilities.*

Contractual Maturity Analysis – Derivative Financial Liabilities

As of December 31, 2021 and 2020, the Bank's derivative financial liabilities for which contractual maturities are essential for the understanding of cash flows have contractual maturities as follows (amounts in thousands):

	2021				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Total**
Forwards (FX swaps/outrights)	**P 50,431**	**P 21,926**	**P -**	**P -**	**P 72,357**
Cross currency swaps	**574,419**	**339,099**	**1,643,767**	**655,227**	**3,212,512**
Interest rate swaps	**6,106**	**3,183**	**17,120**	**-**	**26,409**
	P 630,956	**P 364,208**	**P 1,660,887**	**P 655,227**	**P 3,311,278**

	2020				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Total
Forwards (FX swaps/outrights)	P 14,990	P 63	P -	P -	P 15,053
Nondeliverable forwards	64,622	-	-	-	64,622
Cross currency swaps	509,274	-	1,002,594	522,348	2,034,216
Interest rate swaps	7,056	8,922	24,269	-	40,247
Futures	720	-	-	-	720
	P 596,662	P 8,985	P 1,026,863	P 522,348	P 2,154,858

4.3 Credit Risk

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

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

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

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

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

4.3.1 Credit Risk Assessment

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

The Bank's definition of its loan classification and corresponding credit risk ratings are as follows:

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

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

(a) *Current/Unclassified*

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

(b) *Watchlisted*

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

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

(c) *Adversely Classified*

(i) *Especially Mentioned*

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

(ii) *Substandard*

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

(iii) *Doubtful*

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

(iv) Loss

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

In addition to the above, credit portfolio review is another integral part of the Bank's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and healthy risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by the Bank using internal credit ratings.

4.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of financial resources measured at amortized cost and FVOCI (except those classified as cash and cash equivalents). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. As of December 31, 2021 and 2020, the Bank has no loan commitments and financial guarantee contracts. Thus, there are no amounts committed or guaranteed in the table below and in the succeeding page.

The following tables presented below and in the succeeding page show the exposure to credit risk as of December 31, 2021 and 2020 for each internal risk grade and the related allowance for impairment (amounts in thousands):

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Grades AAA to B: Current	P 2,080,639	P -	P -	P 2,080,639
Expected credit loss allowance	(2,007)	-	-	(2,007)
Carrying amount	**P 2,078,632**	**P -**	**P -**	**P 2,078,632**
Receivables from customers – individual				
Grades AAA to B: Current	P 1,371,557	P -	P -	P 1,371,557
Expected credit loss allowance	(2,080)	-	-	(2,080)
Carrying amount	**P 1,369,477**	**P -**	**P -**	**P 1,369,477**
Other receivables				
Grades AAA to B: Current	P 226,470	P -	P -	P 226,470
Grade F: Loss	-	-	26,887	26,887
Expected credit loss allowance	-	-	(26,887)	(26,887)
Carrying amount	**P 226,470**	**P -**	**P -**	**P 226,470**
Debt securities – Financial assets at FVOCI				
Grades AAA to B: Current	**P 8,056,991**	**P -**	**P -**	**P 8,056,991**
Debt securities – HTC investments				
Grades AAA to B: Current	P 14,156,286	P -	P -	P 14,156,286
Expected credit loss allowance	(4,131)	-	-	(4,131)
Carrying amount	**P 14,152,155**	**P -**	**P -**	**P 14,152,155**

	2020			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Grades AAA to B: Current	P 2,413,088	P -	P -	P 2,413,088
Expected credit loss allowance	(8,286)	-	-	(8,286)
Carrying amount	P 2,404,802	P -	P -	P 2,404,802
Receivables from customers – individual				
Grades AAA to B: Current	P 785,310	P -	P -	P 785,310
Expected credit loss allowance	(1,306)	-	-	(1,306)
Carrying amount	P 784,004	P -	P -	P 784,004
Other receivables				
Grades AAA to B: Current	P 315,437	P -	P -	P 315,437
Grade F: Loss	-	-	26,887	26,887
Expected credit loss allowance	-	-	(26,887)	(26,887)
Carrying amount	P 315,437	P -	P -	P 315,437
Debt securities – Financial assets at FVOCI				
Grades AAA to B: Current	P 12,204,873	P -	P -	P 12,204,873
Debt securities – HTC investments				
Grades AAA to B: Current	P 15,642,574	P -	P -	P 15,642,574
Expected credit loss allowance	(10,636)	-	-	(10,636)
Carrying amount	P 15,631,938	P -	P -	P 15,631,938

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

	2021	2020
Grade:		
AAA	**P 299,468**	P -
AA+ to AA-	**324,773**	106,268
BBB+ to BBB-	**199,172**	52,431
BB+ to BB-	**299,435**	128,874
	P 1,122,848	P 287,573

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

					Over-the-counter			
	Total		**Exchange-traded**		**Central counterparties**		**Other bilateral collateralized**	
	Notional Amount	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
2021								
Derivative assets	**P 28,046,117**	**P3,794,846**	**P -**	**P 1,046**	**P -**	**P -**	**P 28,046,117**	**P3,793,800**
Derivative liabilities	**31,146,034**	**3,311,278**	**1,661,420**	**-**	**-**	**-**	**29,484,614**	**3,311,278**
2020								
Derivative assets	P23,376,319	P 2,725,729	P -	P -	P -	P -	P 23,376,319	P 2,725,729
Derivative liabilities	24,472,288	2,154,858	-	-	-	-	24,472,288	2,154,858

As of December 31, 2021 and 2020, the Bank held Due from Other Banks and Due from BSP (including SPURRA) totalling to P6,514,685,292 and P6,842,042,923, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

4.3.3 Concentration of Credit Risk

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

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

	2021		
	Cash and Cash Equivalents*	**Loans and Receivables**	**Trading and Investment Securities**
Concentration by sector:			
Financial and insurance activities	**P 6,909,507**	**P 60,179**	**P 7,850,971**
Real estate activities	**-**	**791,730**	**1,694,395**
Information and communication	**-**	**185,935**	**245,691**
Manufacturing	**-**	**20,017**	**924,788**
Arts, entertainment and recreation	**-**	**999,920**	**-**
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**730,767**	**-**
Wholesale and retail trade	**-**	**495,677**	**-**
Accommodation and food service activities	**-**	**70,070**	**-**
Human health and social work activities	**-**	**50,018**	**-**
Professional, scientific and technical services	**-**	**10,081**	
Education	**-**	**2,013**	**-**
Government	**-**	**-**	**13,997,195**
Transportation and storage	**-**	**-**	**74,694**
Other service activities	**-**	**289,146**	**2,343,238**
	P 6,909,507	**P 3,705,553**	**P 27,130,972**
Concentration by location:			
Philippines	**P 3,943,717**	**P 3,705,553**	**P 20,946,544**
Foreign countries	**2,965,790**	**-**	**6,184,428**
	P 6,909,507	**P 3,705,553**	**P 27,130,972**

	2020					
	Cash and Cash Equivalents*		Loans and Receivables		Trading and Investment Securities	
Concentration by sector:						
Financial and insurance activities	P	6,879,116	P	760,684	P	6,768,360
Real estate activities		-		264,615		2,238,751
Arts, entertainment and recreation		-		1,033,225		-
Information and communication		-		188,559		-
Construction		-		87,504		-
Electricity, gas, steam and air-conditioning supply		-		140,473		-
Government		-		-		18,652,071
Transportation and storage		-		-		104,862
Other service activities		-		1,065,662		3,096,704
	P	6,879,116	P	3,540,722	P	30,860,748
Concentration by location:						
Philippines	P	5,873,427	P	3,060,492	P	22,443,474
Foreign countries		1,005,689		480,230		8,417,274
	P	6,879,116	P	3,540,722	P	30,860,748

**In addition to the accounts that comprise cash and cash equivalents in Note 2.3, the amount also includes margin deposits with foreign bank and other financial assets classified under Other Resources (see Note 13) amounting to P394,822 and P37,074 as of December 31, 2021 and 2020, respectively.*

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

	Notes	**2021**		2020	
Due from BSP	6	**P**	**2,103,787**	P	3,176,953
Due from other banks	6		**3,115,733**		1,071,420
Financial assets at FVTPL	7				
Derivative financial assets			**3,794,846**		2,725,729
Corporate debt securities			**823,380**		287,573
Government debt securities			**299,468**		-
Financial assets at FVOCI	8				
Corporate debt securities			**5,387,805**		6,268,704
Government debt securities			**2,669,186**		5,936,169
HTC investments (gross)	9				
Government debt securities			**11,424,920**		13,090,922
Corporate debt securities			**2,731,366**		2,551,652
Loans and receivables (gross)	10				
Receivable from customers			**3,452,196**		3,198,397
Other receivables			**1,548,522**		2,935,994
Other resources	13				
Margin deposits			**393,821**		36,183
Others			**1,001**		891
		P	**37,746,031**	P	41,280,587

4.3.4 Collateral Held as Security and Other Credit Enhancements

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

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

		2021		2020
Neither past due nor impaired:				
Property	**P**	**3,543,242**	P	-
Equity securities		**1,902,054**		873,400
Debt securities		**1,046,124**		379,375
Others		**433,365**		381,200
	P	**6,924,785**	P	1,633,975

There is no significant change on the quality of the collateral and other security enhancements held against the credit exposures except for the fair value of the collaterals driven by the change in market conditions.

4.3.5 Amounts Arising from Expected Credit Losses

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

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

(a) Significant Increase in Credit Risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with,
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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

(i) Credit Risk Grading

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

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

(ii) Generating the Term Structure of PD

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

The Bank employs statistical models to analyze the data collected and to generate the term structure of PD estimates.

(iii) Determining Whether Credit Risk has Significantly Increased

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

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as substantial decline in sales and intermittent delays in payments.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

In 2021, the assumptions and estimation technique have been reviewed to consider the continuing impact of COVID-19 pandemic. In this regard, the Bank performed comprehensive review of the financial assets, particularly for loan accounts to assess vulnerability arising from current economic condition (see Note 28).

(b) *Definition of Default*

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank; or,
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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

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

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

(c) *Forward-looking Information*

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

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

The relevant macro-economic variables for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

The significance of the selected macro-economic variables as predictors of default may change over time as historical information is added. As such, the generated macro-economic models are updated at least on an annual basis.

Management has also considered other FLIs not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

(d) *Modified Financial Assets*

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with,
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Bank's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt; or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Individual and corporate loans are subject to restructuring. The Bank's Credit Committee regularly reviews reports on restructured activities.

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

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(e) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The methodology of estimating PDs is discussed in the preceding section under the heading 'Generating the Term Structure of PD' under item (a) of Note 4.3.5.

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

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

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

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

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

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and,
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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

(f) Write-offs

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

(g) Loss Allowance

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

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 8,286	P -	P -	P 8,286
New financial assets originated	7	-	-	7
Derecognition of financial assets	(6,289)	-	-	(6,289)
Foreign exchange	3	-	-	3
Balance at December 31	**P 2,007**	**P -**	**P -**	**P 2,007**
Receivables from customers – individual				
Balance at January 1	P 1,306	P -	P -	P 1,306
New financial assets originated	3,473	-	-	3,473
Derecognition of financial assets	(2,744)	-	-	(2,744)
Foreign exchange	45	-	-	45
Balance at December 31	**P 2,080**	**P -**	**P -**	**P 2,080**
Other receivables				
Balance at January 1 and December 31	**P -**	**P -**	**P 26,887**	**P 26,887**
Debt securities – Financial assets at FVOCI				
Balance at January 1	P 10,825	P -	P -	P 10,825
Net remeasurement of loss allowance	(6,725)	-	-	(6,725)
New financial assets purchases	3,594	-	-	3,594
Derecognition of financial assets	(4,486)	-	-	(4,486)
Foreign exchange	265	-	-	265
Balance at December 31	**P 3,473**	**P -**	**P -**	**P 3,473**
Debt securities – HTC investments				
Balance at January 1	P 10,636	P -	P -	P 10,636
Net remeasurement of loss allowance	(4,527)	-	-	(4,527)
New financial assets purchases	965	-	-	965
Derecognition of financial assets	(3,098)	-	-	(3,098)
Foreign exchange	155	-	-	155
Balance at December 31	**P 4,131**	**P -**	**P -**	**P 4,131**

	2020			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 4,465	P -	P -	P 4,465
New financial assets originated	5,184	-	-	5,184
Derecognition of financial assets	(1,244)	-	-	(1,244)
Foreign exchange	(119)	-	-	(119)
Balance at December 31	P 8,286	P -	P -	P 8,286
Receivables from customers – individual				
Balance at January 1	P 1,108	P -	P -	P 1,108
New financial assets originated	950	-	-	950
Derecognition of financial assets	(733)	-	-	(733)
Foreign exchange	(19)	-	-	(19)
Balance at December 31	P 1,306	P -	P -	P 1,306
Other receivables				
Balance at January 1	P -	P -	P 27,157	P 27,157
Derecognition of financial assets	-	-	(270)	(270)
Balance at December 31	P -	P -	P 26,887	P 26,887
Debt securities – Financial assets at FVOCI				
Balance at January 1	P 11,793	P -	P -	P 11,793
Net remeasurement of loss allowance	2,681	-	-	2,681
New financial assets purchases	5,887	-	-	5,887
Derecognition of financial assets	(8,989)	-	-	(8,989)
Foreign exchange	(547)	-	-	(547)
Balance at December 31	P 10,825	P -	P -	P 10,825
Debt securities – HTC investments				
Balance at January 1	P 5,447	P -	P -	P 5,447
Net remeasurement of loss allowance	3,193	-	-	3,193
New financial assets purchases	2,363	-	-	2,363
Derecognition of financial assets	(87)	-	-	(87)
Foreign exchange	(280)	-	-	(280)
Balance at December 31	P 10,636	P -	P -	P 10,636

(h) Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The tables below and in the succeeding page provide information how the significant changes in the gross carrying amount of financial instruments in 2021 and 2020 contributed to the changes in the allowance for ECL (amounts in thousands).

