IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the **offering circular**), and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering circular. In accessing the offering circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES REFERRED TO HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY UNITED STATES ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: This offering circular is being sent at your request and by accepting the e-mail and accessing this offering circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of such offering circular by electronic transmission.

You are reminded that this offering circular has been delivered to you on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this offering circular to any other person.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET: The Pricing Supplement (as defined below) in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market in respect of such Notes and which channels for distribution of such Notes are appropriate. Any person offering, selling or recommending such Notes (a **distributor**) should take into consideration such target market; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) is responsible for undertaking its own target market assessment in respect of such Notes and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise none of the Lead Arranger (as defined below), the Dealers (as defined below) or any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS: If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", such Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**) or in the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) No 2017/1129 (as amended, the **Prospectus Regulation**). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling such Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling such Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

The materials relating to the offering of securities to which this offering circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of Standard Chartered Bank (the **Lead Arranger**) and Australia and New Zealand Banking Group Limited, Citigroup Global Markets Limited, Daiwa Capital Markets Singapore Limited, Deutsche Bank AG, Singapore Branch, Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Singapore Branch, J.P. Morgan Securities plc, Mizuho Securities Asia Limited, MUFG Securities EMEA plc, Nomura International plc, Standard Chartered Bank, UBS AG Singapore Branch (each a **Dealer**, and collectively, the **Dealers**), or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the Issuer (as defined in this offering circular) in such jurisdiction.

This offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently the Lead Arranger, the Dealers, any person who controls the Lead Arranger or any Dealer, or any director, officer, employee or agent of the Lead Arranger or any of the Dealers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this offering circular distributed to you in electronic format and the hard copy version available to you on request from the Lead Arranger and the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING CIRCULAR

BDO Unibank, Inc.

(Incorporated with limited liability in the Republic of the Philippines)

U.S.$5,000,000,000
Medium Term Note Programme

Under this U.S.$5,000,000,000 Medium Term Note Programme (the **Programme**), BDO Unibank, Inc. (the **Issuer** or the **Bank**), acting through its principal office in the Philippines, Hong Kong Branch, Singapore Branch or other foreign branch, as the case may be, may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The nominal size of the Programme was increased from U.S.$2,000,000,000 to U.S.$5,000,000,000 as of the date of this Offering Circular.

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$5,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Notes.

Application has been made to the Singapore Exchange Securities Trading Limited (**SGX-ST**) for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST (the **Official List**). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein or the relevant Pricing Supplement for the Notes. Admission to the Official List and quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement (the **Pricing Supplement**) which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Issuer may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

See "*Investment Considerations*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, S.A. (**Clearstream, Luxembourg**).

Each Tranche of Notes of each series (as defined in "*Form of the Notes*") to be issued in bearer form (**Notes**, comprising a **Series**) will initially be represented by either a temporary bearer global note (a **Temporary Bearer Global Note**) or a permanent bearer global note (a **Permanent Bearer Global Note** and, together with a Temporary Bearer Global Note, the **Bearer Global Notes**, and each a **Bearer Global Note**) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg. On and after the date (the **Exchange Date**) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) definitive bearer Notes of the same Series.

Registered Notes will initially be represented by a global note in registered form, without receipts or coupons, (a **Registered Global Note**) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of such common depositary.

The applicable Pricing Supplement will specify that definitive Notes will be made available in certain limited circumstances.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or with any U.S. securities laws and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws. See "*Subscription and Sale*".

This Offering Circular is an advertisement and is not a prospectus for the purpose of Regulation (EU) 2017/1129.

Lead Arranger

Standard Chartered Bank

Dealers

ANZ **Citigroup** **Daiwa** **Deutsche Bank** **Goldman Sachs** **HSBC** **ING**
J.P. Morgan **Mizuho Securities** **MUFG** **Nomura** **Standard Chartered Bank** **UBS**

The date of this Offering Circular is 13 March 2020.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances under which they were made, misleading. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the Programme and the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly. Neither the delivery of this Offering Circular or any Pricing Supplement nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer since the date hereof or thereof or the date upon which this Offering Circular has been most recently amended or supplemented or create any implication that the information contained herein or therein is correct as at any date subsequent to the date hereof or thereof or the date upon which this Offering Circular has been most recently amended or supplemented.

To the fullest extent permitted by law, none of the Dealers or the Lead Arranger accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Lead Arranger or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Lead Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No person is or has been authorised by the Issuer to give any information or to make any representation other than those contained in this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made by any other person, such information or representations must not be relied upon as having been authorised by the Issuer, the Lead Arranger (as defined herein) or the Dealers or the Trustee.

None of the Lead Arranger, the Dealers or the Trustee has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Lead Arranger, the Dealers, the Trustee or any of them as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, any of the Lead Arranger, the Dealers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Lead Arranger, the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date indicated in the document containing the same. The Lead Arranger, the Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Lead Arranger, the Dealers and the Trustee do not represent that this Offering

Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, any of the Lead Arranger, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Japan, Singapore, Hong Kong, the Philippines and the People's Republic of China, see "*Subscription and Sale*". If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Lead Arranger or any affiliate of the Lead Arranger is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Lead Arranger or such affiliate on behalf of the Issuer in such jurisdiction.

None of the Issuer, the Lead Arranger, the Dealers and the Trustee makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

There are restrictions on the offer and sale of the Notes in the United Kingdom. All applicable provisions of the Financial Services and Market Act 2000, as amended (including by the Financial Services Act 2012) (**FSMA**) with respect to anything done by any person in relation to the Notes in, from or otherwise involving the United Kingdom must be complied with. See "*Subscription and Sale*".

MiFID II PRODUCT GOVERNANCE / TARGET MARKET: The Pricing Supplement (as defined in the Offering Circular) in respect of any Notes may include a legend entitled "**MiFID II Product Governance**" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise none of the Lead Arranger, the Dealers or any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

PRIIPs / IMPORTANT—EEA AND UK RETAIL INVESTORS: If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**) and in the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) No 2017/1129 (as amended, the **Prospectus Regulation**). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) (SECURITIES AND FUTURES ACT):

Unless otherwise stated in the Pricing Supplement in respect of any Notes, all Notes issued or to be issued under the Programme are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

In connection with the offering of any Series of Notes, each Dealer is acting or will act for the Issuer in connection with the offering and no one else and will not be responsible to anyone other than the Issuer for providing the protections afforded to clients of that Dealer nor for providing advice in relation to any such offering.

THE NOTES BEING OFFERED OR SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION ("PHILIPPINE SEC") UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES AND ITS IMPLEMENTING RULES AND REGULATIONS (THE "SRC"). ANY FUTURE OFFER OR SALE OF THE NOTES WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

For a description of other restrictions, see "*Subscription and Sale*".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Parent Bank and the Bank's audited financial statements as at and for the years ended 31 December 2017, 2018 and 2019 included in this Offering Circular have been prepared in accordance with Philippine Financial Reporting Standards (**PFRS**). PFRS is substantially based on International Financial Reporting Standards. The Parent Bank's and the Bank's financial statements as at and for the years ended 31 December 2017, 2018 and 2019 were audited by Punongbayan & Araullo (**P&A**), independent auditors, in accordance with Philippine Standards on Auditing.

CERTAIN DEFINITIONS

Unless the context clearly indicates otherwise, any reference to the **Bank** refers to BDO Unibank, Inc. and its subsidiaries and associates on a consolidated basis, and **Parent Bank** refers to BDO Unibank, Inc. on an unconsolidated basis. The information contained in this Offering Circular relating to the Bank, its operations and those of its subsidiaries and associates has been supplied by the Bank, unless otherwise stated herein. To the best of its knowledge and belief, the Bank (which has taken all reasonable care to ensure that such is the case) confirms that, as at the date of this Offering Circular, the information contained in this Offering Circular relating solely to the Bank, its operations and those of its subsidiaries and associates is true and that there is no material misstatement or omission of fact which would make any statement in this Offering Circular misleading in any material respect and that the Bank hereby accepts full and sole responsibility for the accuracy of the information contained in this Offering Circular with respect to the same. Unless otherwise indicated, all information in this Offering Circular is as at the date of this Offering Circular. Neither the delivery of this Offering Circular nor any sale made pursuant to this Offering Circular shall, under any circumstances, create any implication that the information contained herein is correct as at any date subsequent to the date hereof or that there has been no change in the affairs of the Bank since such date. Neither the Lead Arranger nor the Dealers assume any liability for information supplied by the Bank in relation to this Offering Circular.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the **Philippines** are references to the Republic of the Philippines. All references to the **Government** herein are references to the Government of the Republic of the Philippines. All references to the **BSP** herein are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to **United States** or **U.S.** herein are to the United States of America, its territories and possessions, any State of the United States and the District of Columbia. All references to **Peso** and **₱** herein are to the lawful currency of the Philippines and all references to **U.S. Dollars** or **U.S.$** herein are to the lawful currency of the United States. All references to **S$** herein are to the lawful currency of the Republic of Singapore. All references to the **PRC** herein are references to the People's Republic of China. All references to **Renminbi**, **RMB** and **CNY** herein are to the lawful currency of the PRC. In addition, all references to **Macau** herein are to the Macau Special Administrative Region of the PRC, all references to **Mainland China** herein are to the PRC excluding Hong Kong and Macau and all references to **Greater China** are to the PRC including Hong Kong and Macau. Unless the context indicates otherwise, references to a particular **fiscal** year are to the Bank's financial year ended 31 December of such year.

This Offering Circular contains translations of certain amounts into U.S. Dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, Philippine Peso/U.S. Dollar exchange rates referred to in this Offering Circular are weighted average rates for the indicated period or on the applicable date, as relevant, for the purchase of U.S. dollars with Pesos published in the Reference Exchange Rate Bulletin by the BSP (the **BSP Rate**). No representation is made that the Peso, U.S. Dollar, or other currency amounts referred to herein could have been or could be converted into Pesos, U.S. Dollars, or any other currency, as the case may be, at this rate, at any particular rate or at all.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components. On 3 March 2020, the BSP Rate was ₱50.856 = U.S.$1.00.

ENFORCEABILITY OF CIVIL LIABILITIES

The Bank is organised under the laws of the Philippines. Substantially all of the directors and executive officers of the Bank are residents of the Philippines and a substantial portion of the assets of the Bank and the assets of such persons are located in the Philippines. As a result, it may not be possible for investors to effect service of process upon the Bank, or such directors and executive officers outside the Philippines, or to enforce judgments obtained against them outside the Philippines predicated upon civil liabilities of the Bank or such directors and executive officers under laws other than Philippine law.

The Philippines is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the **New York Convention**) but is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments.

The New York Convention governs the recognition and enforcement of arbitral awards in the Philippines covered by said Convention, likewise enshrined under Republic Act No. 9285, otherwise known as the *Alternative Dispute Resolution Act of 2004*, the law enacted to facilitate the enforcement of arbitral awards in the country. The Philippine Supreme Court further issued the *Special Rules of Court on Alternative Dispute Resolution* for the recognition and enforcement of foreign arbitral awards pursuant to the *Alternative Dispute Resolution Act of 2004*.

The recognition and enforcement of foreign judgments in the Philippines on the other hand is governed by the *1997 Rules of Civil Procedure*. Section 48 of Rule 39 of the *Rules of Civil Procedure* provides that a judgment or final order of a tribunal of a foreign country having jurisdiction to give the judgment or final order: (a) in case of a judgment or final order upon specific property, is conclusive upon the title to that property; and (b) in case of a judgment or final order against a person, is presumptive evidence of a right between the parties and their successors in interest by a subsequent title. In either case, the judgment or final order may be repelled if there is a defect relating to jurisdiction or notice to the other party, collusion, fraud or clear mistake of law or fact. In addition, Article 17 of the Civil Code of the Philippines provides that the judgment must not be contrary to laws that have for their object public order, public policy and good customs in the Philippines. Furthermore, Philippine courts have held that a foreign judgment is presumed to be valid and binding in the country from which it issues, until the contrary is shown, and the party contesting the foreign judgment has the burden of overcoming the presumption of its validity.

FORWARD-LOOKING STATEMENTS

The Issuer has included statements in this Offering Circular which contain words or phrases such as "will", "would", "aimed", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "will achieve", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "seeking to", "target", "propose to", "future", "objective", "goal", "project", "should", "can", "could", "may" and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the expectations of the Issuer with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its allowance for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to implement its dividend policy, the impact of Philippine banking regulations on it, which includes the assets and liabilities of the Issuer, its ability to roll over its short-term funding sources, its exposure to market risks and the market acceptance of and demand for internet banking services.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Offering Circular include, but are not limited to general economic and political conditions in the Philippines, southeast Asia, and the other countries which have an impact on the Issuer's business activities or investments, political or financial instability in the Philippines or any other country caused by any factor including any terrorist attacks in the Philippines, the United States or elsewhere or any other acts of terrorism worldwide, any anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, the monetary and interest rate policies of the Philippines, political or financial instability in the Philippines or any other country or social unrest in any part of the Philippines, inflation, deflation, unanticipated turbulence in interest rates, changes in the value of the Peso, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets and level of internet penetration in the Philippines and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and the pricing environment in the Philippines and regional or general changes in asset valuations. For a further discussion on the factors that could cause actual results to differ, see the discussion under "*Investment Considerations*" contained in this Offering Circular.

BASIS FOR CERTAIN MARKET DATA

Market data and certain industry forecasts and other data used throughout this Offering Circular were obtained or derived from internal surveys, market research, governmental data, publicly available information or industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of such information are not guaranteed and have not been independently verified by the Bank or the Lead Arranger or Dealers or the Trustee or the Agents. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Bank, the Lead Arranger, Dealers, the Trustee or the Agents make any representation or warranty, express or implied, as to the accuracy or completeness of such information. In addition, such information may not be consistent with other information compiled within or outside the Philippines.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

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

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the principal office of the principal paying agent in London (which for the time being is The Bank of New York Mellon, London Branch (the **Principal Paying Agent**) for the Notes listed on the SGX-ST).

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

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Offering Circular and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$5,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be determined by the Principal Paying Agent, as at the date on which agreement is reached for the issue of Notes on the basis of the spot rate for the sale of the U.S. dollar against the purchase of that Specified Currency in the London foreign exchange market quoted by leading international bank selected by the Principal Paying Agent on the relevant day of calculation;

(b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the amount of the subscription price paid); and

(c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the nominal amount of those Notes.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Issuer	BDO Unibank, Inc., acting through its principal office in the Philippines, Hong Kong Branch, Singapore Branch or other foreign branch (as specified in the relevant Pricing Supplement)
Description	Medium Term Note Programme
Lead Arranger	Standard Chartered Bank
Dealers	Australia and New Zealand Banking Group Limited, Citigroup Global Markets Limited, Daiwa Capital Markets Singapore Limited, Deutsche Bank AG, Singapore Branch, Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Singapore Branch, J.P. Morgan Securities plc, Mizuho Securities Asia Limited, MUFG Securities EMEA plc, Nomura International plc, Standard Chartered Bank, UBS AG Singapore Branch and any other Dealers appointed in accordance with the Programme Agreement (as defined under "*Subscription and Sale*").
Certain Restrictions	Each issue of Notes in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000, as amended (including by the Financial Services Act 2012) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".
Trustee	The Bank of New York Mellon, London Branch
Principal Paying Agent and Transfer Agent	The Bank of New York Mellon, London Branch
Registrar	The Bank of New York Mellon SA/NV, Luxembourg Branch
Programme Size	U.S.$ 5,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") in aggregate nominal amount of Notes outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Investment Considerations	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes issued under the Programme. These are set

	out under "*Investment Considerations*" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Investment Considerations*" and include certain risks relating to the structure of particular Series of Notes and certain market risks.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in Series having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest or distributions, if any), the Notes of each Series being intended to be interchangeable with all other Notes of the Series. Each Series may be issued in tranches (each a **Tranche**) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest or distributions and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be specified in the Pricing Supplement.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
Fixed Rate Notes...................................	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer.

	The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
Index Linked Notes................................	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in Floating Rate Notes and Index Linked Interest Notes............	Floating Rate Notes and Index Linked Interest Notes may also have a relation to maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes................................	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Other Notes..	The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.
Redemption..	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable; (ii) for taxation and regulatory reasons; or (iii) following an Event of Default (as defined in Condition 10.1) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions — Notes having a maturity of less than one year*" above.
Denomination of Notes..........................	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions — Notes having a maturity of less than one year*" above.

Taxation	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 8.2), subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
Cross Default	The terms of the Notes will contain a cross default provision as further described in Condition 10.1(c).
Status of the Notes	The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Listing	Application has been made to the SGX-ST for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, Notes which are listed on the SGX-ST will be traded with a minimum board lot size of at least S$200,000 or its equivalent in foreign currencies. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Ratings	Notes issued under the Programme may be rated or unrated, as specified in the applicable Pricing Supplement. Where a certain Series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold Notes and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Clearing System	Euroclear, Clearstream, Luxembourg and/or any other clearing system, as specified in the applicable Pricing Supplement (see "*Form of Notes*").
LEI	[Principal office: 3FGIIBS1PEI1FYQBGN97]/ [Singapore Branch: 549300PXLLK5QCF1XC81]/ [*other foreign branch*: [ ]]

Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area, the United Kingdom, Japan, Hong Kong, Singapore, the Philippines, the People's Republic of China and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "*Subscription and Sale*").
United States Selling Restrictions	Regulation S Category, as specified in the applicable Pricing Supplement. TEFRA C/TEFRA D/TEFRA C and D are not applicable, as specified in the applicable Pricing Supplement.

FORM OF THE NOTES

The Notes of each Series will either be in bearer form, with or without interest coupons (**Coupons**) attached (**Bearer Notes**), or registered form, without interest coupons attached (**Registered Notes**). The Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**).

Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear and Clearstream, Luxembourg.

Bearer Notes

Each Tranche of Bearer Notes will initially be represented by either a temporary bearer global note (a **Temporary Bearer Global Note**) or a permanent bearer global note (a **Permanent Bearer Global Note** and, together with a Temporary Bearer Global Note, the **Bearer Global Notes**, and each a Bearer Global Note) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg. Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note.

On and after the date (the **Exchange Date**) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) Definitive Bearer Notes (**Definitive Bearer Notes**) of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above, unless such certification has already been given. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for Definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) upon the occurrence of an Exchange Event.

For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10.1) has occurred and is continuing or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form and a certificate to such effect from an authorised officer of the Issuer has been given to the Trustee. The Issuer will promptly give notice to the Noteholders and the Trustee in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, the Trustee may give notice to the Principal Paying Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange following an Exchange Event shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than one year and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION MAY BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Notes

The Registered Notes of each Tranche will initially be represented by a global note in registered form (a **Registered Global Note**).

Registered Global Notes will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form (**Definitive Registered Notes**).

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.4) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar (each as defined under "*Terms and Conditions of the Notes*") will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Definitive Registered Notes will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event (as defined under "*Form of the Notes*").

The Issuer will promptly give notice to the Noteholders and the Trustee in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) or the Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) of the definition of Exchange Event under "*Form of the Notes*", the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

General

All Notes will be issued pursuant to the Trust Deed and the Agency Agreement (each as defined under "*Terms and Conditions of the Notes*").

Pursuant to the Agency Agreement, the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN number which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Bearer Global Note or a Registered Global Note (each a **Global Note**) held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear and/or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, its agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Trustee, the Issuer and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the Trust Deed and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or otherwise approved by the Issuer, the Trustee and the Principal Paying Agent.

So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Note representing such Notes is exchanged for definitive Notes. In addition, an announcement of such exchange will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

No Noteholder, Receiptholder or Couponholder (each as defined in "*Terms and Conditions of the Notes*") shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7 (except Condition 7.2), 11, 12, 13, 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

APPLICABLE PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[**MIFID II product governance / Professional investors and ECPs only target market**—*Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.*]

[***PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS***—*The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.*]

SFA Notification – *[the following legend to be included if Notes are Excluded Investment Products, otherwise appropriate legend to be included;]*

Section 309B(1)(c) Notification — [*The Notes shall be [prescribed capital markets products]/ [capital markets products other than prescribed capital markets products] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and [Excluded Investment Products]/ [Specified Investment Products] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*] [*Note: Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the Securities and Futures Act.*]

BDO Unibank, Inc.
acting through its [principal office in the Philippines][Hong Kong Branch][Singapore Branch]*/specify other foreign branch]*

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the U.S.$5,000,000,000
Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [ ] and any documents therein incorporated by reference (collectively, the **Offering Circular**). This Pricing Supplement comprises the final terms of the Notes and must be read in conjunction with such Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [*original date*] which are incorporated by reference in the Offering Circular dated [*current date*] and are attached hereto. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated *[current date*].

[Include whichever of the following apply or specify as "*Not Applicable*" *(N/A). Note that the numbering should remain as set out below, even if* "*Not Applicable*" *is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement]*

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1.	Issuer:		BDO Unibank, Inc., acting through its [principal office in the Philippines] [Hong Kong Branch] [Singapore Branch] [*specify other foreign branch*]
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
	(c)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 28 below, which is expected to occur on or about [*date*]][Not Applicable]
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	(a)	Issue Price:	[ ]% of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] *(in the case of fungible issues only, if applicable)*]
	(b)	Net proceeds: (*only for listed notes*)	[ ]
6.	(a)	Specified Denominations:	[ ] *(N.B. Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive (Directive 2004/109/EC of the European Parliament and of the Council on the*

Harmonisation of Transparency Requirements in relation to information about issuers whose securities are admitted to trading on a regulated market) exemptions in respect of whole sale securities and in order to benefit from the wholesale exemption set out in Article 1.4(c) of the Prospectus Regulation in that Member State.)

(Note — where Bearer Notes with multiple denominations above [€100,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:

(*N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange or a United Kingdom exchange; and (ii) only offered in the European Economic Area or the United Kingdom in circumstances where a prospectus is not required to be published under the Prospectus Regulation the €100,000 minimum denomination is not required.*)

"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].")

(In the case of Registered Notes, this means the minimum integral amount in which transfers can be made.)

(*N.B. If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency*)

	(b)	Calculation Amount:	[ ]
			(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
7.	(a)	Issue Date:	[ ]
	(b)	Interest Commencement Date:	[*Specify*]/[Issue Date]/[Not Applicable]
			(N.B. An Interest Commencement Date will not be relevant of certain Notes, for example Zero Coupon Notes.)

8.	Maturity Date:	[*Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year*]][(1)]
9.	Interest Basis:	[[ ]% Fixed Rate] [[*specify* Reference *Rate*] +/- [ ]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] [(further particulars specified below)]
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*]
11.	Change of Interest Basis or Redemption/ Payment Basis:	[Applicable/Not Applicable] *(If applicable, specify details of any provision for change of Notes into another Interest Basis or Redemption/ Payment Basis)*
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Status of the Notes:	Senior
14.	(a) Date Board approval for issuance of Notes obtained:	[ ] [and [ ], respectively]/[None required] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes.)*
	(b) Date regulatory approval/consent for issuance of Notes obtained:	[ ]/[None required] *(N.B. Only relevant where regulatory (or similar) approval or consent is required for the particular Tranche of Notes.)*
15.	Listing:	[SGX-ST]/[*specify other*]/[None] *(N.B. Consider disclosure requirements under the EU Prospectus Regulation applicable to securities admitted to an EU regulated market)*
16.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

(1) Note that for Hong Kong dollar and Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

17.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a)	Rate(s) of Interest:	[ ]% per annum [payable in arrear] on each Interest Payment Date
(b)	Interest Payment Date(s):	[ ] in each year[(2)] up to and including the Maturity Date] *(Amend appropriately in the case of irregular coupons)*
(c)	Fixed Coupon Amount(s): (*Applicable to Notes in definitive form*.)	[ ] per Calculation Amount[(3)]
(d)	Broken Amount(s): (*Applicable to Notes in definitive form*.)	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
(e)	Day Count Fraction:	[Actual/Actual (ICMA) 30/360 Actual/365 (Fixed)[(4)] Other]
(f)	Determination Date(s):	[[ ] in each year] [Not Applicable] [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*] *(N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration)* *(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
(g)	Party responsible for calculating the amount of interest payable per Calculation Amount (if not the Principal Paying Agent):	[ ]
(h)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*Give details*]
18.	Floating Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*

(2) Note that for certain Hong Kong dollar and Renminbi denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and [ ].".

(3) For Hong Kong dollar and Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest [HK$0.01, HK$0.005/ CNY0.01, CNY0.005] being rounded upwards."

(4) Applicable to Hong Kong dollar and Renminbi denominated Fixed Rate Notes.

(a)	Interest Period(s):	[ ]
(b)	Specified Interest Payment Dates:	[ ]
(c)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ [*specify other*]]
(d)	Additional Business Centre(s):	[Not Applicable]/[*give details*]
(e	Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
(f)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[[*Name*] shall be the Calculation Agent (*no need to specify if the Principal Paying Agent is to perform this function*)]
(g)	Screen Rate Determination:	[ ]
	• Reference Rate:	Reference Rate: [ ] month [LIBOR/ EURIBOR/*specify other Reference Rate*].
	• Relevant Financial Centre:	Relevant Financial Centre: [London/Brussels/ *specify other Relevant Financial Centre*]
	• Interest Determination Date(s):	[ ] [TARGET] business days in [*specific city*] for [*specific currency*] prior to [the first day in each Interest Period]/[each Interest Payment Date]
	• Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
	• Relevant Time:	[ ] (*For example, 11:00 a.m. London time*)
(g)	ISDA Determination:	
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ] *(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)*
	• ISDA Definitions:	[ ] (*If different from those set out in the Conditions*)
(h)	Margin(s):	[+/-][ ]% per annum
(i)	Minimum Rate of Interest:	[ ]% per annum

	(j)	Maximum Rate of Interest:	[ ]% per annum
	(k)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)] (*See Condition 5 for alternatives*)
	(l)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
19.	Zero Coupon Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[ ]% per annum
	(b)	Reference Price:	[ ]
	(c)	Any other formula/basis of determining amount payable:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]
20.	Index Linked Interest Note Provisions:		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Index/Formula:	[*give or annex details*]
	(b)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[ ]
	(c)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Interest Period(s)/	[ ]
	(e)	Specified Interest Payment Dates:	[ ]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ *specify other*]

	(g)	Additional Business Centre(s):	[Not Applicable]/[*give details*]
	(h)	Minimum Rate of Interest:	[ ]% per annum
	(i)	Maximum Rate of Interest:	[ ]% per annum
	(j)	Day Count Fraction:	[ ]
21.	Dual Currency Interest Note Provisions:		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(b)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[ ]
	(c)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

22.	Notice periods for Condition 7.2:		Minimum period: [ ] days Maximum period: [ ] days
23.	Issuer Call:		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*]
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[ ] per Calculation Amount
		(ii) Maximum Redemption Amount:	[ ] per Calculation Amount
	(d)	Notice periods:	Minimum period: [ ] days Maximum period: [ ] days *(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other*

		notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)
24.	Investor Put:	[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
	(a) Optional Redemption Date(s):	[ ]
	(b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*]
	(c) Notice periods:	Minimum period: [ ] days Maximum period: [ ] days *(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)*
25.	Final Redemption Amount of each Note:	[[ ] per Calculation Amount/specify other/ see Appendix]
26.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5):	[[ ] per Calculation Amount/*specify other*/ see Appendix]
27.	Applicable Spread:	[[ ]% per annum]/[Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

28.	Form of Notes:	[Bearer Notes: [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date] [Permanent Bearer Global Note exchangeable for Definitive Bearer Notes [on 60 days' notice given at any time/only upon an Exchange Event]]] *(Ensure that this is consistent with the wording in the "Form of the Notes " section in the Offering Circular and the Notes themselves. The exchange upon notice option should not be expressed to be applicable if the*

		Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]". Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Bearer Notes.)* [Registered Notes: Registered Global Note ([ ] nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg (*specify nominal amounts*)]
29.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details] *(Note that this item relates to the place of payment and not Interest Period end dates to which items 18(d) and 20(g) relate)*
30.	Talons for future Coupons or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
31.	Details relating to Party Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details. N.B. a new form of Temporary Bearer Global Note and/or Permanent Bearer Global Note may be required for Partly Paid issues*]
32.	Details relating to Instalment Notes:	
	(a) Instalment Amount(s):	[Not Applicable/*give details*]
	(b) Instalment Date(s):	[Not Applicable/*give details*]
33.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable]/[The provisions annexed to this Pricing Supplement apply]
34.	Consolidation provisions:	[Not Applicable]/[The provisions in [Condition 17 (*Further Issues*)]/[annexed to this Pricing Supplement] apply]
35.	Any applicable currency disruption/fallback provisions:	[Not Applicable]/[*give details*]
36.	Other terms or special conditions:	[Not Applicable]/[*give details*] [*N.B. If full terms and conditions are to be used:* The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set

	out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provisions to the contrary. *The full Conditions should be attached to and form part of the Pricing Supplement*]

DISTRIBUTION

37.	(a) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b) Stabilising Manager(s) (if any):	[Not Applicable/*give name(s)*]
	(c) Date of Subscription Agreement:	[ ]
38.	If non-syndicated, name of relevant Dealer:	[ ]
39.	U.S. Selling Restriction:	Reg. S Category [1]/[2]; [[TEFRA D]/[TEFRA C]/[TEFRA D and TEFRA C] are not applicable]
40.	Additional selling restrictions:	[Not Applicable/*give details*]
41.	Additional U.S. federal income tax considerations:	[Not Applicable/*give details*] [*To consider whether any considerations relating to the U.S. Foreign Account Tax Compliance Act need to be included*]

OPERATIONAL INFORMATION

42.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
43.	Delivery:	Delivery [against/free of] payment
44.	Deemed delivery of clearing system notices for the purposes of Condition 14:	Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.
45.	Additional Paying Agent(s) (if any):	[ ]
46.	ISIN:	[ ]
47.	Common Code:	[ ]

GENERAL

48.	Rating(s):	[*Rating Agency: [ ]*]
49.	The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [	[Not Applicable]/[U.S.$[ ]]

], producing a sum of (for Notes not denominated in [U.S. dollars]):

[**USE OF PROCEEDS**

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

[**STABILISATION**

In connection with this issue, [*insert name of Stabilising Manager(s)*] (the "**Stabilising Manager(s)**") (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or overallotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.]

[LISTING

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme of BDO Unibank, Inc., acting through its [principal office in the Philippines][Hong Kong Branch][Singapore Branch][*specify other foreign branch*].]

INVESTMENT CONSIDERATIONS

There are significant risks associated with the Notes including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Notes, the appropriate tools to analyse that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Notes.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

The Issuer represents and warrants that except as disclosed in this Pricing Supplement, there has been no significant change in the financial or trading position of the Issuer since *[date of most recently audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer since *[date of most recently published annual accounts]*.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: ....
Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and not so agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by BDO Unibank, Inc. (the **Issuer**), acting through its principal office in the Philippines, Hong Kong Branch, Singapore Branch or other foreign branch outside the Republic of the Philippines (the **Philippines**), as specified in the applicable Pricing Supplement, and constituted by an amended and restated trust deed dated 13 March 2020 (such trust deed as modified, or supplemented, or restated from time to time, the **Trust Deed**) made between the Issuer and The Bank of New York Mellon, London Branch (the **Trustee**, which expression shall include any successor as Trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the currency specified therein or, if none is specified, the currency in which the Notes are denominated (the **Specified Currency**);

(ii) any Global Note in bearer form (a **Bearer Global Note**);

(iii) any Global Note in registered form (a **Registered Global Note**);

(iv) definitive Notes in bearer form (**Definitive Bearer Notes**, and together with Bearer Global Notes, the **Bearer Notes**) issued in exchange for a Bearer Global Note; and

(v) definitive Notes in registered form (**Definitive Registered Notes**, and together with Registered Global Notes, the **Registered Notes**), whether or not issued in exchange for a Registered Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated agency agreement dated 13 March 2020 (such agency agreement as amended, supplemented, or restated from time to time, the **Agency Agreement**) and made between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and any additional paying agents appointed in accordance with the Agency Agreement (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and as transfer agent (the **Transfer Agent**, which expression shall include any additional or successor transfer agents appointed in accordance with the Agency Agreement) and The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the **Registrar**, which expression shall include any successor registrar and, together with the Paying Agents and Transfer Agents, the **Agents**).

Interest bearing Definitive Bearer Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions (**Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. The Trustee acts for the benefit of the Noteholders, the Receiptholders and the Couponholders, in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, (unless this is a Zero Coupon Note) Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee (being One Canada Square, London E14 5AL, United Kingdom) and at the specified office of each of the Principal Paying Agent and the other Paying Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes may be in bearer form and/or in registered form and, in the case of definitive Notes, will be serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Pricing Supplement. Save as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery. Title to Registered Notes will pass upon registration of transfers in the books of the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and the Transfer Agent will (except as otherwise ordered by a court of competent jurisdiction or required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held by a common depositary on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream, Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and the Transfer Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer or registered holder of the relevant Global Note shall be treated by the Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes, as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Trustee and the Principal Paying Agent.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of Interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Notes in definitive form only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement.

2.2 Transfers of Registered Notes Generally

Registered Notes may not be exchanged for Bearer Notes and *vice versa.*

Upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer: (i) the holder or holders must (a) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the Issuer, the Trustee, the Registrar, or as the case may be, the relevant Transfer Agent may prescribe (such initial regulations being set out in Schedule 4 to the Agency Agreement), which may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of Transfer upon Partial Redemption

In the event of a partial redemption of Notes under Condition 7.3, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, that is called for partial redemption.

2.4 Costs of Registration

Registration of transfers will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to it provided that the Issuer shall not be responsible for any documentary stamp tax payable on the transfer of Notes effected in the Philippines unless the Issuer is the counterparty directly liable for that documentary stamp tax.

2.5 Closed Periods

No Noteholder may require the transfer of a Definitive Registered Note to be registered during the period of 15 days ending on the due date for any payment of principal, premium or interest on that Note.

The Issuer shall not be required in the event of a partial redemption of Notes under Condition 7:

(a) to register the transfer of Definitive Registered Notes (or parts of such Notes) during the period beginning on the 65th day before the date of the partial redemption and ending on the day on which notice is given specifying the serial numbers of Notes called (in whole or in part) for redemption (both inclusive); or

(b) to register the transfer of any Definitive Registered Note, or part of a Definitive Registered Note, called for redemption.

3. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Under Philippine law, unsecured debt (including guarantees of debt) of a borrower in insolvency or liquidation that is documented by a public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines, ranks ahead of unsecured debt that is not so documented. Debt is treated as documented by a public instrument if it is acknowledged before a notary or any person authorised to administer oaths in the Philippines. The Issuer's debt which is documented by a public instrument will rank ahead of the Notes in the event the Issuer is unable to service its debt obligations.

The Issuer will, in connection with the issuance of the Notes, represent that it has not prepared, executed or filed any public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines, relating to any Relevant Debt (as defined below), or consented to the preparation or filing of any such public instrument. The Issuer also will agree that it will not create or permit to subsist any preference or priority in respect of any Relevant Debt pursuant to Article 2244(14) of the Civil Code of the Philippines unless it grants equal and ratable preference or priority to amounts payable under the Notes.

4. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Trust Deed):

(i) the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (**Security**) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Debt, or any guarantee of or indemnity in respect of any Relevant Debt; and

(ii) the Issuer will procure that no other person creates or permits to subsist any Security upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (x) any of the Issuer's Relevant Debt, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Debt, or (y) where the person in question is a Subsidiary (as defined in the Trust Deed) of the Issuer, any of the Relevant Debt of any person other than that Subsidiary, or any guarantee of or indemnity in respect of any such Relevant Debt, unless, at the same time or prior thereto, the Issuer's obligations under the Notes (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (bb) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (which is defined in the Trust Deed as, *inter alia*, a resolution duly passed by a majority of not less than three-fourths of the votes cast thereon) of the Notes; and

(iii) the Issuer will not create or permit to subsist any preference or priority in respect of any other Relevant Debt of the Issuer pursuant to Article 2244(14) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarised Relevant Debt, unless amounts payable under the outstanding Notes are granted preference or priority equally and ratably therewith.

For the purposes of these Conditions, **Relevant Debt** means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities (**Indebtedness**) having an original maturity of more than one year from its date of issue and which are for the time being (or in the case of Conditions 4(i) and (ii) only are capable of being) quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, provided that in the case of Condition 4(iii) Relevant Debt shall exclude (a) Indebtedness denominated, payable or optionally payable in Philippine Pesos and (b) if denominated, payable or optionally payable in U.S. dollars, Indebtedness in an aggregate principal amount not exceeding 5% of the consolidated total assets as shown in the latest audited balance sheet of the Issuer.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

(a) if **Actual/Actual (ICMA)** is specified in the applicable Pricing Supplement:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

(b) if **30/360** is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; or

(c) if **Actual/365 (Fixed)** is specified in the applicable Pricing Supplement, the actual number of days in the Accrual Period divided by 365.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) ***Interest Payment Dates***

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

(b) ***Rate of Interest***

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

(A) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(C) the relevant Reset Date is as the day specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (Relevant Financial Centre time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(c) ***Minimum and/or Maximum Rate of Interest***

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) ***Determination of Rate of Interest and Calculation of Interest Amounts***

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

(i) if **Actual/Actual (ISDA)** or **Actual/Actual** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if **Actual/365 (Fixed)** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if **Actual/365 (Sterling)** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if **Actual/360** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(v) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{\lfloor 360 \times (Y_2 - Y_1) \rfloor + \lfloor 30 \times (M_2 - M_1) \rfloor + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if **30E/360** or **Eurobond Basis** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{\lfloor 360 \times (Y_2 - Y_1) \rfloor + \lfloor 30 \times (M_2 - M_1) \rfloor + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if **30E/360 (ISDA)** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

D^2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or

(viii) such number would be 31, in which case D2 will be 30.

(e) ***Notification of Rate of Interest and Interest Amounts***

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(f) ***Determination or Calculation by Determination Agent***

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (b)(i) or subparagraph (b)(ii) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (d) above, the Issuer shall appoint a Determination Agent to determine the Rate of Interest and to calculate the Interest

Amount(s) and each such determination or calculation shall be notified to the Principal Paying Agent or the Calculation Agent, as applicable.

Determination Agent means an independent bank of international repute selected by and acting as an agent of the Issuer for the purposes of this Conditions and notified to the Trustee in writing. The Trustee shall not be responsible for the calculations made by, or the actions or omissions of, the Determination Agent and shall not be liable for any losses caused thereby.

(g) ***Certificates to be Final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee (or its agent), shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents, the Transfer Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent, the Registrar, the other Paying Agents, the Transfer Agents or the Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions pursuant to such provisions.

5.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

5.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

5.5 Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) as provided in the Trust Deed.

5.6 Definitions

In these Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of

(B) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(C) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(D) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(E) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre specified in the applicable Pricing Supplement; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor system (the **TARGET2 System**) is open; or (iii) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong.

6. PAYMENTS

6.1 Method of Payment

Subject as provided below:

(a) payments in a Specified Currency other than euro and Renminbi will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively);

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and

(c) payments in Renminbi will be made by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

6.2 Presentation of Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principals (if any) in respect of Definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any Definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Note.

6.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Bearer Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes or otherwise in the manner specified in the relevant Bearer Global Note against presentation or surrender of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

6.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account and, in the case of a payment in Renminbi, means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong) maintained by a holder with a Designated Bank and identified as such in the Register and Designated Bank means (in the case of payment in a Specified Currency other than euro and Renminbi) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively), (in the case of a payment in euro) any bank which processes payments in euro and (in the case of a payment in Renminbi) a bank in Hong Kong.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifth day (in the case of Renminbi) and on the fifteenth day (in the case of a currency other than Renminbi) (whether or not such fifth day or fifteenth day is a Business Day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

None of the Issuer, the Trustee, the Registrar, any Transfer Agent or any Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

6.5 General Provisions Applicable to Payments

The holder of a Global Note (or as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer in respect of such Global Note to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of the Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States only if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

6.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 10) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

  (i) in the case of Notes in definitive form only, the relevant place of presentation; and

  (ii) each Additional Financial Centre specified in the applicable Pricing Supplement; and

(b) either (A) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively; (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open; or (C) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

6.7 Interpretation of Principal and Interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

7.2 Redemption for Tax Reasons

Subject to Condition 7.5, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Pricing Supplement to the Trustee, the Registrar (if applicable) and the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes for such Series; and

(b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee to make available at its specified office to the Noteholders (1) a certificate signed by an authorised officer of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment; and the Trustee shall be entitled without further action or enquiry to accept the certificate and the opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the certificate shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if any) with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Pricing Supplement to the Noteholders in accordance with Condition 14, (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and/or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes (or, as the case may be, parts of Registered Notes), the Notes to be redeemed (**Redeemed Notes**) will be selected in such place as the Trustee may approve and in such manner as it deems fit, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (as appropriate), in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, the Issuer will ensure that a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

7.4 Redemption of the Notes at the Option of the Noteholders (Investor Put)

(a) ***If Investor Put is specified as being applicable in the applicable Pricing Supplement***

If Investor Put is specified as being applicable in the applicable Pricing Supplement with respect to the Notes, upon the holder of any Notes giving to the Issuer in accordance with Condition 14 not less than the minimum period of notice nor more than the maximum period of notice specified in the applicable Pricing Supplement (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date.

(b) ***Put Option Exercise Procedures***

To exercise the right to require redemption of a Note the holder of the Note must:

(i) if the Note is in definitive form, deliver a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent, Transfer Agent or the Registrar (a **Put Notice**) accompanied by the definitive Note, to the specified office of any Paying Agent in the case of Bearer Notes, or of any Transfer Agent or the Registrar in the case of Registered Notes; or

(ii) if the Note is represented by a Global Note held on behalf of Euroclear or Clearstream, Luxembourg, give a Put Notice in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg (which may include notice being given on his instruction by electronic means) accompanied by the relevant Global Note for notation accordingly to the specified office of any Paying Agent, at any time within the notice period during normal business hours of such Paying Agent, Transfer Agent or the Registrar. In the Put Notice the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition, and in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2. If the Note is in definitive bearer form, the Put Notice must be accompanied by the Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

7.5 Early Redemption Amounts

For the purpose of Conditions 7.2 and 7.4 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Early Redemption Amount = RP x (1 + AY)y

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is the Day Count Fraction specified in the applicable Pricing Supplement which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

7.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5 above.

7.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

7.8 Purchases

Subject to applicable laws, the Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer surrendered to any Paying Agent and/or the Registrar for cancellation.

7.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and may not be reissued or resold.

7.10 Late Payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 7.1, 7.2 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Trustee or the Principal Paying Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. TAXATION

8.1 Payment without Withholding

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Notes, Receipts and Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any Tax Jurisdiction, unless such withholding or deduction is required by law. Where such withholding or deduction is made by the Issuer at the rate of up to and including 20% the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by the holders of the Notes, Receipts or Coupons equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required. In the event that the Issuer makes a deduction or withholding required by law in excess of 20% the Issuer shall pay such additional amounts (the **Additional Amounts**) as will result in receipt by the holders of the Notes, Receipts or Coupons of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note, Receipt or Coupon:

(a) **Other connection**: to or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(b) **Surrender more than 30 days after the Relevant Date**: presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the relevant Note, Receipt or Coupon for payment on the last day of such period of 30 days assuming that day to have been a Payment Day (as defined in Condition 6.6).

8.2 Interpretation

As used herein:

(i) **Tax Jurisdiction** means:

(A) the Philippines or any political subdivision or any authority thereof or therein having power to tax; or

(B) where the Issuer is acting through its Hong Kong Branch, (x) the Philippines or any political subdivision or any authority thereof or therein having power to tax and (y) Hong Kong or any political subdivision or any authority thereof or therein having power to tax; or

(C) where the Issuer is acting through any other branch outside the Philippines as specified in the applicable Pricing Supplement, (x) the Philippines or any political subdivision or any authority thereof or therein having power to tax and (y) the tax jurisdiction applicable to such branch or any political subdivision or any authority thereof or therein having power to tax; and

(ii) **Relevant Date** in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders in accordance with Condition 14 that, upon further surrender of the relevant Note, Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

9. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8.2) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT AND ENFORCEMENT

10.1 Events of Default

If any of the following events (each an **Event of Default**) occurs and is continuing the Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified, secured and/or prefunded to its satisfaction), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed:

(a) **Non-Payment**: there is failure to pay the principal or interest on any of the Notes when due and, in the case of failure to pay interest, such failure continues for a period of fourteen days; or

(b) **Breach of Other Obligations**: the Issuer defaults in the performance or observance of, or compliance with, any one or more of its other obligations under the Conditions or the Trust Deed, which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

(c) **Cross-Default**: (i) any other present or future Indebtedness the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount the relevant indebtedness, guarantees and indemnities in respect of one or more events mentioned above in this subparagraph (c) exceeds U.S.$10,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Judgment, Decree or Order**: a final judgment, decree or order has been entered against the Issuer or any Subsidiary of the Issuer by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of U.S.$10,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates) and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or

(e) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or any Subsidiary of the Issuer and is not discharged or stayed within 60 days of having been so levied, enforced or sued; or

(f) **Security Enforced**: any Security, present or future, created or assumed by the Issuer or any Subsidiary of the Issuer becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and the indebtedness secured by the Security is not discharged or such steps stayed within 60 days of such steps being so taken; or

(g) **Insolvency**: the Issuer or any Subsidiary of the Issuer (i) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts, or (v) a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any Subsidiary of the Issuer; or

(h) **Winding-up**: an order of a court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Subsidiary of the Issuer, or the Issuer or any Subsidiary of the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by (i) a reconstruction, amalgamation, reorganisation, merger or consolidation (x) on terms approved by a resolution of the Noteholders, or (y) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary pursuant to a merger of the Subsidiary with the Issuer or such other Subsidiary or by way of a voluntary winding-up or dissolution where there are surplus assets in such Subsidiary and such surplus assets attributable to the Issuer and/or any other Subsidiary are distributed to the Issuer and/or any such other Subsidiary or (ii) a merger or consolidation with respect to the Issuer which is not materially prejudicial to the interests of the Noteholders; or

(i) **Bankruptcy Proceedings**: proceedings shall have been initiated against the Issuer or any Subsidiary of the Issuer under any applicable bankruptcy, insolvency, reorganisation law and such proceedings shall not have been discharged or stayed within a period of 60 days; or

(j) **Validity**: the Issuer shall contest in writing the validity or enforceability of any of the Notes or shall deny generally in writing the liability of the Issuer, under any of the Notes; or

(k) **Analogous Events**: any event occurs, which, under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 10.1.

The Issuer has undertaken in the Trust Deed that, so long as any Note remains outstanding, annually and also within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by a Director to the effect that as at a date not more than five days prior to the date of the certificate no Event of Default or event or circumstance that could with the giving of notice, lapse of time and/or issue of a certificate become an Event of Default has occurred.

10.2 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified, secured and/or prefunded to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

10.3 Interpretation

In these Conditions:

(a) **Winding-Up** shall mean, with respect to the Issuer, a final, unappealable and executory order or resolution of any court or agency or supervisory authority in the Philippines for the bankruptcy, suspension of payment, rehabilitation, winding-up, liquidation, receivership or similar proceeding in respect of the Issuer (except for the purposes of a consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Noteholders); and

(b) **Winding-Up Proceedings** shall mean, with respect to the Issuer, (a) proceedings shall have been instituted or a decree or order shall have been entered in any court or agency or supervisory authority in the Philippines having jurisdiction in respect of the same for the appointment of a receiver or liquidator in any insolvency, rehabilitation, suspension of payments, readjustment of debt, marshalling of assets and liabilities, or similar arrangements involving the Issuer or all or substantially all of its property, or for the winding up of or liquidation of its affairs and such proceeding, decree or order shall not have been vacated; or (b) the Issuer shall file a petition to take advantage of any insolvency or similar statute.

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced subject to applicable laws, regulations and relevant stock exchange regulations at the specified office of the Principal Paying Agent or (where applicable) or of the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the Principal Paying Agent may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. PAYING AGENTS, REGISTRAR AND TRANSFER AGENTS

The names of the initial Paying Agents, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed), to vary or terminate the appointment of the Principal Paying Agent, Paying Agent, Registrar or Transfer Agents and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through which any Agent acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar (which will maintain the Register outside the United Kingdom);

(b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent, which may be the Principal Paying Agent, and Transfer Agent with a specified office in the place required by the rules and regulations of the relevant stock exchange or any other relevant authority; and

(c) so long as any Notes are listed on the SGX-ST, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the SGX-ST.

In addition, the Issuer shall with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed) forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Any variation, termination, appointment or change referred to in the preceding paragraph and/or any appointment referred to in this paragraph shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents, the Registrar and the Transfer Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to them at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth day after the date of such mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Asia or such other English language daily newspaper with general circulation in Asia. It is expected that such publication will be made in the *Asian Wall Street Journal.* The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such mailing and such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange (or any other relevant authority). Any such notice shall be deemed to have been given to the holders of the Notes on such day as specified in the applicable Pricing Supplement after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders in accordance with this Condition 14.

15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

15.1 Meeting of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons holding or representing in the aggregate not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons or the Trust Deed (including, *inter alia*, modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be two or more persons holding or representing in the aggregate not less than 75% in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting two or more persons holding or representing in the aggregate not less than 25% in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90% in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

15.2 Modifications and Waivers

The Trustee may agree, without the consent or sanction of the Noteholders, Receiptholders or Couponholders, to any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

15.3 Substitution of Issuer

The Trustee may, subject to the prior written approval of the BSP (if and to the extent then required), without the consent of the Noteholders, the Receiptholders or the Couponholders at any time, agree with the Issuer to the substitution in place of the Issuer (or of the previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of any entity owned or controlled by the Issuer, subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Issuer, (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.

15.4 General

Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be promptly notified to Noteholders by the Issuer in accordance with Condition 14.

16. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or provided with security and/or prefunded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into transactions or arrangements with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions an arrangements or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be in any way liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing Law

The Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

19.2 Submission to Jurisdiction

The Issuer has in the Trust Deed agreed, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) and that accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) may be brought in the English courts.

The Issuer has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise any objection which it may have now or hereafter to the laying of the venue of any Proceedings (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons) arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons in the courts of England and any claim that any such Proceedings have been brought in an inconvenient forum and has further irrevocably and unconditionally agreed in the Trust Deed that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

19.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at its specified office for the time being at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

*The following tables present selected consolidated financial information of the Bank and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular and the section entitled "Description of the Bank" in this Offering Circular. The selected financial information presented below as at and for the years ended 31 December 2017, 2018 and 2019 were derived from the consolidated financial statements prepared in accordance with financial reporting standards in the Philippines for banks and which include Philippine Financial Reporting Standards (**PFRS**), and audited by Punongbayan & Araullo (**P&A**) in accordance with Philippine Standards on Auditing. The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date.*

CONSOLIDATED STATEMENTS OF INCOME

	For the year ended 31 December			
	2017	2018	2019	2019
		(audited)		(unaudited)
		(in ₱ millions)		(in U.S.$ millions)
Interest income on				
Loans and other receivables	88,178	115,384	142,908	2,816
Trading and investment securities	9,691	11,866	16,219	320
Due from BSP and other banks	1,742	1,733	1,381	27
Others	184	57	64	1
	99,795	129,040	160,572	3,164
Interest expense on				
Deposit liabilities	14,919	25,595	32,047	632
Bills payable and other borrowings	3,123	5,153	7,807	154
Finance lease payment payable	-	-	827	16
	18,042	30,748	40,681	802
Net interest income	81,753	98,292	119,891	2,363
Impairment losses - net	6,537	6,286	6,166	122
Net interest income after impairment losses	75,216	92,006	113,725	2,241
Other operating income				
Trading gain — net	450	(1,619)	1,867	37
Service charges and fees	25,701	27,372	31,722	625
Miscellaneous	21.055	23,921	27,032	533
	47,206	49,674	60,621	1,195
Other operating expenses				
Employee compensation and benefits	27,405	30,449	35,385	697
Occupancy	8,412	9,509	9,680	191
Taxes and licenses	8,270	11,639	14,106	278
Other operating expenses	40,778	46,437	55,988	1,103
	84,865	98,034	115,159	2,269
Profit before Pre-acquisition Income	37,557	43,646	59,187	1,166
Pre-acquisition Income	-	-	-	-
Profit before tax	37,557	43,646	59,187	1,166
Tax expense	9,452	11,007	15,019	296
Net profit	28,105	32,639	44,168	870

Note:

(1) Translations from Pesos to US dollars for the convenience of the reader have been made at the BSP Rate on 27 December 2019 of ₱50.744 = U.S.$1.00.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			
	2017	2018	2019	2019
	(audited)			(unaudited)
	(in ₱ millions)			(in U.S.$ millions)
Cash and other cash items	45,006	53,749	64,140	1,264
Due from the *Bangko Sentral ng Pilipinas*	353,308	354,132	309,040	6,090
Due from other banks	51,479	55,292	38,956	768
Trading and investment securities	332,927	385,197	435,905	8,590
Loans and other receivables — net	1,791,786	2,071,834	2,225,777	43,863
Premises, furniture, fixtures and equipment - net	29,346	33,660	46,551	917
Investment properties	18,040	19,785	16,911	333
Equity investments	4,945	5,081	5,048	100
Deferred tax assets — net	7,403	8,312	8,927	176
Other resources — net	33,864	35,205	37,603	741
Total resources	2,668,104	3,022,247	3,188,858	62,842
Deposit liabilities				
Demand	134,931	179,944	232,995	4,592
Savings	1,409,256	1,505,680	1,589,639	31,327
Time	576,825	734,341	662,594	13,057
Total deposit liabilities	2,121,012	2,419,965	2,485,228	48,976
Bills payable	130,484	143,623	167,524	3,301
Subordinated notes payable	10,030	10,030	10,030	198
Insurance contract liabilities	25,986	28,506	42,473	837
Other liabilities	82,252	91,974	113,016	2,227
Total liabilities	2,369,764	2,694,098	2,818,271	55,539
Equity	298,340	328,149	370,587	7,303
Total liabilities and equity	2,668,104	3,022,247	3,188,858	62,842

Note:

(1) Translations from Pesos to US dollars for the convenience of the reader have been made at the BSP Rate on 27 December 2019 of ₱50.744 = U.S.$1.00.

SELECTED FINANCIAL RATIOS

Selected financial ratios	For the year ended 31 December 2017	2018	2019
	(in percentages except Earnings per Share)		
Return on assets[(1)]	1.1	1.1	1.4
Return on shareholders' equity[(2)]	10.2	10.6	12.6
Return on average common equity[(3)]	10.2	10.7	12.8
Net interest margin[(4)]	3.5	3.6	4.2
Cost-income ratio[(5)]	65.8	66.3	63.8
Loans to deposits[(6)]	82.7	83.5	88.9
Common equity tier 1 capital adequacy ratio[(7)]	12.9	12.1	12.7
Tier 1 capital adequacy ratio[(8)]	13.1	12.4	12.9
Total capital adequacy ratio[(9)]	14.5	13.8	14.2
Total non-performing loans to total loans — excluding interbank loans[(10)]	1.2	1.0	1.2
Total non-performing loans to total loans — including interbank loans[(11)]	1.1	1.0	1.2
Allowances for probable loan losses to total loans[(12)]	1.7	1.9	1.9
Allowances for probable loan losses to total non-performing loans[(13)]	146.2	183.1	164.7
Earnings per share (₱)[(14)]	6.42	7.40	10.02

Notes:

(1) Net income divided by average total resources for the period indicated.

(2) Net income divided by average total capital funds for the period indicated.

(3) Net income attributable to shareholders of the Bank divided by average common equity for the period indicated.

(4) Net interest income divided by average interest-earning assets.

(5) Total operating expenses divided by the sum of net interest income and other income.

(6) Net receivables from customers divided by total deposits.

(7) Common equity tier 1 capital divided by total risk-weighted assets.

(8) Tier 1 capital divided by total risk-weighted assets.

(9) Total capital divided by total risk-weighted assets.

(10) Total non-performing loans divided by total loans excluding interbank loans.

(11) Total non-performing loans divided by total loans including interbank loans.

(12) Total allowance for probable loan losses divided by total loans.

(13) Total allowance for probable loan losses divided by total non-performing loans.

(14) Net income divided by total number of outstanding shares.

USE OF PROCEEDS

The net proceeds from each issue of the Notes will be used by the Issuer for general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the indebtedness and capitalisation of the Bank as at 31 December 2019. This table should be read in conjunction with the Bank's audited financial statements as at 31 December 2019 and the notes presented elsewhere herein.

	As at 31 December 2019	
	(in ₱ millions)	**(in U.S.$ millions)[1]**
Short-term liabilities		
Deposit liabilities	2,374,819	46,800
Bills payable and subordinated notes payable	97,858	1,928
Insurance contract liabilities	(1,103)	(22)
Other liabilities	87,791	1,730
Total short-term liabilities	2,559,365	50,436
Long-term liabilities net of current portion		
Deposit liabilities	110,409	2,176
Bills payable	79,696	1,571
Insurance contract liabilities	43,576	859
Other long-term liabilities	25,225	497
Total long-term liabilities net of current portion	258,906	5,103
Capital funds		
Issued share capital		
Preferred stock	5,150	101
Common stock	43,814	863
Capital paid in excess of par value	124,049	2,445
Surplus reserves	18,362	362
Other reserves	12	0
Surplus free	192,333	3,790
Net unrealized fair value loss on financial assets at Fair Value through Other Comprehensive Income (FVOCI)	(1,741)	(34)
Accumulated actuarial gains (losses)	(11,224)	(221)
Remeasurement on life insurance reserves	(2,789)	(55)
Revaluation Increment	955	19
Accumulated translation adjustment	11	0
Non-controlling interest	1,655	33
Total capital funds	370,587	7,303
Total capitalisation and indebtedness[2][3][4]	3,188,858	62,842

Note:

(1) Translations from Pesos to US dollars for convenience of the reader have been made at the BSP Rate on 27 December 2019 of ₱50.744 = U.S.$1.00.

(2) Total capitalisation is the sum of long-term debt net of current portion and stockholders' equity.

(3) As at 31 December 2019, the Bank had no contingent liabilities save for those set out in Note 34.4 to the audited condensed financial statements of the Bank as at 31 December 2019, included elsewhere in this Offering Circular.

(4) On 1 February 2020, the Bank announced the declaration of cash dividends on its Preferred Shares Series "A" at the rate of 6.5% per annum of the par value, for a total dividend amount of ₱339.4 million, payable within 60 banking days from the dividend declaration rate. On 3 February 2020, the Bank issued ₱40.1 billion of senior fixed rate bonds with a rate of 4.408% per annum which will mature on 3 August 2022. On 27 February 2020, the Bank announced the declaration of regular cash dividends of ₱0.30 per share on the common shares of the Bank, payable on 27 March 2020 to all stockholders of record as at 13 March 2020.

Except as described above, there has been no significant change in the indebtedness or capitalisation or contingent liabilities of the Bank since 31 December 2019.

INVESTMENT CONSIDERATIONS

Investors should carefully consider the following investment considerations as well as the other information contained in this Offering Circular prior to making an investment in the Notes. In making an investment decision, each investor must rely on its own examination of the Bank and the terms of the offering of the Notes. The risks described below are not the only ones that may affect the Notes. Additional risks not currently known to the Bank or that the Bank currently deems immaterial may also impair the Bank's business operations.

Risks Relating to the Bank's Business

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

Over the past three years, the Bank has experienced substantial growth (organically and through acquisitions), with its loan portfolio expanding by 18.4%, 15.1% and 9.3% in the years ended 31 December 2017, 2018 and 2019, respectively. The Bank's total assets reached ₱1.0 trillion as at 31 December 2010, the first local bank to achieve this milestone, and as at 31 December 2019, the Bank was the largest domestic bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital and total trust funds under management. Total resources of the Bank were at ₱2.7 trillion, ₱3.0 trillion and ₱3.2 trillion as at 31 December 2017, 2018 and 2019, respectively. The Bank is also the industry leader in terms of investment banking, private banking, rural banking, remittances, leasing and finance, insurance brokerage and credit cards in 2019. However, the Bank's strategy, which includes growing and diversifying its loan portfolio and expanding its range of products and services to better cater to the needs of its customers, is also dependent on a number of external factors.

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

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

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

As at 31 December 2019, the Bank's total exposure to borrowers (or gross loans to and receivables from customers) was ₱2.2 trillion. The ten largest borrower groups in aggregate accounted for 35.3% of the Bank's total exposure and its ten largest individual borrowers in aggregate accounted for 13.9% of its total exposure.

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group, excluding Government-related entities, of connected persons in excess of 25% of its net worth (the single borrower limit). As at 31 December 2019, the Bank's single borrower limit was ₱92.1 billion. In determining whether the Bank meets the single borrower limit of the BSP, the Bank includes exposures to related accounts (including accounts of subsidiaries and parent companies of the borrower). The Bank's largest borrower as at 31 December 2019 accounted for 2.0% of the Bank's total exposure and 11.8% of the Bank's total equity. The largest borrower group as at 31 December 2019 accounted for 3.5% of the Bank's total exposure and for 21.0% of the Bank's total equity. Credit losses on these large single borrower and group exposures could adversely affect the business, financial position and results of operation of the Bank. See "*The Philippine Banking Industry*" and "*Banking Supervision and Regulation*".

The Bank extends loans to various sectors in the Philippines. The table below sets out the Bank's five largest industry exposures (net of unearned interest or discount) as at 31 December 2019.

Rank	Industry (based on the Philippine Standard Industrial Classification Code)	Amount	per cent. of Total Exposure to Borrowers
		(₱ millions)	
1	Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	291,461	13.2
2	Financial and insurance activities	290,150	13.1
3	Wholesale and retail trade	290,150	13.1
4	Real estate activities	286,744	13.0
5	Electricity, gas, steam and air conditioning supply	259,617	11.8
	Total	**1,418,122**	**64.2**

The Bank's exposure to these five sectors, totaling ₱1,418.1 billion, constituted 64.2% of the Bank's total loan portfolio (net of unearned interest or discount) as at 31 December 2019. Although the Bank's portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of non-performing loans (**NPLs**) and restructured assets, and adversely affect the Bank's business, financial position and results of operations.

The Bank may face increasing levels of non-performing loans (NPLs) and provisioning expense for impairment of assets.

The Bank's results of operations have been, and continue to be, negatively affected by the level of its NPLs. For the years ended 31 December 2017, 2018 and 2019, the Bank's provisioning expense for impairment of assets amounted to ₱6.5 billion, ₱6.3 billion and ₱6.2 billion, respectively, which represented 8.0%, 6.4% and 5.1%, respectively, of net interest income in those periods, and 0.4%, 0.3% and 0.3%, respectively, of gross loans in those periods. A slowdown in global growth momentum may adversely affect the ability of the Bank's borrowers to finance their indebtedness and, as a result, the Bank may experience an increase in NPLs and loan loss provisions.

The Bank's consolidated NPLs increased by 25.3% to ₱26.1 billion as at 31 December 2019 (representing 1.2% of the Bank's total gross customer loans net of interbank loans as at that date) from ₱20.8 billion as at 31 December 2018. As at 31 December 2017, 2018 and 2019, the Bank's NPL coverage ratio was 146.2%, 183.1% and 164.7%, respectively. The Bank has experienced significant growth in its loan portfolio in recent years and it may experience problems in non-payment arising from these new loans in the future. Any significant increase in the Bank's NPLs would have a material adverse effect on its financial condition, capital adequacy and results of operations.

Although the Bank believes that it has set aside adequate provisions and reflected current valuations as regards its investment portfolio and while financial markets have stabilised, there can be no assurance that the value of the Bank's investment portfolio will not deteriorate should renewed volatility in global financial markets occur.

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

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

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

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

Certain accounting standards have been adopted in the Philippines based on International Accounting Standards, which require the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral. These new accounting standards may result in the Bank recognising significantly higher provisions for loan loss in the future. The PFRS 9 Expected Credit Loss (**ECL**) poses risk of variability of provisions due to the subjective nature of assumptions used and complexity of data requirements for the model forecasts as well as potentially unforeseen changes in macroeconomic and industry conditions.

The Bank adopted PFRS 9 effective 1 January 2018 and the application of the ECL model decreased the Bank's allowance for credit losses by ₱6.7 biillion and increased other comprehensive income by ₱69 million as at 1 January 2018. Provision for credit losses of the Bank in 2018 and 2019 using the ECL model amounted to ₱6.2 billion and ₱6.0 billion, respectively.

While the Bank believes its current level of provisions and collateral position are more than adequate to cover its NPLs exposure, an unexpected or significant increase in NPL levels may result in the need for higher levels of loan loss provisions in the future.

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

As at 31 December 2019, the Bank's secured loans represented 23.6% of the Bank's total gross customer loans, and 58.7% of the collateral on these secured loans consisted of real estate properties. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realised value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the market value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its loan loss provisions may be inadequate and the Bank may need to increase such provisions. Any increase in the Bank's loan loss provisions could adversely affect its business, financial position, results of operations and capital adequacy ratios.

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

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

The Bank has significant exposure to the Philippine property and real estate market due to the level of its holdings in Real and Other Properties Acquired (**ROPA**). ROPA generally refers to real estate assets the Bank has acquired as a result of foreclosures of real estate property which stand as collateral for real estate loans. When the Bank's collection efforts on its real estate loans are unsuccessful, the Bank is constrained to institute foreclosure proceedings against the collateral property, and subsequent to foreclosure, these real properties are consolidated in the Bank's name and booked as ROPA. The Philippine property market is highly cyclical, and property prices in general have been volatile. Property prices collapsed following the Asian financial crisis but recovered until the global financial crisis in 2008 restrained demand. However, property demand and prices have since recovered on favourable macroeconomic conditions, increasing home ownership in the Philippines, and strong demand from families of overseas Filipino workers (**OFWs**) as well as workers from the Information and Communication Technology (**ICT**) and Business Process Outsourcing (**BPO**) industries. Property prices are affected by a number of factors, including the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and economic developments. Historically, the Bank has low home loan default rates compared to industry standards. As at 30 September 2019, BDO's home loan default rate was at 1.6%, compared to the average industry rate of 3.1%.

In 2019, the Bank sold ₱2.8 billion worth of acquired assets, and intends to continue with its strategy of gradually reducing ROPA levels. As a result, the Bank recorded net ROPA (which represents ROPA net of accumulated depreciation and allowance for impairment) of ₱12.3 billion as at 31 December 2019, representing 0.4% of the Bank's total resources. As at 31 December 2017 and 2018, the Bank's net ROPA amounted to ₱9.8 billion and ₱11.1 billion, respectively, representing 0.4% and 0.4% of the Bank's total resources as at such dates.

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

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

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

For example, while the Philippines enacted the Anti-Money Laundering Act of 2001 (the **Anti-Money Laundering Act** or **AMLA**) to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the Financial Action Task Force (the **FATF**). However, following pressure from the FATF, an amendment to the Anti-Money Laundering Act became effective on 23 March 2003. In

January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories (**NCCTs**), confirming that anti-money laundering (**AML**) measures to remedy deficiencies that were originally identified by the FATF were in place. AML systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. In June 2012, President Benigno S. Aquino III signed into law two measures intended to further strengthen the country's campaign against money laundering. These measures included criminalising terrorist financing activities as well as allowing the Government, upon determination of probable cause, to examine bank accounts or investments *ex parte*, or without informing the account holder concerned. The enactment of these measures resulted in the Philippines being upgraded by the FATF to the anti-money laundering compliance "gray list", signifying sufficient progress in the country's campaign against money laundering and terrorist financing. There can be no assurance however, that current Philippine AML systems will continue to be effective against money laundering and similar transactions, as shown by the recent incident involving a large Philippine universal bank in an international money laundering case. Any deficiencies or lapses, whether minor or material, in such systems could result in sanctions against Philippine banks, including the Bank, and other financial institutions or persons included in the web of transfers and currency conversions, which could adversely affect its reputation, business and operations or cause it to be in breach of its contractual obligations.