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers – corporate				
Balance at January 1	P 2,413,088	P -	P -	P 2,413,088
New financial assets originated	1,421,137	-	-	1,421,137
Derecognition of financial assets	(1,780,777)	-	-	(1,780,777)
Foreign exchange	27,191	-	-	27,191
Balance at December 31	**P 2,080,639**	**P -**	**P -**	**P 2,080,639**
Receivables from customers – individual				
Balance at January 1	P 785,310	P -	P -	P 785,310
New financial assets originated	2,102,122	-	-	2,102,122
Derecognition of financial assets	(1,524,792)	-	-	(1,524,792)
Foreign exchange	8,917	-	-	8,917
Balance at December 31	**P 1,371,557**	**P -**	**P -**	**P 1,371,557**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Other receivables				
Balance at January 1	P 315,437	P -	P 26,887	P 342,324
Derecognition of financial assets	(88,967)	-	-	(88,967)
Balance at December 31	**P 226,470**	**P -**	**P 26,887**	**P 253,357**
Debt securities – financial assets at FVOCI				
Balance at January 1	P 12,204,873	P -	P -	P 12,204,873
New financial assets purchases	6,888,103	-	-	6,888,103
Derecognition of financial assets	(11,433,580)	-	-	(11,433,580)
Foreign exchange	397,595	-	-	397,595
Balance at December 31	**P 8,056,991**	**P -**	**P -**	**P 8,056,991**
Debt securities – HTC investments				
Balance at January 1	P 15,642,574	P -	P -	P 15,642,574
New financial assets purchases	5,796,230	-	-	5,796,230
Derecognition of financial assets	(7,605,016)	-	-	(7,605,016)
Foreign exchange	322,498	-	-	322,498
Balance at December 31	**P 14,156,286**	**P -**	**P -**	**P 14,156,286**

	2020			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 2,386,409	P -	P -	P 2,386,409
New financial assets originated	509,504	-	-	509,504
Derecognition of financial assets	(550,706)	-	-	(550,706)
Foreign exchange	67,881	-	-	67,881
Balance at December 31	P 2,413,088	P -	P -	P 2,413,088
Receivables from customers – individual				
Balance at January 1	P 822,984	P -	P -	P 822,984
New financial assets originated	2,449,267	-	-	2,449,267
Derecognition of financial assets	(2,378,827)	-	-	(2,378,827)
Foreign exchange	(108,114)	-	-	(108,114)
Balance at December 31	P 785,310	P -	P -	P 785,310
Other receivables				
Balance at January 1	P 281,407	P -	P 27,157	P 308,564
New financial assets originated	34,030	-	-	34,030
Derecognition of financial assets	-	-	(270)	(270)
Balance at December 31	P 315,437	P -	P 26,887	P 342,324
Debt securities – financial assets at FVOCI				
Balance at January 1	P 10,786,300	P -	P -	P 10,786,300
New financial assets purchases	15,260,203	-	-	15,260,203
Derecognition of financial assets	(13,428,096)	-	-	(13,428,096)
Foreign exchange	(413,534)	-	-	(413,534)
Balance at December 31	P 12,204,873	P -	P -	P 12,204,873
Debt securities – HTC investments				
Balance at January 1	P 14,115,428	P -	P -	P 14,115,428
New financial assets purchases	4,093,857	-	-	4,093,857
Derecognition of financial assets	(2,245,406)	-	-	(2,245,406)
Foreign exchange	(321,305)	-	-	(321,305)
Balance at December 31	P 15,642,574	P -	P -	P 15,642,574

4.4 Equity Risk

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

4.5 Operational Risk

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

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

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

4.5.1 Framework

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

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

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 Bank's RCSAs and Key Risk Indicators. 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 Bank'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 Bank's data privacy framework is in accordance with the RA No. 10173, *Data Privacy Act of 2012*.

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

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

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

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering (AML) Program of the BDO Unibank Group and the Parent Bank, which is also adopted by the Bank, is articulated in the Board-approved Money Laundering and Terrorist Financing Prevention Program Manual (MTPP). The MTPP encapsulates the policies and procedures covering the : (i) on-boarding of clients, Know Your Client and required due diligence; (ii) customer risk assessment; (iii) on-going monitoring of transactions; (iv) regulatory reporting; (v) record-keeping; (vi) training of all Officers and Staff including BOD; (vii) Independent Compliance Testing (ICT); and (viii) Institutional Risk Assessment.

The MTPP provides the framework for the Bank to adhere with the AML and Counter-Terrorism Financing Laws and Regulations:

1. R.A. No. 9160: *The Anti-Money Laundering Act of 2001* (AMLA) as amended by R.A. No 9194 (2003); R.A. 10167 (2012); R.A. 10365 (2013); R.A. No. 10927 (2017) and R.A. No. 11521 (2021); together with applicable Implementing Rules and Regulations (IRR)
2. Part IX, Manual of Regulations for Banks, which incorporates BSP Circular No. 706 (2011), as amended by BSP Circular No. 950 (2017); and BSP Circular No. 1022 (2018)
3. R.A. 10168: *The Terrorism Financing Prevention and Suppression Act of 2012* and its IRR; R.A. 10697 *Strategic Trade Management Act* (2015) and its IRR; and the *Anti-Terrorism Act* (2020)

The Chief Compliance Officer directly reports to the BOD through the Board Audit Committee and is also a member of the AML Committee. The AML Committee of the Bank is tasked to oversee the operational implementation of the Bank's AML/CTF Program and is composed of senior officers from various units of the Bank.

4.7 Impact of LIBOR Reform

As disclosed in Note 2.2(a), the Bank currently has exposure to contracts which reference LIBOR and extend beyond 2021, including swaps which will transition under the ISDA protocols.

In 2020, the Parent Bank established a steering committee, consisting of key finance, risk, information technology, treasury, legal and compliance personnel and external advisors, to oversee the BDO Unibank Group LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimizing the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at December 31, 2021, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by LIBOR reform have not yet been proposed or agreed.

The Bank has identified that the areas of most significant risk arising from the replacement of LIBOR are: (i) updating systems and processes which capture LIBOR referenced contracts; (ii) amending affected contracts, or existing fallback/transition clauses not operating as anticipated; and, (iii) reviewing mismatches in timing of derivatives and loans transitioning from LIBOR and the resulting impact on economic risk management.

The Bank continues to engage with industry participants and the BSP to ensure an orderly transition to SOFR and minimize the risks arising from the transition. The Bank continues to identify and assess risks associated with USD LIBOR replacement.

As of December 31, 2021, the Bank holds financial instruments with carrying amount of PHP 1,177,986,591 and notional amount of PHP 57,522,500,690 at USD LIBOR rate that has not yet transitioned to SOFR or an alternative interest rate benchmark as of December 31, 2021.

The breakdown of the financial instruments between non-derivative financial assets and liabilities and derivative instruments are as follows (amounts in thousands):

	Carrying value	Notional amount
Non-derivative financial assets:		
Loans and other receivables	P 693,020	P -
Derivatives:		
With positive fair values	3,793,624	28,038,410
With negative fair values	(3,308,658)	29,484,091
	484,966	57,522,500
	P 1,177,986	**P 57,522,500**

The following are the key risks for the BDO Unibank Group arising from the transition:

- Liquidity risk: There are fundamental differences between LIBOR and the various alternative benchmark rates which the Bank will be adopting. LIBOR are forward-looking term rates published for a period (e.g., three months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Bank's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

- Litigation risk: If no agreement is reached to implement the interest rate benchmark reform on existing contracts (e.g., arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Bank is working closely with all counterparties to avoid this from occurring.

- Operational risk: The BDO Unibank Group's current treasury management system is undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks. The Bank is working closely with its system provider to ensure the relevant updates are made in good time and the Bank has alternative manual procedures in place with relevant controls to address any potential delay.

5. CATEGORIES AND OFFSETTING OF FINANCIAL RESOURCES AND FINANCIAL LIABILITIES

5.1 Comparison of Carrying Amounts and Fair Values

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

		2021		2020	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial Resources					
Financial assets at Amortized Cost:					
Due from BSP	6	**P 2,103,787**	**P 2,103,787**	P 3,176,953	P 3,176,953
Due from other banks	6	**3,115,733**	**3,115,733**	1,071,420	1,071,420
Receivables from customers - net	10	**3,448,109**	**3,498,922**	3,188,806	3,487,446
Other receivables - net	10	**1,521,635**	**1,521,635**	2,909,106	2,909,106
Other resources*	13	**394,822**	**394,822**	37,074	37,074
		10,584,086	**10,634,899**	10,383,359	10,681,999
Financial assets at FVTPL:	7				
Derivative financial assets		**3,794,846**	**3,794,846**	2,725,729	2,725,729
Corporate debt securities		**823,380**	**823,380**	287,573	287,573
Government debt securities		**299,468**	**299,468**	-	-
		4,917,694	**4,917,694**	3,013,302	3,013,302
Financial assets at FVOCI:	8				
Corporate debt securities		**5,387,805**	**5,387,805**	6,268,704	6,268,704
Government debt securities		**2,669,186**	**2,669,186**	5,936,169	5,936,169
		8,056,991	**8,056,991**	12,204,873	12,204,873
HTC investments:	9				
Government debt securities		**11,424,572**	**11,677,636**	13,084,458	13,919,079
Corporate debt securities		**2,727,583**	**2,819,430**	2,547,480	2,600,820
		14,152,155	**14,497,066**	15,631,938	16,519,899
		P 37,710,926	**P 38,106,650**	P 41,233,472	P 42,420,073
Financial Liabilities					
Financial liabilities at Amortized Cost:					
Deposit liabilities	14	**P 26,910,629**	**P 26,910,151**	P 32,587,128	P 32,590,989
Bills payable	15	**1,087,955**	**1,087,955**	-	-
Other liabilities**	17	**476,695**	**476,695**	404,955	404,955
		28,475,279	**28,474,801**	32,992,083	32,995,944
Financial liabilities at Fair Value – Derivative financial liabilities	16	**3,311,278**	**3,311,278**	2,154,858	2,154,858
		P 31,786,557	**P 31,786,079**	P 35,146,941	P 35,150,802

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

5.2 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

5.3 Financial Instruments Measured at Fair Value

The tables below show the fair value hierarchy of the Bank's classes of financial resources and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2021 and 2020 (amounts in thousands).