On 15 February 2013, then President Aquino signed into law Republic Act No. 10365, which expanded the AMLA covered institutions and crimes. This law took effect on 7 March 2013 and required jewelry dealers to report transactions worth ₱1 million and above. The law also requires the Philippine Land Registration Authority to submit to the Anti-Money Laundering Council (**AMLC**) reports covering real estate purchases worth ₱500,000 and above. Aside from this, predicate crimes – or those criminal acts where the law may also be applied if money is involved – were also expanded to cover 20 additional offenses or crimes, including bribery, extortion, malversation of public funds, fraud and financing of terrorism

The controversy involving the U.S.$81 million theft involving the Bangladesh central bank account in 2016 prompted Philippine legislators and agencies, such as the Department of Finance and the BSP, to propose further amendments to the AMLA. On 15 March 2017, BSP issued Circular 950 Series of 2017 containing the amendments approved by the Monetary Board to the Anti-Money Laundering-Combating the Financing of Terrorism (AML/CFT) regulations. The changes reflected the amendments to the AMLA that took effect in January 2017 as well as the recommendations from the FATF and added the requirements for group-wide AML compliance function and monitoring systems are incorporated for a holistic management and prevention of money laundering and terrorist financing risks.

On 14 July 2017, President Rodrigo Duterte signed into law Republic Act No. 10927 which further amended the AMLA to include casinos in the coverage of the law. The amendments categorise any single casino cash transaction of more than ₱5 million, or its equivalent in other currencies, as a "covered transaction" which must be reported to the AMLC, and also grants authority to the Philippine Court of Appeals, upon verified petition by AMLC and after determination of existence of probable cause, to issue a 20-day freeze order against any monetary instrument or property linked to unlawful activities as those defined and enumerated under the AMLA.

There can be no assurance however, that current Philippine AML systems will continue to be effective against money laundering and similar transactions, as shown by the U.S.$81 million theft involving the Bangladesh central bank account in 2016. Any deficiencies or lapses, whether minor or material, in such systems could result in sanctions against Philippine banks, including the Bank, and other financial institutions or persons included in the web of transfers and currency conversions, which could adversely affect its reputation, business and operations or cause it to be in breach of its contractual obligations.

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

November 2019) and on 24 October 2019 (reduction of a further 100 basis points, effective December 2019), which brought down the reserve requirement to 14% as at 31 December 2019.

To better monitor the banking industry's exposure to the property sector, the BSP issued Circular no. 600 in 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures (**REE**) to include mortgages and loans extended to the following: individuals to finance the acquisition or construction of residential real estate for own-occupancy as well as land developers and construction companies for the development of socialised and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included. Further, in 2017, the BSP issued Circular No. 976 which requires banks to report granular information on their real estate loans to mid- and high-end housing units, in addition to socialized and low-cost housing. Under the new reporting rules, covered banks are also required to report commercial real estate loans as to the underlying commercial project being financed such as residential units, office buildings, malls and factory/plant facilities. Universal and commercial banks shall also be required to submit a new Report on Project Finance Exposures which shall include information in terms of type of infrastructure project and project phase. Circular 976 also clarified the definitions of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate limits as provided under BSP Circular 600, the expanded definition of REE, and the Real Estate Stress Test limits. As these guidelines are for monitoring purposes only, banks shall continue to comply with the 20% adjusted REE limit. There is no guarantee, however, that the BSP will not enforce further tightening of REE limits in the future to head off potential asset bubbles.

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

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

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

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Philippine Supreme Court has held that special savings accounts granting a higher tax rate to depositors who are able to maintain the required minimum deposit balance for the specified holding period, and evidenced by a passbook, are certificates of deposit bearing interest and thus subject to documentary stamp tax.

In addition, new taxation regulations issued by the BIR may have an adverse effect on the Bank. The Comprehensive Income Tax and Incentives Rationalization Act (**CITIRA**) was approved by the Senate Committee on Ways and Means on 19 February 2020, and is expected to be approved on a final reading by March this year. The latest draft of the CITIRA, provides, among others, for the repeal of (i) the 10% special income tax rates of offshore banking units, and (ii) effective two years from the implementation of the CITIRA, the tax provisions granting incentives to banks and financial institutions, If passed into law, the implementation of the CITIRA may adversely affect the Bank.

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

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

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

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

The Bank's asset portfolio is comprised primarily of loans to customers and investments in securities held at fair value through profit or loss (**FVTPL**), fair value through other comprehensive income (**FVOCI**) securities and hold-to-collect (**HTC**) securities (comprised primarily of Philippine Government securities). As at 31 December 2019, the Bank's total Philippine Government securities balance was ₱300.1 billion representing 68.6% of the Bank's investment securities portfolio.

During periods of declining interest rates, the Bank is able to generate relatively higher earnings from its trading and investment activities. Other debt securities, non-debt securities and derivative financial assets amounted to ₱107.8 billion, ₱26.0 billion and ₱3.6 billion, respectively, as at 31 December 2019, representing 24.6%, 6.0% and 0.8%, respectively, of the Bank's trading and investment securities portfolio.

The Bank's income from trading activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates and debt prices, as well as stock market fluctuations. For example, an increase in interest rates or downgrade of the credit ratings of some of the fixed income securities invested may have a substantial impact on the value of the Bank's investments in fixed income securities, which would negatively affect the Bank's results of operations.

Further, the implementation of PFRS 9 on the Bank's investment portfolio affects its ability to realize trading gains due to stricter conditions for disposals, and subjects the Bank's investments to increased volatility due to mark-to market valuation of the Bank's trading book. Although the Bank does have hedging and trading limits in place to mitigate these risks, there can be no assurance that the Bank will not incur trading and investment losses in the future in connection with its trading and investment activities. PFRS 9 also introduces ECL provisions for fixed income securities which were not previously required under the IAS accounting framework.

In addition, the varying gains recognised by the Bank as a result of its trading of securities have caused the Bank's trading income to vary significantly from period to period. For instance, the Bank experienced a net trading loss amounting to ₱2.9 billion for the year ended 31 December 2008 (which represented 5.1% of total operating income in that period), attributable to the volatility in the global financial markets arising from the subprime crisis in the U.S. However, as global financial markets stabilised and global interest rates declined, the Bank generated gains from trading activity, with trading gains representing 7.3%, 10.7% and 7.2% of total operating income for the years ended 31 December 2009, 2010 and 2011, respectively. The Bank realized a trading gain of ₱0.5 billion for the year ended 31 December 2017, a trading loss of ₱1.6 billion for the year ended 31 December 2018, and a trading gain of ₱1.9 billion for the year ended 31 December 2019, which amounts represented 0.3%, (1.1)% and 1.0% of the Bank's total operating income for such periods, respectively. A slowdown in domestic or global growth may make it more difficult for the Bank to generate substantial gains from its trading activities.

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

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

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

The Bank has a funded non-contributory retirement plan covering substantially all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As at 31 December 2019, the fair value of the retirement plan assets of the Bank was ₱30.6 billion and the present value of the obligation was at ₱33.9 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognised a retirement benefit liability of ₱3.3 billion for 2019.

The principal actuarial assumptions used by the Bank to determine the cost of retirement benefits include a discount rate of 5.22% and a salary increase of 2.0% to 11.0% per annum, compounded annually. If these assumptions prove to be incorrect, the Bank's funding obligations in respect of its retirement plans may be significantly higher than currently anticipated. The Bank regularly reviews its assumptions and methodology and takes appropriate actions to ensure that the retirement plan assets meet actuarial requirements. Any change in methodology or assumptions affects the amount that the Bank amortises each year in respect of its retirement fund liabilities, which would adversely affect the Bank's net income.

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

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

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

On 11 February 2019, the Bank disclosed that its subsidiary, ONB (which has since been renamed BDO Network), had signed an agreement with Rural Bank of Pandi Inc. (**RBPI**) for the acquisition of RBPI's banking business in Bulacan. The transaction is still subject to closing conditions and applicable regulatory approvals. On 31 October 2019, BDO Network completed its purchase of the recorded gross loan receivables and assumption of the recorded deposit liabilities of RBPI.

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

- The expected cost savings or revenue enhancing opportunities cannot be realised in the amounts or within the time frames contemplated;

- The extraordinary expenses, costs or difficulties relating to the integration of the businesses and information management systems are greater than expected;
- The existing customer and employee relationships are adversely affected, which may cause, among others, potential deposit attrition from target entity customers; and
- The integration difficulties or other factors relating to the rationalisation of the business cause unexpected business interruption.

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

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

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

As at 31 December 2019, SM Investments Corporation (**SMIC**) directly owned approximately 40.79% of the Bank's common shares. Multi Realty Development Corporation, Sybase Equity Investments Corporation and SM Prime Holdings (formerly SM Land), companies affiliated with SMIC and its controlling shareholders (the **SM Group**), held 6.65%, 5.48% and 2.05%, respectively, of the Bank's issued common shares. There can be no assurance that the interests of the SM Group will necessarily coincide with the interests of the Bank and the Bank's other Shareholders. *See "Management".*

The Bank has historically had close business relationships with the SM Group, and as at 31 December 2019, the Bank's loans to the SM Group amounted to ₱11.8 billion, or 0.5% of the Bank's total loan portfolio (including secured non-risk loans not subject to the BSP's single borrower's limit), which is below the BSP's single borrower limit for related party transactions. The Bank's loans to the SM Group are on commercial, arm's length terms. While the Bank is not dependent on the SM Group for any funding, financial guarantees, or other forms of financial support, any default by the SM Group on such loans from the Bank, or failure by the SM Group to make timely payments of amounts due under such loans, could have a material adverse effect on the Bank's financial condition and results of operation. Furthermore, the Bank benefits from its relationship with the SM Group through certain business synergies, including access to SM clients and prospective clients, joint product development and branch or ATM locations in SM malls. As a result, deterioration in the financial condition of the SM Group could have a material adverse effect on the Bank's financial condition and business opportunities.

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

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

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

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

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

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

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

As the Bank increases its digital capabilities, its business and internal systems have, and will increasingly rely on software and processes that are highly technical and complex. In addition, the Bank's digitisation capabilities will depend on the ability of such software and processes to store, retrieve, process and manage large amounts of data. The software and processes on which the Bank relies may now or in the future contain, undetected errors or bugs.

The Bank seeks to protect its computer systems and network infrastructure from physical break-ins as well as cybersecurity breaches and other disruptive problems caused by the Bank's increased use of mobile apps and digital solutions. The Bank also has access to and analyses certain data from its customers with their authorisation, which makes it an attractive target and potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. Computer break-ins and security breaches could affect the confidence, integrity and availability of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs IT security solutions such as firewalls data encryption and multifactor authentication, designed to minimise the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and security problems is likely to persist and there can be no assurance that these security measures will be adequate or successful in view of the dynamic and evolving transformation of cybercrimes. Further, as techniques used to sabotage or obtain unauthorised access to systems change frequently and generally are not recognised until they are launched against a target, the Bank may be unable to anticipate these techniques or to implement adequate preventative measures. The Bank has incurred and will continue to incur expenses and costs related to such security measures, such as the engagement of external cyber security partners to conduct vulnerability testing and compromise assessments the hiring of skilled IT personnel. The failure of the Bank to successfully implement security measures or prevent any security breaches could have a material adverse effect on the Bank's business, financial condition and results of operations as well as the reputation of the Bank.

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

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

The Bank is subject to interest rate risk.

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

The Bank is subject to foreign exchange risk.

As a financial organisation, the Bank is exposed to foreign exchange risk. Movements in foreign exchange rates could adversely affect the Bank's business, financial condition and results of operations. The foreign exchange transactions of Philippine banks are subject to stringent BSP regulation. Under BSP guidelines, the Bank is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit (**FCDU**) books. As at 31 December 2019, the Bank had ₱436.3 billion of foreign assets and ₱421.0 billion of foreign currency liabilities in its FCDU books, primarily in U.S. dollars. The decline in the value of the Peso against foreign currencies, in particular, the U.S. dollar may affect the ability of the Bank's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the Peso can depress the export market which can negatively affect the ability of the Bank's customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the Peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on the Bank.

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

The Government has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts to agrarian reform beneficiaries and the agricultural sectors of the country. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. The Bank has been unable to generate sufficient exposure to the agrarian reform based sector due to its prudent credit and risk management policies, and has, as a result, paid fines in the past and may continue to do so in the future. As an example, as at 31 December 2019, the total requirement applicable to the Parent Bank was ₱1.3 billion, comprising a ₱0.8 billion minimum requirement to the agricultural sector and a ₱0.5 billion requirement to agrarian reform beneficiaries. As at 31 December 2019, the Parent Bank lent a total of ₱0.5 billion to the agricultural sector and ₱0.0 billion for agrarian reform credits. As a result of its non-compliance with the requirement for agriculture lending and lending to agrarian reform beneficiaries, the Parent Bank estimates that it will be liable for a fine of ₱974.6 million for 2019. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or the Bank is forced to extend loans to the agrarian reform and agricultural sectors that are inconsistent with the Bank's credit and risk management policies, its business, financial position and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

The Bank is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank or subject the Bank to significant liabilities to third parties.

For example, the Bank is currently involved in is its action against the City of Cebu relating to the latter's inaction on the Bank's business permit applications for 29 of its branches in Cebu. This inaction stemmed from an earlier complaint filed by the City of Cebu against the directors and officers of the Bank and the managers of certain Cebu branches for the Bank's alleged under-declaration of the Bank's gross receipts for the year 2015 in its application for business permits for the 2016 calendar year. The criminal complaints against the directors and officers of the Bank were dismissed by the investigating prosecutor; the City of Cebu filed a Petition for Review before the Department of Justice (**DOJ**), but the same was likewise dismissed. The City of Cebu filed Motion for Reconsideration before the DOJ, which motion is pending to date. Meanwhile, the Bank's Amended Petition for Mandamus against the City of Cebu to compel the latter to issue business permits for BDO branches in Cebu City is also still pending to-date before the Regional Trial Court (**RTC**) Cebu City. Further, the Writ of Preliminary Injunction issued by the RTC Cebu City in BDO's favor is still effective, to-date.

There can be no assurance that the results of legal proceedings in which the Bank is involved (including the pending litigation actions by and against the City of Cebu) will not materially harm the Bank's business, reputation or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. Further, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of bank insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial position or results of operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

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

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

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

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

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

For example, the exit of the UK from the European Union ("Brexit"), after certain challenges and negotiations on its exact terms, became effective on 1 February 2020. If certain other states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Bank's business, financial condition and results of operations.

The broad ramifications of "Brexit" to the UK, the EU and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. In addition, the uneven and divergent conditions across major economies and the resulting desynchronisation in policy environment persist, with the US continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the "trade war" between the US and China, protracted economic slowdown in China, and other ongoing geopolitical crises that include among others, Syrian civil war and terrorist acts committed by ISIS. Moreover, the outbreak of the COVID-19 virus in 2020 has also contributed to market concerns and slowdowns in global airline, retail, tourism and other industries.

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

Risks Relating to the Philippine Banking Industry

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

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

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board's lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank, United Overseas Bank, First Commercial Bank of Taiwan, Hua Nan Commercial Bank, Ltd. and Chang Hwa Commercial Bank, being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery. As at 31 December 2019, according to data from the BSP, there were a total of 46, universal and commercial banks, domestic and foreign, operating in the Philippines.

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

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;

- Full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (enacted on 15 July 2014): a) the acquisition, purchase or ownership of up to 100% of the voting stock of an existing bank; b) investment in up to 100% of the voting stock of a new banking subsidiary incorporated under Philippine law; or c) establishment of branches with full banking authority;

- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases, resulting in excess capital that can be used as leverage for asset growth and market share gains;

- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions; and

- the emergence of financial technology, or new technology that seeks to improve and automate the delivery and use of financial services (**FinTech**), including businesses such as an all-digital bank set up by CIMB and ING Direct and mobile payment tools or e-wallet applications such as GCash and PayMaya, and the growing popularity of peer-to-peer lending through digital platforms; and

- as banks venture into micro-finance and other consumer financing products, other consumer-focused players, including informal lenders.

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

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

Domestic interest rates have remained low since 2009, with the monetary policy directed towards stimulating the economy. In 2018, however, domestic interest rates started to rise following the BSP's staggered 175 basis point hike in policy rates to subdue inflationary pressures from higher taxes under the R.A. 10963 or the Tax Reform for Acceleration and Inclusion (**TRAIN Law**) (implemented in January 2018), rising global oil prices, an acute rice shortage, and a weaker peso. In 2019, the BSP has cumulatively cut its rates by 75 basis points to help bolster economic growth back to the government's target and with inflation on a downtrend.

At the Monetary Board meeting on 11 May 2018, the BSP increased its key policy rates for the first time since September 2014 by 25 basis points to 3.25% for overnight borrowing and 3.75% for overnight lending rates. The BSP further increased key policy rates by 25 basis points at the Monetary Board meeting on 20 June 2018 to 3.50% for overnight borrowing and 4.00% for overnight lending rates. On 9 August 2018 the BSP delivered its largest rate hike in a decade, raising rates by 50 basis points to 4.00% for overnight borrowing and 4.50% for overnight lending rates. The BSP further raised overnight borrowing and lending rates by 25 basis points to 4.25% and 4.75%, respectively, on 15 November 2018. Effective 10 May 2019, the Monetary Board decided to reduce the interest rate on the BSP's overnight borrowing to 4.5%; on 8 August 2019, to 4.25%; on 26 September 2019, to 4.00%; and on 6 February 2020, to 3.75%. The interest rates on the overnight lending and deposit facilities were reduced accordingly. The interest rates on the overnight lending and deposit facilities were reduced accordingly. However, there is no assurance that interest rates in the Philippines will not increase in the future, including in response to inflationary pressures resulting from strong economic growth, tax reforms and global developments.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio and the Bank's ability to earn excess trading gains as revenue. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Bank's credit portfolio in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding. Lower levels of liquidity in the system may likewise lead to an increase in the cost of funding as banks actively compete for funds by raising the interest rates they charge on deposits.

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

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

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

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine banking system were 2.0%, 1.9%, and 1.9% as at the years ended 31 December 2017, 2018 and 2019, respectively.

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

Although the Philippine banking sector has generally recovered from past regional and global economic crises, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, in Asia or globally, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

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

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

Philippine banks face regulatory pressure to comply with new and stricter capital standards, liquidity and leverage standards, as well as meet prudential limits for real estate exposures.

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

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. The revised standards also distinguish further (i) Tier 1 capital, which is also referred to as Going-Concern Capital, and is composed of Common Equity and Additional Tier 1 capital; and (ii) Tier 2 capital, which is also referred to as Gone-Concern capital and establish new eligibility criteria for such capital instruments previously not implemented in regulatory capital instruments.

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

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

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

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

In December 2018, the Monetary Board approved the Philippine adoption of the Basel III countercyclical buffer (**CCyB**), completing the BSP's implementation of international standards for banks in terms of capital. The BSP under Circular No. 1024 initially set the CCyB at 0%, citing that the ongoing buildup of credit does not pose an imminent risk. The CCyB is subject to upward adjustment to a rate determined by the BSP when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall he effective 12 months after its announcement. Meanwhile, reductions in the buffer take effect immediately.

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

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

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

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

Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the new BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Bank's business, financial condition and results of operations. Further, through its compliance with these regulations, the Bank's business, financial position and results of operations may be adversely affected.

Any future changes in Philippine taxation may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to the taxation laws and regulations in effect in the Philippines. In the event of any changes to existing laws, the Bank's business, financial condition and results of operations could be materially affected.

The TRAIN Law, which was the first package of the Comprehensive Tax Reform Program (**CTRP**) of the Duterte administration, brought about extensive changes to individual income taxation. Among the amendments from the TRAIN Law included increasing the rate of documentary stamp tax (**DST**) on the original issue of shares of stock and debt instruments. The original issue of shares is now subject to documentary stamp tax of ₱2.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. Meanwhile, all such affected debt instruments are generally subject to DST at the rate of ₱1.50 on each ₱200.00, or fractional part thereof, of the issue value of such instruments. The TRAIN Law (including the increase in documentary stamp taxes) was one of the reasons for the increase in the Bank's operating expenses for the year ended 31 December 2018.

Meanwhile, the second package of the tax reform package, also known as CITIRA, was passed by the Philippine House of Representatives on 13 September 2019 and has been approved by the Ways and Means Committee of the Philippine Senate on 19 February 2020. CITIRA proposes to lower corporate income tax and rationalize fiscal incentives. If CITIRA is approved in its current form, the corporate income tax rate for domestic corporation, resident foreign corporations, and non-resident foreign corporations shall be reduced by 1% point every year beginning 1 January 2020 until 1 January 2029; the income tax rate of resident foreign corporations on interest income derived from a depository bank under the expanded foreign currency deposit system will be increased from 7.5% to 15%; the 10% special income tax rates of offshore banking units will be repealed; and the tax provisions granting incentives to banks and financial institutions will be repealed effective two years from the implementation of the CITIRA.

The other tax reform packages that the government hopes to implement include tax amnesty (estate, general), as well as "sin" (e.g., alcohol, gaming), property, passive income and financial intermediaries, and luxury taxes. The fourth package under the CTRP relating to passive income and financial intermediaries proposes to impose (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from DST.

While the tax reform program ensures fiscal sustainability, the dampening impact of higher taxes on consumer demand and affected industries (in terms of added costs), could slow down the country's growth pace and affect the Bank's business. Further, the new regulations (such as the fourth package of the CTRP) may directly affect the business and results of operations of the Bank. If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

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

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay $780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organisations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions (**FFIs**) that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens. An FFI will have to set up a process to identify U.S. accounts as part of its on boarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

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

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

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on 25 April 2014 as a PFFI and then amended its FATCA status on 27 March 2015 to Registered Deemed Compliant Foreign Financial Institution under a Model 1 Intergovernmental Agreement (**IGA**). The Bank's FATCA ID and Global Intermediary Identification Number is URSOGI.00000.LE.608.

Under the IGA, the local tax authority and the BIR are the competent authority to receive FATCA information for reporting to the IRS. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force.

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

PFRS continues to evolve as new standards and interpretations come into effect.

PFRS 9, the local adoption of International Financial Reporting Standards (**IFRS**) 9 Financial Instruments, originally issued in 2009, reflects the first and third phases of the three-phase improvement project by the International Accounting Standards Board to replace International Accounting Standards (**IAS**) 39 Financial Instruments: Recognition and Measurement. Phases 1 and 3 of the project apply to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. It requires entities to classify and subsequently measure financial assets at either amortised cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Banks financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. PFRS 9 also requires enhanced disclosures to help the users of financial statements better understand the risks and the likely cash flows from the financial assets. Guidelines on the early adoption of PFRS 9 by banks and other BSP-supervised financial institutions of PFRS 9 were approved by the BSP in 2011 under Circular No. 708 s. 2011.

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

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

PFRS 16*, Leases* is a new standard which came into effect on 1 January 2019, under which lessees will no longer classify leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees are required to report leases on the balance sheet as assets and liabilities, subject to depreciation. Leases with terms of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. The Bank has adopted PFRS 16.

A discussion on the newly adopted PFRS, and other new PFRS and amendments to existing standards to be adopted or which will be effective after 2019, can be found in Note 2.2 of the Bank's audited financial statements as at 31 December 2019 included elsewhere in this Offering Circular.

The Bank believes that other amendments and improvement to PFRS issued effective after 31 December 2019 have no material impact on the Bank's financial statements.

Risks Relating to the Philippines

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

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso has declined from approximately ₱29.00 to U.S.$1 in July 1997 to ₱56.18 to one U.S.$1 by December 2004.

The value of the Peso may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an out flow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As at 27 December 2019, according to BSP data, the Peso has depreciated by 1.6% to ₱50.744 per U.S.$1 from ₱49.923 per U.S.$1 at the end of 2017. As at 3 March 2020, the Peso was at ₱50.856 against the U.S. dollar.

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

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

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations and foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies, including tax laws and regulations that impact or may impact inflation and consumer demand such as the Train Law or subsequent legislation;
- Government budget deficits;
- re-emergence of Middle East Respiratory Syndrome-Corona virus (**MERS-CoV**), SARS, avian influenza (commonly known as bird flu), H1N1, outbreak of COVID-19 or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

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

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

The Philippines has, from time to time, experienced political and military instability, including acts of political violence. In the last decade, there has been political instability in the Philippines, including extra-judicial killings, alleged electoral fraud, impeachment proceedings against two former presidents, two chief justices of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of officials of the Philippine government are currently under investigation or have been indicted on corruption charges stemming from allegations of misuse of public funds, extortion, bribery, or usurpation of authority. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy.

An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the business, operations, and financial condition of the Bank.

No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material adverse effect on the business, operations, and financial position of the Bank.

Acts of terrorism and violent crimes could destabilise the country and could have a material adverse effect on the Bank's business and financial condition.

The Philippines has also been subject to a number of terrorist attacks and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in May 2017, the city of Marawi in Lanao del Sur, Mindanao, was assaulted by the Maute Group, terrorists which were inspired by pledged allegiance to the Islamic State of Iraq and Syria (ISIS). Due to the clash between the Government forces and the terrorists and the risk of the armed conflict spilling over to other parts of Mindanao, martial law was declared in the entire island of Mindanao, Philippines. In October 2017, the city was declared liberated from the terrorists. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. Martial law in Mindanao was lifted on 1 January 2020, however certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy. These armed conflict and terror attacks could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

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

Any outbreak or escalation of contagious diseases in the Philippines, such as SARS, COVID-19, MERS-CoV, bird flu or H1N1 influenza (or swine flu), could have a material adverse effect on our financial condition and results of operations. In particular, any outbreak of contagious diseases could adversely affect the general level of economic activity in the Philippines. For example, although only a few cases of COVID-19 have been confirmed in the Philippines, the Philippine Government has put in place travel restrictions which prohibit Philippine nationals from traveling to China, Hong Kong SAR and Macau SAR, as well as prohibiting any foreign national coming from any of such territories from entering the Philippines. These restrictions have caused several airlines to cancel flights to and from Manila vis-à-vis such territories.

The outbreak or escalation of COVID-19 or other epidemic or pandemic could potentially disrupt our operations if any of our employees or of customers are suspected to have been infected, and identified as a possible source of spreading the related infection. The Bank may be required to quarantine the employees that have been suspected of becoming infected, as well as any others that had come into contact with them. The Bank may also be required to disinfect the affected bank branches or other offices and therefore suffer a temporary suspension of business operations. Any quarantine of the Bank's employees or suspension of the Bank's business operations at its branches or offices will affect the Bank's overall operations and operating results. Furthermore, such an outbreak would likely restrict the level of economic activity in affected areas, which would also adversely affect the Bank's business and operating results.

There can also be no assurance that the policies and controls for outbreak prevention and disease recurrence, will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu, COVID-19 or any other contagious disease affecting the Philippines or elsewhere will not occur. There can also be no assurance that any current or future outbreak of contagious diseases will not have a material adverse effect on the Bank's business, financial condition, and results of operations. If the outbreak of the COVID-19 or any public health epidemic becomes widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

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

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as the Bank. Historically the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. As at 31 December 2019, the Philippines' long-term foreign-currency denominated debt was rated Baa2 by Moody's, BBB+ S&P Global Ratings, and BBB by Fitch. However, no assurance can be given that Fitch, Moody's, S&P Global Ratings or any other international credit rating agency, will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Bank. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

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

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, droughts, volcanic eruptions and earthquakes. For example, in January 2020, Taal Volcano, which is located approximately 50 kilometres south of Manila, erupted in mid-January 2020, spewing ashes across several towns and cities in Cavite, Laguna, Batangas, Rizal and Quezon, Metro Manila and even some parts of Central Luzon. The phreatic eruption caused the evacuation of nearby areas, and interrupted business operations as well as electricity and internet connectivity. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Bank's operations. These factors, which are not within the Bank's control, could potentially have significant effects on the Bank's branches and operations. While the Bank carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Bank believes are in line with general industry practices in the Philippines, there are losses for which the Bank cannot obtain insurance at a reasonable cost or at all. The Bank also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Bank could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Bank's business, financial condition and results of operations.

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

While the SRC and rules of Philippine Stock Exchange (**PSE**) require full and fair disclosure of material corporate information, there may be less publicly available information on Philippine public companies such as the Bank, compared to information regularly made available by public companies in the U.S. and other more developed countries. Noteholders may therefore not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and other jurisdictions. Furthermore, although the Bank complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may still not be at par with best practices already instituted in more advanced jurisdictions.

For example, the Philippine Code of Corporate Governance for Publicly Listed Companies requires the Bank, being a publicly listed company, to have at least three independent directors or such number as to constitute at least one-third of the members of the Board, whichever is the lower number. A higher number of independent directors may be required in other more developed countries as compared to the required number in the Philippines. The Bank currently has five incumbent independent directors out of the eleven directors, sitting in its Board of Directors, which is more than the minimum required number for publicly listed companies.

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

Competing and overlapping territorial claims by the Philippines, China and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts. China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea (UNCLOS). In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of China is invalid. The Philippine government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Any deterioration in the Philippine economy as a result of these or other factors, including a significant depreciation of the Philippine peso or increase in interest rate, may adversely affect consumer sentiment and lead to a reduction in consumer spending generally. This, in turn, could materially and adversely affect the Bank's financial condition and results of operations, and its ability to implement its business strategy and expansion plans.

Risks Relating to an Investment in the Notes

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Noteholders may face difficulties enforcing judgments against the Bank.

The Bank is organised under the laws of the Philippines. A substantial portion of the Bank's assets are located in the Philippines. It may be difficult for investors to effect service of process outside of the Philippines upon the Bank. Moreover, it may be difficult for investors to enforce judgments against the Bank outside of the Philippines in any actions pertaining to the Notes. In addition, substantially all of the directors and officers of the Bank are residents of the Philippines, and all or a substantial portion of the assets of such persons are or may be located in the Philippines.

As a result, it may be difficult for investors to effect service of process upon such persons or enforce against such persons, judgments obtained in courts or arbitral tribunals outside of the Philippines predicated upon the laws of jurisdictions other than in the Philippines.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Judgments obtained against the Bank in any foreign court may be recognised and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. However, such foreign judgment or final order may be rejected in the following instances: (i) such judgment was obtained by collusion or fraud; (ii) the foreign court rendering such judgment did not have jurisdiction; (iii) such order or judgment is contrary to good customs, public order, or public policy of the Philippines; (iv) the Bank did not have notice of the proceedings before the foreign court; or (v) such judgment was based upon a clear mistake of law or fact.

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorised to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Bank is aware, none of its debt is evidenced by a public instrument and the Bank will undertake in the Terms and Conditions of the Notes and the Trust Deed not to create or permit to subsist any preference or priority in respect of any Relevant Indebtedness (as defined in Condition 4) pursuant to Article 2244(14). However, a domestic lender may acknowledge debt before a notary or a person authorised to administer oaths without notice to the Bank. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Notes in the event of the liquidation of the Bank.

If an investor holds Notes which are not denominated in the investor's home currency, the investor will be exposed to movements in exchange rates adversely affecting the value of the investor's holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the Investor's Currency) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes; (2) the Investor's Currency equivalent value of the principal payable on the Notes; and (3) the Investor's Currency equivalent market value of the Notes.

The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee.

The Issuer is not aware of any pending proposals by the Government relating to such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon sale of the Notes or receipt of any dividends.

The Notes may have limited liquidity.

The Notes issued under the Programme will constitute a new issue of securities for which there is no existing market. The offer and sale of the Notes is not conditioned on obtaining a listing of the Notes on the SGX-ST or any other exchange. The Dealers are not obliged to make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice in their sole discretion.

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

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

Application has been made with the SGX-ST for permission to deal in, and quotation of, any Notes which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the official list of the SGX-ST. However, there can be no assurance that the Issuer will obtain or be able to maintain such a listing or that, if listed, a trading market will develop for the Notes on the SGX-ST. The Issuer does not intend to apply for listing of the Notes on any securities exchange other than the SGX-ST. Lack of a liquid, active trading market for the Notes may adversely affect the price of the Notes or may otherwise impede a holder's ability to dispose of the Notes.

Investors who hold an amount of Notes less than the minimum Specified Denomination may not receive a definitive Notes for such amount.

In relation to any issue of Notes which has denominations consisting of a minimum Specified Denomination (as specified in the applicable Pricing Supplement) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Noteholders are required to rely on the procedures of the relevant clearing system and its participants while the Notes are cleared through the relevant clearing system.

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Bank will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

If definitive Notes are issued, holders should be aware that definitive Notes that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The implementation of Basel III guidelines may have an adverse effect on the position of the Noteholders.

On 17 December 2009, the BCBS proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled 'Strengthening the resilience of the banking sector'. On 16 December 2010 and on 13 January 2011, the BCBS issued its final guidance on Basel III. The Basel III reforms require Tier 1 and Tier 2 capital instruments to be more loss-absorbing. The BCBS has proposed that the guidelines should be implemented from 1 January 2013. In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014. Under the new Basel III capital standards proposed by the BSP, Philippine banks are required to maintain at least 7.5% and 10.0% Tier 1 and total Capital Adequacy Ratio (**CAR**), respectively, compared to the current minimum levels of 5% and 10% These effectively make the proposed BSP requirements more stringent than those of the BIS minimum levels of 6.0% and 8.0% Tier 1 and total CAR, respectively. BSP Circular No. 768 issued in September 2012 provides that eligible capital instruments issued as Lower Tier 2 capital under the conditions for eligibility as capital instruments pursuant to existing regulations shall continue to be recognised as qualifying capital until the BSP issues further guidelines. In March 2016, the Monetary Board announced that it had approved the LCR framework which requires universal and commercial banks to hold sufficient HQLAs that can be easily converted into cash to service liquidity requirements over a 30-day stress period. The approval of the LCR framework by the Monetary Board provides for an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. Banks are required to publicly disclose information related to the LCR on solo and consolidated bases beginning 1 January 2019. See "— *Philippine banks face regulatory pressure to comply with new capital standards*".

The press release of the BCBS dated 13 January 2011 entitled "Minimum requirements to ensure loss absorbency at the point of non-viability" included an additional Basel III requirement (the **Point of Non-Viability Requirement**) as follows:

"The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

(a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;

(b) a peer group review confirms that the jurisdiction conforms with clause (a); and it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) in this paragraph."

The release also states as follows: "The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority" (for the purposes of this Offering Circular, each a **Non-Viability Event**).

The BSP has provided guidance to the Philippine banks regarding the minimum capital ratios under the Basel III regime and the terms and conditions of Basel III compliant capital through the issuance of BSP Circular No. 781, Series of 2013, concerning the Basel III Implementing Guidelines on Minimum Capital Requirements. The Implementing Guidelines states that all instruments (other than common equity) qualified as Additional Tier 1 and Tier 2 capital must have contractual terms and conditions requiring them to be written-off or converted into common equity upon occurrence of a specified trigger event. The trigger event occurs when a bank is considered nonviable as determined by the BSP.