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Resources:				
Financial assets at FVTPL:				
Derivative financial assets	**P -**	**P 3,794,846**	**P -**	**P 3,794,846**
Corporate debt securities	**823,380**	**-**	**-**	**823,380**
Government debt securities	**299,468**	**-**	**-**	**299,468**
Financial assets at FVOCI:				
Corporate debt securities	**5,387,805**	**-**	**-**	**5,387,805**
Government debt securities	**2,669,186**	**-**	**-**	**2,669,186**
Total Resources	**P 9,179,839**	**P 3,794,846**	**P -**	**P 12,974,685**
Liabilities –				
Derivative financial liabilities	**P -**	**P 3,311,278**	**P -**	**P 3,311,278**
December 31, 2020				
Resources:				
Financial assets at FVTPL:				
Derivative financial assets	P -	P 2,725,729	P -	P 2,725,729
Corporate debt securities	287,573	-	-	287,573
Financial assets at FVOCI:				
Corporate debt securities	6,268,704	-	-	6,268,704
Government debt securities	5,936,169	-	-	5,936,169
Total Resources	P 12,492,446	P 2,725,729	P -	P 15,218,175
Liabilities –				
Derivative financial liabilities	P -	P 2,154,858	P -	P 2,154,858

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

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

(a) *Debt securities*

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

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

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

(b) Derivatives

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

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Resources:				
Due from BSP	**P 2,103,787**	**P -**	**P -**	**P 2,103,787**
Due from other banks	**3,115,733**	**-**	**-**	**3,115,733**
HTC investments	**14,497,066**	**-**	**-**	**14,497,066**
Loans and other receivables	**1,295,166**	**-**	**3,725,391**	**5,020,557**
Other resources	**393,821**	**-**	**1,001**	**394,822**
	P 21,405,573	**P -**	**P 3,726,392**	**P 25,131,965**
Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 26,910,151**	**P 26,910,151**
Bills payable	**-**	**-**	**1,087,955**	**1,087,955**
Other liabilities	**-**	**-**	**476,695**	**476,695**
	P -	**P -**	**P 28,474,801**	**P 28,474,801**
December 31, 2020				
Resources:				
Due from BSP	P 3,176,953	P -	P -	P 3,176,953
Due from other banks	1,071,420	-	-	1,071,420
HTC investments	16,519,899	-	-	16,519,899
Loans and other receivables	2,593,669	-	3,802,883	6,396,552
Other resources	36,183	-	891	37,074
	P 23,398,124	P -	P 3,803,774	P 27,201,898
Liabilities:				
Deposit liabilities	P -	P -	P 32,590,989	P 32,590,989
Other liabilities	-	-	404,955	404,955
	P -	P -	P 32,995,944	P 32,995,944

For financial resources and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial resources and financial liabilities presented in the statements of financial position at their amortized cost:

(a) Due from BSP and Other Banks

Due from BSP pertains to deposits made by the Bank to the BSP for clearing, reserve requirements and placement of excess liquidity in Overnight Deposit Facility (ODF) and Term Deposit Facility (TDF) in 2021 and 2020, respectively. Due from other banks include interbank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(b) HTC Investments

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

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

(c) Loans and Other Receivables

Receivables from customers and other receivables (including SPURRA) are presented net of provisions for impairment, if any. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(d) Deposits and Borrowings

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. For bills payable categorized within Level 3, the Bank classify financial instruments that have no quoted prices or observable market data where reference of fair value can be derived; hence, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(e) Other Resources and Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

5.5 Offsetting of Financial Assets and Financial Liabilities

The table below shows the financial assets of the Bank as of December 31, 2021 and 2020 which are subject to offsetting, enforceable master netting arrangements and similar agreements which are not set off in the statements of financial position (amounts in thousands).

	December 31, 2021			
	Financial Assets	**Financial Liabilities Available for Set-off**	**Collateral Received**	**Net Amount**
Financial assets at FVTPL				
Currency forwards	**P 3,743,859**	**P 566,862**	**P -**	**P 3,176,997**
Interest rate swaps	**44,951**	**6,106**	**-**	**38,845**
Loans and receivables	**4,969,744**	**-**	**170,749**	**4,798,995**
Other resources				
Margin deposits on currency forwards	**393,821**	**351,383**	**-**	**42,438**
	P 9,152,375	**P 924,351**	**P 170,749**	**P 8,057,275**

	December 31, 2020			
	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
Financial assets at FVTPL				
Currency forwards	P 2,460,391	P 369,985	P -	P 2,090,406
Interest rate swaps	104,574	7,056	-	97,518
Loans and receivables	6,097,912	-	114,931	5,982,981
Other resources				
Margin deposits on currency forwards	36,183	26,173	-	10,010
	P 8,699,060	P 403,214	P 114,931	P 8,180,915

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

	December 31, 2021			
	Financial Liabilities	**Financial assets Available for Set-off**	**Collateral Given**	**Net Amount**
Deposit liabilities	**P 26,910,629**	**P 170,749**	**P -**	**P 26,739,880**
Financial liabilities				
Currency forwards	**3,212,512**	**611,493**	**351,383**	**2,249,636**
Interest rate swaps	**26,409**	**10,195**	**-**	**16,214**
	P 30,149,550	**P 792,437**	**P 351,383**	**P 29,005,730**

	December 31, 2020			
	Financial Liabilities	Financial assets Available for Set-off	Collateral Given	Net Amount
Deposit liabilities	P 32,587,128	P 114,931	P -	P 32,472,197
Financial liabilities				
Currency forwards	2,034,216	395,016	25,453	1,613,747
Interest rate swaps	40,247	12,579	-	27,668
Futures	720	-	720	-
	P 34,662,311	P 522,526	P 26,173	P 34,113,612

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

6. DUE FROM BSP AND OTHER BANKS

6.1 Due from BSP

This account pertains to the deposit account maintained by the Bank with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. The outstanding balance of this account amounted to P2,103,786,530 and P3,176,953,168 in 2021 and 2020, respectively.

Due from BSP, excluding mandatory reserves which has no interest, bears annual effective interest rates of 1.50% and 1.50% to 4.13% in 2021 and 2020, respectively. The total interest income earned amounted P2,843,125 and P5,923,428 in 2021 and 2020, respectively, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income. Due from BSP is included in cash and cash equivalents for cash flow statement reporting purposes.

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

6.2 Due from Other Banks

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

	Note	2021	2020
Foreign banks		**P 2,571,968,385**	P 969,505,968
Local banks	23.1(c)	**543,764,844**	101,914,502
		P 3,115,733,229	P 1,071,420,470

A breakdown of this account by currency follows:

	2021	2020
United States dollar	**P 2,504,753,408**	P 934,867,140
Philippine peso	**20,271,550**	15,463,424
Other foreign currencies	**590,708,271**	121,089,906
	P 3,115,733,229	P 1,071,420,470

These deposits earn effective interest at rates ranging from 0.01% to 0.09%, and from 0.00% to 1.65% per annum in 2021 and 2020, respectively.

The total interest earned on due from other banks amounted to P1,145,380 and P8,050,594 in 2021 and 2020, respectively, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of the following:

	Notes	2021	2020
Derivative financial assets	16, 23.1(g)	**P 3,794,846,326**	P 2,725,728,861
Corporate debt securities		**823,379,797**	287,572,663
Government debt securities		**299,467,792**	-
		P 4,917,693,915	P 3,013,301,524

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

		2021		2020
Philippine peso	**P**	**4,093,268,280**	P	2,724,048,927
Foreign currencies		**824,425,635**		289,252,597
	P	**4,917,693,915**	P	3,013,301,524

Corporate debt securities include local and foreign corporate securities that earn interest from 3.28% to 5.88%, and from 3.28% to 4.75% per annum in 2021 and 2020, respectively. Government debt securities consist of various treasury bills and other securities issued by the government that earn interest from 4.00% to 4.63%, and from 2.63% to 6.25% per annum in 2021 and 2020, respectively.

In 2021, effective interest rates range from 2.42% to 5.14%, and from 0.01% to 4.05% for peso denominated and foreign currency denominated FVTPL securities, respectively. In 2020, effective interest rates range from 2.62% to 4.91%, and from 0.09% to 4.35% for peso denominated and foreign currency denominated FVTPL securities, respectively. The total interest earned on financial assets at FVTPL are presented in the statements of income which amounted to P30,487,156 and P34,739,744 in 2021 and 2020, respectively.

The Bank recognized net realized trading gains on financial assets at FVTPL amounting to P268,011,200 and P182,599,991 in 2021 and 2020, respectively. Unrealized fair value losses of P71,164,373 and unrealized fair value gains of P4,197,034 were recognized by the Bank in 2021 and 2020, respectively (see Note 16). Both realized and unrealized trading gains and losses are presented as part of Trading and Securities Gain in the statements of income.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This account is composed of the following:

		2021		2020
Corporate debt securities	**P**	**5,387,805,648**	P	6,268,703,173
Government debt securities		**2,669,185,837**		5,936,169,439
	P	**8,056,991,485**	P	12,204,872,612

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

		2021		2020
Foreign currencies	**P**	**5,837,221,411**	P	9,973,763,344
Philippine peso		**2,219,770,074**		2,231,109,268
	P	**8,056,991,485**	P	12,204,872,612

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

	Note	2021	2020
Balance at beginning of year		**P 12,204,872,612**	P 10,786,300,317
Additions		**7,082,792,209**	15,273,187,478
Disposals		**(11,433,580,047)**	(13,428,096,364)
Fair value losses	18.2	**(194,688,960)**	(12,984,629)
Foreign currency revaluation		**397,595,671**	(413,534,190)
Balance at end of year		**P 8,056,991,485**	P 12,204,872,612

These debt securities pertain to local and foreign securities issued by corporate and government entities. Effective interest rates of peso denominated securities range from 2.27% to 4.00%, and from 2.44% to 4.70% in 2021 and 2020, respectively. On the other hand, foreign currency denominated securities earn effective interest ranging from 0.45% to 5.38%, and from 0.06% to 5.38% in 2021 and 2020, respectively.

The total interest earned on financial assets at FVOCI amounted to P316,563,378 and P383,369,025 in 2021 and 2020, respectively, and are presented in the statements of income. Disposals of securities resulted in net gains of P69,254,631 and P284,744,557 in 2021 and 2020, respectively, (see Note 18.2), and are included as part of Trading and Securities Gain - Net in the statements of income.

In 2021 and 2020, the Bank recognized a reversal on credit losses on financial assets at FVOCI amounting to P7,616,904 and P421,314, respectively. These are presented as part of Impairment Losses (Recoveries) account in the statements of income with corresponding charge to Unrealized Gains (Losses) on Financial Assets at FVOCI in the statements of comprehensive income.

9. HELD-TO-COLLECT INVESTMENTS

This account is composed of the following:

	2021	2020
Debt securities:		
Government debt securities	**P 11,424,920,282**	P 13,090,921,713
Corporate debt securities	**2,731,366,171**	2,551,652,603
	14,156,286,453	15,642,574,316
Allowance for impairment	**(4,130,971)**	(10,635,967)
	P 14,152,155,482	P 15,631,938,349

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

	2021	2020
Philippine peso	**P 8,857,871,591**	P 8,896,745,376
Foreign currencies	**5,294,283,891**	6,735,192,973
	P 14,152,155,482	P 15,631,938,349

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

	2021	2020
Balance at beginning of year	P 15,631,938,349	P 14,109,980,976
Additions	5,257,093,498	3,532,324,939
Interest accrued	612,012,609	649,709,291
Amortization of premium	(72,876,256)	(88,177,054)
Foreign currency revaluation	322,343,867	(321,024,568)
Maturities and disposals	(7,605,016,086)	(2,245,405,999)
Reversal of (provision for) allowance for impairment	6,659,501	(5,469,236)
Balance at end of year	P 14,152,155,482	P 15,631,938,349

Annual interest rates on government debt securities range from 2.63% to 9.50%, and from 0.00% to 9.50% in 2021 and 2020, respectively. On the other hand, corporate debt securities have annual interest rates ranging from 2.50% to 6.63%, and from 4.13% to 6.63% in 2021 and 2020, respectively. Effective interest rate of government debt securities ranges from 1.70% to 5.93%, and from 2.34% to 6.11% in 2021 and 2020, respectively. While, corporate debt securities earn effective interest ranging from 1.29% to 6.31%, and from 3.59% to 6.31% in 2021 and 2020, respectively. Interest earned on held-to-collect investments amounted P539,136,353 and P561,532,237 in 2021 and 2020, respectively, and are presented in the statements of income.

In compliance with the regulations that govern the Bank's trust functions, government bonds owned by the Bank are deposited with the BSP with a total face value of P6,257,832,093 and P4,957,832,093 as at December 31, 2021 and 2020, respectively (see Note 25).

In 2021, the Bank disposed of certain debt securities from its HTC investment portfolio amounting to P1,280,128,185 resulting in a net gain amounting to P48,487,609 which is presented as part of Trading and Securities Gain - net in the 2021 statement of income. The disposal was made to strengthen the liquidity and capital position of the Bank as a buffer against the economic downturn caused by the COVID-19 global pandemic. Management had assessed that such disposals of the investment securities are consistent with the Bank's business model and are made infrequently with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Bank's business model in managing financial assets manual and the requirements of PFRS 9. The disposal of investment securities was approved by the Risk Management Committee in compliance with the documentation requirements of the BSP. There was no similar transaction in 2020.

Also, there is early redemption of certain debt securities amounting to P73,018,879 resulting in a net loss of P433,879 which is presented as part of Trading and Securities Gain in the 2021 statement of income. There were no similar transactions in 2020.

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

	2021	2020
Balance at beginning of year	P 10,635,967	P 5,447,143
Net impairment (recovery)	(6,659,501)	5,469,236
Revaluation	154,505	(280,412)
Balance at end of year	P 4,130,971	P 10,635,967

10. LOANS AND RECEIVABLES

Loans and receivables consist of the following:

	2021	2020
Receivables from customers	P 3,452,196,109	P 3,198,397,274
Allowance for impairment	(4,087,353)	(9,591,529)
	3,448,108,756	3,188,805,745
SPURRA	1,295,165,533	2,593,669,285
Other receivables	253,356,706	342,324,535
Allowance for impairment	(26,887,369)	(26,887,369)
	1,521,634,870	2,909,106,451
	P 4,969,743,626	P 6,097,912,196

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

	2021	2020
Within one year	P 713,514,531	P 1,956,583,789
Beyond one year within five years	1,192,928,590	222,759,949
Beyond five years	1,545,752,988	1,019,053,536
	P 3,452,196,109	P 3,198,397,274

As to security, receivables from customers are classified into:

	2021	2020
Secured	P 3,319,152,848	P 1,084,615,970
Unsecured	133,043,261	2,113,781,304
	P 3,452,196,109	P 3,198,397,274

Receivables from customers earn effective interest at rates ranging from 1.28% to 6.51%, and from 1.35% to 6.78% per annum in 2021 and 2020, respectively. The total interest earned on loans and receivables amounted to P217,744,248 and P201,840,007 in 2021 and 2020, respectively, and are presented in the statements of income.

All of the Bank's outstanding loans and receivables as of December 31, 2021 and 2020 are categorized as performing. The SPURRA held by the Bank has an average term of two days with an average interest rate of 1.50% in 2021 and average term of seven days with an average interest rate of 2.25% in 2020.

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

	2021	2020
Balance at beginning of year	**P 36,478,898**	P 32,730,532
Provision for (reversal of) allowance for impairment:		
Receivable from customer	**(5,553,375)**	4,156,965
Other receivables	**-**	(270,000)
Revaluation	**49,199**	(138,599)
Balance at end of year	**P 30,974,722**	P 36,478,898

In 2021, the Bank made an appropriation of P485,300 out of the Surplus Free to comply with the requirement of the BSP to provide general loan loss provisions which is presented as part of Surplus Reserves (see Note 18.3). No additional appropriation was made in 2020 since the Bank already reached the statutory limits and that the outstanding balance already covers the required amount for the year.

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2021 and 2020 are shown below.

	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-Use Assets (see Note 12)	Total
December 31, 2021				
Cost	P 186,692,001	P 172,084,431	P 221,459,268	P 580,235,700
Accumulated depreciation and amortization	(156,553,955)	(163,896,211)	(47,308,089)	(367,758,255)
Net carrying amount	**P 30,138,046**	**P 8,188,220**	**P 174,151,179**	**P 212,477,445**
December 31, 2020				
Cost	P 168,511,832	P 168,429,861	P 140,702,689	P 477,644,382
Accumulated depreciation and amortization	(146,230,928)	(157,024,500)	(76,959,924)	(380,215,352)
Net carrying amount	P 22,280,904	P 11,405,361	P 63,742,765	P 97,429,030
January 1, 2020				
Cost	P 167,281,210	P 164,511,919	P 135,191,147	P 466,984,276
Accumulated depreciation and amortization	(141,043,571)	(148,678,825)	(37,781,232)	(327,503,628)
Net carrying amount	P 26,237,639	P 15,833,094	P 97,409,915	P 139,480,648

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2021 and 2020 is as follows:

	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-Use Assets (see Note 12)	Total
Balance at January 1, 2021, net of accumulated depreciation and amortization	P 22,280,904	P 11,405,361	P 63,742,765	P 97,429,030
Additions	19,014,868	3,654,570	153,925,385	176,594,823
Disposal	(20)	-	-	(20)
Depreciation and amortization charges for the year	(11,157,706)	(6,871,711)	(43,516,971)	(61,546,388)
Balance at December 31, 2021, net of accumulated depreciation and amortization	**P 30,138,046**	**P 8,188,220**	**P 174,151,179**	**P 212,477,445**
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 26,237,639	P 15,833,094	P 97,409,915	P 139,480,648
Additions	6,176,611	3,917,942	7,496,124	17,590,677
Disposal	(9)	-	-	(9)
Depreciation and amortization charges for the year	(10,133,337)	(8,345,675)	(41,163,274)	(59,642,286)
Balance at December 31, 2020, net of accumulated depreciation and amortization	P 22,280,904	P 11,405,361	P 63,742,765	P 97,429,030

In 2021 and 2020, the Bank disposed of certain furniture, fixtures and equipment with carrying amount of P20 and P9, respectively. The resulting gain on asset disposal amounting to P34,913 and P16,219 in 2021 and 2020, respectively, is presented as part of Others under Other Income account in the statements of income.

The total cost of fully depreciated assets, consisting of furniture, fixtures and equipment amounted to P129,595,260 and P116,968,865 in 2021 and 2020, respectively, and are still being used by the Bank.

The BSP requires that investments in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2021 and 2020, the Bank has satisfactorily complied with this requirement.

12. LEASES

The Bank has leases for certain office and administrative spaces. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a Right-of-use asset under Bank Premises, Furniture, Fixtures and Equipment account (see Note 11) and as a Lease liabilities under Accrued Expenses and Other Liabilities account (see Note 17) in the statements of financial position.

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

The Bank has 13 right-of-use assets leased with remaining lease term ranging from one to five years having an average remaining lease term of three years. These leased assets do not have any enforceable extension options, options to purchase and termination options.

The carrying amount of the Bank's right-of-use assets as at December 31, 2021 and 2020 and the movements during the period are shown in Note 11, while the movements in the lease liabilities are shown below (see Note 17).

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2021 and 2020 for the Bank are as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
December 31, 2021						
Lease payments	P 51,848,070	P 47,695,673	P 37,747,156	P 31,148,332	P 21,961,621	P 190,400,852
Finance charges	(6,034,095)	(4,169,310)	(2,557,587)	(1,398,540)	(334,212)	(14,493,744)
Net present value	**P 45,813,975**	**P 43,526,363**	**P 35,189,569**	**P 29,749,792**	**P 21,627,409**	**P 175,907,108**
December 31, 2020						
Lease payments	P 37,468,773	P 16,166,706	P 11,851,582	P 5,131,590	P 798,096	P 71,416,747
Finance charges	(2,783,916)	(1,334,009)	(578,442)	(89,436)	(5,706)	(4,791,509)
Net present value	P 34,684,857	P 14,832,697	P 11,273,140	P 5,042,154	P 792,390	P 66,625,238

The total cash outflow in respect of leases amounted to P49,017,350 and P46,205,323 in 2021 and 2020, respectively, for the Bank. Interest expense in relation to lease liabilities amounted to P4,373,835 and P5,437,282 in 2021 and 2020, respectively, are presented as part of Others under Interest Expense account in the statements of income.

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. The expenses relating short term leases amount to P930,000 in 2021 [see Note 23.1(d)]. No similar transaction was made in 2020. On the other hand, the expenses relating low-value assets amounted to P1,113,102 and P1,182,840 in 2021 and 2020, respectively. These are presented as part of Occupancy under Other Expenses account in the statements of income. As of December 31, 2021 and 2020, there are no lease commitments relating to short-term leases and low-value assets.

Presented below is the reconciliation of the Bank's lease liability arising from financing activity, which included both cash and non-cash changes.

		2021		2020
Balance at beginning of year	**P**	**66,625,238**	P	99,897,155
Cash flows from financing activities –				
Repayment of lease liabilities	**(**	**44,643,515)**	(	40,768,041)
Non-cash financing activities –				
Additional lease liabilities		**153,925,385**		7,496,124
Balance at end of year	**P**	**175,907,108**	P	66,625,238

13. OTHER RESOURCES

This account consists of:

	Notes		2021		2020
Margin deposits		**P**	**393,821,271**	P	36,183,348
Post-employment defined benefit asset	22.2		**22,257,190**		58,408,079
Computer software – net			**21,183,555**		11,327,807
Deferred tax assets – net	24.1		**15,378,862**		11,260,372
Prepaid expenses			**3,249,207**		9,847,893
Creditable withholding taxes			**3,014,796**		-
Documentary stamps			**2,340,757**		5,340,118
Sundry debits			**805,849**		2,552,789
Others			**5,153,321**		7,643,793
		P	**467,204,808**	P	142,564,199

Margin deposits consist of placements with foreign banks that are offered by the Bank as security on its derivative transactions with certain counterparties. Interest rates on margin deposits ranged from 0.05% to 0.10%, and from 0.00% to 1.57% in 2021 and 2020, respectively. The total interest earned on margin deposits amounted to P103,180 and P439,913 in 2021 and 2020, respectively, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

Amortization charges related to software costs amounted to P10,094,985 and P11,507,036 in 2021 and 2020, respectively, and are included as part of Depreciation and Amortization in the statements of income.

14. DEPOSIT LIABILITIES

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

	2021	2020
Within one year	**P 26,787,644,929**	P 32,011,189,200
Beyond one year up to five years	**122,983,880**	575,939,155
	P 26,910,628,809	P 32,587,128,355

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

	2021	2020
Philippine peso	**P 13,056,196,232**	P 14,945,743,796
Foreign currencies	**13,854,432,577**	17,641,384,559
	P 26,910,628,809	P 32,587,128,355

Interest expense on deposit liabilities, which is presented in the statements of income, is comprised of:

	Note	**2021**	2020
Demand	23.1(c)	**P 24,826,688**	P 52,815,952
Time		**40,535,010**	141,211,456
		P 65,361,698	P 194,027,408

Interest rates on time deposits ranged from 0.05% to 1.75%, and from 0.05% to 2.35% per annum for 2021 and 2020, respectively. For demand deposits, interest rates ranged from 0.00% to 1.88% per annum for 2021 and 2020.

15. BILLS PAYABLE

Bills payable represents the Bank's borrowings from other local and foreign banks and entities which bear annual interest rates from 0.30% to 2.50%, and from 0.55% to 4.25% in 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Bank has no secured liabilities and assets pledged as security.

As of December 31, 2021, the Bank has an outstanding secured bills payable amounting to P1,087,955,395 from foreign banks (nil as of 2020). Interest expense on bills payable amounted to P7,111,587 and P2,705,789 in 2021 and 2020, respectively, and is presented as Interest Expense on Bills Payable in the statements of income.

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

	BSP	Local Banks	Foreign Banks	Total
Balance at January 1, 2021	P -	P -	P -	P -
Cash flows from financing activities:				
Additional borrowings	900,000,000	150,000,000	2,519,849,801	3,569,849,801
Repayments of borrowings	(900,000,000)	(150,000,000)	(1,493,875,288)	(2,543,875,288)
Payments of interest	(187,500)	(6,901)	(4,956,257)	(5,150,658)
Non-cash financing activities:				
Interest amortization	187,500	6,901	6,917,186	7,111,587
Revaluation	-	-	60,019,953	60,019,953
Balance at December 31, 2021	**P -**	**P -**	**P 1,087,955,395**	**P 1,087,955,395**
Balance at January 1, 2020	P -	P 253,234,426	P -	P 253,234,426
Cash flows from financing activities:				
Additional borrowings	200,000,000	7,480,000,000	887,817,326	8,567,817,326
Repayments of borrowings	(200,000,000)	(7,733,255,000)	(878,797,522)	(8,812,052,522)
Payments of interest	(70,833)	(1,433,216)	(1,261,166)	(2,765,215)
Non-cash financing activities:				
Interest amortization	70,833	1,373,790	1,261,166	2,705,789
Revaluation	-	80,000	(9,019,804)	(8,939,804)
Balance at December 31, 2020	P -	P -	P -	P -

16. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

	Notional Amount	Fair Values	
		Assets	Liabilities
December 31, 2021			
Free-standing			
Cross currency swaps	**P 48,658,295,690**	**P 3,743,858,960**	**P 3,212,511,618**
Interest rate swaps	**5,000,000,000**	**44,950,633**	**26,409,019**
Forward contracts	**3,872,435,106**	**4,990,894**	**72,357,100**
Futures	**1,661,420,000**	**1,045,839**	**-**
	P 59,192,150,796	**P 3,794,846,326**	**P 3,311,277,737**
December 31, 2020			
Free-standing			
Cross currency swaps	P 39,016,913,755	P 2,460,390,844	P 2,034,215,582
Interest rate swaps	3,701,575,000	104,574,467	40,246,651
Forward contracts	4,344,336,619	160,763,550	15,053,312
Nondeliverable forwards	545,500,000	-	64,621,823
Futures	240,282,000	-	720,350
	P 47,848,607,374	P 2,725,728,861	P 2,154,857,718

The changes in fair value of derivative assets and liabilities determined using a valuation technique amounted to loss of P105,121,337 and P11,283,023 in 2021 and 2020, respectively, and were included in Trading and Securities Gain - Net in the statements of income (see Note 7).

17. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account are as follows:

	Note	**2021**	2020
Margin deposits		**P 184,106,390**	P -
Lease liabilities	12	**175,907,108**	66,625,238
Accrued taxes		**107,963,678**	113,839,975
Manager's checks		**43,304,311**	139,488,398
Accrued expenses		**40,527,769**	55,053,447
Withholding taxes		**32,350,534**	28,939,455
Sundry credits		**23,617,676**	112,668,946
Due to Treasury of the Philippines		**101,502**	-
Others		**9,892,290**	32,325,326
		P 617,771,258	P 548,940,785

Margin deposits consist of placements offered to the Bank as security on its derivative transactions with certain counterparties. The total interest incurred on margin deposits amounted to P351,844 in 2021 (nil in 2020) and is included as part of Others under Interest Expense account in the statements of income. In 2021 and 2020, the Bank's liability to BDO Unibank arising from the stock option plan were settled (see Note 22.1).

18. EQUITY

18.1 Share Capital

The Bank has authorized capital stock of 2,500,000 voting shares, with par value of P1,000 per share, 2,165,000 of which are issued and outstanding for a total amount of P2,165,000,000 as at December 31, 2021 and 2020.

As of December 31, 2021 and 2020, the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock.

18.2 Revaluation Reserves

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

	Notes	Unrealized Gains (Losses) on Financial Assets at FVOCI	Accumulated Actuarial Gains (Losses)	Total
Balance as of January 1, 2021		**P 365,668,546**	**(P 48,462,158)**	**P 317,206,388**
Unrealized losses during the year	8	**(125,434,329)**	**-**	**(125,434,329)**
Transfer of net realized gains to profit or loss on disposal of debt securities	8	**(69,254,631)**	**-**	**(69,254,631)**
Reversal of credit losses on financial assets at FVOCI	8	**(7,352,135)**	**-**	**(7,352,135)**
Remeasurements of post-employment defined benefit obligation	22.2	**-**	**(48,718,765)**	**(48,718,765)**
Other comprehensive loss before tax		**(202,041,095)**	**(48,718,765)**	**(250,759,860)**
Tax income	24.1	**-**	**12,179,691**	**12,179,691**
Effect of the change in income tax rate	24.1	**-**	**(3,461,583)**	**(3,461,583)**
Other comprehensive loss after tax		**(202,041,095)**	**(40,000,657)**	**(242,041,752)**
Balance as of December 31, 2021		**P 163,627,451**	**(P 88,462,815)**	**P 75,164,636**
Balance as of January 1, 2020		P 379,620,952	(P 84,109,988)	P 295,510,964
Unrealized gains during the year	8	271,759,928	-	271,759,928
Transfer of net realized gains to profit or loss on disposal of debt securities	8	(284,744,557)	-	(284,744,557)
Reversal of credit losses on financial assets at FVOCI	8	(967,777)	-	(967,777)
Remeasurements of post-employment defined benefit obligation	22.2	-	50,925,472	50,925,472
Other comprehensive income (loss) before tax		(13,952,406)	50,925,472	36,973,066
Tax expense	24.1	-	(15,277,642)	(15,277,642)
Other comprehensive income (loss) after tax		(13,952,406)	35,647,830	21,695,424
Balance as of December 31, 2020		P 365,668,546	(P 48,462,158)	P 317,206,388

18.3 Surplus Reserve

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions, certain percentage of the trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. The Bank appropriated P48,845,546 in 2020. No additional appropriation was made in 2021 since the Bank already reached the statutory limits and that the outstanding balance already covers the required amount for the current year. As of December 31, 2021 and 2020, accumulated appropriated surplus related to the Bank's trust functions amounted to P500,000,000.

In addition, the Bank appropriated P485,300 for general loan loss provision representing the excess of the 1% required allowance of the BSP over the computed allowance for ECL on loans in 2021 (see Note 10). The Bank did not make additional appropriation in 2020 since they already reached the statutory limits and that the outstanding balance already covers the required amount for the year. As of December 31, 2021 and 2020, accumulated appropriation for general loan loss provision amounted to P40,989,295 and P40,503,995, respectively.

18.4 Surplus Free

On July 19, 2021, the BOD approved dividends amounting to P800,000,000 (or P369.52 per share for common stock). The dividends were paid on November 8, 2021. On July 20, 2020, the BOD approved dividends amounting to P700,000,000 (or P323.33 per share for common stock). The dividends were paid on November 6, 2020 [see Note 23.1(a)].

18.5 Capital Management

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

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

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which requires the Bank, as a subsidiary of a universal bank required to adopt Basel 3, to maintain the following:

(a) Common Equity Tier 1 (CET1) of at least 11.00% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 12.50% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital.

The regulatory capital is analyzed as CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

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

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

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

Further, under an existing BSP circular, commercial banks must meet a minimum capital threshold amounting to P2.0 billion. As of December 31, 2021 and 2020, the Bank has complied with the above capitalization requirement.

The Bank's regulatory capital position based on the Basel 3 risk-based capital adequacy framework as of December 31, 2021 and 2020 are as follows:

	2021	2020
Tier 1 Capital		
CET 1	**P 6,027,948,767**	P 6,059,518,974
Additional Tier 1	**-**	-
	6,027,948,767	6,059,518,974
Tier 2 Capital	**45,076,648**	50,095,524
Total Regulatory Capital	**6,073,025,415**	6,109,614,498
Deductions	**(63,700,987)**	(37,007,041)
Total Qualifying Capital	**P 6,009,324,428**	P 6,072,607,457
Total Risk Weighted Assets	**P 25,217,150,773**	P 22,702,832,797
Capital ratios:		
CET 1 Ratio	**23.65%**	26.53%
Capital Conservation Buffer	**17.65%**	20.53%
Tier 1 Capital Ratio	**23.65%**	26.53%
Total Capital Adequacy Ratio	**23.83%**	26.75%

19. SERVICE CHARGES, FEES AND COMMISSIONS

This account is composed of the following:

	Notes		2021		2020
Trust fees	23.1(f), 25	**P**	**1,071,314,094**	P	948,055,967
Others – net			**6,794,613**		11,325,111
		P	**1,078,108,707**	P	959,381,078

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

20. THIRD PARTY INFORMATION

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

21. OTHER EXPENSES

This account is composed of the following:

		2021		2020
Custodianship fees	**P**	**47,657,148**	P	34,743,802
Transfer fees and charges		**32,557,063**		22,258,995
Security, messengerial and janitorial services		**26,108,132**		19,913,993
Repairs and maintenance		**14,356,601**		19,480,283
Communication		**7,842,337**		6,816,233
Advertising		**5,893,751**		5,836,870
Stationery and supplies		**5,165,625**		3,773,373
Courier services		**1,417,990**		800,155
Contractual services		**929,975**		1,318,061
Fines, penalties and other charges		**187,500**		134,000
Miscellaneous		**3,925,605**		13,279,531
	P	**146,041,727**	P	128,355,296

22. EMPLOYEE BENEFITS

22.1 Employee Benefits

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

	Note		2021		2020
Salaries and wages		**P**	**465,733,753**	P	449,284,595
Post-employment defined benefit	22.2		**29,430,175**		32,193,020
Social security and medical benefits			**11,772,777**		11,315,926
Others			**434,091**		507,388
		P	**507,370,796**	P	493,300,929

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

22.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

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

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

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2021 and 2020.

The amounts of post-employment defined benefit asset recognized in the statements of financial position are presented as part of Other Resources (see Note 13) are as follows:

		2021		2020
Present value of obligation	**P**	**490,440,156**	P	407,474,352
Fair value of plan assets	**(**	**513,819,101)**	(	469,370,129)
	(	**23,378,945)**	(	61,895,777)
Effect of asset ceiling		**1,121,755**		3,487,698
	(P	**22,257,190)**	(P	58,408,079)

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

		2021		2020
Balance at beginning of year	P	**407,474,352**	P	441,869,976
Current service cost		**29,430,175**		32,193,020
Interest cost		**15,850,752**		23,065,613
Remeasurements – actuarial losses (gains) arising from:				
Changes in financial assumptions		**47,572,238**	(	30,804,822)
Experience adjustments		**9,508,787**	(	30,345,065)
Changes in demographic assumptions		**38,792**		-
Transfer from the plan	(	**3,529,102)**		-
Benefits paid	(	**15,905,838)**	(	28,504,370)
Balance at end of year	**P**	**490,440,156**	P	407,474,352

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

		2021		2020
Balance at beginning of year	P	**469,370,129**	P	439,167,829
Interest income		**18,645,629**		23,281,034
Return on plan assets (excluding amounts included in net interest)		**5,899,438**	(	6,736,717)
Transfer from the plan	(	**3,529,102)**		-
Benefits paid	(	**15,905,838)**	(	28,504,370)
Contributions		**39,338,845**		42,162,353
Balance at end of year	**P**	**513,819,101**	P	469,370,129

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.

		2021		2020
Placements in debt instruments:				
Government bonds	**P**	**244,295,487**	P	219,150,718
Corporate bonds		**95,889,692**		121,577,220
Cash and cash equivalents		**36,316,491**		37,781,598
Unit investment trust funds (UITF)		**112,305,777**		81,396,345
Loans and other receivables		**6,256,904**		105,805
Equity instruments		**11,115,114**		4,658,022
Other properties		**7,639,636**		4,700,421
Balance at end of year	**P**	**513,819,101**	P	469,370,129

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

Actual return on plan assets amounted to P24,545,067 and P16,544,317 in 2021 and 2020, respectively.

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

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

	Notes	2021	2020
Recognized in profit or loss:			
Current service cost	22.1	**P 29,430,175**	P 32,193,020
Net interest income		**(2,794,877)**	(215,421)
Interest on effect of the asset ceiling		**135,671**	-
		P 26,770,969	P 31,977,599
Recognized in other comprehensive income (loss):			
Actuarial gains (losses) arising from changes in:			
- financial assumptions		**(P 47,572,238)**	P 30,804,822
- experience adjustment		**(9,508,787)**	30,345,065
- demographic assumptions		**(38,792)**	-
Effect of asset ceiling		**2,501,614**	(3,487,698)
Return on plan assets (excluding amounts included in net interest expense)		**5,899,438**	(6,736,717)
	18.2	**(48,718,765)**	50,925,472
Deferred tax income (expense)	24.1	**12,179,691**	(15,277,642)
Effect of the change in income tax rate	24.1	**(3,461,583)**	-
		(P 40,000,657)	P 35,647,830

Current service cost is presented in the statements of income under Employee Benefits while net interest income and interest on effect of the asset ceiling are classified as Others under Interest Expense account in the statements of income.

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

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

	2021	2020
Discount rates	**5.04%**	3.89%
Salary increase rate	**7.43%**	5.51%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 26 and 24 for males and females, respectively. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of interpolated yields of government bonds with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with Retirement Plan

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

(i) Investment and Interest Risks

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

(ii) Longevity and Salary Risks

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

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described as follows:

(i) Sensitivity Analysis

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

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
December 31, 2021			
Discount rate	**+/- 1%**	**(P 14,299,537)**	**P 15,199,465**
Salary increase rate	**+/- 1%**	**15,155,829**	**(14,530,851)**
December 31, 2020			
Discount rate	+/- 1%	(P 10,943,828)	P 11,557,366
Salary increase rate	+/- 1%	11,544,323	(11,140,727)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of assets as of December 31, 2021 and 2020 consists of debt instruments and UITF, although the Bank also invests in cash and cash equivalents, loans and other receivables, equity securities and other properties.

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

(iii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by P23.4 million based on the latest actuarial valuation as of December 31, 2021. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 10 years’ time when a significant number of employees is expected to retire.

The Bank expects to make contribution of P43.0 million to the plan during the next financial year.