Specifically, capital instruments should be written off or converted into Common Equity Tier 1 at the earlier of:

(a) The occurrence of a deviation from a certain level of Common Equity Tier 1 ratio, specifically, in case the Common Equity Tier 1 ratio falls to 7.25% or below or as may be determined by the BSP;

(b) The inability of the bank to continued business; or

(c) any other event as may be determined by the BSP.

There is currently no indication that the BSP is considering having laws in place that would allow it or any other relevant authority the right to impose losses on the capital instruments without expressed and specific stipulations in the capital instruments allowing the BSP to do so (**Statutory Loss Absorption**).

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15.

Payments under the Notes may become subject to U.S. Foreign Account Tax Compliance Withholding.

The FATCA imposes a reporting regime and, potentially, a 30% withholding tax. Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may in the future affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the clearing systems and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries.

The occurrence of a Non-Viability Event may be inherently unpredictable and may depend on a number of factors which may be outside of the Bank's control.

The occurrence of a Non-Viability Event is dependent on a determination by the BSP (a) that a deviation from a certain level of Common Equity Tier 1 ratio occurred, specifically, in case the Common Equity Tier 1 ratio falls to 7.25% or below or as may be determined by the BSP; (b) inability of the bank to continued business; or (c) any other event as may be determined by the BSP. As a result, the BSP may require or may cause a write-off in circumstances that are beyond the control of the Bank and with which the Bank does not agree. Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a write-off will occur.

Based on the existing Basel III Guidelines, there is no assurance that any contractual provisions with non-viability loss absorption features, to the extent applicable, will be sufficient to satisfy the Basel III-compliant requirements that the Relevant Authorities may implement in the future. There is a risk that any Relevant Authority may deviate from the Basel III proposals by implementing reforms which differ from those envisaged by the BCBS.

The credit ratings assigned to the Notes may not reflect all risks.

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

Risks Relating to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for investors. Set out below is a description of certain such features and associated risks.

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;

- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to such a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Partly Paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of the Notes could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The regulation and reform of "benchmark" rates of interest and indices may adversely affect the value of Notes linked to or referencing such "benchmarks".

Interest rates and indices which are deemed to be or used as "benchmarks" are the subject of recent international regulatory guidance and proposals for reform, particularly in the United Kingdom. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a benchmark. Regulation (EU) 2016/1011 (the **Benchmarks Regulation**) was published in the Official Journal of the EU on 29 June 2016 and apply from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that apply from 30 June 2016 and 3 July 2016). The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the Issuer) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

More broadly, any of the international reforms, particularly in the United Kingdom or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the London interbank offered rate (**LIBOR**) has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcement**). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is possible that the LIBOR administrator, ICE Benchmark Administration, and the panel banks could continue to produce LIBOR on the current basis after 2021, if they are willing and able to do so. However, the survival of LIBOR in its current form, or at all, is not guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to floating rate Notes whose interest rates are linked to LIBOR). Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international reforms, particularly in the United Kingdom or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation or any other international reforms, particularly in the United Kingdom, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

Risks Relating to Renminbi-denominated Notes

Notes denominated in Renminbi (**Renminbi Notes**) may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outward from the PRC.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts.

Currently, participating banks in Singapore, Hong Kong, Taiwan, London, Frankfurt, Seoul, Toronto, Sydney, Doha, Paris, Luxembourg, Kuala Lumpur and Bangkok have been permitted to engage in the settlement of Renminbi trade transactions. This represents a current account activity. However, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

Since 1 October 2016, the Renminbi has been added to the Special Drawing Rights basket created by the International Monetary Fund. However, there is no assurance that the PRC government will continue to liberalise its control over cross-border Renminbi remittances in the future or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under the Notes denominated in Renminbi. Each investor should consult its own advisors to obtain a more detailed explanation of how the PRC regulations and rules may affect their investment decisions.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Bank's ability to source Renminbi outside the PRC to service such Renminbi Notes.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that no new PRC regulations will be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of its Renminbi Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against the US dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. Subject to the applicable Pricing Supplement and Terms and Conditions, all payments of interest and principal with respect to Renminbi Notes will be made in Renminbi. As a result, the value of these Renminbi payments in US dollar terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the US dollar or other foreign currencies, the value of investment in US dollar or other applicable foreign currency terms will decline.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes will be made solely by (i) when Renminbi Notes are represented by global certificates, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing Euroclear and/or Clearstream rules and procedures, or (ii) when Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Bank cannot be required to make payment by any other means (including, but not limited to, in any other currency, by bank notes, by cheques or drafts or by transferring to a bank account in the PRC).

DESCRIPTION OF THE BANK

Overview

BDO Unibank, Inc. (the **Bank**) is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust and investments, investment banking, private banking, cash management, leasing and finance, remittance, insurance, rural banking, stock brokerage, retail cash cards and credit card services. The Bank is the product of a merger between Banco de Oro Universal Bank, Inc. (**BDO**) and Equitable PCI Bank, Inc. (**EPCIB**), which took effect on 31 May 2007. As at 31 December 2019, according to the statements of condition submitted by banks to the BSP, the Bank ranked as the number one bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital, and total trust funds under management. The Bank's consolidated total resources were ₱2.7 trillion, ₱3.0 trillion and ₱3.2 trillion as at 31 December 2017, 2018 and 2019, respectively, while total capital funds stood at ₱298.3 billion, ₱328.1 billion and ₱370.6 billion, respectively.

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

As at 31 December 2019, the Bank had a network of 1,434 operating domestic branches (including 263 BDO Network Bank, Inc. (**BDO Network**) (formerly One Network Bank, Inc.) branches) and two full-service branches in Hong Kong and Singapore. As at 31 December 2019, its network includes 22 overseas remittance and representative offices across Asia, North America, Europe and the Middle East, and 4,466 automated teller machines (**ATMs**) (including 241 BDO Network ATMs) and 562 cash deposit machines (**CDMs**). As at 31 December 2019, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 55.25% of the Bank's issued share capital.

As at 31 December 2019, the Bank had a market capitalisation on the PSE of approximately ₱692.3 billion. The Bank's consolidated common equity tier 1 (**CET1**) ratio, tier 1 capital adequacy ratio, and total capital adequacy ratio were 12.7%, 12.9% and 14.2%, respectively, as at 31 December 2019.

History

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

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

Mergers and Acquisitions

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

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

- In October 2002, the Bank assumed 1st e-Bank Corporation's (**1st e-Bank**) ₱10 billion of deposits and other liabilities in exchange for certain assets including 60 branch licenses.

- On 29 August 2003, the Bank acquired Banco Santander Philippines, Inc. (**BSPI**) while BDO Capital acquired Santander Investment Securities Philippines, Inc. from Santander Central Hispano, S.A. BSPI was renamed BDO Private Bank, Inc. (**BDO Private Bank**) and provided the Bank with an immediate presence in the private banking sector.

- On 19 December 2005, the Bank acquired United Overseas Bank Philippines' (**UOBP**) branch banking business and obtained 66 branch licenses.

- On 31 May 2007, the Bank merged with Equitable PCI Bank, Inc. with the Bank as the surviving entity. The merged bank was renamed Banco de Oro – EPCI, Inc. and on 6 February 2008, the Philippine SEC approved the change of name to Banco de Oro Unibank, Inc.

- On 30 October 2007, the Bank acquired American Express Bank Philippines, Inc. (**AEBP**), gaining access to American Express Philippines' U.S. dollar and Peso credit card portfolios as well as the consumer banking services of American Express.

- On 24 August 2009, the Bank purchased 98.81% of the issued and outstanding common shares and 100% of the preferred capital stock of GE Money Bank (**GEMB**), thereby consolidating GEMB's business including 31 branch licenses into the Bank. GEMB was retained as a separate legal entity and adopted the name BDO Elite Savings Bank, Inc. when it amended its Articles of Incorporation with the Philippine SEC on 12 August 2010.

- In July 2012, the Bank completed its acquisition of the banking business of the Rural Bank of San Juan, a rural bank with 30 additional branch licenses.

- On 25 March 2014, BDO completed the acquisition of Citibank Savings, Inc. (now Banco de Oro Savings Bank, Inc.), a savings bank with ten active branches and whose branches were converted on 24 August 2014.

- On 2 June 2014, BDO acquired the trust business of Deutsche Bank AG's Manila branch comprising trust, fiduciary and investment management activities.

- On 8 August 2014, the Bank acquired the banking business of The Real Bank (A Thrift Bank), Inc., a thrift bank with a deposit base of ₱6.9 billion and 24 branches operating in Metro Manila and Luzon, to transfer the latter's assets and liabilities to the Bank.

- On 23 December 2014, the Bank disclosed that it entered into an agreement to acquire ONB a leading rural bank with 105 branches and micro-banking offices in the Mindanao and Panay areas. The Bangko Sentral ng Pilipinas, in its letter dated 27 March 2015 to BDO Unibank, Inc., approved on 16 March 2015 BDO's acquisition of ONB. On 20 July 2015, the Bank successfully completed its acquisition of ONB. On 31 July 2019, the Philippine SEC approved the resolution changing the corporate name of ONB to BDO Network Bank, Inc. (**BDO Network**).

- On 9 June 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle Generali Pilipinas Holdings Company Inc. (**GPHC**), the parent firm of life insurer Generali Pilipinas Life Assurance Company (**GPLAC**) and non-life insurer Generali Pilipinas Insurance Company (**GPIC**). On 30 June 2016, the Bank secured final regulatory approval to acquire full interest in GPHC. Effective as at 1 July 2016, the operations of GPLAC were reorganized, and GPHC and GPLAC were renamed BDO Life Assurance Holdings Corp. (**BDO Life**), and BDO Life Assurance Company Inc., respectively.

- On 31 October 2019, the Bank's rural bank subsidiary, BDO Network, completed its purchase of the recorded gross loan receivables and assumption of the recorded deposit liabilities of the Rural Bank of Pandi Inc.

Recent Offers and Capital Raising Transactions

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

On 31 January 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The net proceeds were allocated to support the Bank's medium-term growth objectives and will support the Bank's higher capital requirements as a result of the phase in of a capital surcharge on D-SIBs by the BSP.

On 18 August 2017, the Bank issued ₱11.8 billion of long-term negotiable certificates of deposit ("**LTNCDs**") with a rate of 3.625% per annum and a maturity date of 18 February 2023. On 7 May 2018, the Bank issued ₱8.2 billion of LTNCDs with a rate of 4.375% per annum and a maturity date of 7 November 2023. On 12 April 2019, the Bank issued ₱7.3 billion of LTNCDs with a rate of 5.375% per annum and a maturity date of 12 October 2024. On 27 September 2019, the Bank issued ₱6.5 billion of LTNCDs with a rate of 4.000% per annum and a maturity date of 27 March 2025.

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

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

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

On 3 February 2020, the Bank issued ₱40.1 billion of senior fixed rate bonds with a rate of 4.408% per annum which will mature on 3 August 2022.

Other Recent Developments

In March 2017, the Bank signed a Memorandum of Understanding with Shinkin Central Bank (**Shinkin**) to develop a business cooperation envisioned to benefit the Japanese bank's existing SME clients operating in the Philippines and potential investors. The Bank may provide banking services including financial facilities, cash management and payment services, foreign exchange and other treasury products to Shinkin's SME clients.

In June 2018, the Bank announced that it had entered into a Memorandum of Understanding with Bank of Fukuoka, Ltd. (**BoF**), Japan's third largest regional bank, under which the Bank was chosen by BoF as its partner-bank in the Philippines to serve BoF's clients who wish to invest or expand into the Philippines.

In October 2018, the Bank announced that it entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore) (**Osmanthus**) in relation to Osmanthus's acquisition of a 15% stake in ONB, the Bank's rural bank subsidiary, and the transaction was completed on 16 May 2019. The Bank believes that its partnership with Osmanthus will further strengthen the Bank's microfinance business.

On 28 January 2020, the Bank announced that it had entered into an agreement to sell a controlling stake in its publicly listed subsidiary, BDO Leasing and Finance, Inc. (**BDOLF**), to a third party as part of the Bank's restructuring of its leasing business. The completion of the transaction is subject to conditions, including the spin-off and transfer of the leasing business to the Bank, compliance with Philippine Competition Commission notification and regulatory requirements, and the completion of a mandatory tender offer for the shares in the BDOLF held by public shareholders in compliance with Philippine securities laws and regulations.

Competitive Strengths

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

Leading brand name and banking franchise in the Philippines

The Bank believes that its combination of scale, reach, business mix, product offerings and brand recognition has made it a leading financial institution in the Philippines. According to statements of condition submitted by banks to the BSP, as at 31 December 2019, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank has one of the widest domestic branch networks in the Philippines, with 1,434 domestic branches (including 263 BDO Network branches) spanning all major cities across the country as at 31 December 2019. The Bank believes that all of these factors have helped to develop the BDO brand, which covers the Bank's entire range of banking products and financial services under a single brand name, as one of the most well-known in the domestic market. The Bank's premier branding and market dominance are also reflected in leading market shares across most business segments including corporate banking, retail banking, private banking, investment banking, rural banking, remittances and credit cards. The Bank believes that its scale of operations and brand recognition support the continued growth and diversification of its business, network and product mix.

Diversified business model providing full-service operations

The Bank is a full-service universal bank offering a host of industry-leading banking products and services to serve the retail and corporate markets, including lending products (such as loan products tailored to corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, bancassurance, insurance brokerage and stock brokerage services. See "– *Subsidiaries and Affiliates*". The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products. The Bank has implemented plans and strategies, such as the consolidation of BDO Life in 2016, increasing capabilities in wealth management, and leveraging its distribution network to cross-sell fee income generating products, which the Bank believes will increase the contribution of recurring fee income to its overall operating income. For the year ended 31 December 2019, the Bank's other operating income, mainly comprising non-interest income, increased by 22.0% to ₱60.6 billion from ₱49.7 billion in the year ended 31 December 2018. Moreover, the Bank believes that it has built a stable earnings base, wherein approximately 94.1% of its income is from recurring sources for the year ended 31 December 2019, rendering it less susceptible to market and industry volatility.

Customer-centric culture complemented by strategic distribution platform

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

To efficiently serve its customers, the Bank's branch network stretches to cover all major cities in the Philippines, with the Bank often establishing multiple branches in general areas it has identified to have greater potential for business. The Bank believes that this extensive domestic distribution network, including strategic locations within SM malls and other high-customer traffic areas, allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As at 31 December 2019, the Bank's network consists of 1,434 domestic branches (including 263 BDO Network branches), 4,466 ATMs (including 241 BDO Network ATMs), 562 CDMs, and two full-service branches in Hong Kong and Singapore. As at 31 December 2019, the Bank also had 22 remittance and representative offices across Asia, North America, Europe and the Middle East.

The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low-cost deposit base. Its low-cost deposit base (comprising demand and savings (**CASA**) deposits) increased from ₱1.54 trillion as at 31 December 2017 to ₱1.69 trillion as at 31 December 2018, representing a year-on-year growth of 9.2%. As at 31 December 2019, its CASA deposit base further grew to ₱1.82 trillion, or an increase of 8.1%, year-on-year. As at 31 December 2019 and 2018, 73.3% and 69.7%, respectively, of the Bank's total deposit base comprised CASA deposits, compared to 72.8% as at 31 December 2017. In addition, the Bank also believes that its branch network and premier customer service have allowed it to actively utilise its branches to expand its loan portfolio and transform its non-interest income franchise, mainly through aggressive cross-selling of loan and other fee income-related products and customer referrals across branches. The Bank believes that these endeavors will increase the ratio of recurring fee income to the Bank's overall operating income and reduce the Bank's reliance on trading and foreign exchange-related gains.

Scalable infrastructure platform for sustained growth

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

Strong and experienced management team

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

Synergies with controlling shareholder group

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

Business Strategies

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

Diversified and sustainable earnings stream

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

The Bank intends to continue to pursue focused loan growth to achieve a more balanced loan portfolio and more effectively manage its concentration risk. While the Bank believes it already maintains a diversified loan portfolio across various market segments, it intends to increase lending to the more profitable and growing consumer and middle-market segments. The Bank also expects to continue to leverage operating synergies with the SM Group to further diversify its earnings stream through product origination capabilities and fee-generating sources. In addition, to minimise the volatility of the Bank's income sources, the Bank has gradually built its non-interest earnings by generating increased income from its fee-generating services including, among others, asset/wealth management, electronic banking, insurance, credit cards and investment banking. The Bank also seeks to more efficiently manage its resources, such as its securities portfolio, to maximise both accrual and trading income.

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

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

Prudent balance sheet management

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

Further develop operating systems, branch infrastructure and advertising efforts

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

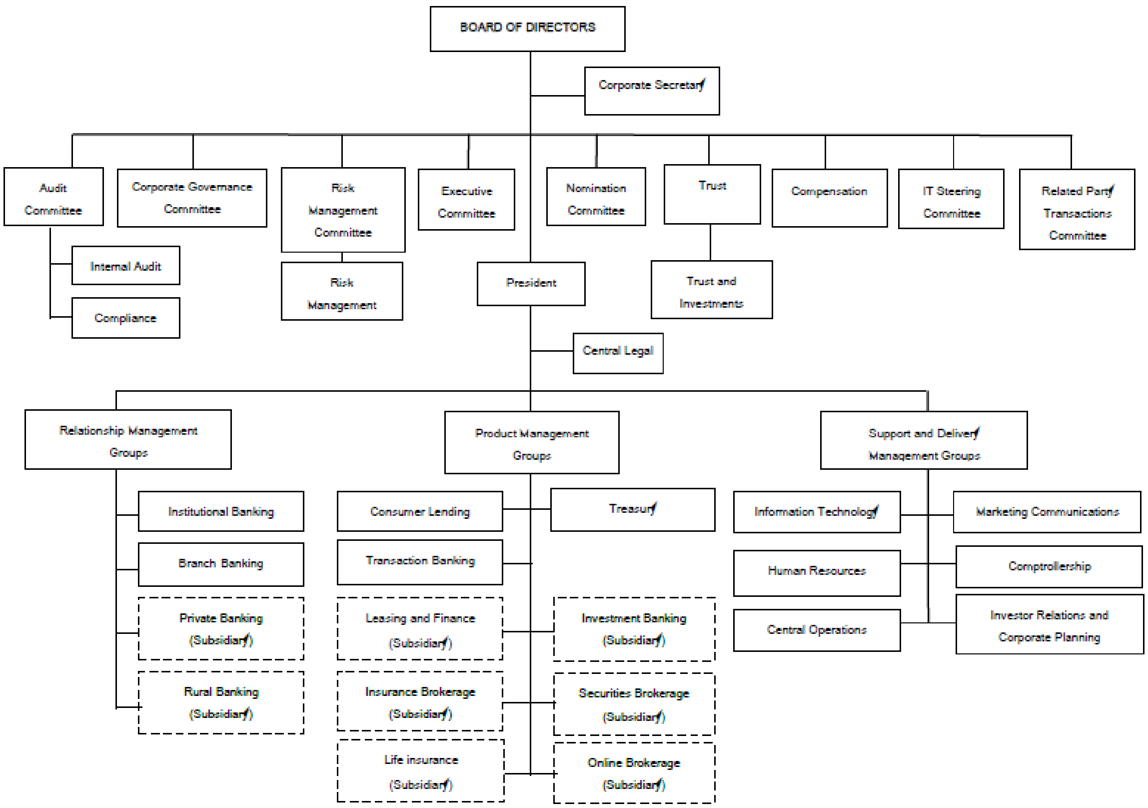
The Bank also intends to maintain its extensive branding campaign to further create customer awareness and market visibility, thus enhancing the potential of its extensive distribution platform across varying media outlets. Accordingly, the Bank intends to implement continuing branch renovations and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

Complement organic growth with mergers/acquisitions

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

Organisational Structure

The following chart sets forth the Bank's simplified corporate structure, organised by its principal activities as at 31 December 2019.



Business of the Bank

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

Relationship Management

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

<u>Institutional Banking Group</u>

The Bank's principal lending business activities are undertaken through the Institutional Banking group (**Institutional Banking Group**), which is responsible for managing relationships with clients and servicing their loans and other banking requirements. The Institutional Banking Group has the primary responsibility for managing the corporate loan portfolio of the Bank, which accounts for approximately 76.6% the total loan book as at 31 December 2019, amounting to ₱1.4 trillion, ₱1.6 trillion and ₱1.7 trillion as at 31 December 2017, 2018 and 2019, respectively.

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

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

The Institutional Banking Group is composed of corporate banking (**Corbank**), commercial banking (**Combank**), financial institutions (**Financial Institutions**), and wholesale lending and international desks (**WLID**).

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

	As at 3l December		
	2017	**2018**	**2019**
		(audited) **(in ₱ millions)**	
Institutional Banking Loans by Customer Type			
Corporate	**815,786**	**909,223**	**1,034,647**
Corporate	752,771	883,085	1,008,720
Financial Institutions	10,607	7,250	6,810
Wholesale/International Desks	52,408	18,888	19,117
Commercial	**536,151**	**649,335**	**656,478**
Total	**1,352,936**	**1,558,558**	**1,691,125**

Corporate Banking

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

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

As at 31 December 2017, 2018 and 2019, accounts of large corporate customers represented approximately 46.5%, 45.0% and 46.9%, respectively, of the Bank's total loan portfolio. Almost all of Corbank's corporate lending is for projects in the Philippines and most of Corbank's corporate lending is undertaken on a non-syndicated basis.

Commercial Banking

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

As at 31 December 2017, 2018 and 2019, Combank's lending to the middle-market segment accounted for approximately 30.6%, 32.1% and 29.7%, respectively, of the Bank's total loan portfolio.

Financial Institutions

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

Wholesale Lending and International Desks

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

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

Branch Banking

The Bank's branch network is the primary means of offering deposit services to customers, including CASA and time deposits in Pesos, U.S. dollars and other foreign currencies. The Bank's principal depositors are individuals in the Philippines. As at 31 December 2017, 2018 and 2019, total deposits were ₱2.1 trillion, ₱2.4 trillion and ₱2.5 trillion, respectively, with Peso deposits representing approximately 81.4%, 82.8% and 85.0%, respectively, of the Bank's deposits and the remainder denominated in foreign currencies, principally U.S. dollars. As at 31 December 2019, the Bank had approximately 10.8 million deposit accounts. As at 31 December 2019, the Bank's branch network comprised of 1,434 domestic branches (including 263 BDO Network branches) and two foreign branches, with 11 more domestic branch licenses available for redeployment. Each of the Bank's branches is connected and networked to the Bank's IT systems and infrastructure and offers full banking services. The Bank is the first bank in the Philippines to offer extended hours of operations at all of its branches, including weekend hours. The Bank believes its longer banking hours allows it to meet the banking needs of its customers more efficiently.

The Bank provides 24-hour banking services through its 4,466 ATM facilities (including 241 BDO Network ATMs) which are located in branches and at off-site locations, such as shopping malls, and 562 cash deposit machines (**CDMs**). Customers are given access to the ATM facilities through BDO International ATM cards, which are issued to check and savings account holders. The Bank is a member of the Expressnet and Megalink ATM consortia, allowing customers to use ATM terminals operated by other banks in the consortia. Clients can also use ATM terminals worldwide that are part of the Cirrus-Maestro network. Branch Banking manages the entire branch network of the Bank. Branch Banking monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Each branch is subject to monthly spot audits, as well as a more comprehensive annual audit. Each of the Bank's branches has electronic security systems and armed guards. All of these services are provided by independent contractors. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorised limits. The Bank continues to maintain adequate insurance coverage for loss and theft.

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

Foreign Branch Operations

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

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

<u>Private Banking</u>

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

As at 31 December 2017, 2018 and 2019, BDO Private Bank had ₱64.5 billion, ₱48.8 billion and ₱35.0 billion in total resources, respectively. BDO Private Bank's total assets under management as at 31 December 2017, 2018 and 2019 were at ₱299.5 billion, ₱312.0 billion and ₱362.5 billion, respectively.

As a testament to its pioneering spirit and strength in the domestic private banking market in terms of market share, performance and recognition, BDO Private Bank's recent awards include Best Private Wealth Management House in the Philippines 2019 (Alpha Southeast Asia; awardee since 2008); Best Private Bank for Asset Management in the Philippines (Euromoney Private Banking Survey 2019); Best Private Bank in the Philippines (Global Finance The World's Best Private Banks); Best Private Bank in the Philippines (The Asset Triple A Private Banking, Wealth Management and Investments Awards 2019).

<u>Rural Banking</u>

Through its rural bank subsidiary, BDO Network, the Bank offers financial products and services including salary loans, deposits, cash management, remittances and bills payments to the unbanked and underserved segments in provincial areas. In 2018, BDO Network successfully implemented its micro, small and medium roll-out of over 100 sites throughout the Philippines to increase coverage of its target market. As at 31 December 2019, BDO Network had a network of 263 branches and banking offices and 241 ATMs across the Philippines. BDO Network's total assets were ₱28.2 billion, ₱27.2 billion and ₱32.5 billion as at 31 December 2017, 2018 and 2019, respectively, while total capital funds stood at ₱4.4 billion, ₱4.7 billion and ₱6.0 billion, respectively.

In October 2018, the Bank announced that it entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore) (**Osmanthus**) in relation to Osmanthus's acquisition of a 15% stake in ONB, and the transaction was completed on 16 May 2019. The Bank believes that its partnership with Osmanthus will further strengthen the Bank's microfinance business.

On 11 February 2019, the Bank disclosed BDO Network signed an agreement with Rural Bank of Pandi Inc. (**RBPI**) for the acquisition of RBPI's banking business in Bulacan. On 31 October 2019, BDO Network completed its purchase of the recorded gross loan receivables and assumption of the recorded deposit liabilities of RBPI**.**

Product Management

Product Management is responsible for managing the different product businesses offered to clients. Product Management is composed of consumer lending, which is responsible for consumer products and services including the Bank's credit card business; treasury; transaction banking, covering cash management, electronic payments and settlements, and remittances; investment banking; trusts and investments; leasing and finance; life insurance; insurance brokerage; securities brokerage; and online brokerage.

Consumer Lending

The Bank offers an expanded range of consumer finance products, including residential mortgages, auto loans, personal loans and credit card services. As at 31 December 2017, 2018 and 2019, consumer-related loans comprised approximately 20.5%, 20.8% and 21.9%, respectively, of the Bank's total loans.

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

	As at 3l December		
	2017	**2018**	**2019**
		(audited)	
		(in ₱ millions)	
Consumer Loans by Type			
Credit Cards	61,621	78,738	99,391
Real Estate	184,793	216,077	243,291
Auto Loans	80,327	91,980	99,932
Personal Loans	19,157	16,773	20,648
Business Loans	14,587	16,345	19,738
Total	360,485	419,913	483,000

Credit Cards

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

The Bank's credit card business remains the industry's leading card issuer and largest merchant acquirer. As at 31 December 2017, 2018 and 2019, the Bank had combined cards-in-force of 1,919,663, 2,123,549 and 2,476,526, respectively, and had a receivable portfolio of ₱61.6 billion, ₱78.7 billion and ₱99.4 billion, respectively.

The Bank currently offers American Express Centurion cards, American Express International Dollar cards and Corporate cards, American Express Cathay Pacific cards, American Express Peso Platinum, Platinum Mastercard, Platinum Visa, Titanium Mastercard, Union Pay Diamond and Gold cards, BDO Shopmore, Diners Club International and Gold cards under the brands Mastercard, VISA and JCB. Interest charged on outstanding balances ranges between 3.0% and 3.5% per month. Due to increased competition in the market, annual fees are often waived for the first year for new credit cardholders.

Real Estate

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

End-buyer tie-ups with reputable real estate developers largely contributed to the Bank's total home mortgage loan portfolio of ₱184.8 billion, ₱216.1 billion and ₱243.3 billion, respectively, as at 31 December 2017, 2018 and 2019, respectively. Through these tie-ups, the Bank also purchases home loan receivables and wholesale real estate portfolios via its Contract to Sell (**CTS**) Receivables Financing Program from developers that indirectly finance sales to their buyers. These loans usually provide full recourse to the developer. These CTS transactions may be converted into regular end-buyer financing by the Bank upon loan application approval by the Bank. All of the Bank's home mortgage loans are secured by a first ranking legal charge over the property. In the case of loans to certain corporate borrowers, the Bank often requires personal guarantees to be given by appropriate officers of the borrower as additional security. Traditionally, the Bank, as well as other lenders, have required home mortgage borrowers to have an equity interest equal to at least 30.0% of the value of the property. Due to an increase in competition in the mortgage industry, however, many borrowers are now able to secure mortgages for certain types of residential property from lenders, including the Bank, with a 20.0% down payment.

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

Auto Loans

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

Continued strategic partnerships with auto dealers remain a competitive advantage of the Bank. As at 31 December 2017, 2018 and 2019, the Bank's auto loan portfolio stood at ₱80.3 billion, ₱92.0 billion and ₱99.9 billion, respectively.

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

Personal Loans

The Bank offers personal loans in amounts from ₱10,000 to ₱1,000,000, and the average amount as at 31 December 2019 was ₱184,424. Payment is made through salary deduction for loans to employees of certain corporate customers, and through post-dated checks, over the counter payments, through electronic channels or automatic debit arrangements for all other customers.

The Bank offers two products: "SuperLite" instalment and salary loans. Introduced in April 2005, the SuperLite instalment is offered to prospective customers who apply on an individual basis, while the Bank offers salary loans through the employees' respective companies. As at 31 December 2017, 2018 and 2019, the personal loan portfolio stood at ₱19.2 billion, ₱16.8 billion and ₱20.6 billion, respectively.

<u>Treasury</u>

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

The Bank believes it is among the top interbank dealers in foreign exchange and government securities in the Philippine financial markets. The Bank has received numerous awards and recognition for its treasury activities, among these are the Best Foreign Exchange Provider in the Philippines for 2017-2019 as awarded by Global Finance, Best FX Bank for Structured Hedging Solutions and Proprietary Trading Ideas in Alpha Southeast Asia's FX and Treasury Awards 2019.

Trading and Investment Securities

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

As at 31 December 2017, 2018 and 2019, the Bank's net trading and investment securities stood at ₱332.9 billion, ₱385.2 billion and ₱435.9 billion, respectively, and accounted for 12.5%, 12.7% and 13.7%, respectively, of the Bank's total resources. For the years ended 31 December 2017, 2018 and 2019, gross revenues from investment securities stood at ₱9.7 billion, ₱11.9 billion and ₱16.2 billion, respectively, which represented 7.5%, 8.0% and 9.0%, respectively, of the Bank's total operating income for such periods. As at 31 December 2017, 2018 and 2019, approximately 66.9%, 67.6% and 68.6%, respectively, of the Bank's trading and investment securities portfolio were in government securities while the balance was in corporate issue bonds, derivative financial assets and equity securities.

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

	As at 31 December		
	2017	2018	2019
		(audited)	
		(in ₱ millions)	
Investment Portfolio			
Government bonds	224,950	261,516	300,058
Other debt securities [(1)]	81,432	99,729	107,807
Total debt securities	306,382	361,245	407,865
Non-debt securities [(2)]	24,851	19,303	26,031
Derivative financial assets [(3)]	5,024	6,230	3,562
Total[(4)]	336,257	386,778	437,458

Notes:

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

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

(3) Derivative financial assets include forwards and swaps.

(4) Gross of allowance.

Derivatives

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

Transaction Banking

The Bank provides a wide range of transaction-based services for both corporate and retail customers through its transaction banking group (**Transaction Banking**).

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

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

Cash Management Services

The Bank offers high value-added cash management solutions to various market segments, namely: large corporations, financial and foreign institutions (including Government financial institutions and Government-owned and controlled corporations), middle-market, and SMEs. The cash management services offered by the Bank to these institutions include collections, disbursements, liquidity management, account services, payments, electronic banking services and retail payment services.

The Bank's corporate transactional banking customer base has grown from 77 in 2002 to over 31,000 corporate customers as at 31 December 2019. The Bank believes this growth in customers was the result of the Bank's innovative product offerings including modern payment services as well as solutions that cater to the customers' specific requirements, such as services for receiving payments from retails and wholesalers through online banking channels, facilitating cashless transactions at the point-of-sale (**POS**) terminals and providing safe and efficient services to monitor payments to the customer's suppliers and employees.

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

- The Asian Banker (Best Cash Management Bank for 2011, 2014, 2018; The Leading Counterparty Bank for 2013; The Best Transaction Bank for 2015-2016); Best Cash Management, Philippines at The Asian Banker Transaction Banking Awards 2019

- Asian Banking and Finance Wholesale Banking Awards (Philippine Domestic Cash Management Bank of the Year for 2013-2015, 2017-2019; Online Banking Initiative of the Year for 2016; Mobile Banking Initiative of the Year for 2016; Social Media Initiative of the Year for 2016)

- Asiamoney (Best Bank in the Philippines for 2017, Best Local Cash Management Bank in the Philippines as voted by Small-sized Corporates for 2012, 2014; Best Overall Domestic Cash Management Services in the Philippines as voted by Large-sized Corporates for 2014; Best Overall Cross-Border Cash Management Services in the Philippines as voted by Small-sized Corporates for 2014; Best Local Currency Cash Management Services in the Philippines for 2008; Best Bank in the Philippines for the Cash Management Satisfaction Award for 2017)

- The Asset (The Best Transaction Bank in the Philippines for 2012; Rising Star Cash Management Bank for 2009, 2011; Best Service Provider – Cash Management for 2016; Editors' Triple Star for E-Cash Agad for 2016; Best in Treasury and Working Capital – SMEs, Philippines 2017; Best Service Provider – Cash Management, Philippines for 2017; Best Cash Management House in Philippines for 2018)

- Alpha Southeast Asia (Best Cash Management Bank in the Philippines for 2008, 2009, 2015 to 2019)

Electronic Banking

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

Internet Banking

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

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

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

Phone Banking

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

Mobile Banking

The Bank, via its mobile banking (**MB**) app, enables customers to manage their accounts remotely at all times. The Bank's MB app features a full suite of banking services, which allows customers to conduct account balance/s and transaction history inquiry; send money; pay bills; reload prepaid mobile number; reload cash card; request checkbook; stop payment (check); enroll additional accounts, billers, and pre-paid mobile number; change password and update customer information. Customers are also able to lock enrolled debit cards and change passwords through the MB app.

Automated Teller Machines (ATM)

The Bank's ATMs allow customers to withdraw cash, avail of credit card cash advances, check account balances, transfer money, pay bills, top up prepaid phones, reload cash cards, reorder checkbooks, change PINs and activate personal online banking enrollment at any of the ATM terminals nationwide which, as at 31 December 2019, numbered 4,466 ATMs (including 241 BDO Network ATMs).

Cash Deposit Machine (CAM)

The Bank's CDMs allow customers to deposit cash to their account and other BDO accounts through any of the in-branch and offsite locations in key cities and business districts nationwide. CDMs, which can accept up to 200 notes per transaction, allow real-time crediting of deposits. Other card-based transactions include balance inquiry, fund transfer to own and other BDO accounts, bills payment, prepaid mobile reload, PIN change, and personal online banking activation. Cash deposit and payment of bills not requiring enrolment may also be performed without a card. As at 31 December 2019, the Bank had 562 CDMs.

Retail Cards

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

BDO Cash Card

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

As at 31 December 2019, the Bank has over 1.3 million active BDO Cash Cards comprising more than 4,200 payroll companies, 36 remittance partners and retail clients, generating ₱108.1 billion worth of financial transactions.

BDO ATM Debit Card

The BDO ATM Debit Card is a Peso-, US Dollar- or HK Dollar-denominated card linked to a BDO current or savings account. It carries the MasterCard and Visa brands that allow access to cash in over two million Mastercard/Cirrus/Visa/Plus ATMs, cashless shopping in over 40 million establishments worldwide, and e-commerce. It allows balance inquiry, cash withdrawal, bills payment, cash card reload, and checkbook reorder. As at 31 December 2019, the Bank has over 7.3 million active debit cards generating a total of around 396 million transactions amounting to ₱1,352.6 billion worth of financial transactions.

Smart Money Card

The "Smart Money Card" is a Bank-issued co-branded card with PayMaya Philippines. The Smart Money Card allows balance inquiry, bills payment, "Smart/Talk N Text" airtime reload, and wallet-to-wallet transfers using a Smart mobile phone. The card may be used for ATM transactions and for purchases in Mastercard establishments worldwide. It is also used by Smart Trade dealers in the buying and selling of airtime load to Smart retailers nationwide. As at 31 December 2019, the Bank had an active cardholder base of over 300,000 accounts generating about 84.0 million financial transactions worth ₱138.4 billion. Smart Money facilitates sending of money to Smart's subscribers and encashment in cash servicing centres on top of the Bank's network and channels.

Remittances

The remittance function involves purchasing foreign exchange for remittance transactions and delivering remittance payments through the Bank's branch network, "BDO Remit" counters inside SM malls, partner rural banks, pawnshops, and courier services. As at 31 December 2019, the Bank's remittance network comprised 22 remittance and representative offices worldwide (including two full-service branches in Hong Kong and Singapore). The Bank's remittance network is complemented by relationships with at least 351 remittance/money transfer tie-ups, 330 accredited foreign and local correspondent banks and at least 13 designated agents.

For the years ended 31 December 2017, 2018 and 2019, the Bank's volume of OFW remittances amounted to U.S.$12.5 billion, U.S.$13.2 billion and U.S.$13.9 billion, respectively, representing a 9.2%, 5.8% and 5.0% increase year-on-year, respectively.

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

As at 31 December 2019, the Bank had an approximately 41.4% market share of total remittance volume in the Philippines, based on BSP data on "Overseas Filipinos' Personal Remittances" information.

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

Investment Banking

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

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

- Fixed income underwriting, packaging and syndication — BDO Capital offers clients underwriting services in relation to corporate and government bonds, corporate notes and commercial paper. BDO Capital also offers term loan packaging and syndication services;

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

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

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

BDO Capital was involved in major equity and debt fundraising exercises for the Government via Retail Treasury Bond and Premyo Bond Issues and private issuers such as Kepwealth Property Phils, Inc., Arthaland Corp., SMC Group (San Miguel Corp., SMC Global Power Holdings, Inc. and Petron Corp.), Fruitas Holdings, Inc., Ayala Group (Ayala Corp., AC Energy, Ayala Land, Inc., and AYC Finance), Helios Solar Energy Corp., Bloomberry Resorts and Hotels Inc., Sureste Properties Inc., South Luzon Thermal Energy Corp., SM Prime Holdings Inc., Red Planet Holdings Inc., Esquire Financing Inc., Aboitiz Group (Aboitiz Equity Ventures Inc. and Aboitiz Power Corp.), Solar Philippines Tarlac Corp., and Robinsons Bank Corp.

BDO Capital has received several awards from prestigious international publications and is recognized for its position as one of the leading investment banks in the Philippine equity and debt capital markets. These awards include, among others, Best Investment Bank in the Philippines from 2006 to 2014 and again in 2017, and from 2007 to 2016 and 2018 as awarded by FinanceAsia and Alpha Southeast Asia, respectively; and Best Domestic Investment Bank from 2006 to 2014, Best Corporate and Institutional Bank in the Philippines for 2015 to 2019 and Project Finance Bank of the Year in the Philippines for 2015, 2017 and 2019 as awarded by The Asset. For 2016, BDO Capital received Finance Asia's Platinum Awards (Past 20 years) for Best Domestic Investment Bank and Best Domestic Equity House in the Philippines, and Alpha Southeast Asia's 10th Anniversary Awards for the Past 10 Years for Best Investment Bank and M&A House, Best ECM House and Best DCM House in the Philippines. BDO Capital also won numerous awards for Best Equity House and Best Bond House from these various publications from 2006 to 2019. BDO Capital also received the Best Investment Bank in the Philippines award for 2013, 2014, 2017-2019 from Global Finance and Top Investment House in the Philippines award for 2016 from Acquisition International. BDO Capital also garnered awards as Best Investment House (2016-2018), Best Equity House (2016-2017), Best Fixed Income House (2015-2018), Best Project Finance House (2016-2017) and Best Advisory House

(2017) from the Investment House Association of the Philippines. BDO Capital was also conferred the Top Corporate Issue Manager/Arranger Award from 2011 to 2018 by the Philippine Dealing and Exchange Corporation. The Asia Pacific Loan Market Association also awarded BDO Capital as Syndicated Loan House of the Year (Philippines) for 2013 and 2014.

Trust and Investments Group

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

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

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

The Bank's consolidated trust assets under management reached ₱1,336.4 billion as at 31 December 2019, a 15.0% increase from the ₱1,161.7 billion managed as at 31 December 2018. The Bank believes it maintains the largest trust assets business in the Philippines. Similarly, in the UITF business, the Bank also posted the largest fund levels in the industry, at ₱312.5 billion as at 31 December 2019.

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

- 2015 Most Trusted Brand – Investment Fund Category by Readers' Digest Asia
- 2015 Rising Star Retail Fund Administrator - Philippines Category by The Asset Magazine
- 2016 Best Investment Management Company – Philippines by World Finance Magazine (London)
- 2018- 2019 Asset Management Company of the Year – Philippines by The Asset Magazine
- 2016 Impact Investor of the Year – Philippines by The Asset Magazine
- 2016-2019 Fund House of the Year for the Philippine Market by Asian Investor Magazine
- 2016-2019 Best Investment Management Company – Philippines by World Finance Magazine (London)

In September 2016, BDO Trust also became the first institution in the Philippines to be accredited as Personal Equity and Retirement Account (**PERA**) Administrator. PERA, is the Philippine version of similar laws covering retirement savings vehicles prevalent and long standing in more developed countries such as IRA and 401K in the United States. PERA establishes the legal and regulatory framework for voluntary personal retirement plans as a means to promote savings mobilisation, capital market development and long-term fiscal sustainability. It provides employers with the opportunity to become agents in furthering these objectives and it provides Filipinos a means to supplement their future pension benefits from the Philippine Social Security System and Philippine Government Service Insurance System. BDO Trust also offers the following PERA investment funds: BDO PERA Short Term Fund, BDO PERA Bond Index Fund and BDO PERA Equity Index Fund.

Leasing and Financing

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

On 28 January 2020, the Bank announced that it had entered into an agreement to sell a controlling stake in its BDOLF to a third party as part of the Bank's restructuring of its leasing business. The completion of the transaction is subject to conditions, including the spin-off and transfer of the leasing business to the Bank, compliance with Philippine Competition Commission notification and regulatory requirements, and the completion of a mandatory tender offer for the shares in the BDOLF held by public shareholders in compliance with Philippine securities laws and regulations. On 14 February 2020, the Philippine SEC suspended BDOLF's registration statement which allows the company to sell securities to the public and the PSE announced that it extended the Bank's voluntary trading suspension on the shares of BDOLF pending the transaction. The suspension was due to additional information required by the Philippine SEC from the potential buyer of BDOLF, and is otherwise unrelated to BDOLF's business operations or practices. The Bank has complied with all the necessary requirements and is working to settle the additional requirements of both the Philippine SEC and the PSE to lift the suspension orders at the soonest time possible. BDOLF continues to run its business operations in the ordinary course, pending the completion of the sale of the Bank's BDOLF shareholdings to a third party.

Life Insurance

Through its wholly-owned subsidiary, BDO Life, the Bank offers life protection plans (whole life insurance and term life insurance); fund accumulation plans specifically designed to provide for children's education; savings and retirement plans (endowment and variable life insurance); and group insurance. BDO Life increased its financial advisor coverage of the Bank's branches to 98% as at 31 December 2019, from 89% as at 31 December 2017, to support its premium growth. BDO Life ranks 7th in terms of total premium income, and ranks 1st in terms of traditional life protection based on traditional premium income.

Insurance Brokerage

The Bank's wholly owned insurance broker, BDO Insurance Brokers, Inc. (**BDOI**), offers a diverse portfolio of reputable insurance partners, which provide customers with the flexibility to choose providers and products who match their needs and financial capabilities. For the years ended 31 December 2017, 2018, and 2019, ₱9.4 billion, ₱10.1 billion and ₱10.7 billion, respectively, of gross insurance premiums were arranged by BDOI.

While BDOI has the technical capability to evaluate insurance risks, it does not underwrite or absorb insurance risks. The Bank has a bancassurance license from the BSP which permits the Bank to market and sell both life and non-life insurance products through its branch network. In 2018, BDOI was the industry leader in terms of commissions earned and premiums produced, based on rankings provided by the Philippine Insurance Commission.

Securities Brokerage

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

Online Brokerage

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

Support and Delivery Management

Support and Delivery Management ensures that the Bank's operational needs are efficiently met, the Bank's processes aligned with its business objectives and its vision and corporate strategies realised. It is composed of the following: information technology, comptrollership, human resources, marketing communications, investor relations and corporate planning, digital infrastructure services, and central operations. Also functionally grouped under Support and Delivery Management are the Bank's Risk Management Group as well as Internal Audit and Compliance, both of which report to their respective Board-level committees, namely, the Risk Management Committee and the Audit Committee.

Information Technology Group

The Bank's information technology group (**IT Group**) is responsible for the proper and efficient functioning of the Bank's IT systems and infrastructure. It is organised into two separate but interdependent groups:

- IT Development (**ITD**) which is responsible for providing and maintaining the application systems used by the Bank to support its operations and business plans using its resources and specialised knowledge on business-functional requirements, and

- IT Operations (**ITO**) which handles the Bank's network, data centre, and other parts of the IT infrastructure and provides technical support and applications support.

Comptrollership Group

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

Human Resources Group

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

Marketing Communications Group

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

Investor Relations and Corporate Planning Group

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

Digital Infrastructure Services Group

The Bank's digital infrastructure services group is responsible for the creation, management and governance of a strategic and enterprise-wide infrastructure underlying a customer data consolidation platform aligned with the Bank's digital strategies. The unit maintains enterprise solutions revolving around the consolidated customer data for bank wide consumption, including big data management, biometrics and customer information file systems.

Central Operations Group

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

Further, it is responsible for ensuring that operational risks in its various areas at coverage are properly managed.

Customer Contact Centre

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

The BDO Customer Contact Centre operates 24 hours a day, seven days a week, with over 800 personnel who are equipped with a customer relationship management system which allows them to deliver personalised customer service and conduct precise cross-selling initiatives. It also enables customer service officers to build customer contact data, which helps them manage and respond to customers' needs more effectively and efficiently.

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

BDO Customer Contact Centre's average monthly volume for 2019 was 655,352 per month for customer calls and 65,668 per month for e-mails and fax correspondence, comprising correspondences from BDO customers and the general public.

Corporate Social Responsibility

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

Employees

As at 31 December 2019, the Bank employed a total of 38,510 people, 18,750 of whom were engaged in a professional managerial capacity and classified as Bank officers.

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

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

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

The aggregate compensation paid to employees by the Bank for the years ended 31 December 2017, 2018 and 2019 were ₱27.4 billion, ₱30.4 billion and ₱35.4 billion, respectively.

The Bank maintains a tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As at 31 December 2019, the fair value of the retirement plan assets of the Bank was ₱30.6 billion and the present value of the obligation was at ₱33.9 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognised a retirement benefit liability of ₱3.3 billion for 2019.

Employee Insurance

The Bank provides its employees with group life insurance coverage from BDO Life, and group personal accident insurance which covers accidental death and dismemberment from CHUBB Insurance (formerly ACE Insurance), in line with good business practice and in accordance with Philippine standards. Insurance premium payments for these policies are paid entirely by the Bank.

Legal Proceedings

Details of material proceedings involving the Bank are set out in Note 34.1 of the notes to the audited financial statements included in this Offering Circular. In addition, the Bank may be subject to various legal proceedings and claims that arise in the ordinary course of its operations.

PEACe Bonds

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

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

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

On 16 October 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and Bureau of Internal Revenue (**BIR**) from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling. On 17 October 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

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

The Supreme Court, sitting en banc, rendered a Decision on 13 January 2015 granting the Petition and nullifying BIR Rulings No. 370-2011 and 378-2011 insofar as these declared the PEACe Bonds to be deposit substitutes and subject to 20% FWT. The Supreme Court likewise reprimanded the BTr for its continued retention of the amount corresponding to the 20% final withholding tax despite the Court's TRO, and ordering the Bureau of Treasury to immediately release and pay to the Bank and other petitioning banks the amount corresponding to the 20% FWT that was withheld on 18 October 2011.

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

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

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

On 11 April 2017, the Bank entered into a settlement agreement (**Settlement Agreement**) with the Republic of the Philippines, (acting through the BTr) to settle all claims and put closure to the PEACe Bonds case. Under the terms of the Settlement Agreement:

- The BTr paid the Bank the 20% FWT withheld on the PEACe bonds (amounting to ₱690 million), plus interest of 4% per annum from 19 October 2011 to 10 April 2017 (₱151 million).
- The payment was made in the form of 3-year Retail Treasury Bonds, with interest of 4.25 % per annum.

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

Applicability of RR 4-2011

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

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

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

On 10 July 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 9 August 2018, Petitioners filed a Petition for Review on Certiorari dated 1 August 2018 (the **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, and that it is the Court of Tax Appeals that has exclusive jurisdiction to determine the constitutionality or validity of tax laws, rules and regulations issued by the Commissioner of Internal Revenue; and (ii) RR 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

In a Resolution dated 27 March 2019, the Supreme Court ordered the respondents to file their Comment on the 2018 Petition. On 5 August 2019, the respondents filed its comment on/Opposition to the Petition for Review on Certiorari. All other respondents have their respective Comments and/or Oppositions to the 2018 Petition. The case remains pending as at 31 December 2019.

First e-Bank

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

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

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

On 18 June 2018, the Bank received an amount of ₱1.243 billion for the full termination of escrow. As at 31 December 2019, the difference between the amount received and the balance of the amount in escrow is presented as part of "Others" under the Bank's "Other Liabilities" account, pending the resolution of the appeal filed by the counterparty.

The case is still pending before the Court of Appeals.

Subsidiaries and Affiliates

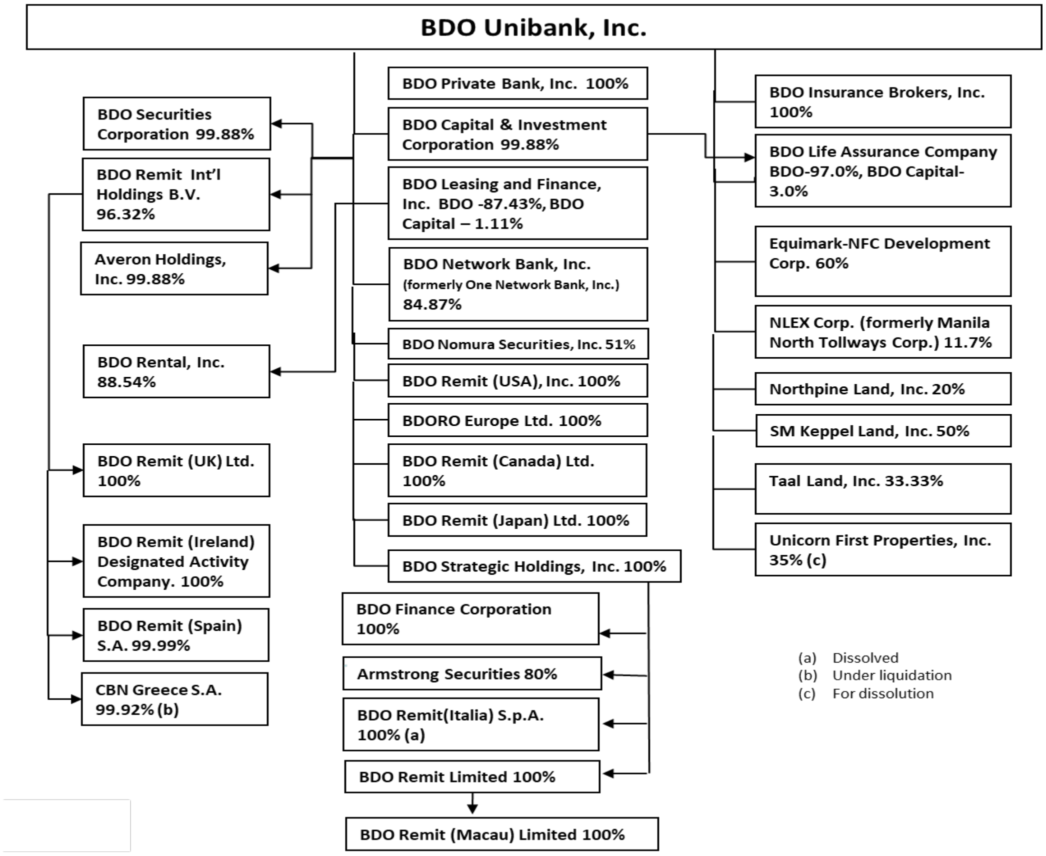
BDO's diverse subsidiaries and investments in allied undertakings provide an extensive range of banking and other financial services. As at 31 December 2019, the Bank's subsidiaries and associates are as follows:

Philippine Subsidiaries	Per cent. Interest Held
BDO Capital & Investment Corporation	99.88%
BDO Insurance Brokers, Inc.	100%
BDO Private Bank, Inc.	100%
BDO Strategic Holdings, Inc.	100%
BDO Securities Corporation	99.88%
BDO Nomura Securities, Inc.	51%
BDO Leasing and Finance, Inc.	88.54%
Equimark — NFC Development Corp	60%
BDO Network Bank, Inc.	84.87%
BDO Life Assurance Company, Inc.	100%

Foreign Subsidiaries	Per cent. Interest Held
BDO Remit (USA), Inc.	100%
BDO Remit (Italia) S.p.A..	100%
BDO Remit Limited.	100%
BDO Remit (Macau) Ltd..	100%
BDO Remit International Holdings B.V.	96.32%
BDO Remit (Canada) Ltd.	100%
BDO Remit (Japan) Ltd.	100%
BDORO Europe Ltd.	100%

Associates	Per cent. Interest Held
SM Keppel Land, Inc.	50%
Taal Land, Inc.	33.33%
NorthPine Land Incorporated	20%
NLEX Corporation (formerly Manila North Tollways Corporation)	11.70%

An organisational chart of BDO's subsidiaries and associates as at 31 December 2019 appears below.



Subsidiaries

BDO Capital & Investment Corporation

BDO Capital & Investment Corporation (**BDO Capital**) is the investment banking arm of the Bank that started operations in March 1999. BDO Capital was established to address the capital raising needs of the Bank's larger corporate and institutional accounts, as well as Government-owned and controlled corporations and match these with the investment requirements of the more sophisticated investors including high net worth individuals, fund managers and other institutions. See "— *Product Management — Investment Banking*".

BDO Insurance Brokers, Inc.

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

BDO Private Bank, Inc.

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

BDO Strategic Holdings, Inc.

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

BDO Securities Corporation

BDO Securities Corporation, (**BSC**), a 99.88%-owned subsidiary, was incorporated in the Philippines on 25 September 1995 to engage primarily in the stock brokerage business and to deal in securities and all activities directly connected therewith or incidental thereto. See "— *Product Management — Stock Brokerage*".

BDO Leasing and Finance, Inc.

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

Equimark-NFC Development Corporation

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

*BDO Network Bank, Inc. (**BDO Network**)(formerly One Network Bank, Inc. (A Rural Bank of BDO)(**ONB**))*

BDO Network is 84.87% owned by the Bank. See "— *Relationship Management — Rural Banking*".

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

PCIB Securities, Inc., a 51%-owned subsidiary, was incorporated in the Philippines on 29 June 1994 and was licensed by the Philippine SEC primarily to engage as dealer in the business of offering, buying, selling, dealing or trading of securities of all kinds for its own account and as a broker in the purchases, sales or other transactions relating to all kinds of securities of any person, corporation or entity.

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

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

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

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

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

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

BDO Remit (USA), Inc.

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

BDORO Europe Ltd.

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

BDO Remit (Canada) Ltd.

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

BDO Remit (Japan) Ltd.

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

Associates

SM Keppel Land, Inc.

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

NLEX Corporation

NLEX Corporation (formerly Manila North Tollways Corporation), where the Bank has a 11.70% ownership, is the builder and concessionaire of the North Luzon Expressway, and is involved in all aspects of tollway operations – from toll collection to traffic management and from motorists' assistance to roadway maintenance. The other shareholders of NLEX Corporation are Metro Pacific Tollways Development Corporation, Egis Projects S.A. of France, reputedly the world's biggest tollways operator; Leighton Asia Ltd. of Australia, a civil works specialist with an extensive track record in toll road construction; and Philippine National Construction Corporation, the state-owned company that holds the franchise for the operation of the expressway.

Taal Land, Inc.

Taal Land, Inc. is 33.33% owned by the Bank. It owns 25% of Jaka Tagaytay, developer of the Splendido resort.

NorthPine Land, Inc.

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

Other companies in the BDO Group

BDO Remit Limited

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

BDO Remit (Italia) SPA

BDO Remit (Italia) SpA, is a company incorporated as a joint stock or limited liability corporation (Societa per Azioni - SpA). It was established under its former name EBC Interlink S.p.A. in Milan, Italy on 23 April 1996. The corporate name was changed to Express Padala (Italia) SpA on 1 January 2000 during the merger between then

Equitable Bank and PCIBank. Subsequently, with BDO's acquisition of EPCIB, the remittance company name was changed to BDO Remittance (Italia) SpA on 28 April 2008 and to BDO Remit (Italia) SpA on 29 July 2009

BDO Remit (Macau) Limited

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

BDO Rental, Inc.

BDO Rental, Inc., an 88.54%-owned subsidiary of BDO Leasing, was incorporated on 10 March 2005. Licensed to engage in renting and leasing equipment (except finance lease), it started commercial operations on 30 June 2005.

Armstrong Securities, Inc.

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

Averon Holdings Corporation

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

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

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

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

MMPC Auto Financial Services Corporation

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

BDO Finance Corporation

BDO Finance Corporation is a wholly owned financing company of BDOSHI incorporated on 9 December 2019.

RISK MANAGEMENT

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

Risk Management

The Bank's risk management begins at the highest level of the organization. At the helm of the risk management infrastructure is the Board of Directors (the **BOD**) which 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 Bank's tolerance for risks, as well as, its business strategy and risk philosophy. The BOD has constituted the Risk Management Committee (the **RMC**) as the board-level committee responsible for the development and oversight of the risk management program. Recognizing the importance of appropriately addressing credit risk, the BOD has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits. Within the Bank's overall risk management system is the Assets and Liabilities Committee (**ALCO**), which is responsible for managing the Bank's statement of financial position, including the Bank's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

The 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 consideration of their potential effects 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 Bank's shareholders.

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 optimise the risk-reward balance and maximise 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.

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

- It is responsible for policy formulation in coordination with the relevant businesses/functions and ensures that proper approval for the manuals/policies is obtained from the appropriate body.
- It then disseminates the approved policies to the relevant businesses/functions after which, pertinent authorities are delegated down to the businesses/functions to guide them in the conduct of their businesses/functions. The RMG then performs compliance monitoring and review to ensure approved policies are adhered to.
- It is responsible for clarifying interpretations of risk policies/guidelines raised by business heads/units.
- When adverse trends are observed in the account/portfolio, the RMG is responsible for flagging these trends and ensuring relevant policies for problem accounts/portfolio management are properly applied.

- The RMG is responsible for the direct management of accounts in the Bank's non-performing loans/property-related items in litigations portfolio and ensures that appropriate strategies are formulated to maximise collection and/or recovery of these assets.

- It is also responsible for regular review and monitoring of accounts under its supervision and ensuring that the account's loan classification is assessed timely and accurately.

Liquidity Risk Management

Liquidity risk is the risk that there could be insufficient funds available to repay depositors, to fulfill commitments to lend, or to meet any other liquidity commitments. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to meet funding requirements, managing and controlling liquidity gaps through Maximum Cumulative Outflow (**MCO**) limits, conducting liquidity stress testing on a regular basis, and establishing a liquidity contingency plan to ensure adequate liquidity under both ordinary and under-stress conditions.

The Bank's principal source of liquidity is comprised of ₱64.1 billion of cash and ₱2,374.8 billion of short-term deposits with maturities of less than one year as at 31 December 2019. In addition to regulatory reserves, the Bank maintains what it believes to be a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that can be converted to cash quickly. Of a net portfolio of trading and investment securities of ₱332.9 billion, ₱385.2 billion and ₱435.9 billion, respectively, as at 31 December 2017, 2018 and 2019, ₱30.5 billion, ₱70.6 billion and ₱64.9 billion, respectively, comprised trading and investment securities with remaining maturities of one year or less. The Bank also uses the interbank market as a means of maintaining a sufficient level of liquid assets. It had interbank loan receivables of ₱37.7 billion, ₱49.3 billion and ₱38.6 billion as at 31 December 2017, 2018 and 2019, respectively. In addition, the Bank manages liquidity by maintaining a loan portfolio with a sufficient proportion of short-term loans. As at 31 December, ₱734.4 billion, or 33.0%, of the Bank's loans and other receivables comprised loans with remaining maturities of one year or less, including past-due loans.

Interest Rate Risk Management

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

The following table sets forth the interest rate gap position for the Bank's operations as at 31 December 2019:

	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
			(in ₱ millions)			
Resources:						
Cash and other cash items	-	-	-	-	64,140	64,140
Due from BSP/other banks	25,325	-	-	-	322,671	347,996
Trading and investment securities	33,244	25,339	208,865	141,376	27,081	435,905
Loans and other receivables	1,063,144	272,907	748,014	141,712	-	2,225,777
Other resources	-	-	-	-	115,040	115,040
Total Resources	1,121,713	298,246	956,879	283,088	528,932	3,188,858
Liabilities and Equity:						
Deposit liabilities	543,613	43,157	60,979	20,508	1,816,971	2,485,228

Bills payable and subordinated debt	58,529	43,336	68,912	6,777	-	177,554
Insurance contract liabilities	(376)	(1,487)	349	29,948	14,039	42,473
Other liabilities	-	585	3,437	211	108,783	113,016
Total Liabilities	601,766	85,591	133,677	57,444	1,939,793	2,818,271
Equity	-	-	-	-	370,587	370,587
Total Liabilities and Equity	601,766	85,591	133,677	57,444	2,310,380	3,188,858
On-book gap	519,947	212,655	823,202	225,644	(1,781,448)	-
Cumulative on-book gap	519,947	732,602	1,555,804	1,781,448	-	-

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

Credit Risk Management

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

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

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

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

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

Market Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Exchange Risk Management

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

The Bank's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital, or U.S.$50 million, whichever is lower, on the consolidated excess foreign exchange holding of banks in the Philippines. In the case of the Bank, its foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in the Bank's branches as well as foreign exchange trading with corporate accounts and other financial institutions. As a major market participant in the Philippine Dealing System, the Bank may engage in proprietary trading to take advantage of foreign exchange fluctuations.

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

As at 31 December 2019, the Bank's net foreign exchange exposure was negative U.S$28.9 million inclusive of the foreign exchange position of the Bank's subsidiaries, reflecting an oversold foreign exchange position.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

Funding

Sources of Funding

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

	As at 31 December					
	2017		2018		2019	
	Amount	Ave. cost(1)	Amount	Ave. cost(1)	Amount	Ave. cost(1)
	(in ₱ millions, except Average Cost, which is in percentage terms)					
Deposits By type						
Demand	134,931	0.1	179,944	0.1	232,995	0.2
Savings	1,409,256	0.3	1,505,680	0.3	1,589,639	0.3
Time	576,825	2.0	734,341	3.0	662,594	3.9
	2,121,012	**0.7**	**2,419,965**	**1.1**	**2,485,228**	**1.3**
By currency						
Philippine Peso	1,725,829	0.6	2,003,582	1.1	2,111,999	1.4
Foreign currency	395,183	1.1	416,383	1.0	373,229	1.0
Total deposits	**2,121,012**	**0.7**	**2,419,965**	**1.1**	**2,485,228**	**1.3**
Borrowings(2)						
Philippine Peso	34,221	3.4	35,866	3.8	64,835	5.0
Foreign currency	106,293	2.4	117,787	3.0	112,719	3.1
Total borrowings	**140,514**	**2.6**	**153,653**	**3.2**	177,554	4.0
Total	**2,261,526**	**0.8**	**2,573,618**	**1.2**	**2,662,782**	**1.5**

Notes:

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

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

Deposits continue to be the Bank's main funding source, accounting for 93.8%, 94.0% and 93.3% of total funding sources as at 31 December 2017, 2018 and 2019, respectively. The Bank's deposits grew at an annual compounded average rate of 9.3% from 1 January 2017 to 31 December 2019, reaching ₱2.1 trillion as at 31 December 2017, ₱2.4 trillion as at 31 December 2018 and ₱2.5 trillion as at 31 December 2019. This historical growth was driven by increased marketing efforts by the Bank's branches and the Bank's mergers and acquisitions. As at 31 December 2019, total deposits increased to ₱2.5 trillion, approximately 85.0% of which were denominated in Pesos and mostly in tenors of less than one year, while approximately 15.0% were denominated in foreign currencies, predominantly U.S. dollars. The Bank's foreign currency deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As at 31 December 2017, 2018 and 2019, the Bank's foreign currency deposits made up 18.6%, 17.2% and 15.0%, respectively, of its total deposits.

As at 31 December 2017, 2018 and 2019, approximately 72.8%, 69.7% and 73.3%, respectively, of the Bank's outstanding deposits were in the form of demand and savings deposits.

The Bank also sources funds through borrowings from local and foreign banks, deposit substitutes and rediscounting facilities booked under bills payable. Bills payable also includes funding from specialised lending programs amounting to ₱4.7 billion, ₱3.0 billion and ₱0.0 billion, respectively, as at 31 December 2017, 2018 and 2019.

As at 31 December 2017, 2018 and 2019, the Bank's total bills payable amounted to ₱130.5 billion, ₱143.6 billion and ₱167.5 billion, respectively. Approximately 18.5%, 18.0% and 32.7%, respectively, of bills payable were denominated in Pesos as at 31 December 2017, 2018 and 2019.

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

The Bank's subordinated notes payable amounted to ₱10.0 billion, ₱10.0 billion and ₱10.0 billion as at 31 December 2017, 2018 and 2019, respectively. The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity by participation in the interbank market in the Philippines. The Bank is a member of the PDIC, which insures all deposit accounts by a depositor maintained in the same right and capacity for up to a maximum of ₱500,000 per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

Capital Raising Transactions

Long Term Negotiable Certificates of Deposit

On 16 October 2012, the Bank issued ₱5 billion worth of fixed rate long-term negotiable certificates of deposit (**LTNCDs**) which matured in October 2019.

On 25 March 2013, the Bank issued ₱5 billion worth of LTNCDs which matured on 25 September 2018. On 12 September 2013, the Bank issued another ₱5 billion worth of LTNCDs which will mature on 12 September 2020. On 4 November 2013, the BSP approved the Bank's issuance of ₱5 billion LTNCDs. The LTNCDs, which matured on 11 June 2019, were issued on 11 December 2013 at an effective rate of 3.13% per annum.

On 6 April 2015, the Bank issued ₱7.5 billion worth of LTNCDs with a rate of 3.75% per annum which will mature on 6 October 2020.

On 18 August 2017, the Bank issued ₱11.8 billion worth of LTNCDs with a rate of 3.625% per annum and a maturity date of 18 February 2023. On 7 May 2018, the Bank issued ₱8.2 billion worth of LTNCDs with a rate of 4.375% per annum and a maturity date of 7 November 2023. On 12 April 2019, the Bank issued ₱7.3 billion worth of LTNCDs with a rate of 5.375% per annum and a maturity date of 12 October 2024. On 27 September 2019, the Bank issued ₱6.5 billion worth of LTNCDs with a rate of 4.000% per annum and a maturity date of 27 March 2025.

Unsecured Subordinated Notes Eligible as Lower Tier 2 capital

On 10 December 2014, the Bank issued ₱10.0 billion of unsecured subordinated notes qualifying as Tier 2 capital due in 2025, callable in 2020 pursuant to the authority granted by the BSP to the Bank on 2 October 2014. The Tier 2 notes were priced at 5.1875% per annum and will mature on 10 March 2025. On 7 January 2020, the Bank announced its intention to redeem such subordinated notes on 10 March 2020. The Tier 2 notes shall be redeemed for cash at a redemption price equal to the face value of the Tier 2 notes plus accrued and unpaid interest as at but excluding 10 March 2020.