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

		2021		2020
Within one year	**P**	**183,812,351**	P	152,878,917
More than one year to five years		**379,030,622**		319,428,586
More than five years		**209,314,445**		146,685,948
	P	**772,157,418**	P	618,993,451

23. RELATED PARTY TRANSACTIONS

The summary of the Bank's transactions with its related parties as of and for the years ended December 31, 2021 and 2020 are as follows (amounts in thousands):

Related Party Category	Notes	2021 Amount of Transaction	2021 Outstanding Balance	2020 Amount of Transaction	2020 Outstanding Balance
BDO Unibank:					
Dividends declared	23.1(a)	P 800,000	P -	P 700,000	P -
Bills payable	23.1(b)	150,000	-	2,100,000	-
Interest expense	23.1(b)	7	-	396	-
Due from other banks (net of withdrawals)	23.1(c)	436,215	529,436	(9,671)	93,221
Interest income	23.1(c)	268	-	404	-
Lease transactions	23.1(d)				
Right-of-use assets		125,303	145,586	7,496	55,804
Lease liabilities		(85,071)	147,117	(30,033)	58,235
Depreciation expense		35,521	-	33,391	-
Interest expense		3,812	-	4,600	-
Rental		930	-	-	-
Management services	23.1(e)	20,072	-	14,927	-
Trust fee	23.1(f)	64,086	-	64,107	-
Derivative transactions	23.1(g)				
Derivative assets					
Buy: USD/ PHP		$ 970,500	$ 9	$ 219,000	$ -
Buy USD/ AUD		137		1,107	
Buy USD/ EUR		-	-	239	-
Derivative liabilities					
Buy: PHP/ USD		1,000,500	604	209,150	30,000
Buy EUR/ USD		9,259	-	1,358	-
Buy AUD/ USD		2,016	-	537	-
Buy SGD/ USD		1,046	-	-	-
Buy JPY/ USD		264	-	-	-
FX Spot transactions					
Buy PHP/ USD		4,000	-	1,000	-
Buy USD/ PHP		64,000	-	-	-
Entity under common ownership:					
Deposit liabilities (net of withdrawals)	23.1(c)	(P 53,924)	P 116,284	P 62,921	P 170,208
Interest expense	23.1(c)	620	313	1,148	20
Rental	23.1(d)	41	-	81	-
Trust fee	23.1(f)	97	-	198	-
Insurance	23.1(h)	493	-	523	-
Other transactions – Loans	23.1(i)	(140,467)	15,039	140,506	155,506
Key management personnel compensation	23.2	148,396	-	157,466	-

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

23.1 Nature of Related Party Transactions

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

(a) On July 19, 2021, the BOD approved dividends amounting to P800,000,000 (or P369.52 per share for common stock). The dividends were paid on November 8, 2021. On July 20, 2020, the BOD approved dividends amounting to P700,000,000 (or P323.33 per share for common stock). The dividends were paid on November 6, 2020 (see Note 18.4).

(b) In 2021 and 2020, the Bank entered into interbank bills payable with BDO Unibank. There were no outstanding bills payable from this transaction. Interest expense recognized amounting to P6,901 and P396,181 for 2021 and 2020, respectively, and is presented as part of Interest expense on Bills payable in the statements of income.

(c) The Bank maintains deposits with BDO Unibank which are included as part of Due from Other Banks account in the statements of financial position (see Note 6.2). The interest rates on these deposits ranged from 0.00% to 0.05% and 0.00% to 0.13% per annum in 2021 and 2020, respectively. Interest income earned amounting to P267,566 and P403,600 for 2021 and 2020, respectively, and is presented as part of Interest income on Due from BSP and Other Banks in the statements of income.

The Bank holds demand deposits from BDO Securities Corporation, an entity under common ownership, with annual interest rates at 0.38% to 1.00% and 0.50% for 2021 and 2020, respectively. Interest expense recognized amounted to P619,606 with outstanding balance of P313,175 and P1,148,670 with outstanding balance of P20,430 in 2021 and 2020, respectively. Interest expense is presented as part of Interest Expense on Deposit Liabilities in the statements of income while the outstanding balance is presented as part of Deposit Liabilities in the statement of financial position (see Note 14).

(d) The Bank occupied rental spaces with BDO Strategic Holdings Inc. Total rentals amounting to P41,115 and P80,640 in 2021 and 2020, respectively, is included as part of Occupancy under Other Expenses account in the statements of income. There were no outstanding payable as of December 31, 2021 and 2020.

In 2021, the Bank entered to renew lease agreement with BDO Unibank for its Main Office, Corporate Center Ortigas Office and Greenhills Lounge for a monthly rental of P2,333,036. The lease term is for a period of five years and is payable in cash. Other lease agreement for the Bank's lounges remain outstanding in 2021 for a total monthly rental of P1,270,807.

Under PFRS 16, the Bank, as a lessee, recognized right-of-use assets related to lease of space from BDO Unibank amounting to P145,586,151 and P55,804,275 as of December 31, 2021 and 2020, respectively, which is presented as part of Bank Premises, Furniture, Fixtures and Equipment account (see Note 11). Depreciation expense and amortization of the right-of-use assets arising from this transaction amounting to P35,520,712 and P33,391,474 in 2021 and 2020, respectively, is presented as part of Depreciation and amortization under Other Expenses account in statements of income. Total interest expense on lease liability amounting to P3,811,720 and P4,600,095 in 2021 and 2020, respectively, is included as part of Others under Interest Expense account in the statements of income. Outstanding balance arising from these transactions amounted to P147,117,319 and P58,235,085 as of December 31, 2021 and 2020, respectively, and is included as part of Lease liabilities under Accrued Expenses and Other Liabilities (see Note 17).

The expenses relating to short-term leases amounted to P930,000 as part of Occupancy under Other Expenses account in the 2021 statement of income (see Note 12). No similar transaction was made in 2020.

(e) In March 2012, the BSP approved the outsourcing of several functions to BDO Unibank. The arrangement will allow the Bank to tap the resources and expertise of BDO Unibank in the areas covered by the new agreement, specifically in the Bank's asset management, central operations, human resources management, information technology, internal audit services and risk management. The total expense incurred pertaining to this contract is presented as part of Service, Management and Professional Fees under Other Expenses account in the 2021 and 2020 statements of income, respectively. As of December 31, 2021 and 2020, there are no outstanding liabilities in relation to the agreement.

(f) The trust operation of the Bank entered into an agreement with trust operation of BDO Unibank, a fund provider for UITF transactions. There were no outstanding balance from this transaction. The total trust fees earned amounting to P64,085,845 and P64,107,308 in 2021 and 2020, respectively (see Note 19).

BDO Life Assurance Company Inc., an entity under common ownership, entered into agreement with the Bank. The total trust fees earned amounting to P96,719 and P198,494 in 2021 and 2020, respectively. The total trust fees is presented as part of Trust fees under Other Income account in the statements of income (see Note 19).

(g) In 2021 and 2020, the Bank entered into currency forward transactions with BDO Unibank. The outstanding derivative assets and liabilities are shown as part of Financial assets at FVTPL under Trading and Investment Securities account and Derivative Financial Liabilities account in statements of financial position (see Notes 7 and 16).

(h) The Bank pays for the group life insurance of its employees and life & accident insurance of enrolled qualified remitters to BDO Life Assurance Company Inc. Total amount paid is included as part of Insurance under Other Expenses account in the statements of income. The total insurance amounted to P493,153 and P523,139 in 2021 and 2020, respectively.

(i) In 2021 and 2020, the Bank granted a secured, interest-bearing loan amounting to P15,000,000 for a term of one year to a related party. The same loan was renewed in 2021 for another one year. The loan bears an annual interest of 3.25% and 3.68% in 2021 and 2020, respectively.

In 2020, the Bank also granted an unsecured, interest-bearing loan amounting to P140,000,000 for a term of one year to another related party. The loan bears an annual interest of 6.75%. This was fully paid in 2021.

The mentioned loans to related parties were substantially the same terms as loans granted to other individuals and businesses of comparable risks. The outstanding balance of the loans are presented as part of Loans and Receivables account in the statements of financial position [see Notes 10 and 29(g)].

23.2 Key Management Personnel Compensation

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

		2021		2020
Short-term benefits	**P**	**136,605**	P	139,534
Post-employment benefits		**11,791**		17,932
	P	**148,396**	P	157,466

24. TAXES

24.1 Current and Deferred Taxes

On March 26, 2021, R.A. No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Bank:

- regular corporate income tax (RCIT) rate was reduced from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return (ITR) of the Company, would be lower by P14,460,926 than the amount presented in the 2020 financial statements and such amount was charged to 2021 profit or loss.

In 2021, the recognized net deferred tax assets as of December 31, 2020 were remeasured to 25%. This resulted in a decline in the recognized deferred tax asset in 2020 by P1,876,729. Additional tax income amounting to P1,584,854 was recognized in the 2021 profit or loss while additional tax expense of P3,461,583 in other comprehensive income.

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

	Notes	2021	2020
Reported in profit or loss:			
RCIT at 25% in 2021 and 30% in 2020 - Regular Banking Unit (RBU)		**P 155,796,751**	P 166,880,487
Final tax at 20% and 10%		**105,595,348**	116,136,530
RCIT at 25% in 2021 and 30% in 2020 - Foreign Currency Deposit Unit (FCDU)		**12,127,767**	6,650,622
Adjustment in 2020 income taxes due to change in income tax rate		**(14,460,926)**	-
		259,058,940	289,667,639
Deferred tax expense relating to origination and reversal of temporary differences		**6,184,472**	820,258
Effect of the change in income tax rate		**(1,584,854)**	-
		4,599,618	820,258
		P 263,658,558	P 290,487,897
Reported in other comprehensive income:			
Deferred tax expense (income) related to accumulated actuarial gains and losses	18.2, 22.2	**(P 12,179,691)**	P 15,277,642
Effect of the change in income tax rate	22.2	**3,461,583**	-
		(P 8,718,108)	P 15,277,642

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

In 2021 and 2020, the Bank continued to claim itemized deductions. The Bank is also subject to percentage and other taxes, which consist principally of gross receipts tax or GRT, presented as part of Taxes and Licenses in the statements of income.

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

	2021	2020
Tax on pretax profit at 25% in 2021 and 30% in 2020	**P 307,097,235**	P 389,491,126
Adjustment for income subjected to lower tax rates	**(22,247,644)**	(36,311,197)
Effect of the change in income tax rate	**(16,045,780)**	-
Tax effects of:		
Income from FCDU	**(125,429,187)**	(171,272,911)
Non-deductible expenses	**80,339,677**	124,500,823
Expenses (income) exempted from income taxes	**43,086,226**	(10,008,002)
Recognized deferred tax assets on retirement	**(3,141,969)**	(5,911,942)
	P 263,658,558	P 290,487,897

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

	Statements of Financial Position 2021	Statements of Financial Position 2020	Statements of Income 2021	Statements of Income 2020	Statements of Comprehensive Income 2021	Statements of Comprehensive Income 2020
Deferred tax assets:						
Lease liabilities	**P 43,976,777**	P 19,987,572	**(P 23,989,205)**	P 9,981,575	**P -**	P -
Post-employment benefit obligation	**29,487,604**	20,769,496	**-**	-	**(8,718,108)**	15,277,642
Unamortized past service cost	**15,264,912**	22,428,697	**7,163,785**	(13,592,796)	**-**	-
Deferred tax liabilities:						
Right-of-use assets	**(43,537,795)**	(19,122,830)	**24,414,965**	(10,100,145)	**-**	-
Post-employment benefit obligation	**(29,812,636)**	(32,802,563)	**(2,989,927)**	14,531,624	**-**	-
Deferred tax assets - net	**P 15,378,862**	P 11,260,372				
Deferred tax expense (income)			**P 4,599,618**	P 820,258	**(P 8,718,108)**	P 15,277,642

The Bank is subject to MCIT which is computed at 2% of gross income, as defined under tax regulations, or RCIT, whichever is higher. The Bank is subject to RCIT in 2021 and 2020 since RCIT was higher than the MCIT.

The Bank did not set up deferred tax assets on the allowance for impairment amounting to P30,913,267 with tax effect of P7,728,317 in 2021 and P36,338,368 with tax effect of P10,901,510 in 2020 since management believes that the related deferred tax assets will not be utilized in the subsequent reporting periods.

24.2 Supplemental Information Required By the Bureau of Internal Revenue

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

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

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

25. TRUST OPERATIONS

As of December 31, 2021 and 2020, the following cash, securities and other properties held by the Bank in fiduciary or agency capacity for a fee amounting to P1,071,314,094 and P948,055,967, respectively, presented as Trust Fees under Service Charges, Fees and Commissions in the statements of income (see Note 19) for its customers are not included in the Banking statements of financial position since these are not resources of the Bank [see Note 29(h)]:

		2021		2020
Cash	**P**	**11,055,459,363**	P	15,354,844,795
Investments		**527,327,915,496**		479,317,223,116
Real estate		**5,444,547,905**		5,310,539,295
Loans and other receivables		**2,046,261,042**		1,750,552,776
Others		**1,974,784,291**		2,973,378,685
	P	**547,848,968,097**	P	504,706,538,667

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

26. COMMITMENTS AND CONTINGENT LIABILITIES

26.1 Litigations

On March 15, 2011, the BIR issued RR No. 4-2011 regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

RR No. 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

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

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR No. 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR No. 4-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 25, 2018, the RTC declared RR No. 4-2011 as null and void. The writs of preliminary injunction issued by the RTC on April 25, 2015 and February 28, 2018 were also made permanent, thereby enjoining Department of Finance (DOF) and BIR from implementing RR No. 4-2011 and prohibiting them from issuing a preliminary assessment notice or final assessment notice, or deciding any administrative matter pending before it, according to or in relation to said regulation.