Peso-Denominated Senior Fixed Rate Bonds

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

On 3 February 2020, the Bank issued ₱40.1 billion of senior fixed rate bonds with a rate of 4.408% per annum which will mature on 3 August 2022.

Dollar-Denominated Senior Note Issuance

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

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

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

Stock Rights Offering

On 31 January 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The net proceeds will be used to support the Bank's medium-term growth objectives and will support the Bank's higher capital requirements as a result of the phase in of a capital surcharge on D-SIBs by the BSP.

Liquidity

Pursuant to regulations of the BSP, universal and commercial banks are required to maintain a reserve of 14% of Peso demand deposits and deposit substitutes. The required reserves shall be kept in the form of deposits placed in the Bank's demand deposit accounts with the BSP. With the implementation of the Liquidity Coverage Ratio (**LCR**) framework, banks are also required to hold sufficient High Quality Liquid Assets (**HQLAs**) that can be easily converted into cash to cover their net cash outflow over a 30-day period. Starting 1 January 2019, banks were required to maintain 100% minimum daily LCR and to report their LCR position monthly, on a solo basis, and quarterly, on a consolidated basis The Bank has complied with the reserve and liquidity requirements for both the Peso and FCDU books.

As at 31 December 2017, 2018 and 2019, the Bank's liquid assets amounted to ₱844.0 billion, ₱919.6 billion and ₱886.6 billion, equal to 31.6%, 30.4% and 27.8%, respectively, of the Bank's total assets. Liquid assets include cash and other cash items, due from BSP, due from other banks, interbank loan receivables and investment securities.

The following table sets forth information with respect to the Bank's liquidity position as at the dates indicated:

	Audited As at 31 December		
	2017	**2018**	**2019**
Liquidity Position			
Liquid Assets (in ₱ millions)	843,980	919,621	886,612
Financial Ratios (%)			
Liquid Assets-to-Total Assets	31.6	30.4	27.8
Liquid Assets-to-Total Deposits	39.8	38.0	35.7
Net Loans-to-Total Deposits	81.3	82.4	87.6

Lending

As at 31 December 2017, 2018 and 2019, the Bank's total loan portfolio (net of unearned interest or discount) on a consolidated basis amounted to ₱1.8 trillion, ₱2.0 trillion and ₱2.2 trillion, respectively, representing approximately 65.8%, 66.8% and 69.2%, respectively, of its total assets as at those dates. The Bank's gross loan portfolio grew at a compounded annual growth rate of 14.2% from 1 January 2017 to 31 December 2019, primarily as a result of acquisitions and mergers and the Bank's efforts to expand its client base and encourage loan utilisation of existing clients while managing credit quality, minimising funding risk and maintaining an appropriate asset mix.

Audited

	As at 31 December		
	2017	2018	2019
Loans by Major Customer Type		(in ₱ millions)	
Large Corporates	815,786	909,223	1,034,647
Mid-Market	536,151	649,335	656,478
Consumer	360,485	419,913	483,000
Others	42,466	41,591	33,925
Total	**1,754,888**	**2,020,062**	**2,208,050**

Industry Concentration

Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use; financial and insurance activities; and wholesale and retail trade, repair of motor vehicles and motorcycles represent the largest sectors of the Bank's loan portfolio, representing 13.2%, 13.1% and 13.1%, respectively, of the Bank's loan portfolio as at 31 December 2019. These sectors represented 11.6%, 14.5% and 13.6%, respectively, of the Bank's loan portfolio as at 31 December 2018.

Under guidelines established by the BSP, the BSP considers that concentration of credit exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. The Bank, as a matter of policy, limits its concentration to a particular industry in relation to capital.

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

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

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)					
Agriculture, forestry and fishing	13,007	0.7	13,861	0.7	15,072	0.7
Mining and quarrying	25,054	1.4	23,830	1.2	20,359	0.9
Manufacturing	186,779	10.6	215,108	10.6	206,143	9.3
Electricity, gas, steam and air-conditioning supply	200,952	11.5	222,305	11.0	259,617	11.8
Water supply, sewerage, waste management and remediation activities	11,813	0.7	12,567	0.6	21,780	1.0
Construction	36,605	2.1	47,797	2.4	69,385	3.1
Wholesale and retail trade, repair of motor vehicles and motorcycle	237,104	13.5	274,443	13.6	290,150	13.1
Transportation and storage	112,307	6.4	114,023	5.6	105,245	4.8
Accommodation and food services activities	41,662	2.4	31,465	1.6	37,357	1.7
Information and communication	38,707	2.2	32,530	1.6	30,366	1.4

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)					
Financial and insurance activities	195,923	11.2	292,871	14.5	290,150	13.1
Real estate activities	227,050	12.9	242,836	12.0	286,744	13.0
Professional, scientific and technical services	10,782	0.6	10,980	0.5	10,904	0.5
Administrative and support services	9,204	0.5	9,517	0.5	9,919	0.4
Public administrative and defense; compulsory social security	703	0.0	640	0.0	1,416	0.1
Education	13,614	0.8	5,960	0.3	23,763	1.1
Human health and social work activities	16,461	0.9	9,092	0.5	8,982	0.4
Arts, entertainment and recreation	68,853	3.9	76,366	3.8	81,065	3.7
Other service activities	134,046	7.6	149,592	7.4	148,163	6.7
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	175,196	10.0	234,238	11.6	291,461	13.2
Activities of extraterritorial organisations and bodies	66	0.0	41	0.0	10	0.0
Total	**1,754,888**	**100.0**	**2,020,062**	**100.0**	**2,208,050**	**100.0**

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

Maturity

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

	As at 31 December					
	2017		2018		2019	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
	(in ₱ millions, except percentages)					
Due within one year	482,201	27.5	586,394	29.0	607,894	27.5
Due within one to five years	257,864	14.7	266,661	13.2	277,107	12.5
Due beyond five years	1,014,823	57.8	1,167,007	57.8	1,323,049	60.0
Total	**1,754,888**	**100.0**	**2,020,062**	**100.0**	**2,208,050**	**100.0**

Loan Currencies

As at 31 December 2017, 2018 and 2019, 86.2%, 86.8% and 89.2%, respectively, of the Bank's loan portfolio were denominated in Pesos and 13.8%, 13.2% and 10.8%, respectively, were denominated in foreign currency, a substantial proportion of which was denominated in U.S. dollars.

	As at 31 December					
	2017		2018		2019	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
	(in ₱ millions, except Percentages)					
Peso	1,513,164	86.2	1,752,797	86.8	1,970,09 5	89.2
Foreign						
USD	234,366	13.4	257,482	12.7	225,605	10.2
Yen	1,008	0.0	786	0.1	783	0.1
Other Foreign Currency	6,350	0.4	8,997	0.4	11,566	0.5
Total	**1,754,888**	**100.0**	**2,020,062**	**100.0**	**2,208,05 0**	**100.0**

Interest Rates

As at 31 December 2019, a substantial portion of the Bank's total loan portfolio was on a floating interest basis. Loan pricing is set by the Bank's asset and liability committee on a weekly basis, and is driven by market factors, the Bank's funding position and the credit risk associated with the relevant borrower. The Bank sets interest rates for Peso-denominated loans based on the Bloomberg Valuation (BVAL) rate, and for U.S. dollar-denominated loans based on the U.S. dollar London Interbank Offer Rate. The margins on these interest rates, which range from 1% to 5%, are determined by reference to the credit risk of the relevant borrower.

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

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

Size and Concentration of Loans

The BSP imposes a limit on the size of a bank's financial exposure to any single person or group of connected persons to 25% of the bank's net worth (the **Single Borrower's Limit** or **SBL**). This limit does not apply to the following loans: (a) those secured by obligations of the BSP or of the Government; (b) those fully guaranteed by the Government as to the payment of principal and interest; (c) those secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted credit rating agencies; (d) those to the extent covered by the hold-out or assignment of deposits maintained in the lending bank and held in the Philippines; (e) those under letters of credit to the extent covered by margin deposits; and (f) those which the Monetary Board may, from time to time, specify as non-risk items. As at 31 December, the Bank's SBL was ₱92.1 billion. The Bank has complied with this SBL for all of its loans.

As at 31 December 2017, 2018 and 2019, the Bank's ten largest borrowers accounted for ₱241.8 billion, ₱263.8 billion and ₱306.0 billion, respectively, or 13.8%, 13.1% and 13.9% of the Bank's outstanding loan portfolio of ₱1,754.9 billion, ₱2,020.1 billion and ₱2,208.0 billion (excluding interbank loans).

The following sets forth a breakdown of total loans by principal amount as at 31 December 2019:

Principal amount of loans (in Pesos)	Percentage (per cent.)
Less than 5,000,000	22.2
5,000,001 to 10,000,000	4.0
10,000,001 to 15,000,000	2.0
More than 15,000,000	71.8
Total	**100.0**

Secured and Unsecured Loans

The Bank principally focuses on cash flows in assessing the creditworthiness of borrowers. However, it will secondarily seek to minimise credit risk with respect to a loan by requiring borrowers to pledge or mortgage collateral to secure the payment of loans. Where it has determined that collateralisation of a loan is desirable, the Bank's policy is to secure the full amount of the loan. As at 31 December 2017, 2018 and 2019, approximately 28.2%, 26.0% and 23.6%, respectively, of total loans were extended on a secured basis. Approximately 52.7%, 55.6% and 58.7%, respectively, of these secured loans are backed by real estate mortgages for each period.

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

Credit Rating/Scoring System

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

For corporate or commercial borrowers with asset size in excess of ₱15.0 million, an internal credit risk rating system is used to evaluate creditworthiness by assessing the financial position of the borrower, its overall management, quality of operations, borrower condition (e.g., payment history and borrower behavior), and considers the facility structure and collateral/security arrangements.

For SME borrowers with asset size of up to ₱15.0 million, a credit scoring system is used to evaluate creditworthiness. It consists of factors related to both customer and collateral.

The Risk Management Group (**RMG**) conducts the credit risk rating review for borrowing accounts with facilities of ₱20.0 million and over (within a defined set of criteria). For those not within their coverage, the credit rating review is conducted by the relationship manager in the Institutional Banking Group. The Bank updates the rating of an existing loan account regularly upon renewal of credit facilities, stand-alone term loan reviews, increases in credit exposures or when there are changes in the collateral structure of the facilities. However, the Bank may adjust the credit rating within a shorter period if there are identified factors which could affect the borrower's credit quality, or the Bank becomes aware of any adverse development with respect to the borrower or secured collateral.

On the other hand, application and behavior scorecards are adopted for the consumer loans portfolio. The scorecards are used for adjudication of new loan applications as well as in account management such as credit line increases and renewal.

Credit Approval Process

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

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

Credit Monitoring and Review Process

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

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

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

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

As at 31 December 2017, 2018 and 2019, DOSRI loans accounted for ₱55.8 billion, ₱54.2 billion and ₱30.6 billion, respectively, or approximately 3.2%, 2.7% and 1.4% respectively, of the Bank's total loans. Of those amounts, ₱37.1 billion, ₱34.3 billion and ₱11.8 billion (which includes secured non-risk loans not subject to SBL ceiling), respectively, were accounted for by the SM Group as at 31 December 2017, 2018 and 2019, respectively.

Loan Loss Provisioning

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

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

- "Loans especially mentioned" are loans which the Bank believes have potential weaknesses that deserve management's close attention, and which deficiencies, if left uncorrected, could affect repayment;

- "Substandard" loans are those which the Bank believes involve a substantial and unreasonable degree of risk to the Bank;

- "Doubtful" loans are those for which the Bank believes collection in full, either according to their terms or through liquidation, is highly improbable, and substantial loss is probable; and

- "Loss" loans are those which the Bank believes are impossible to collect or are worthless.

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

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

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

	Audited As at 31 December					
	2017		2018		2019	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
	(in ₱ millions, except Percentages)					
Classified						
Loans especially mentioned	5,369	0.3	2,291	0.1	5,396	0.3
Sub-standard	12,118	0.7	6,880	0.4	6,694	0.3
Doubtful	5,580	0.4	3,926	0.2	6,566	0.3
Loss	8,445	0.5	10,677	0.5	11,584	0.5
Total classified	31,512	1.9	23,774	1.2	30,240	1.4
Unclassified	1,660,212	98.1	1,931,102	98.8	2,115,009	98.6
Total	**1,691,724**	**100.0**	**1,954,876**	**100.0**	**2,145,249**	**100.0**

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

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

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

Remedial Management

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

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

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

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

Non-Performing Loans (NPL) and ROPA

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

	As at 31 December		
	2017	2018	2019
	(in ₱ millions, except ratios, which are in percentages)		
Gross non-performing loans[1]	19,648	19,977	25,228
Net non-performing loans[1]	8,108	6,569	8,733
Total loans[1]	1,800,872	2,078,462	2,324,210
Gross non-performing loans to total loans (%)[1]	1.1	1.0	1.1
Net non-performing loans to total loans (%)[1]	0.5	0.3	0.4
Non-performing loans[2]	20,439	20,832	26,111
Total loans	1,754,888	2,020,062	2,208,050
Total non-performing loans to total loans — excluding interbank loans (%)[3]	1.2	1.0	1.2
Total non-performing loan to total loans — including interbank loans (%)[4]	1.1	1.0	1.2
ROPA — net	9,835	11,102	12,300
Non-performing assets[5]	32,414	33,844	40,340
Non-performing assets as percentage of total resources (%)	1.2	1.1	1.3
Allowance for impairment of assets	32,030	40,051	44,937
Allowance for loan impairments[6]	29,889	38,141	43,007
Allowance for ROPA impairments	2,140	1,910	1,929
Allowances for loan impairments as a percentage of total non-performing loans (%)	146.2	183.1	164.7
Allowances for impairment of assets as a percentage of non-performing assets (%)	98.8	118.3	111.4
Total restructured loans	1,686	1,824	1,726
Current	144	113	102
Past due	1,490	1,659	1,572

In litigation	52	52	52
Restructured loans as percentage of total loans (%)	0.1	0.1	0.1
Loans — written off	2,162	2,324	1,349

Notes:

(1) Per BSP Circular 941.

(2) Excludes Receivable from Special Purpose Vehicles (SPVs).

(3) Total non-performing loans divided by total loans excluding interbank loans.

(4) Total non-performing loans divided by total loans including interbank loans.

(5) Non-performing assets comprise ROPA (gross) and non-performing loans.

(6) Starting 31 December 2018, includes amount of appropriation to surplus reserves for general loan loss portfolio.

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

As at 31 December 2019, the Bank's ten largest NPLs amounted to ₱6.2 billion or approximately 0.3% of the Bank's total loans.

Sectorial analysis of non-performing loans (NPLs)

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

	As at 31 December					
	2017	per cent.	2018	per cent.	2019	per cent.
	(in ₱ millions, except percentages)					
Agriculture, forestry and fishing	809	4.0	1,009	4.8	1,008	3.9
Mining and quarrying	29	0.1	37	0.2	46	0.2
Manufacturing	3,963	19.4	3,941	18.9	5,634	21.6
Electricity, gas, steam and air-conditioning supply	30	0.1	25	0.1	22	0.1
Water supply, sewerage, waste management and remediation activities	9	0.0	2	0.0	7	0.0
Construction	295	1.4	343	1.6	456	1.7
Wholesale and retail trade, repair of motor vehicles and motorcycles	2,340	11.4	3,299	15.8	4,133	15.8
Transportation and storage	125	0.6	159	0.8	208	0.8
Accommodation and food services activities	197	1.0	199	1.0	110	0.4
Information and communication	296	1.4	272	1.3	265	1.0
Financial and insurance activities	78	0.4	73	0.4	49	0.2
Real estate activities	512	2.5	240	1.2	275	1.1
Professional, scientific and technical services	130	0.6	107	0.5	209	0.8
Administrative and support services	583	2.9	547	2.6	524	2.0
Public administrative and defense; compulsory social security	20	0.1	6	0.0	82	0.3
Education	553	2.7	1,871	9.0	959	3.7
Human health and social work activities	85	0.4	35	0.2	92	0.4
Arts, entertainment and recreation	48	0.2	41	0.2	10	0.0
Other service activities	4,635	22.7	2,892	13.9	3,636	13.9

Activities of private household as employers and undifferentiated goods and services	5,700	27.9	5,733	27.5	8,383	32.1
Activities of extraterritorial organisations and bodies	1	0.0	1	0.0	1	0.0
Total	**20,438**	**100.0**	**20,832**	**100.0**	**26,111**	**100.0**

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

Foreclosure and Disposal of Assets

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

In the year ended 31 December 2019, the Bank sold ₱2.6 billion of acquired assets in ROPA. The Bank had a net ROPA of ₱9.8 billion, ₱11.1 billion and ₱12.3billion, as at 31 December 2017, 2018 and 2019, consisting of various real estate properties and shares of stock in several companies.

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

MANAGEMENT

Board of Directors

The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Bank. It is also responsible for the proper administration and management of the Bank's trust business.

The following table sets forth the persons who served as a Director of the Bank as at 31 December 2019:

Name	Position	No. of Years as Director
Teresita T. Sy	Chairperson	42
Jesus A. Jacinto, Jr.	Vice Chairman	23
Christopher A. Bell-Knight	Director	first term: 5; 2nd term: 6
Jose F. Buenaventura..............	Independent Director	6
Jones M. Castro, Jr.	Lead Independent Director	7
Dioscoro I. Ramos..................	Independent Director	3
George T. Barcelon	Independent Director	elected 22 April 2019
Josefina N. Tan........................	Director	first term: 4; second term: 12
Nestor V. Tan	Director/President and CEO	21
Vicente S. Perez, Jr.	Independent Director	elected 22 April 2019
Gilberto C. Teodoro, Jr.	Independent Director	5

Teresita T. Sy, Filipino has been a member of the Board of Directors of the Bank since 1977, and currently serves as the Chairperson of the Board. Concurrently, she serves as Chairperson and/or Director of various subsidiaries and affiliates of the Bank: BDO Private Bank, Inc., BDO Leasing & Finance, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). Ms. Sy also serves as Advisor to the Board of Directors of BDO Network Bank, Inc.

Ms. Sy is the Vice Chairperson of SM Investments Corporation (PLC) and Advisor to the Board of SM Prime Holdings, Inc. She also sits as Chairperson of the Board of SM Retail, Inc.

Jesus A. Jacinto, Jr., Filipino, was elected to the Board of Directors of the Bank on 25 May 1996 and has since been Vice Chairman of the Board. He is concurrently the Chairman and President of BDO Insurance Brokers, Inc. He also heads Jaces Corp. as Chairman and President; and Janil Realty, Inc. and JAJ Holdings, Inc., as President. Formerly, he was Director and Executive Vice President of CityTrust Banking Corp.; Director of CityTrust Investments Phil. and CityTrust Finance Corp.; and Vice President and Managing Partner of Citibank N.A.

Nestor V. Tan, Filipino, is the President and CEO of the Bank. He was elected to the Board of Directors on 27 June 1998. He concurrently holds the chairmanship of the following Bank subsidiaries: BDO Strategic Holdings, Inc. and BDO Network Bank, Inc. He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Leasing and Finance, Inc., BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.), BDO Private Bank, Inc., BDO Remit (USA), Inc., and SM Keppel Land, Inc. He is a Trustee of BDO Foundation, Inc., and Chairman of the Board of Trustees of the De La Salle University and a Director of the Asian School of Business & Technology. He is also the Chairman of Bancnet, the operator of the electronic payment system, InstaPay, and the ATM switching utility for Philippine banks. He previously served as President and Director of the Bankers Association of the Philippines, in addition to being the Chairman and director of Philippine Dealing System Holding Corporation. Prior to joining BDO Unibank, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them

Mellon Bank (now BNY Mellon) in Pittsburgh, PA; Bankers Trust Company (now Deutsche Bank) in New York; and the Barclays Group in New York and London.

Christopher A. Bell-Knight, Canadian, was elected to the Board of Directors of the Bank on 27 July 2013. Until his election as Director, Mr. Bell-Knight had been acting as Advisor to the Board of BDO Unibank for more than two years. He had also previously served as Director of BDO Unibank from May 2005 until September 2010. He was an Independent Director of Dumaguete City Development Bank Philippines from March 2007 to March 2013, and concurrently serves as an Advisor to the Board. He was formerly a Director of Solidbank Corp. and Vice President and Country Head of the Bank of Nova Scotia. He has had over 40 years of banking experience in England, Canada, and Asia of which 35 years were spent in credit and marketing. Mr. Bell-Knight is an Associate of the Chartered Institute of Bankers – British, an Associate of the Institute of Canadian Bankers, and a Fellow of the Institute of Corporate Directors.

Jose F. Buenaventura, Filipino, was elected Independent Director of the Bank on 19 April 2013. Since 1976, he has been a Senior Partner of the Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Offices. He is President and Director of Consolidated Coconut Corporation and Director and Corporate Secretary of 2B3C Foundation, Inc. and Peter Paul Philippines Corporation. He sits on the Boards of Directors of the following companies: BDO Securities Corporation (Independent Director), Eximious Holdings, Inc., Cebu Air, Inc., GROW, Inc., GROW Holdings, Inc., Hicap Properties Corporation, Himap Properties Corporation, La Concha Land Investments Corporation, Philippine First Insurance Co., Inc., PhilPlans First, Inc., Techzone Philippines, Inc., Total Consolidated Asset Management, Inc., and Turner Entertainment Manila, Inc.

Jones M. Castro, Jr., Filipino and American, has been an Independent Director of the Bank since 20 April 2012. Mr. Castro has 45 years of banking expertise, with 39 years of international banking experience. From 2009 to 2011, Mr. Castro was the Area Head for South and Southeast Asia of the Wells Fargo Bank, San Francisco. As Area Head, Mr. Castro managed 12 countries, 11 overseas offices, 102 team members and U.S.$3 billion in loans. From 2006 to 2009, Mr. Castro was Regional Head for Latin America, including the Caribbean, of Wachovia Bank, Miami, and managed 25 countries, three overseas offices, 30 team members and a U.S.$1.8 billion loan portfolio. From 2005 to 2006, he was Executive Vice President and International Banking Group Head of the Union Bank of California, San Francisco. From 1990 to 1994, he was Senior Vice President – Controller of Bank of California, San Francisco, and from 1994 to 1997, he was its Senior Vice President of Strategic Planning. Mr. Castro is currently Executive Vice Chairman and Trustee of PhilDev USA and PhilDev S & T, Director of AI Wave Computing, Inc., Adviser of Wave Computing, Inc., and is a Fellow at the Institute of Corporate Directors.

Dioscoro I. Ramos, Filipino, was elected to the Board of Directors of the Bank in January 2016. Since 2011, Mr. Ramos has been the Chief Investment Officer of RY&S Investments Ltd., Hong Kong. A CPA, he was Head of Asia Financials Investment Research of Goldman Sachs Asia, LLC, Hong Kong from 1994 to 2011 and appointed Managing Director in 1998 and Partner in 2006. Prior to this, he was with Mellon Bank, N.A. with postings in Pittsburgh, Philadelphia, New York, and Hong Kong.

Josefina N. Tan, Filipino, was Director of Banco de Oro Universal Bank (now BDO Unibank, Inc.) from 3 February 2001 to August 2005. She then became a Director of Equitable PCI Bank, Inc. from September 2005 until its merger with BDO Unibank in May 2007. Ms. Tan was re-elected to the Board of Directors of the Bank on 27 July 2007. Concurrently, she is Board Adviser of BDO Private Bank, Inc. She is also the Chairperson of the Board of Miriam College and a Trustee of the Development Center for Finance and the Laura Vicuña Foundation. She served as President and Director of BDO Private Bank, Inc. from 29 August 2003 to 17 April 2017. She was also Executive Vice President of the former Far East Bank & Trust Co.; Director and President of FEB Leasing & Finance Corp.; Executive Director and Trustee of FEB Foundation, Inc.; and Executive Vice President of FEB Investments, Inc. until 2000.

George T. Barcelon, Filipino, was elected Independent Director of the Bank on 22 April 2019. He is the visionary behind Integrated Computer Systems, Inc. (ICS), one of the Top 1000 companies based in the Philippines, dedicated to providing effective IT Solutions for small- to large-scale businesses and institutions. For 40 years, ICS has provided its customers with technological expertise and quality services. As the president of a company with 400 employees whose success depends on uncompromising leadership, imagination and careful quality control. Mr. Barcelon seeks to promote the values of integrity, commitment and service quality, the cornerstones upon which ICS was built. Mr. Barcelon is currently the Chairman of the Philippine Chamber of Commerce and Industry

(PCCI). He is also a member of the Rotary Club of Makati and a board member of the Cardinal Medical Charities Foundation, Inc.

Vicente S. Perez, Jr., Filipino, was elected Independent Director of the Bank on 22 April 2019. He is currently an Independent Director of BDO Leasing and Finance, Inc. (BDOLF). He was elected to the Board of Directors of BDOLF on 7 April 2017. He is an independent Director of BDO Capital & Investment Corporation and DoubleDragon Properties Corp. He is also a Non-Executive Director of Singapore technologies Telemedia Pte, Ltd. and STT Communications Ltd. Mr Perez is currently the Chairman of Alternergy and SolarPacific, Philippine renewable power companies in wind, hydro and solar. He was Philippine Energy Secretary from 2001 to 2005. Mr. Perez briefly served in early 2001 as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments. He was Vice Chairman of the National Renewable Energy Board. He is a member of the advisory boards of Bhutan Foundation, the Yale Center for Business & Environment, Geneva-based Pictet Clean Energy Fund, and bio-energy company Roxas Holdings, Inc. Mr Perez is Chairman of the National Advisory Council of WWF-Philippines, a Trustee of WWF-China and a board member of WWF – US.he was a 2005 World Fellow at Yale University where he lectured an MBA class on renewable power at the Yale School of Management.

Gilberto C. Teodoro, Jr., Filipino, was elected Independent Director of BDO on 25 April 2014. He is the Chairman of Sagittarius Mines, Inc. and Indophil Resources Philippines, Inc. He was formerly Chairman of Suricon Resources Corporation and PNP Foundation, Inc. He is also a member of the Board of Directors of Philippine Geothermal Production Company, Inc., Alphaland Corporation, and Canlubang Sugar Estate. He served as Secretary of National Defense from 2007 to 2009 and was a member of the Philippine House of Representatives from 1998 to 2007. He continues to advise the public sector agencies and is currently the Chairman of the Philippine Air Force Multi-Sectoral Governance Council and sits in a similar one of the Philippine Navy. He is a recipient of the Philippine Legion of Honor with the rank of Grand Commander. He is well-trained in litigation and was involved in a wide range of issues -- constitutional, corporate, criminal, civil, and administrative -- and in pro-bono work to assist various indigent litigants from 1990 to 1997. He placed first in the Philippine Bar Examinations of 1989 and was admitted to the State Bar of New York.

The following table shows the shareholdings of each current Director in the Bank as at 31 December 2019:

Name	No. of Shares	% of Total Shares
Teresita T. Sy	394,947	0.01%
Jesus A. Jacinto, Jr.	502	0.00%
Nestor V. Tan	11,661,794	0.27%
Christopher A. Bell-Knight	123	0.00%
George T. Barcelon (Independent Director)	1,001	0.00%
Jose F. Buenaventura (Independent Director)	1	0.00%
Jones M. Castro, Jr. (Independent Director)	1	0.00%
Vicente S. Perez, Jr. (Independent Director)	5,000	0.00%
Dioscoro I. Ramos (Independent Director)	203,800	0.00%
Josefina N. Tan	596,458	0.01%
Gilberto C. Teodoro, Jr. (Independent Director)	1	0.00%

The aggregate compensation paid by the Bank to its Directors for the years ended 31 December 2017, 2018 and 2019 was ₱33.8 million, ₱31.9 million and ₱35.2 million, respectively.

As at 31 December 2017, 2018 and 2019, loans from the Bank to Directors totaled nil, nil and ₱103.8 million, respectively. All loans to Directors are made on arm's length commercial terms.

Senior Management

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Bank. They are responsible for the implementation of the policies set by the Board of Directors. The following is a list of the Bank's key officers:

Name	Position
Nestor V. Tan	President, CEO and Director
Walter C. Wassmer	Head, Institutional Banking
Rolando C. Tanchanco	Head, Consumer Lending Group
Jaime C. Yu	Head, Branch Banking
Joseph Albert L. Gotuaco	Head, Central Operations Group
Dalmacio D. Martin	Treasurer
Roberto E. Lapid	President, BDO Leasing and Finance, Inc.
Eduardo V. Francisco	President, BDO Capital & Investment Corporation
Rafael G. Ayuste	Head, Trust and Investments Group
Albert S. Yeo	President, BDO Private Bank, Inc.
Maria Cecilia G. Fonacier	Head, Marketing Communications Group
Ricardo V. Martin	Head, Corporate Compliance and Legal Services Group
Edwin Romualdo G. Reyes	Head, Transaction Banking
Maria Theresa L. Tan	General Manager, BDO Insurance Brokers, Inc.
Renato A. Vergel de Dios	President and CEO, BDO Life Assurance Company, Inc.
Jesus Antonio S. Itchon	President, BDO Network Bank, Inc.
Frederic Mark S. Gomez	Head, Information Technology Group
Evelyn L. Villanueva	Head, Risk Management Group
Luis S. Reyes, Jr.	Head, Investor Relations and Corporate Planning
Estrellita V. Ong	Head, Internal Audit Group
Federico P. Tancongco	Chief Compliance Officer
Alvin C. Go	Head, Legal Services Group
Lucy Co Dy	Comptroller
Evelyn C. Salagubang	Head of Recruitment, Human Resources Group
Laurence S. Antonio	Head of Workforce Management and Services, Human Resources Group

Walter C. Wassmer, Filipino, is Senior Executive Vice President and Head of the Institutional Banking Group of BDO Unibank, Inc. He is also a Director of BDO Leasing and Finance, Inc., BDO Capital & Investment Corporation and MMPC Auto Financial Services Corporation. Previously, Mr. Wassmer was the Chairman and Officer-In-Charge of BDO Elite Savings Bank, Inc., formerly GE Money Bank, Inc. (A Savings Bank), and held directorships in MDB Land, Inc., Mabuhay Vinyl Corporation, and Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.). He holds a Bachelor of Science degree in Commerce from De La Salle University.

Rolando C. Tanchanco, Filipino, is Senior Executive Vice President for Consumer Banking. He holds a bachelor's degree in Business Economics from the University of the Philippines. He acquired his MBM at the Asian Institute of Management. Mr. Tanchanco joined BDO to head the BDO's Consumer Lending. Prior to his joining BDO, Mr. Tanchanco was President of Philam Savings Bank and Head of AIG Credit Card. He is currently a Director of BDO Insurance Brokers, Inc., BDO Network Bank, Inc., MMPC Auto Financial Services Corporation and Trans Union Phils. He was formerly a Director of BDO Elite Savings Bank, Inc.

Jaime C. Yu, Filipino, is Senior Executive Vice President. He holds a Bachelor of Arts degree in Economics from De La Salle University and is a MBA graduate from the Ateneo de Manila University. He has extensive experience in commercial, corporate, and investment banking from the International Corporate Bank and Union Bank of the Philippines, where he held various positions up to his appointment as First Vice President and Region Head for the Manila-Pasay area. He joined BDO in December 1997 and is currently the Group Head of Branch Banking where he manages the entire branch network.

Joseph Albert Lim Gotuaco, Filipino, is Senior Executive Vice President and Head of the Bank's Central Operations Group. He joined BDO Unibank, Inc. on 1 February 2019. Mr. Gotuaco started his banking career in New York in 1986, as a trader and risk manager for various fixed income products of Chemical Bank. In 1994, he was based in Hong Kong for J.P. Morgan, and was responsible for servicing corporate, financial institution, and sovereign clients in the Philippines and in Southeast Asia. In 2002, he joined Credit Suisse in its Fixed Income Division. In 2005, he joined Merrill Lynch as a Managing Director in its Fixed Income, Currencies and Commodities Division, and served on the firm's Asia-Pacific Operating Committee. In 2009, Mr. Gotuaco was based in Singapore as Partner and Managing Director in a Singapore-based investment vehicle of the Brunei government, where he helped manage investments in general aviation (Piper Aircraft) and related in-house financing programs (Piper Capital). Mr. Gotuaco joined Bank of the Philippine Islands (**BPI**) in 2013. Until 2016, he served as Executive Vice President & Chief Financial Officer; from 2016 to 2018, he was Head of Retail Banking. He was a board member of BPI Family Savings Bank; BPI International Finance Ltd (**BPI IFL**), a Hong Kong subsidiary serving high net worth clients; and BPI Direct BanKo, a microfinance unit. He also served in BPI's management, asset & liability management, credit, and operating & IT risk management committees. Mr. Gotuaco obtained his B.S. Economics degree, *summa cum laude*, in finance and marketing in 1986, from the Wharton School at the University of Pennsylvania. He obtained his MBA from Harvard Business School in 1994.

Dalmacio D. Martin, Filipino, is Executive Vice President of BDO Unibank, Inc. He has been with the Bank for more than nine years. He is currently the Bank's Treasurer of the Bank's Treasury Group. He holds a bachelor's degree in B.A Political Science from the U.C Berkeley University and a master's in management from the Arthur D. Little MEI.

Roberto E. Lapid, Filipino, was appointed Vice Chairman of BDO Leasing and Finance, Inc. on 1 December 2010, and appointed as its President on 23 April 2014. He is concurrently President and Vice Chairman of the Board of Directors of BDO Rental, Inc., a wholly owned subsidiary of BDO Leasing, and a member of the Board of Trustees of the Foundation for Carmelite Scholastics. He was formerly the President of Equitable Exchange, Inc. and the Vice Chairman/Director of EBC Investments, Inc. Mr. Lapid holds a bachelor's degree in Business Administration from the University of the Philippines.

Eduardo V. Francisco, Filipino, is Executive Vice President. He is President/Director of BDO Capital & Investment Corporation, the investment banking arm of BDO Unibank, Inc. He is also the Chairman for International Association of Financial Executives Institutes (IAFEI), Chairman/Director/Trading Nominee for BDO Nomura Securities, Inc., and Chairman of Averon Holdings Corp. He also sits on the boards of CIBI Foundation, Shareholders Association of the Philippines (SharePhil), FINEX Research & Foundation, International School of Manila (ISM), UPCollege of Business Alumni Association (UPCBAA), Makati Sports Club, Inc. (MSCI) and Valle Verde Country Club, Inc. (VVCCI). He is also a member of Makati Business Club (MBC), and the POLO Triathlon Team. He was formerly the Co-Chairman of the Capital Market Development Council (CMDC) of the Philippines, Vice Chairman of the Integrity Initiative, and has been the President of the Management Association of the Philippines (MAP), Financial Executives Institute of the Philippines (FINEX), Wharton-Penn Club, Federation of Valle Verde Associations, First Valle Verde Association Inc. and BDO Securities Corporation. He was previously on the boards of AFC Merchant, Institute of Corporate Directors (ICD), Foundation for Filipino Entrepreneurs (FFE), LGU Guarantee Corporation, Investment Houses Association of the Philippines (IHAP), Makati Business Development Council and BDO Strategic Corporation. Mr. Francisco has worked with other financial institutions in New York and Hong Kong. He holds a master's degree in Business Administration from the Wharton School of the University of Pennsylvania and Bachelor's degree in Business Administration from the University of the Philippines. He is also a recipient of Distinguished Alumi award for Financial Management Excellence from the University of the Philippines and the Distinguished Alumnus Award from the U.P. College of Business Administration and 2017 UPAA Awardee for Financial Management Excellence.

Rafael G. Ayuste, Jr., Filipino, is Senior Vice President of BDO Unibank, Inc. He has been with BDO Unibank for more than five years. He is currently the Trust Officer and Head of BDO Trust and Investments Group and was the Trust Officer and Head of Wealth Advisory and Trust Group of BDO Private Bank, Inc. He has more than 30 years banking experience, with 22 years in trust banking. He holds a bachelor's degree in Business Administration from University of Sto. Tomas, a master's degree in Business Administration (Nominee) from De La Salle University and an Executive Master's Degree (Nominee) in Business Economics from University of Asia and the Pacific.

Albert S. Yeo, Filipino, is an Executive Vice President at BDO Unibank, Inc, since 3 January 2017. Mr. Yeo, prior to joining the Bank, had been with Merrill Lynch & Co. for 17 years, last as a Senior Financial Advisor at their Manhattan Beach Office in Los Angeles, California. He was also connected with UBS Securities and Prudential Securities, Inc. (now Wells Fargo Advisors) in various capacities in the financial services industry. Prior to that, he was connected with IBJ Schroder Bank and Trust (now Mizuho Bank) in their Capital Markets Group in New York City for five years. Before his MBA, he spent two years at Rizal Commercial Banking Corporation as a Corporate

Banking officer at their Binondo area headquarter. Mr. Yeo earned his MBA in Finance from the Wharton School at the University of Pennsylvania. He finished his undergraduate degree at the Ateneo de Manila University, BS Management Engineering with *Magna Cum Laude* distinction and was the Departmental awardee of his class.

Maria Cecilia G. Fonacier, Filipino, is Senior Vice President and Marketing Communications Group Head of BDO Unibank, Inc. She joined the Bank in 1 June 2017. Prior to joining BDO Unibank, Ms. Fonacier was a Managing Director and Head of the Customer Franchise Group of Citibank, N.A. Philippines. In the 23 years that she spent in Citibank N.A., she managed various functions like Marketing, Customer Experience, Data Analytics, Public Relations, Digital Banking, and Consumer Loans. Ms. Fonacier also serves as board member of the Anna's Home for Widows Foundation. She holds a bachelor's degree in Economics from the Ateneo de Manila University.

Ricardo V. Martin, Filipino, is Executive Vice President and Chief of Staff for the Office of the President. He concurrently is the Group Head for the Corporate Compliance and Legal Services Group and administratively oversees the Corporate Secretary's Office, Anti-Money Laundering Unit, Legal Services, Compliance, Corporate Governance Office, and Internal Audit. He is also a Director of BDO Remit (Italia), S.p.A., BDO Remit (USA), Inc., Averon Holdings Corporation and Nashville Holdings, Inc. Prior to this, he was Executive Vice President and Head of the Information Technology Group. Previously, he served as Chief Finance Officer & Executive Vice President for Equitable PCI Bank, Inc. Earlier, he was the Chief Finance Officer of Solidbank Corporation. He is a graduate of the Management Engineering Program of the Ateneo de Manila University.

Alvin C. Go, Filipino, is Senior Vice President for the Legal Services Groups. He was also appointed as Assistant Corporate Secretary and Alternate Corporate Information Officer on 1 October 2015. Prior to joining BDO, he was the Chief Legal Counsel of Philippine National Bank from 2003 to 2012. He was an Associate Attorney of Salonga, Ordonez, Yap, Corpuz Padlan & Associates Law Offices from 1985 to 1989. He served as Prosecution Attorney from 1989 to 1990 and State Prosecutor of the Department of Justice from 1990 to 1993. He was a Senior Partner at Go, Cojuangco, Mendoza, Ligon and Castro Law Offices from 1994 to 1999, and Senior Partner at Go and Castro Law Offices from 1999 to 2003. He obtained his Bachelor of Arts, Major in Political Science, from the Immaculate Concepcion College, Ozamiz City and his Bachelor of Laws from Misamis University.

Edwin Romualdo G. Reyes, Filipino, is Executive Vice President of BDO Unibank, Inc. and Group Head for the Transaction Banking Group. Mr. Reyes has more than 30 years of experience in the banking industry. He was previously Managing Director and Global Head of Depositary Receipts (DR) at Deutsche Bank Trust Company Americas, New York, USA (Deutsche Bank) from 2006 to 2014. Mr. Reyes also served as Director and Global Head of DR Strategies Initiatives and Channel partners from 2001 to 2006 and Director & Global Head of Intermediaries, Corporate Trust & Agency Services from 1999 to 2001. Prior to that, he was Vice President, Capital Markets Trust Services at IBJ Whitehall Financial Services, New York, USA from 1998 to 1999. Mr. Reyes also serves on the board of BDO Network Bank, Inc., as non-Executive Director. He holds a master's degree in Business Administration, major in Finance/Money and Financial Markets from Columbia University, Graduate School of Business in New York, USA. Mr. Reyes graduated *Cum Laude* from the University of the Philippines, with a degree of Bachelor of Science in Industrial Engineering and Operations Research.

Maria Theresa L. Tan, Filipino, is Senior Vice President. She is General Manager of BDO Insurance Brokers, Inc. (BDOI). She has had more than two decades of experience in sales, marketing/product management, and general management in the consumer, services, and insurance industries. She graduated from the Ateneo de Manila University with a degree in Business Management, Minor in Marketing. Prior to joining BDO, she was the General Manager of International SOS, Philippines, Inc. She joined the Bank in July 2009.

Renato A. Vergel de Dios, Filipino, is the President & CEO of BDO Life Assurance Company, Inc. (BDO Life) and a Director of BDO Life Board since October 2009. He also serves as a member of the Board of Directors of the Philippine Life Insurance Association (PLIA) and of the Board of Trustees of the Insurance Institute for Asia and the Pacific. Mr. Vergel de Dios has been in life insurance business for over 40 years. Prior to joining BDO Life, he served as CEO for Manulife Philippines Inc. and Executive Vice President, Sales and Operations, for the Philippine American Life Insurance Company, Inc. He holds a bachelor's degree in Mathematics from Ateneo de Manila University and an MS Management (Sloan) degree from Stanford Graduate School of Business.

Jesus Antonio S. Itchon, Filipino, is Executive Vice President of BDO Unibank, Inc. since 15 September 2017. He is seconded to BDO Network Bank, Inc. and serves as President of BDO Network Bank, Inc. He has more than 30 years experience in the banking industry. Prior to joining the Bank, he was an Executive Vice President of Property Company of Friends, Inc. since 2016 and Williamton Financing Corporation since 2017, and Independent Director of Paymaya Phils. Inc. since 2015. Mr. Itchon also worked with Citibank N.A. Philippines as Managing Director and City Country Compliance Officer and Citibank Savings holding various positions within the years 1986 to 2015, including being its President. He graduated from the De La Salle University with a degree in Bachelor of Arts in Economics and from Johnson Graduate School of Management, Cornell University with master's degree in Business Administration.

Frederic Mark S. Gomez, Filipino, is Senior Vice President of BDO Unibank, Inc. He joined the Bank on 15 November 2017 and was appointed as Head of Information Technology Group and Member of the IT Steering Committee, effective 1 March 2018. Prior to joining the Bank, Mr. Gomez was Vice President and Chief Information/Technology Officer for Information Technology, Asia Pacific of S&P Global, Inc. from January 2011 to January 2017. He held various positions at Standard & Poor's (New York, USA) since 1996 before becoming its Vice President and Global IT Head for Sales and Marketing Systems in February 2008 up to January 2011. He graduated from the University of Santo Tomas with a degree in Bachelor of Science in Business Administration.

Evelyn L. Villanueva, Filipino, is Executive Vice President of BDO's Risk Management Group, and is BDO's Chief Risk Officer. She holds a bachelor's degree in Statistics from the University of the Philippines. She obtained her master's in business management degree from the Asian Institute of Management. She has over 30 years of banking experience in corporate banking and enterprise-wide risk management covering credit, market, liquidity, interest rate and operational risk management. She started out as a management trainee in Citytrust Banking Corporation and was connected with HSBC as Senior Vice President for Credit Risk Management before joining BDO.

Luis S. Reyes, Jr., Filipino, is Executive Vice President for Investor Relations and Corporate Planning. He is concurrently a Director of BDO Strategic Holdings, Inc. and BDO Nomura Securities, Inc., and Chairman of Nashville Holdings, Inc. He is also a Director and Treasurer of BDO Leasing and Finance, Inc. and BDO Rental, Inc. He holds a Bachelor of Science degree in Business Economics from the University of the Philippines. He was First Vice President of Far East Bank & Trust Company, Trust Banking Group before joining BDO.

Estrellita V. Ong, Filipino, joined BDO in 2012 as Senior Vice President for the Internal Audit Division heading Branches Audit. In 2013 April, the Board approved and confirmed her designation as the Unibank Group's Chief Internal Auditor (**CIA**). She was formerly connected with Security Bank Corporation retiring as its CIA. Prior to being a CIA, she held, in Security Bank, the position of Assistant Controller and Executive Assistant to the Chairman handling the Centro Escolar University Finance portfolio. She was also formerly a Director of the 6776 Ayala Condo Corp. and Corporate Secretary of the Eastman Enterprises Corp. Prior to joining the bank mainstream, she had held Controllership position in Evergreen Shipping Corp.'s General Agent's office and Pioneer Intercontinental Insurance. She had varied experience also in manufacturing being General Manager and Treasurer of several Import/Export businesses subcontracting for branded US luggage and apparels. She is a Certified Public Accountant graduating from the University of the East – Recto with a Bachelor of Science degree in Business Administration.

Federico P. Tancongco, Filipino, is Senior Vice President. He joined BDO Unibank in October 2005 and was then seconded to BDO Private Bank, Inc. as Head of the Compliance and Legal Department. His secondment was recalled and since 1 July 2017 serves as Chief Compliance Officer of BDO Unibank. Prior to this, he served as trial lawyer and solicitor with the Office of the Solicitor General for six years before joining the Rizal Commercial Banking Corporation where he was Trust Legal Counsel for the Trust and Investments Division for twelve (12) years. He also serves as trustee in religious non-profit corporations, namely: WorldTeach Ministries Philippines, Inc. and Far East Broadcasting Corporation. He holds a Bachelor's Degree in Philosophy and Letters from De La Salle University and a Law degree from the University of the Philippines College of Law.

Lucy Co Dy, is Executive Vice President and Comptroller. She is also a Director of BDO Remit Limited, Express Padala Hong Kong Limited, BDO Remit (Italia), S.p.A. and BDO Life Assurance Company, Inc.; Director and Treasurer of BDO Strategic Holdings, Inc.; Trustee and Treasurer of BDO Foundation, Inc. She was formerly a Director of PCIB Securities, Inc., BDO Elite Savings Bank, Inc. (formerly GE Money Bank, Inc.), Banco de Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.), Express Padala Frankfurt GmbH, and BDO Life Assurance

Holdings Corporation; and formerly Chairperson and President of the The Executive Banclounge, Inc. She holds a bachelor's degree in Accounting from the University of Santo Tomas.

Evelyn C. Salagubang, Filipino, is Senior Vice President. She assumed the position of Group Head for Human Resources (**HR**) of the Bank in July 2011. She was formerly the Head of Human Resources of American Express Savings Bank, with oversight HR role over the American Express International, Inc., and American Express Bank Philippines. Prior to joining BDO, she was the HR Manager for Kraft Foods Philippines, Inc. She holds a degree in Psychology from Assumption College and completed a Diploma Program in Human Resource Management from the same institution.

Laurence Antonio, Filipino, is First Vice President and head of Human Resources Workforce Management and Services. He holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines. He was previously connected with the Hongkong and Shanghai Banking Corporation Ltd. Philippines as Senior Vice President for Performance & Reward and with Accenture, Inc.as People Matters Operations Manager. He joined the Bank in October 2019 and has over 30 years of experience in the human resources field.

Involvement in Legal Proceedings

The Bank is not aware of any of the following events having occurred during the past five years up to the date of this Offering Circular that are material to an evaluation of the ability or integrity of any Director, nominee for election as Director, Senior Management, underwriter or controlling person of the Bank:

(i) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(ii) any conviction by final judgment, including the nature of the offence, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(iii) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;

(iv) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organised trading market or self-regulatory organisation, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated; and

(v) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Stock Option Plan

The Bank has established a stock option plan applicable to its senior officers (from vice-president level onwards). The amount of stock options allocated to the qualified officers is based on the performance of the individual officers as determined by the management. The amount of benefits is determined based on the Bank's performance in the preceding year and amortised over five years starting from the date of the approval of the Board.

Corporate Governance

As part of its increasing focus on corporate governance, the Bank established a number of Board committees.

The Executive Committee. The Executive Committee acts on behalf of the Board as the main approving body for Bank exposures, particularly for the approval/confirmation of credit proposals, investments and disposal of acquired assets and other projects or initiatives to enhance the Bank's operating and service delivery capabilities. It meets at least once a week. The committee is chaired by Teresita T. Sy. Its other members are Nestor V. Tan, Jesus A. Jacinto, Jr., Josefina N. Tan, Antonio N. Cotoco, Guia C. Lim and Edmundo S. Soriano.

Board Audit Committee. The Audit Committee provides oversight of the internal and external audit functions It is vested by the Board with the following authority: a) review and approve the audit scope and frequency, and the annual internal audit plan; b) oversee the Internal Audit Department and appointment of the Chief Internal Auditor as well as the Bank's independent external auditor, the terms and conditions of its engagement and removal of which only independent and nonexecutive directors should decide; c) monitor and evaluate the adequacy and effectiveness of the Bank's internal control system, including financial, operational and compliance controls and risk management annually; d) receive and review reports of internal and external auditors, the Chief Compliance Officer, and regulatory agencies, where applicable, address all issues and concerns from auditors expeditiously and effectively by ensuring that management is taking appropriate corrective actions in a timely manner, and take appropriate corrective actions in addressing control and compliance issues with regulatory agencies; e) review the Bank's quarterly, semi-annual, and annual financial statements before submission to the Board and ensure that no revisions to the Bank's financial statements are implemented for reasons other than mandated changes in accounting practices; f) review and update the Audit Committee charter at least annually, investigate any matter within its term of reference and provide mechanisms for reporting of improprieties and malpractices, independent investigation, follow-up action and subsequent resolution of complaints; g) ensure that the internal auditors shall have free and full access to all the Bank's records, properties and personnel relevant to the internal audit activity, and that such activity is free from interference in the determination of the scope of internal auditing examinations, performance of work, and communication of results. The committee is chaired by Jose F. Buenaventura. Its other members are Jones M. Castro, Jr. and Vicente S. Perez, Jr. with Corazon S. de la Paz-Bernardo, Christopher A. Bell-Knight and Jesus A. Jacinto, Jr. as advisers.

Compensation Committee. The Compensation Committee provides oversight on directors' compensation and remuneration of senior management consistent with the Bank's culture and strategy, effectively aligned with prudent risk taking and commensurate with corporate and individual performance. It also ensures consistency of the compensation policies and practices across the Bank. It meets at least once annually. The committee is chaired by Gilberto C. Teodoro, Jr. Its other members are Jesus A. Jacinto, Jr., Josefina N. Tan and Teresita T. Sy.

Corporate Governance Committee. The Corporate Governance Committee is primarily tasked to assist the Board in formulating the policies and overseeing the implementation of the corporate governance practices of the Bank and its subsidiaries and affiliates. Annually, it conducts the performance self-evaluation of the Board of Directors, its committees, executive management and peer evaluation of directors using the revised board of directors and peer evaluation survey forms. It also oversees the implementation of the Directors Orientation and Continuing Education Policy. The committee is chaired by Gilberto C. Teodoro, Jr. Its other members are Jones M. Castro, Jr. and Vicente S. Perez, Jr.

Nominations Committee. The Nominations Committee leads the process for identifying, and recommends, candidates for appointment as Directors of the Bank and Board-appointed positions, giving full consideration to succession planning and the leadership needs of the Bank. It recommends the composition and chairmanship of the various committees. It reviews the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and recommends changes if necessary. The committee is chaired by Vicente S. Perez, Jr. Its other members are Jose F. Buenaventura and Gilberto C. Teodoro, Jr.

Risk Management Committee. The Risk Management Committee is responsible for the development of the Bank's risk policies, defines the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimising the impact of losses when they occur. It oversees the implementation and review of the risk management plan on an integrated enterprise-wide basis, system of limits of management's discretionary authority delegated by the Board and takes immediate corrective actions when breached. It is also responsible for reassessing the continued relevance, comprehensiveness and effectiveness of the risk management plan, and revises it when needed The Risk Management Committee also coordinates and works with the Audit Committee in certifying the adequacy of the Bank's internal control and risk management systems in the Bank's annual report. The committee is chaired by Jones M. Castro, Jr., with Nestor V. Tan and Dioscoro I. Ramos as members, and Christopher A. Bell-Knight as advisor.

Trust Committee. The Trust Committee reviews and approves transactions between trust and/or fiduciary accounts, to accept and close trust and other fiduciary accounts, and to approve the investment, reinvestment and disposition of funds or property, offering of new products and services, establishment and renewal of lines and limits with financial institutions, investment outlets and counterparties. It evaluates trust and other fiduciary accounts at least once a year. In addition, it also reviews the Trust and Investment Group's overall performance, profile of funds and accountabilities under its management, industry position, and the risk management reports. also approves offering of new products and services, establishment and renewal of lines and limits with financial institutions, and investment outlets and counterparties. The committee is chaired by Dioscoro I. Ramos. Its other members are Christopher A. Bell-Knight, Josefina N. Tan, Nestor V. Tan and Rafael G. Ayuste, Jr.

Information Technology (IT) Steering Committee. The IT Steering Committee provides oversight and governance over the Bank's IT functions including approvals of information technology-related policies and practices of the Bank and applicable guidelines. It informs the Board of both internal and external IT-related developments and activities, potential challenges and risks, and progress versus strategic objectives. It approves and endorses to the Board IT-related best practices, strategic plans, policies and procedures. The committee is chaired by George T. Barcelon. Its other members are, Nestor V. Tan and Frederic Mark S. Gomez.

Related Party Transactions Committee. The Related Party Transactions Committee assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Bank and its stakeholders. It ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote on the Annual Stockholders' meeting the Bank's significant transactions with related parties. The committee is chaired by George T. Barcelon. Its other members are Jones M. Castro, Jr. and Jose F. Buenaventura, with Jesus A. Jacinto, Jr. as advisor.

In 2015, the Bank was among the recipients of the inaugural ASEAN Corporate Governance Awards Top 50 ASEAN Publicly Listed Companies, a recognition given to companies that seriously upholds good corporate governance. *Corporate Governance Asia* also included the Bank in its list of Asia's Best CSR, Best Investor Relations Company and Best Environmental Responsibility in its 6th Asian Excellence Awards held in June 2016. The Bank was also named Asian Excellence Award 2018 awardee and Best Investor Relations Company by Corporate Governance Asia in its 9th Asian Excellence Award 2019.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loan transactions with a subsidiary, and with certain directors, officers, stockholders and related interests. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risk.

For further information on the Bank's related party transactions, including detailed breakdowns of amounts receivable from related parties and the income and expenses relating to related party transactions, see Note 25 to the Bank's audited financial statements as at 31 December 2017 and Note 26 to the Bank's audited financial statements as at 31 December 2019 and 2018 and for the years ended 31 December 2017, 2018 and 2019.

The Bank has not included the volume of transactions and maturity dates in the audited financial statements since these loans do not have a material effect on the total loan portfolio and are short term in nature.

DOSRI Loans and Deposits

The following table sets out certain information relating to the Bank's DOSRI loans as at the dates indicated:

	As at 31 December		
	2017	2018	2019
	(in ₱ millions, except percentages)		
Total DOSRI loans	55,8452	54,182	30,555
Per cent. of DOSRI loans to total loans	3.2	2.7	1.4
Per cent. of unsecured DOSRI loans to total DOSRI loans	2.8	3.2	6.1

On 31 January 2007, the BSP issued Circular No. 560, imposing lower ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. See "*Banking Supervision and Regulation—Loans to DOSRI*".

Certain Relationships and Related Transactions

In the ordinary course of business, the Bank has loan transactions with a subsidiary and with certain DOSRI. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Section 342 of the Manual provides the credit limits applicable to project finance exposures of banks and quasi-banks. Under the Manual, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of the lending bank's/ quasi-bank's net worth, and the unsecured portion shall not exceed 5% of such net worth. Further, the total outstanding exposures to all subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank/quasi-bank. Any of the director, officer, and/or stockholder of the lending bank should not have a related interest to these subsidiaries and affiliates. The Bank is in compliance with such regulations.

Under the Manual, loans, other credit accommodations and guarantees granted by a bank to an entity that is a subsidiary or affiliate of that bank for the purpose of project finance shall be subject to a separate individual limit of 25% of the net worth of the lending bank, subject to the following conditions: (1) that the unsecured portion thereof shall not exceed 12.5% of such net worth when the project is already operational; (2) that such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government; (3) that the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents; (4) that the lending bank shall consider its total project finance exposures in complying with provisions of the Manual on large exposures and credit risk concentrations and on credit limits, large exposures, and credit risk concentrations) on the guidelines in managing large exposures and credit risk concentrations; (5) that the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending bank; and (6) that the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions.

Section 341 of the Manual defines DOSRI accounts, and provides the current definitions pertinent to DOSRI regulation.

On 12 May 2009, BSP issued Circular No. 654 allowing a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of 25% of net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed 12.5% of such net worth, provided further that these subsidiaries and affiliates are not related interests of any director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, or officer or stockholder sits on the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank. The Bank is in compliance with such regulations.

On 25 January 2013, BSP issued Circular No. 785, which is incorporated in the Manual, on individual and aggregate ceilings on loans, other credit accommodation and guarantees to DOSRI. The amendment relates to the additional exclusions from the individual and aggregate ceilings. Under the amendment, the portion of loan and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank, was excluded from computing the individual ceiling. For the aggregate ceiling, the amendment excluded the following items (a) loans, other credit accommodations and advances to officers in the form of fringe benefits granted in accordance with existing regulations; (b) loans, other credit accommodations and guarantees extended by a cooperative bank to its cooperative shareholders; and (c) the portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

On 14 December 2015, the BSP issued Circular 895, Series of 2015 setting guidelines on related party transactions to further strengthen oversight and implement effective control systems for managing exposures that may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients, and other stakeholders. On 23 June 2016, the BSP issued Circular No. 914, Series of 2016, amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates by raising the ceiling on exposures of a bank's subsidiaries and affiliates to qualified infrastructure projects needed to support economic growth.

The following table shows information relating to DOSRI accounts of the Bank as at 31 December 2017, 2018 and 2019:

	As at 31 December		
	2017	**2018**	**2019**
Total outstanding DOSRI accounts (in ₱ millions)	55,842	54,182	30,555
Per cent. of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	-	-	-
Per cent. of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	3.2	2.7	1.4
Per cent. DOSRI accounts to total loans	3.2	2.7	1.4
Per cent. of unsecured DOSRI accounts to total DOSRI loans	2.8	3.2	6.1
Per cent. of past due DOSRI accounts to total DOSRI loans	0.0	0.0	0.0
Per cent. of nonperforming DOSRI accounts to total DOSRI loans	0.0	0.0	0.1

The year-end balances as at 31 December 2017, 2018 and 2019 in respect of subsidiaries included in the Bank's financial statements are as follows:

	As at 31 December		
	2017	**2018**	**2019**
		(in ₱ millions)	
Loans and receivables	60,377	56,753	51,130
Deposit liabilities	80,089	62,483	52,568

The income and expenses for the years ended 31 December 2017, 2018 and 2019 in respect of subsidiaries included in the Bank's financial statements are as follows:

	For the year ended 31 December		
	2017	**2018**	**2019**
		(in ₱ millions)	
Interest income	6,277	6,749	7,844
Interest expense	1,877	2,353	2,482

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements.

The significant inter-company transactions and outstanding balances of the Bank with its subsidiaries were eliminated in consolidation. The Bank is not a subsidiary of any corporation and had no transactions with promoters.

THE PHILIPPINE BANKING INDUSTRY

The information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government, and has not been prepared or independently verified by the Issuer, the Lead Arranger, the Dealers or any of their affiliates or advisers.

Introduction

The banking industry in the Philippines is composed of universal banks, commercial banks, rural banks, thrift banks (including savings and mortgage banks, private development banks and stock savings and loan associations), cooperative banks and Islamic banks.

According to BSP's report on the Physical Network of the Philippine Banking System, as at 31 December 2019, the commercial banking sector, comprising universal and commercial banks, consisted of 46 banks, of which 21 were universal banks and 25 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 25 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 18 were branches of foreign banks.

Commercial banks are organised primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, accept or create demand deposits, receive other types of deposits and deposit substitutes, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium-and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for SMEs and individuals. As at 31 December 2019, there were 50 thrift banks (including microfinance-oriented banks), based on BSP's report on the Physical Network of the Philippine Banking System.

Rural banks are organised primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As at 31 December 2019, there were 451 rural and cooperative banks, based on BSP's report on the Physical Network of the Philippine Banking System.

Specialised government banks are organised to serve a particular purpose. The existing specialised banks are the Development Bank of the Philippines (**DBP**), Land Bank of the Philippines (**LBP**), and AI-Amanah Islamic Investment Bank of the Philippines (**AAIIB**). DBP was organised primarily to provide banking services catering to the medium-and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small-and medium-sized enterprises. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organised to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends — the liberalisation of the industry, and mergers and consolidation.

Foreign bank entry was liberalised in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. Republic Act No. 8791 or the General Banking Law of 2000 (the **General Banking Law**) further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% of the voting stock of one domestic bank within seven years from the effectivity of said law on 13 June 2000 or until 13 June 2007. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. As at 31 December 2019, there were 18 foreign banks with branches and two foreign banks with subsidiaries in the Philippines, based on BSP's report on the Physical Network of the Philippine Banking System.

Under RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014 which amended the relevant provisions of the Manual of Regulations for Banks (the **Manual**) implementing RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely owned and publicly listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The liberalisation of foreign ownership regulations in banks has allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Commercial Bank, United Overseas Bank, Hua Nan Commercial Bank, Bank of Taiwan, and Land Bank of Taiwan being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. As at 31 December 2019, there were 20 offshore lenders operating in the Philippines, with 18 of them operating as foreign bank branches while the remaining two are foreign bank subsidiaries.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of all of the outstanding shares of stock of a bank. Based on BSP data, since the new package of incentives took effect in September 1998, there have been at least 102 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalisation, and to the mergers and consolidation trend, the BSP issued BSP Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. As provided in the Circular, the suspension of the grant of new banking licenses or the establishment of new banks under the Manual is lifted under a two-phased approach. Under Phase 1 of the liberalisation, the grant of new universal/commercial banking license shall be allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalised starting 1 January 2018.

The following table sets out a comparison, based on publicly available data, of the five largest Philippine private domestic commercial banks in terms of assets as at 31 December 2019:

Name	Market Capitalisation[1]	Total Equity[2]	Total Assets[2]	Loans and Receivables - net[2]	Total Deposits[2]	No. of Branches[3]
			(in ₱ millions, except number of branches)			
BDO Unibank, Inc.	692,257	371,729	3,145,158	2,204,522	2,484,958	1,436
Metropolitan Bank & Trust Co	298,179	310,100	2,471,446	1,524,120	1,715,129	957
Bank of the Philippine Islands	396,172	268,704	2,188,626	1,489,870	1,697,300	1,170
Philippine National Bank	52,563	147,100	1,131,467	657,626	825,292	715
China Banking Corporation	67,416	92,793	962,236	584,189	776,405	631

Notes:
(1) Market Capitalisation as at 27 December 2019.
(2) Financial data taken from each bank's published statements of condition as at 31 December 2019.
(3) Number of branches was provided by each of the respective banks as at 31 December 2019.

According to a quarterly Senior Bank Loan Officers' Survey conducted by BSP, local banks implemented stricter credit standards on commercial real estate loans in the first quarter of 2019. The net tightening of overall credit standards for commercial real estate loans was attributed by the banks to stricter oversight of banks' real estate exposure along with banks' reduced tolerance for risk. In particular, banks reported wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, shortened loan maturities, and increased use of interest rate floors.

The BSP issued BSP Circular No. 839, Series of 2014 dated 27 June 2014 which adopts a prudential real estate stress test limit (**REST Limit**) for universal and commercial banks, thrift banks on a solo and consolidated basis on their aggregate real estate exposures. The REST Limit combines macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST Limits which shall be complied with at all times by universal and commercial banks are 6% of CET1 capital ratio and 10% of risk-based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For thrift banks, the prudential REST Limits which shall be complied with at all times are 6% of CET1 capital, for thrift banks that are subsidiaries of universal and commercial banks, 6% of Tier 1 capital, for stand-alone thrift banks, and 10% of risk-based capital adequacy ratio for all thrift banks.

On 29 October 2014, the BSP issued Circular No. 854, Series of 2014, which increased the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Universal Banks	4.95 billion**	
Head Office only		3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
Commercial Banks	2.40 billion**	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion
Thrift Banks		
Head Office in:		
Metro Manila	1.00 billion**	
Cebu and Davao cities	500 million**	
Other Areas	250 million**	
Head Office in the National Capital Region (NCR)		

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
Rural and Cooperative Banks		
Head Office in:		
Metro Manila	100 million**	
Cebu and Davao cities	50 million**	
Other cities	25 million**	
1st to 4th class municipalities	10 million**	
5th to 6th class municipalities	5 million**	
Head Office in NCR		
Head Office only		50 million
Up to 10 branches*		75 million
11 to 50 branches*		100 million
More than 50 branches*		200 million
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		
Head Office only		20 million
Up to 10 branches*		30 million
11 to 50 branches*		40 million
More than 50 branches*		80 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		
Head Office only		10 million
Up to 10 branches*		15 million
11 to 50 branches*		20 million
More than 50 branches*		40 million

* Inclusive of Head Office
** With no distinction for network size

The amendment became effective in November 2014.

Restrictions on Branch Opening

Opening of branches by Philippine banks within or outside the Philippines requires BSP's prior approval, subject to certain conditions such as meeting the minimum capital requirements set by the BSP. Upon BSP's approval, these branches may be used by the banks as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. For more information, see "*Banking Supervision and Regulation—Regulation Relating to Capital Structure*" and "*Banking Supervision and Regulation—Regulations with Respect to Branches*."

Competition

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalisation of the banking industry by the Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets. On 21 January 2016, the Monetary Board approved the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. The moratorium on the establishment of new domestic banks and locational restrictions was lifted effective 1 January 2018.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Mergers and consolidation result in greater competition, as a smaller group of "top tier" banks compete for business.

As at 31 December 2019, the ten largest commercial banks (including unlisted banks such as LBP and DBP) account for approximately 84% of total assets and 84% of total deposits of the Philippine banking system based on published statements of condition.

Certain factors arising from the 1997 Asian crisis and the 2008 global financial crisis also resulted in greater competition and exert downward pressure on margins. Banks instituted more restrictive lending policies as they focused on asset quality and reduction of their NPLs, which resulted in increasing liquidity. As Philippine economic growth further accelerates and banks apply such liquidity in the lending market, greater competition for corporate, commercial and consumer loans is expected. As at 31 December 2019, the ten largest commercial banks (including unlisted banks such as LBP and DBP) account for approximately 84.8% of the net customer loan portfolio of the Philippine banking system, based on published statements of condition.

The Philippine Competition Act was signed into law in 2015 and establishes competition related rules and procedures in the Philippines in relation to mergers and acquisitions. See "*Banking Supervision and Regulation—Philippine Competition Act.*"

Banks also compete with traditional and digital enabled remittance businesses and face competition from the emergence of FinTech, including businesses such as an all-digital bank set up by CIMB and ING Direct, mobile payment tools or e-wallet applications such as GCash and PayMaya, and the growing popularity of peer-to-peer lending through digital platforms. As banks venture into micro-finance and other consumer financing products, they may also face competition from other consumer-focused players, including informal lenders.

Certain Government Policies and Regulations in relation to the Philippine Banking System

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes requirements on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these requirements and can introduce new regulations to control any particular line of business. Please see "*Banking Supervision and Regulation*" for a more detailed discussion.

BANKING SUPERVISION AND REGULATION

The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

Introduction

RA No. 7653 (the New Central Bank Act of 1993) (**New Central Bank Act**) and RA No. 8791 (the General Banking Law of 2000) (**General Banking Law**) and RA No. 11211 (No. 11211) (**An Act Amending the New Central Bank Act**) vest the BSP, which exercises its powers through the Monetary Board, with the authority to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or quasi-bank or which is related or linked to such institution or intermediary through common stockholders or such other factors as determined by the Monetary Board. In this regard, the Manual defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the Manual), or power to vote, of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the Manual), or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity; (c) common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa.