On July 10, 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari ("Motion for Extension"). The Supreme Court granted the Motion for Extension.

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

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

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

1. Land Bank of the Philippines' *Comment (On Petition for Review on Certiorari)* dated 24 July 2019;

2. UOBP Collections, Inc.'s *Comment [To: Petition for Review on Certiorari dated 01 August 2018]* dated 19 July 2019;

3. Bank of the Philippine Islands and BPI Direct Savings Bank, Inc.' s *Comment (to the Petition for Review dated 01 August 2018)* dated 1 April 2015; and,

4. Development Bank of the Philippines' *Comment to the Petition for Review on Certiorari (Dated 01 August 2018)* dated 12 July 2019.

On September 30, 2020, the Supreme Court issued a Resolution requiring Petitioners DOF and the BIR to file their Reply to the Banks' comments within 10 days from notice.

The Secretary of Finance and Commissioner of Internal Revenue have filed their Consolidated Reply dated March 30, 2021.

The case remains pending as of December 31, 2021.

26.2 Others

In the normal course of its operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the Banking financial statements [see Note 19 (h)]. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become known and quantifiable.

As of December 31, 2021, the Bank's management believes that losses, if any, from the commitments and contingencies will not have a material effect on the Bank's financial statements.

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

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

	2021			2020		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Resources						
Due from BSP	P 2,103,787	P -	P 2,103,787	P 3,176,953	P -	P 3,176,953
Due from other banks	3,115,733	-	3,115,733	1,071,420	-	1,071,420
Financial assets at FVTPL	1,068,620	3,849,074	4,917,694	659,100	2,354,202	3,013,302
Financial assets at FVOCI	596,185	7,460,806	8,056,991	3,370,935	8,833,938	12,204,873
Held-to-collect investments*	1,816,758	12,339,528	14,156,286	3,085,049	12,557,525	15,642,574
Loans and other receivables*	2,235,149	2,765,569	5,000,718	4,865,690	1,268,701	6,134,391
Other resources	393,841	981	394,822	36,203	871	37,074
	11,330,073	26,415,958	37,746,031	16,265,350	25,015,237	41,280,587
Allowance for credit and impairment losses	(1,178)	(33,927)	(35,105)	(7,685)	(39,430)	(47,115)
	11,328,895	26,382,031	37,710,926	16,257,665	24,975,807	41,233,472
Non-financial Resources						
Bank premises, furnitures, fixtures and equipment - net	-	212,477	212,477	-	97,429	97,429
Others	10,910	61,473	72,383	83,496	21,995	105,491
	10,910	273,950	284,860	83,496	119,424	202,920
	P 11,339,805	P 26,655,981	P 37,995,786	P 16,341,161	P 25,095,231	P 41,436,392
Financial Liabilities						
Deposit liabilities	P 26,787,645	P 122,984	P 26,910,629	P 32,011,189	P 575,939	P 32,587,128
Derivative liabilities	995,164	2,316,114	3,311,278	605,482	1,549,376	2,154,858
Bills payable	1,087,955	-	1,087,955	-	-	-
Other liabilities	346,602	130,093	476,695	373,015	31,940	404,955
	29,217,366	2,569,191	31,786,557	32,989,686	2,157,255	35,146,941
Non-financial Liabilities						
Accrued taxes	107,964	-	107,964	113,840	-	113,840
Withholding taxes	32,351	-	32,351	28,939	-	28,939
Other liabilities	-	761	761	109	1,098	1,207
	140,315	761	141,076	142,888	1,098	143,986
	P 29,357,681	P 2,569,952	P 31,927,633	P 33,132,574	P 2,158,353	P 35,290,927

**Gross of allowance for credit and impairment losses*

28. CONTINUING IMPACT OF COVID-19 PANDEMIC

The unprecedented impact of the COVID-19 pandemic and the government's stringent mobility/quarantine measures to contain the virus have affected economic conditions and consequently, the Bank's business operations.

The following were the actions undertaken by the Bank's business to mitigate such impact:

- activated Business Continuity to enable dual-site processing capabilities or team redundancies in the event one site becomes contaminated. Senior management likewise split among sites and skeletal crews;

- implemented new occupational safety and health standards to provide a safe and sanitized environment for both clients and employees through the strict observance of health and safety protocols, retrofitting of workspaces, and periodic testing for employees to minimize infection within the workplace;

- performed review of loan and investments accounts to assess vulnerable sectors, and recognize additional allowance for impairment;

- complied with *Bayanihan to Heal as One Act* (*Bayanihan Act I)* and *Bayanihan to Recover as One Act* (*Bayanihan Act II)* by granting loan moratoria to qualified clients under the said laws in 2020; and,

- disposal of investment securities at amortized cost to strengthen the liquidity position of the Bank.

Based on its prompt, decisive actions to adapt to and address pandemic-related issues in 2020, the Bank believes that it would continue to see stable operations and report positive results with the reopening of the economy. Overall, the COVID-19 pandemic still has no significant impact to the Bank. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern.

29. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) Selected Financial Performance Indicators

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

	2021	2020
Return on average equity		
$\dfrac{\text{Net profit}}{\text{Average total capital accounts}}$	**15.5%**	17.4%

	2021	2020
Return on average common equity		
$\frac{\text{Net profit}}{\text{Average common equity}}$	**15.5%**	17.4%
Return on average resources		
$\frac{\text{Net profit}}{\text{Average total resources}}$	**2.5%**	2.6%
Net interest margin		
$\frac{\text{Net interest income}}{\text{Average interest-earning resources}}$	**2.9%**	2.8%
Basel III leverage ratio*		
$\frac{\text{Capital measure}}{\text{Exposure measure}}$	**14.9%**	13.9%
Liquidity coverage ratio*		
$\frac{\text{Total stock of high-quality liquid assets}}{\text{Total net cash outflows}}$	**138.6%**	129.1%
Net stable funding ratio*		
$\frac{\text{Available stable funding}}{\text{Required stable funding}}$	**118.7%**	128.8%

**Computed using balances prepared under PFRS*

(b) *Capital Instruments Issued*

As of December 31, 2021 and 2020, the Bank has only one class of capital stock, which is common shares.

As of December 31, 2021 and 2020, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which may include instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) *Secured Liabilities and Assets Pledged as Security*

In 2021 and 2020, the Bank did not have any secured liabilities or assets pledged as security.

(d) Significant Credit Exposures for Loans

The Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL follows (amounts in thousands):

	2021			2020		
		Amount	**Percentage**		Amount	Percentage
Arts, entertainment and recreation	**P**	**999,920**	**29.0%**	P	1,033,225	32.3%
Real estate activities		**791,730**	**22.9%**		264,615	8.3%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use		**730,767**	**21.2%**		-	-
Wholesale and retail trade		**495,677**	**14.4%**		-	-
Information and communication		**185,935**	**5.4%**		188,559	5.9%
Accommodation and food service activities		**70,070**	**2.0%**		-	-
Financial and insurance activities		**60,179**	**1.7%**		760,684	23.8%
Human health and social work activities		**50,018**	**1.4%**		-	-
Manufacturing		**20,017**	**0.6%**		-	-
Professional, scientific and technical services		**10,081**	**0.3%**		-	-
Education		**2,013**	**0.1%**		-	-
Electricity, gas, steam and air-conditioning supply		**-**	**-**		140,473	4.4%
Construction		**-**	**-**		87,504	2.7%
Other service activities		**35,789**	**1.0%**		723,337	22.6%
	P	**3,452,196**	**100%**	P	3,198,397	100%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

(e) Credit Status of Loans

In 2021 and 2020, all of the Bank's outstanding loans were classified as performing loans.

(f) Analysis of Loan Portfolio as to Type of Security

The breakdown of receivable from customers, gross of allowance, as to security are disclosed as follows.

	2021	2020
Secured:		
Real estate mortgage	**P 1,560,635,324**	P -
Hold-out deposits	**331,040,632**	207,867,506
Other securities	**1,427,476,892**	876,748,464
	3,319,152,848	1,084,615,970
Unsecured	**133,043,261**	2,113,781,304
	P 3,452,196,109	P3,198,397,274

(g) Information on Related Party Loans

The following information relates to the loans, other credit accommodations and guarantees granted to related parties as of December 31, 2021 and 2020.

	2021	2020
Total outstanding related party loan	**P 15,039,271**	P 155,506,273
% of related party loan to total loan portfolio	**0.43%**	4.86%
% of unsecured related party loans to total related party loans	**0.00%**	4.39%
% of past due related party loans to total related party loans	**0.00%**	0.00%
% of non-performing related party loans to total related party loans	**0.00%**	0.00%

(h) Contingencies and Commitments Arising from Off-balance Sheet Items

The summary of the Bank's commitments and contingent accounts arising from transactions not given recognition in the statements of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2021 and 2020 is as follows:

	Notes	**2021**	2020
Trust department accounts	25	**P 547,848,968,097**	P 504,706,538,667
Cross currency swap receivable	16	**24,676,214,440**	20,297,628,880
Cross currency swap payable	16	**23,982,081,250**	18,719,284,875
Interest rate swap receivable	16	**2,500,000,000**	3,701,575,000
Interest rate swap payable	16	**2,500,000,000**	3,701,575,000
Forward exchange bought	16	**869,902,387**	76,500,991
Forward exchange sold	16	**3,002,532,719**	4,267,835,628
Spot exchange bought		**28,039,316**	268,622,514
Spot exchange sold		**28,039,316**	268,622,514
Interest rates futures-sold	16	**1,661,420,000**	240,282,000
Nondeliverable forwards	16	**-**	545,500,000

Supplementary Management Disclosures

(Amounts in Philippine Pesos)

On Capital Structure and Capital Adequacy

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

	2021	2020
Paid-up common stock	2,165,000,000	2,165,000,000
Retained earnings	3,787,962,610	3,612,960,416
Other comprehensive income	74,986,157	281,558,559
Sub-total	6,027,948,767	6,059,518,975
Less deduction:		
Deferred income tax	16,900,474	20,179,134
Other intangible assets	21,183,555	16,827,907
Defined benefit pension fund asset	25,616,959	—
Total CET 1 capital	5,964,247,779	6,022,511,934

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

	2021	2020
Paid-up common stock	2,165,000,000	2,165,000,000
Retained earnings	3,787,962,610	3,612,960,416
Other comprehensive income	74,986,157	281,558,559
Sub-total	6,027,948,767	6,059,518,975
Less deduction:		
Deferred income tax	16,900,474	20,179,134
Other intangible assets	21,183,555	16,827,907
Defined benefit pension fund asset	25,616,959	—
Total Tier 1 capital	5,964,247,779	6,022,511,934

C. Tier 2 Capital and Breakdown of Components

	2021	2020
General loan loss provision	45,076,648	50,095,524
Total Tier 2 capital	45,076,648	50,095,524

D. Computation of Qualifying Capital

	2021	2020
Tier 1 capital	6,027,948,767	6,059,518,975
Tier 2 capital	45,076,648	50,095,524
Gross qualifying capital	6,073,025,415	6,109,614,498
Less: Required deductions	63,700,987	37,007,041
Total qualifying capital	6,009,324,428	6,072,607,457

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

E. Capital Conservation Buffer

	2021	2020
Common Equity Tier 1 Capital	5,964,247,779	6,022,511,934
Less: CET 1 requirement	1,513,029,046	1,362,169,968
Capital Conservation Buffer	4,451,218,733	4,660,341,966
Capital Conservation Buffer Ratio	17.65%	20.53%

F. Capital Requirements for Credit Risk

	2021	2020
On -Balance Sheet	13,383,663,178	12,982,546,991
Off -Balance Sheet	—	—
Counterparty (Trading Book)	4,141,218,118	3,494,420,003
Total	17,524,881,296	16,476,966,995
Capital Requirements	1,752,488,130	1,647,696,699

G. Capital Requirements for Market Risk

	2021	2020
Interest Rate Exposures	3,244,990,724	1,470,183,799
Foreign Exchange Exposures	424,655,107	867,727,634
Total	3,669,645,830	2,337,911,432
Capital Requirements	366,964,583	233,791,143

H. Capital Requirements for Operational Risk

	2021	2020
Basic Indicator	4,022,623,646	3,887,954,371
Total	4,022,623,646	3,887,954,371
Capital Requirements	402,262,365	388,795,437

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

	2021	2020
Total Qualifying Capital	6,009,324,428	6,072,607,457
Credit risk-weighted assets	17,524,881,296	16,476,966,995
Market risk-weighted assets	3,669,645,830	2,337,911,432
Operational risk-weighted assets	4,022,623,646	3,887,954,371
Risk weighted assets	25,217,150,773	22,702,832,798
Total capital ratio	23.83%	26.75%
Tier 1 capital ratio	23.65%	26.53%
CET 1 ratio	23.65%	26.53%

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

	Per AFS	Adj - AFS to Regulatory	Regulatory Capital			
			CET 1	Tier 1	Tier 2	Qualifying
Common Stock	2,165,000,000		2,165,000,000	2,165,000,000		2,165,000,000
Surplus - Free/Reserve	3,827,988,685	(40,026,075)[a]	3,787,962,610	3,787,962,610		3,787,962,610
General Loan Loss Provisions		45,076,648[b]			45,076,648	45,076,648
Other Comprehensive Income						
Unrealized Fair Value G/L on AFS	163,627,451		163,627,451	163,627,451		163,627,451
Accumulated Actuarial G/L	(88,462,815)	(178,480)[c]	(88,641,295)	(88,641,295)		(88,641,295)
	6,068,153,321	4,872,093	6,027,948,767	6,027,948,767	45,076,648	6,073,025,415
Regulatory Adjustments/ Deductions						
Deferred Income Tax		(16,900,474)	(16,900,474)	(16,900,474)		(16,900,474)
Other Intangible Assets		(21,183,555)	(21,183,555)	(21,183,555)		(21,183,555)
Defined Benefit Pension Fund Asset		(25,616,959)	(25,616,959)	(25,616,959)		(25,616,959)
	6,068,153,321	(58,828,895)	5,964,247,779	5,964,247,779	45,076,648	6,009,324,428

(a)	Various adjustments	963,220
	Reclass from Reserve for GLLP to Tier 2 GLLP in CAR per Cir#1011	(40,989,295)
		(40,026,075)
(b)	General Loan Loss	4,087,353
	Reserve for GLLP	40,989,295
	Total Tier 2 GLLP	45,076,648
(c)	Various actuarial adjustments	(178,480)

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

	Regulatory Capital Ratios		
	CET 1	Tier 1	Qualifying
Components of Regulatory Ratios			
Regulatory Capital	5,964,247,779	5,964,247,779	6,009,324,428
Risk Weighted Assets	25,217,150,773	25,217,150,773	25,217,150,773
Computation of Regulatory Ratios			
Qualifying Capital / Risk Weighted Assets			23.83%
Tier 1 Capital / Risk Weighted Assets		23.65%	
CET 1 Capital / Risk Weighted Assets	23.65%		

On Credit Risk Exposures

On-Balance Sheet (BS) Assets

Type of Exposures	2021								
	Principal Amount	Exposures After CRM	RISK WEIGHTS						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand									
Checks and Other Cash Items									
Due from Bangko Sentral ng Pilipinas	2,103,786,530	2,103,786,530	2,103,786,530						2,103,786,530
Due from Other Banks	3,115,733,229	3,115,733,229		172,965,779	2,942,767,450		—		3,115,733,229
Financial Assets at FVTPL	—	—							—
Financial Assets at FVOCI	8,058,125,871	8,058,125,871	2,220,904,460	—	2,828,132,739		3,009,088,672		8,058,125,871
Held-to-Collect Investments	14,154,562,015	14,154,562,015	8,010,949,824	1,496,647,918	3,145,826,381		1,501,137,892		14,154,562,015
Unquoted Debt Securities Classified as Loans	—	—			—				—
Loans and Receivables	3,233,922,973	3,233,922,973					3,233,922,973		3,233,922,973
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	1,295,165,533	1,295,165,533	1,295,165,533						1,295,165,533
Sales Contract Receivable									
Real and Other Properties Acquired									
Other Assets	847,227,616	847,227,616					847,227,616		847,227,616
Total Exposures	32,808,523,768	32,808,523,768	13,630,806,347	1,669,613,698	8,916,726,570	—	8,591,377,153	—	32,808,523,768
Total Risk-weighted On-BS Assets Not Covered by CRM			13,630,806,347	1,669,613,698	8,916,726,570	—	8,591,377,153		32,808,523,768
Total Risk-weighted On-BS Assets Covered by CRM*			218,273,135		—				218,273,135
Total Risk-weighted On-BS Assets			13,849,079,482	1,669,613,698	8,916,726,570	—	8,591,377,153	—	33,026,796,903
Computed Risk Weight/Capital Charge			—	333,922,740	4,458,363,285	—	8,591,377,153	—	13,383,663,178

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

On-Balance Sheet (BS) Assets

Type of Exposures	Principal Amount	Exposures After CRM	2020 RISK WEIGHTS 0%	20%	50%	75%	100%	150%	Total
Cash on Hand									
Checks and Other Cash Items									
Due from Bangko Sentral ng Pilipinas	3,176,953,168	3,176,953,168	3,176,953,168						3,176,953,168
Due from Other Banks	1,071,415,471	1,071,415,471		85,242,636	986,172,835		—		1,071,415,471
Financial Assets at FVTPL	—	—							—
Financial Assets at FVOCI	12,211,052,866	12,211,052,866	4,794,498,103	—	3,842,311,044		3,574,243,718		12,211,052,866
Held-to-Collect Investments	15,622,643,822	15,622,643,822	8,018,682,995	1,225,738,430	6,378,222,397		—		15,622,643,822
Unquoted Debt Securities Classified as Loans	—	—			—				—
Loans and Receivables	3,054,282,034	3,054,282,034					3,054,282,034		3,054,282,034
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	2,593,669,285	2,593,669,285	2,593,669,285						2,593,669,285
Sales Contract Receivable									
Real and Other Properties Acquired									
Other Assets	488,471,888	488,471,888					488,471,888		488,471,888
Total Exposures	38,218,488,535	38,218,488,535	18,583,803,552	1,310,981,066	11,206,706,277	—	7,116,997,640	—	38,218,488,535
Total Risk-weighted On-BS Assets Not Covered by CRM			18,583,803,552	1,310,981,066	11,206,706,277	—	7,116,997,640	—	38,218,488,535
Total Risk-weighted On-BS Assets Covered by CRM*			144,115,240		—				144,115,240
Total Risk-weighted On-BS Assets			18,727,918,792	1,310,981,066	11,206,706,277	—	7,116,997,640	—	38,362,603,775
Computed Risk Weight/Capital Charge			—	262,196,213	5,603,353,138	—	7,116,997,640	—	12,982,546,991

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

Off-Balance Sheet (BS) Assets

		2021						
		Risk Weights						
Type of Exposures	Credit Equivalent	0%	20%	50%	75%	100%	150%	Total
Guarantees Issued								
Transaction-related contingencies								
Commitments with an original maturity of up to one (1) year								
	—	—	—	—	—	—	—	—
Computed Risk Weight/Capital Charge		—	—	—	—	—	—	—

Off-Balance Sheet (BS) Assets

		2020						
		Risk Weights						
Type of Exposures	Credit Equivalent	0%	20%	50%	75%	100%	150%	Total
Guarantees Issued								
Transaction-related contingencies								
Commitments with an original maturity of up to one (1) year								
	—	—	—	—	—	—	—	—
Computed Risk Weight/Capital Charge		—	—	—	—	—	—	—

On External Credit Assessments

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

On Interest Rate Risk in the Banking Books

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

Disclosure Statements on the ff:

Eligible Credit Risk Mitigants including Credit Derivatives

Credit Protection Given by the Bank

Structured Products

Hedging and Continuing Effectiveness of Hedges

Securitization Structures

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

On Basel III Leverage Ratio

A. Calculation of BASEL III Leverage Ratio

	2021	2020
Capital Measure	5,964,247,779	6,022,511,934
Total On-balance sheet exposures[1/]	33,476,122,162	36,453,061,792
Total Derivatives Exposures	5,182,030,272	4,320,722,289
Total Securities Financing Transactions (SFT)	1,295,107,973	2,593,323,509
Off-balance Sheet Exposures	2,803,932	26,903,485
Total Exposure Measure	39,956,064,339	43,394,011,075
BASEL III Leverage Ratio	14.93%	13.88%

1/ *Gross of general loan loss provision (GLLP) excluding derivatives and SFTs, and deductions from BASEL III Tier 1 capital are excluded from the leverage ratio exposure measure*

B. Summary Comparison Table

	2021	2020
Total consolidated assets as per published financial statements[1/]	38,004,001,517	41,391,935,418
Adjustments for derivatives financial instruments	2,008,872,524	2,002,587,684
Adjustments for securities financial transactions	—	—
Adjustments for off-balance sheet items	2,803,932	26,903,485
Other adjustments	(59,613,634)	(27,415,512)
Leverage ratio exposure	39,956,064,339	43,394,011,075

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

C. Common Disclosure Table

	2021	2020
On-balance sheet items[1/]	33,539,823,149	36,490,068,833
Asset amounts deducted in determining BASEL III Tier 1 Capital	(63,700,987)	(37,007,041)
Total on-balance sheet exposures (excluding derivatives & SFTs)	33,476,122,162	36,453,061,792
Replacement cost associated with all derivatives transactions	3,173,157,748	2,318,134,605
Add-on amounts for Potential Future Exposure associated with all derivative transactions	2,008,872,524	2,002,587,684
Total derivative exposures	5,182,030,272	4,320,722,289
Gross SFT assets	1,295,107,973	2,593,323,509
Total securities financing transaction exposures	1,295,107,973	2,593,323,509
Off-balance sheet exposure at gross notional amount	28,039,316	269,034,850
Off-balance sheet items	2,803,932	26,903,485
Tier 1 capital	5,964,247,779	6,022,511,934
Total exposures	39,956,064,339	43,394,011,075
Basel III leverage ratio	**14.93%**	**13.88%**

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

On Basel III Net Stable Funding Ratio (NSFR)

	2021	2020
A. Available Stable Funding	**20,445,919,303**	**20,520,902,358**
Capital	6,068,938,062	6,099,952,184
Retail Deposits	11,814,065,496	9,533,796,394
Wholesale Deposits	2,562,915,745	4,887,153,780
Secured and Unsecured Funding	—	—
Other Liabilities and Equities	—	—
B. Required Stable Funding	**17,218,777,781**	**15,931,735,534**
NSFR High-Quality Liquid Assets (HQLA)	2,852,660,870	4,234,232,323
Deposits Held at other Financial Institutions	657,677,680	196,380,647
Performing Loans and Non-HQLA Securities	8,574,461,057	7,849,065,491
Other Assets	5,133,978,174	3,652,057,073
Off-Balance Sheet Exposures	—	—
C. Net Stable Funding Ratio (A/B)	**118.74%**	**128.81%**

On Liquidity Coverage Ratio (LCR)

	2021	2020
A. Total Stock of High-Quality Liquid Assets	**12,144,045,487**	**20,851,724,322**
Stock of Level 1 Assets	9,766,973,399	18,701,795,443
Stock of Level 2 Assets	2,377,072,088	2,149,928,879
Total Stock of High Quality Liquid Assets	12,144,045,487	20,851,724,322
Adjustments for 40% Cap on Level 2 Assets	—	—
B. Total Net Cash Outflows	**8,763,680,140**	**16,156,029,020**
Total Expected Cash Outflows	14,224,070,158	22,284,391,252
Total Expected Cash Inflows Before Ceiling	5,460,390,018	6,128,362,232
Adjustments for 75% Ceiling on Cash Inflows	—	—
Total Expected Cash Inflows After Ceiling	5,460,390,018	6,128,362,232
C. Liquidity Coverage Ratio (A/B)	**138.57%**	**129.06%**

Corporate Information

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CUSTOMER LOUNGES

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To make an appointment, please contact the Customer Service Desk at +63 (2) 8840-2451 or BDOPrivateBank-CustomerService@pb.bdo.com.ph.

The 2021 Annual Report and the Financial Supplements can be viewed and downloaded online at www.bdo.com.ph/private-bank/financial-highlights.

BDO Private Bank, Inc. is regulated by the Bangko Sentral ng Pilipinas (BSP). For concerns and feedback, you may contact BDO Private Bank's Customer Service Desk at +63 (2) 8840-2451 or email bdoprivatebank-customerservice@pb.bdo.com.ph; the BDO Customer Contact Center at +63 (2) 8631-8000; or the BSP Consumer Assistance Desk at +63 (2) 8708-7087 or email consumeraffairs@bsp.gov.ph, with webchat at www.bsp.gov.ph.

BDO Private Bank