In the exercise of its power of supervision under the General Banking Law, the BSP may issue rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank. Section 28 of the New Central Bank Act provides that there shall be an interval of at least twelve (12) months between regular examinations. A vote of at least five members of the Monetary Board may authorise a special examination.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The BSP may compel any officer, owner, agent, manager or officer-in-charge of an institution subject to its supervision or examination to present books, documents, papers or records necessary in its judgment to ascertain the facts relative to the true condition of the institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, to the extent permitted by law. The refusal of any officer, owner, agent, manager, director or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or permit an examination is criminally punishable under Section 34 of the New Central Bank Act. In addition to the general laws such as the General Banking Law and Republic Act No. 9160 or the Anti- Money Laundering Act (the **AMLA**), as amended, among others, banks must likewise comply with letters, circulars and memoranda issued by the BSP some of which are contained in the Manual of Regulations of Banks (the **Manual**).

The Manual is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The Manual contains regulations that include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant bank. Supplementing the Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

The Manual and other regulations are principally implemented by the Financial Supervision Sector of the BSP (**FSS**). The FSS is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under RA No. 3779 or the Savings and Loan Association Act, and pawnshops under PD No. 114 or the Pawnshop Regulation Act).

Permitted Activities

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorised by the General Banking Law and the Manual, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business. Financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings (applicable only to universal banks), or both.

Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage/securities dealership and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank. Net worth is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP.

Regulation relating to capital structure

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The Philippine SEC will not register the incorporation documents of any bank or any amendments thereto without a Certificate of Authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorised by the Monetary Board. Any stock so purchased or acquired must be sold within six months from the time of its purchase or acquisition.

On 20 October 2014, the Monetary Board decided to increase the minimum capital requirement for all bank categories including universal, commercial, thrift, rural and cooperative banks. This is in line with the BSP's efforts of further strengthening the banking system. Under this regulation, the minimum capital for universal and commercial banks will be tiered based on network size as indicated by the number of branches. In accordance with BSP Circular No. 854, universal banks are required to have capital accounts of at least ₱3 billion for head office only, ₱6 billion for head office with up to 10 branches (inclusive of head office), ₱15 billion for head office with 11 to 100 branches (inclusive of head office), and ₱20 billion for head office with more than 100 branches (inclusive of head office). Commercial banks are required to have capital accounts of at least ₱2 billion for head office only, ₱4 billion for head office with up to 10 branches (inclusive of head office), ₱10 billion for head office with 11 to 100 branches (inclusive of head office), and ₱15 billion for head office with more than 100 branches (inclusive of head office). Thrift banks with head office in Metro Manila are required to have capital accounts of at least ₱500 million for head office only, ₱750 million for head office with up to 10 branches (inclusive of head office), ₱1 billion for head office with 11 to 50 branches (inclusive of head office), and ₱2 billion for head office with more than 50 branches (inclusive of head office). Banks that existed prior to 19 November 2014, which will not immediately meet the new minimum capital requirement, may avail themselves of a five-year transition period in order to fully comply with the minimum capitalisation requirements. The same period, reckoned from the same date, is also given to banks granted with special banking authorities/licenses which require compliance with minimum capital requirements. Such banks will be required to submit an acceptable capital build-up program. Banks that fail to comply with the minimum capital requirements or fail to propose an acceptable capital build-up program face curtailment of future expansion plans. These minimum levels of capitalisation may be changed by the Monetary Board from time-to-time.

For purposes of these requirements, the BSP issued BSP Circular No. 1027 on 28 December 2018 which states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- treasury stock;
- unbooked allowance for probable losses (including allowance for credit losses and impairment losses) and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties as defined under Subsection X141.1 of the Manual, that are not at an arm's length terms as determined by the appropriate supervising department of the BSP;
- deferred tax assets that rely on future profitability of the bank to be realised net of any (a) allowance for impairment and (b) associated deferred tax liability if the conditions cited in PAS 12 on income taxes are met; *provided*, that, if the resulting figure is a net deferred tax liability, such excess cannot be added to net worth
- reciprocal investment in equity of other banks or enterprises, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, the deduction shall be the (a) investment of the bank or (b) the reciprocal investment of the other bank or enterprises, whichever is lower; and
- in the case of rural/cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation program.

According to BSP Circular No. 1027 dated 28 December 2018, deposits for stock subscription recognised as equity pursuant to Section X128 of the Manual shall be added to capital.

On 15 July 2014, RA No. 10641 further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% (previously 60%) of the voting stock of one domestic bank. Under RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system though any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must be established, reputable and financially sound. Additionally, such foreign bank must be widely-owned and publicly listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorised to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorised to do banking business in the Philippines under

RA 10641 shall have the same branching privileges as domestic banks of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

Under RA 10641, the Monetary Board was authorised to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on 21 November 2014, the BSP issued BSP Circular No. 858, amending the relevant provisions of the Manual, accordingly. On 15 February 2016, BSP issued BSP Circular No. 902, Series of 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks pursuant to its policy to promote a competitive banking environment.

The individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends, unless at the time of declaration, it has complied with the following:

- clearing account with BSP is not overdrawn;
- liquidity floor requirement for government funds;
- minimum capitalisation requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- the CCB requirement as defined in Appendix 59, Part III of the Manual for universal and commercial banks and their subsidiary banks and quasi-banks;
- higher loss absorbency requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with the D-SIB Framework as provided under Section 128 of the Manual for universal and commercial banks and their subsidiary banks and quasi-banks; or
- has not committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by BSP to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor, of the appropriate section, as may be applicable, upon recommendation of the appropriate supervising department of the, BSP.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

Regulations with respect to branches

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 Series of 2014 provides various minimum capitalisation requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks to a maximum of ₱20 billion for more than 100 branches of universal banks). For a discussion on the breakdown of minimum capital requirements for banks, please see "*—Regulation Relating to Capital Structure.*"

Subject to compliance with the requirements provided in BSP Circular No. 624, issued on 13 October 2008, which provides for BSP's branching policy and guidelines, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Pursuant to BSP Circular No. 759, issued on 30 May 2012, which liberalised the policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank, once approved, a branch should be opened within three years from the date of approval. Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. However, this branching restriction was liberalised pursuant to BSP Circular No. 728, issued on 23 June 2011. Phase 1 of the liberalisation allowed private domestically incorporated universal and commercial banks and thrift banks with limited branch networks in the eight cities or "restricted areas" in Metro Manila until 30 June 2014 to apply for and establish branches in said restricted areas. In Phase 2, branching in the "restricted" areas was opened to all banks except rural banks and cooperative banks. However, branches of microfinance-oriented banks and microfinance-oriented branches of regular banks' branches that will cater primarily to the credit needs of Barangay Micro Business Enterprises duly registered under the Barangay micro business enterprises Act of 2002 (**Republic Act No. 9178**) may be established anywhere upon the fulfillment of certain conditions. BSP Circular No. 759 further liberalised its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank.

In BSP Circular No. 987, Series of 2017, the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the Manual. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Regulations with respect to management of banks

The board of directors of a bank must have at least five and a maximum of 15 members. According to Republic Act No. 11232 or the Revised Corporation Code (the **Revised Corporation Code**), the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. The Revised Corporation Code also requires a compliance officer. Material contracts of a corporation vested with public interest with (1) one or more of its directors, trustees, officers or their spouses and relatives within the fourth civil degree of consanguinity or affinity must also be approved by at least 2/3 of the members of the board, with at least majority of the independent directors approving the same, in addition to common requirements for similar contracts for other companies pursuant to Section 31 of the Revised Corporation Code. Under the Manual, at least one-third but not less than two members of the board of directors of universal and commercial banks shall be independent directors. Further, SEC Memorandum Circular No. 24, Series of 2019, on the Code of Corporate Governance for Publicly-Listed Companies requires the board of directors of publicly listed companies, such as the Bank, to have a Board composed of a majority of non-executive directors and at least two independent directors, or such number as to constitute at least one-third of the members of the Board, whichever is higher. In case of merged or consolidated banks, the number of directors shall not exceed 21. An independent director is a person who independent of management and the controlling shareholder and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

Foreigners are allowed to have board seats to the extent of the foreign participation in the equity of the bank.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits act which renders him or her unfit for the position.

Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

On 22 August 2017, the BSP issued BSP Circular No. 971, prescribing the Guidelines on Risk Governance for *Bangko Sentral* Supervised Financial Institutions (**BSFIs**), and requiring the appointment of a Chief Risk Officer (**CRO**) in universal and commercial banks to head the risk management function. In addition to overseeing the risk management function, the CRO shall also support the board of directors in the development of the risk appetite of the BSFI and for translating the risk appetite into a risk limits structure. The appointment, dismissal and other changes to the CRO requires the prior approval of the board of directors.

On the same date, the BSP also issued BSP Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer (**CCO**). The CCO is tasked to oversee the identification and management of the BSFI's compliance risk and shall supervise the compliance function staff. Additionally, the board of directors should ensure that a compliance program is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance program.

On 4 January 2018, BSP Circular No. 989 was issued providing the Guidelines on the Conduct of Stress Testing Exercises. Stress testing is a tool to evaluate the potential effects of specified changes in risk factors. The Board of Directors must consider the results in capital and liquidity planning and setting risk appetite, among others. Banks have a period of two years from effectivity date to gradually change their stress testing practices until it is in compliance with the circular's requirements.

Regulations with respect to bank operations

A universal bank, such as the Bank, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices shall be treated as one unit. A bank, with prior approval of BSP, may likewise use any of its branches as outlets for presentation and/sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise and prescribe the composition and the manner of determining the net worth and total risk assets of bank and their subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to: (i) perform activities allowed for commercial banks; (ii) exercise powers of an investment house; and (iii) invest in non-allied enterprise.

Capital adequacy requirements

The Philippines adopted capital requirements based on the Basel Capital Accord in July 2001.

On 1 July 2007, the BSP issued BSP Circular No. 538, which is the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. To align with the international standards, the BSP adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 effective 1 January 2011, as amended by BSP Circular No. 716.

In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014. It aims to replace Basel II, to further strengthen the local bank's loss absorption capacity and encourage banks to rely more on core capital instruments like CET 1 and Tier 1 issues.

This thus allowed local banks one full year for a parallel run of the old and new guidelines prior to the effectiveness of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to January 2017. On 15 January 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under the Basel III accord for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the capital adequacy ratio. The BSP maintained the minimum capital adequacy ratio at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum Tier 1 capital ratio of 7.5%. The new guidelines also introduced a CCB of 2.5% which shall be made up of CET1 capital.

In addition, banks which issued capital instruments from 2011 will be allowed to count these instruments as Basel III-eligible until end-2015. However, capital instruments that are not eligible in any of the three components of capital were derecognised from the determination of the regulatory capital on 1 January 2014.

On 29 October 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on D-SIBs by the BSP under Basel IIII. Banks deemed as D-SIBs by the BSP are required to maintain capital surcharges to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their D-SIB status in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.0% to 2.5%. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to G-SIBs given that this framework was patterned for regional/global banks and thus may not be appropriate for local banks. The phased-in compliance started on 1 January 2017 and became fully effective on 1 January 2019.

On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by D-SIBs which shall form part of the D-SIBs' ICAAP submitted to the BSP every 31st of March of each year. The recovery plan identifies the course of action that a D-SIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the D-SIB breaches the total required CET1 capital, the higher loss absorbency (**HLA**) capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a preemptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document which includes the first recovery plan was submitted on 30 June 2016 and will be re submitted on the 31st of March of each year.

In addition, Basel III capital rules for banks include setting up a CCyB wherein banks may be required by the relevant regulator to build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. The CCyB will require banks to hold additional common equity or other fully loss absorbing capital in amounts ranging from 0% to 2.5% of the risk-weighted assets. On 6 December 2018, the BSP issued the guidelines on CCyB. BSP Circular No. 1024 imposes a CCB of 2.5% and a CCyB of 0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately. The circular further provides that the HLA requirement shall be on top of the combined requirement for CCB and CCyB. Under the Bank for International Settlements (**BIS**), the CCyB became fully effective on 1 January 2019.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure). On 9 June 2015, the BSP issued BSP

Circular No. 881 on the implementing guidelines and accordingly, amending the relevant provisions of the guidelines. Under the guidelines, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III by 1 January 2017 (which compliance period was extended to 1 January 2018 based on BSP Circular No. 943 issued in 2017). The guidelines also provide for a monitoring period up to the end of 2016 during which banks are required to submit periodic reports; however, sanctions will not be imposed on banks whose leverage ratios fall below the required 5% minimum during the period. However, sanctions were not imposed on banks whose leverage ratios fell below the required 5% minimum during the period. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to an increasing regulatory burden on banks. On 26 January 2017, the BSP issued BSP Circular No. 943 which approved the one-year extension of the Basel III Leverage Ratio monitoring period from 31 December 2016 to 31 December 2017, and set new deadlines for the submission of the reporting and disclosure requirements. During the monitoring period, the BSP will continue to assess the calibration and treatment of the components of the leverage ratio. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to increasing regulatory burden on banks.

On 22 January 2018, the BSP issued BSP Circular No. 990 which approved the extension of the Basel III Leverage Ratio monitoring period from 31 December 2017 to 30 June 2018, and set new deadlines for the submission of the reporting and disclosure requirements. The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on 1 July 2018.

Reserve requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to BSP on the amount of any deficiency.

Under BSP Circular 732 issued on 3 August 2011, as further amended by BSP Circular 753 issued on 29 March 2012, BSP Circular 830 issued on 3 April 2014, BSP Circular 832 issued on 27 May 2014, BSP Circular 997 issued on 15 February 2018, BSP Circular 1004 issued on 24 May 2018, BSP Circular 1041 issued on 29 May 2019, BSP Circular 1054 issued 11 October 2019 and BSP Circular 1063 issued on 3 December 2019, universal and commercial banks are required to maintain regular reserves of: (a) 14% against demand deposits, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 14% against negotiable order of withdrawal accounts; (c) 0% against deposit substitutes evidenced by repurchase agreements; (d) 4% against long-term negotiable certificates of time deposits; and (e) 3% against bonds.

Liquidity requirements

Local banks face new liquidity requirements, namely, the LCR and the NFSR, under Basel III. The LCR requires banks to hold sufficient level of HQLAs to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs.

In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Starting 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which was increased to 100% commencing on 1 January 2019. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework and extended its coverage to subsidiaries of universal and commercial banks and quasi-banks on both solo (head office and branches/other offices) and consolidated (parent bank and subsidiary financial allied undertakings) bases.

On 15 March 2019, BSP issued BSP Circular No. 1035 which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework, including the (i) extension of the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adoption of the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amendment of the formula for minimum liquidity ratio. The subsidiary banks and quasi-banks of universal and commercial banks are required to comply with the minimum LCR of 100% starting 1 January 2020.

On 6 June 2018, the BSP issued BSP Circular No. 1007 which sets out the guidelines on the adoption of the Basel III Framework on Liquidity Standards - NSFR. The guidelines require that covered entities maintain an NSFR of at least 100% at all times. The framework applies to all universal and commercial banks, their subsidiary banks, and quasi-banks. The Circular provides for an observation period until 31 December 2018, during which NSFR Reports must be submitted and should a covered entity be unable to meet the minimum NSFR for a period of two consecutive weeks, it must immediately adopt a board-approved stable funding build-up plan. On 15 March 2019, the Monetary Board approved the extension of the observation period for the NSFR of the subsidiary banks and quasi banks of universal and commercial banks until 31 December 2019, moving the effectivity dates of said ratios to 1 January 2010. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70% LCR and NSFR, which shall increase to 100% on 1 January 2020. The Monetary Board also approved enhancements to the LRC and minimum liquidity ratio guidelines, including netting of cash inflows and outflows to and from the same derivative counterparty for the LCR framework, and counting interbank placements as eligible liquid assets and adjusting qualifying liabilities through conversion factors to retail current and regular savings deposits worth ₱500,000 and below and certain liability accounts. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015.

Credit risk management

In October 2014, the BSP issued BSP Circular No. 855 which provides for new guidelines on sound credit risk management practices. BSP Circular No. 855 mandates banks to establish appropriate credit risk strategy and policies, processes and procedures including cash flow-based credit evaluation process, and tighter provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

Additionally, BSP Circular No. 855 sets the collateral value (**CV**) for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value, which is the loan amount extended by banks to its borrowers. The current industry practice is a LTV ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

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

Further on 27 June 2014, the BSP issued BSP Circular No. 839 requiring banks to undergo real estate stress tests while setting prudential limits for banks' real estate exposures to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks as well as thrift banks must meet a capital adequacy ratio of 10% of qualifying capital after adjusting for the stress test results. Further, universal and commercial banks and their thrift bank subsidiaries are required to maintain a level of CET1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly report of their real estate exposures, in line with the new real estate stress test capital requirements.

On 10 October 2017, the BSP issued BSP Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 23 November 2017, the BSP issued BSP Circular No. 983 that prescribes the reduction in the reserve requirement rate on repurchase transactions, as well as sets forth the features of the repurchase program that shall be eligible for the zero reserve rate requirement. Deposit substitutes evidenced by repurchase agreements covering government securities that are transacted in an organised market under the Government Securities Repo Program shall be subject to the reserve requirement of zero percent (0%) beginning the first week of December 2017.

Limitations on operations

The Single Borrower's Limit

Except as prescribed by Monetary Board for reasons of national interest, the total amount of loan, credit accommodations and guarantees (determined on the total credit commitment) that may be extended by a bank to any person or entity shall at no time exceed 20.0% of the net worth of the bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time. As at 31 December 2011, the ceiling applicable to the Bank was 25.0% (or 35.0% of the net worth of the bank in the event that certain types and levels of security are provided). The ceiling may be increased by the following percentages: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under the Public- Private Partnership Program of the government duly certified by the Secretary of Socio-Economic Planning; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from 6 December 2010; and (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation. To encourage BSFIs to engage in agricultural value chain financing, the total amount of loans, credit accommodations and guarantees may also be increased by an additional 25.0% granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain, which shall only be for a period of three years from 14 March 2016, subject to review after said period.

The limitations shall not apply to (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to the payment of principal and interest; (c) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items. On 5 July 2017, the BSP issued BSP Circular No. 965, approving the guidelines on the exclusion from the SBL of banks and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions.

On 30 April 2018, the BSP issued BSP Circular No. 1001 which provided for a separate individual limit of 25.0% of the net worth of the lending bank for loans, credit accommodations and guarantees granted by a bank to an entity for the purpose of project finance. The applicability of the separate individual limit shall be subject to the following conditions: (a) the unsecured portion shall not exceed 12.5% of the net worth of the lending bank when the project is already operational; (b) such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government; (c) the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project document; (d) the lending bank shall consider its total project finance exposures in complying with the guidelines in managing large exposures and credit risk concentrations; (e) the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending bank; and (f) the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions.

Limitation on DOSRI Transactions

No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the board of directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act. The DOSRI account shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. The limitation excludes loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

On 2 June 2016, the Monetary Board approved the revisions to prudential policy on loans, other credit accommodations, and guarantees granted to DOSRIs. The Monetary Board approved the exclusion of loans, other credit accommodation and guarantees granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided, that the bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

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

Limitations on Loans and Credit Accommodations

As a general rule, loan and other credit accommodation against real estate shall not exceed 60% of the appraised value of the real estate security plus 60% of the appraised value of the insured improvements, and such loans may be made to the owner of the real estate or to his assignees, except for the following which shall be allowed a maximum value of 70% of the appraised value of the insured improvements: (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (b) housing loans extended by or guaranteed under the Government's "National Shelter Program", such as the Expanded Housing Loans Program of the Home Development Mutual Fund and the mortgage and guaranty and credit insurance program of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loans may be made to the title-holder of the unencumbered chattels and intangible properties or his assignee.

On 4 February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans and amending the inclusions and exclusions to be observed in the computation.

On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 27 October 2017, the BSP issued BSP Circular No. 978 which provided for exclusion of the portion of loans and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, from the ceilings on total outstanding loans, other credit accommodations and guarantees granted to banks' subsidiaries and affiliates. BSP Circular No. 978 excluded the following in determining compliance with the ceilings provided under BSP Circular No. 914: (1) Loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations; (2) IBCLs; and (3) The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of its net worth. Moreover, the equity investment in any one enterprise whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by BSP. The Monetary Board must approve such acquisition of equities. Further, the BSP may impose conditions on the any approval of a major investment and has the authority to seek corrective action.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvements including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate shall be considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed by the bank within a period of five years or as may be prescribed by the Monetary Board.

Prohibition to act as Insurer

A bank is prohibited from directly engaging in insurance business as the insurer.

Permitted Services

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- receive in custody funds, documents and valuable objects;
- act as financial agent and buy and sell, by order of and for the account of their customers, shares evidences of indebtedness and all types of securities;
- upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and

- rent out safety deposit boxes.

BSP Circular No. 1003, issued on 16 May 2018, outlined the Guidelines on the Establishment and Operations of Bank and Non-Bank Credit Card Issuers to implement Republic Act No. 10870, also known as the Philippine Credit Card Industry Regulations Law.

The Framework for Basic Deposit Accounts, found in BSP Circular No. 992 dated 1 February 2018, was issued, with a view towards promoting account ownership among the unbanked by imposing no minimum maintaining balance and an opening amount of not more than ₱100.00. It also supports the National Retail Payments System, which aims to promote resort to digital payments in the country. On 5 October 2018, BSP issued Memorandum No. M2018-27, prescribing the guidelines on the electronic submission of the updated reports arising from Circular No. 992.

Anti-Money Laundering Act of 2001

The AMLA, as amended, requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, record keeping and reporting of covered and suspicious transactions.

On 15 February 2013, Republic Act No. 10365, which took effect on 7 March 2013, expanded the AMLA covered institutions and crimes. Additions to the enumeration of covered persons include jewelry selling agents for transactions in excess of ₱1 million; company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organise funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities. The 2016 Revised Implementing Rules and Regulations of the AMLA was approved by the AMLC on 21 December 2016. On 15 March 2017, the BSP issued BSP Circular No. 950 to amend the Manual in order to effectively implement the provisions of the AMLA, as amended, and the revised implementing rules and regulations of the AMLA, as amended. In July 2017, RA No. 10927 further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5 million or its equivalent in any other currency.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one Banking Day, and for covered persons under Section 3(a)(8), a single casino transaction involving an amount in excess of ₱5 million or its equivalent in any other currency.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- there is no underlying legal or trade obligation, purpose or economic justification;
- the customer or client is not properly identified;
- the amount involved is not commensurate with the business or financial capacity of the client;
- the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- there is a deviation from the client's profile or past transaction;
- the transaction is related to an unlawful activity or offence under the AMLA;
- similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00.

Malicious reporting of completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

(a) transacts said monetary instrument or property;

(b) converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;

(c) conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;

(d) attempts or conspires to commit money laundering offenses referred to in paragraphs (a), (b) or (c);

(e) aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (a), (b) or (c) above;

(f) performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in paragraphs (a), (b) or (c) above; and

(g) knowingly fails to disclose and file with AMLC any monetary instrument or property required to be disclosed and filed.

Under AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within a period of five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Court of Appeals of the Philippines (**Court of Appeals**), upon verified ex-parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order which shall be effective immediately, and which shall not exceed six months depending upon the circumstances of the case. However, if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order shall be deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets. Further, a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

BSP Circular No. 495 issued on 20 September 2005, as amended by BSP Circular 527 issued on 28 April 2006, required all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under AMLA.

BSP Memorandum No. M2012-017 issued on 4 April 2012, as affirmed by BSP Circular No. 950 issued on 15 March 2017 likewise requires all covered banking institutions to comply with the anti-money laundering risk rating system (**ARRS**), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation. BSP Circular No. 950, further provides for specific requirements on having a risk-based approach to customer identification by covered institutions, an ongoing monitoring of customers, accounts, and transactions, and a policy of non-discrimination against certain types of customers.

Institutions that are subject to AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of five years from the date of a transaction, unless a case has been filed involving the account, then the records must be retained and safely kept beyond the five year period until it is officially confirmed by the AMCL Secretariat that the case has been resolved, decided or terminated with finality. Records of closed accounts must also be kept for five years after their closure.

On 20 April2018, the AMLC issued AMLC Letter No. AMLET-18-03, providing for Operational Guidelines in the Conduct of the 2018 Third Round Mutual Evaluation of the Philippines (the **Guidelines**). The Guidelines aim to (a) create an inter-agency Mutual Evaluation Working Group and sub-working groups; (b) enumerate the functions and obligations of the member-agencies with respect to the Mutual Evaluation process; (c) outline the Mutual Evaluation process and provide guidance as to the different components of the process; (d) provide timelines for the Mutual Evaluation process and Mutual Evaluation-related activities; (e) enumerate effects of a "non-compliant" or "poor" Mutual Evaluation; and (f) lay down the framework towards the adoption of a national anti-money laundering/counter-financing of terrorism (**AML/CFT)** Strategy. The Guidelines are addressed to all participating government agencies and other entities.

The Mutual Evaluation is a government-wide concern as what will be assessed is the compliance of the Philippines with the Financial Action Task Force Forty Recommendations and the effectiveness of its AML/CFT regime. The entire Mutual Evaluation process spans two (2) years, and will require the support and active participation of various government agencies, including supervisory authorities, law enforcement agencies, and public and private stakeholders. The Philippines will be evaluated by a pool of experts from Financial Intelligence Units from other member-jurisdictions of the Asia-Pacific Group on Money Laundering (**APG**), pursuant to the APG's membership rules.

On 22 November 2018, the AMLC approved the 2018 Implementing Rules and Regulations of the AMLA prescribing, among others, the guidelines on identifying and recording beneficial ownership. In relation thereto, on 14 January 2019, BSP issued Circular Letter No. CL-2019-002, addressed to all BSFIs of the guidelines issued by the AMLC on digitisation of customer records and identification of beneficial owners.

Moreover, the Implementing Rules and Regulations of the Anti-Money Laundering Act of 2001 requires compliance officers which will oversee the Anti-Money Laundering Program. This is also reflected in the amendments to the Revised Corporation Code mandating banks to elect a compliance officer.

Revised Corporation Code

The Revised Corporation Code was signed into law on 20 February 2019 and became effective on 8 March 2019. Among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.

- A corporation vested with public interest must submit to its shareholders and to the Philippine SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.

- Banks, quasi-banks, pawnshops, non-stock savings and loan associations (NSSLA), and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least twenty percent (20%) independent directors in the Board, in accordance with the Securities and Regulation Code. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Philippine SEC.

- The Code allows the creation of a "One Person Corporation". However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly listed companies, among others, from being incorporated as such. This restriction also applies with respect incorporations as Close Corporation.

- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.

- The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.

- As to amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.

- A favorable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Philippine SEC approves any merger or consolidation; or any voluntary dissolution.

- In case of transfer of shares of listed companies, the Philippine SEC may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the rules of the Philippine SEC.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

The Philippine Competition Act

RA No. 10667, or the Philippine Competition Act (**PCA**) was signed into law on 21 July 2015 and took effect on 8 August 2015. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The PCA was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the PCA provides for the creation of a Philippine Competition Commission (the **PCC**), an independent quasi-judicial agency with five commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, however, the PCC must still apply for a warrant with the relevant court.

The PCA prohibits and imposes sanctions on: (a) anti-competitive agreements between or among competitions, (b) mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition, and (c) practices which are regarded as abuse of dominant position, by engaging in conduct that would substantially prevent, restrict or lessen competition, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to certain exceptions.

On 3 June 2016, the PCC issued the implementing rules and regulations of the PCA (**IRR**). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1 billion; and (b) the value of the transaction exceeds ₱1 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1 billion.

On 10 March 2018, the PCC issued Memorandum Circular No. 1-001 (**MC No. 18-001**) to amend Section 3, Rule 4 of the IRR to increase the initial thresholds. Under MC No. 18-001, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5 billion; and (b) the value of the transaction exceeds ₱2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2billion. As provided in MC No. 18-001, the thresholds shall be automatically adjusted commencing on 1 March 2019 and on the first of March of every succeeding year, using as index the Philippine Statistics Authority's official estimate of the nominal gross domestic product growth of the previous calendar year rounded up to the nearest hundred million. The revised thresholds, however, shall not apply to mergers or acquisitions pending review by the PCC; notifiable transactions consummated before the effectivity of the memorandum circular; and transactions already subject of a decision by the PCC.

PCC Advisory 2019-001 further adjusted the thresholds such that effective 1 March 2019, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5.6 billion; and (b) the value of the transaction exceeds ₱2.2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion.

Violations of the PCA and the IRR have severe consequences. Under the PCA and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (**Rules of Procedure**) which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules of Procedure also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On 23 November 2017, the PCC published the 2017 Rules on Merger Procedures (the **Merger Rules**) which provides the procedure for the review or investigation of mergers and acquisition pursuant to the IRR. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within thirty (30) days from the signing of definitive agreements relating to the notifiable merger.

On 28 May 2019, the PCC approved the Expedited Merger Rules which apply when: (1) there are no actual or potential horizontal or vertical (including complementary) relationship in the Philippines between the acquiring entity and the acquired entity and the entities it controls; (2) the merger is a global transaction where the acquiring and acquired entities identified in the definitive agreement are foreign entities (**foreign parents**), and their subsidiaries in the Philippines act merely as manufacturers or assemblers of products with at least 95% of such products exported to the foreign parents, subsidiaries, affiliates or third parties located outside the Philippines: Provided, That the remaining 5% product sales in a market in the Philippines is minimal in relation to the entirety of such Philippine product market; (3) the candidate relevant geographic market of the merger is global and the acquiring and acquired entities have negligible or limited presence in the Philippines; and (4) joint ventures, whether incorporated or not, formed purely for the construction and development of a residential and/or commercial real estate development project.

Data Privacy Act

RA No. 10173, otherwise known as the Data Privacy Act of 2012 (**Data Privacy Act**), was signed into law on 15 August 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System (**ICT**), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes. It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognises the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of "personal information", which is defined as "any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual." The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on "personal information controllers" and "personal information processors". It also provides for penal and monetary sanctions for violations of its provisions.

Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of a bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

Under BSP Circular No. 542, dated 1 September 2006, the BSP released the new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank's board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness program for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and (e) the development of complaint resolution procedure for unauthorised transactions in electronic banking. Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa (**EMV**) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for 1 January 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSFIs are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offense and will subject these institutions to monetary sanctions provided under relevant provision of the Manual.

On 22 February 2019, the BSP issued BSP Circular No. 1033 introducing certain amendments to the regulations on electronic banking services and other electronic operations, particularly electronic payment and financial services (**EPFS**). EPFS are products and services that enable customers to receive payments or initiate financial transactions and other related services through an electronic device. BSP Circular No. 1033 requires the prior approval of the BSP to offer EPFS and certain reportorial requirements must be submitted to the BSP.

Related Party Transactions

BSP Circular No. 895, dated 14 December 2015, announced the approval of guidelines strengthening oversight and control standards for managing related party transactions of banks and their non-bank financial subsidiaries and affiliates. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher standards should be applied to protect the interests of all stakeholders. It is emphasised that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, the board, as an oversight body, shall have overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The board is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm's length terms, management of conflicts of interest, materiality thresholds and limits, whistle blowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further, banks that are part of conglomerates are required to create a related party transactions committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly require that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

BSP Circular No. 969, dated 22 August 2017, further codified the BSP's thrust to strengthen oversight over related party transactions by enhancing corporate governance guidelines which includes improvement of the duties and responsibilities of the related party transactions committee of BSP supervised financial institutions.

On 25 April 2019, the Philippine SEC issued Memorandum Circular No. 10, series of 2019 (Rules on Material Related Party Transactions for Publicly Listed Companies), mandating additional disclosure/reportorial requirements for material related party transactions (**MRPTs**) amounting to 10% or higher of a publicly listed company's total assets. The circular requires all publicly listed companies to submit to the Philippine SEC a policy on MRPTs. Advisement Reports on MRPTs shall also be filed with the Philippine SEC in accordance with the circular within three calendar days after the execution of a covered transaction. Finally, a summary of MRPTs entered into by the company during the reporting year shall be disclosed in the company's Integrated Annual Corporate Governance Report (I-ACGR) submitted annually every May 30.

Taxation for Banks

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 30%.

Taxable net income refers to items of income specified under Section 32 (A) of the **Tax Code** (the National Internal Revenue Code of 1997, as amended by Republic Act No. 10963), less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A minimum corporate income tax equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the minimum corporate income tax is greater than the regular corporate income tax. Any excess minimum corporate income tax paid over the regular corporate income tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of minimum corporate income tax, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

Net operating loss carry-over (**NOLCO**) can be claimed as deduction against taxable income within three years after NOLCO is incurred.

An improperly accumulated earning tax equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks from lending activities which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 30% corporate income tax. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue Regulations No. 13-00. The amount of interest expense which banks may claim as tax deduction shall be reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

The Tax Code does not allow banks to deduct interest expense or bad debts arising from transactions with the following:

- an individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank;

- a corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in sub-paragraph (a), either as a personal holding company or a foreign personal holding company.

Pursuant to Revenue Regulations No. 05-99 (as amended by Revenue Regulations No. 25-02), in order for banks to claim bad debts as tax deductions, they must submit a written approval from the BSP stating that the indebtedness can be written off from the banks' books of accounts at the end of the taxable year, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible. However, on 29 October 2014, the BSP issued Circular No. 855 which provides that notice of write-off of problem credits shall be submitted in the prescribed form to the BSP through the appropriate Central Point of Contact within thirty (30) business after every write-off with a sworn statement signed by the President of the financial institution or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board-approved internal credit policy. Based on the said circular, a notice to the BSP would suffice, and that BSP approval with respect to a write-off of a bad debt not related to a DOSRI transaction, is no longer required.

The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax.

Banks are subject to percentage tax or GRT, which is a tax levied on the gross receipts of banks and non-bank financial intermediaries. On 13 June 2016, the BIR issued Revenue Memorandum Circular No. 62-2016 (**RMC 62-2016**) seeking to clarify the tax treatment of GRT, which is passed on by banks through contractual stipulations to their clients. RMC 62-2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income characterised as other fees and charges and should itself be subject to a 7% GRT.

ROPA of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, value in the tax declaration or selling price, which shall be withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realised.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five years as these are exempt from income tax.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranches.

IBCLs with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes and are not subject to documentary stamp tax except if they have a maturity of more than seven days.

FCDU transactions with non-residents of the Philippines, offshore banking units (**OBUs**), FCDUs of local banks and branches of foreign banks (i.e., offshore income) are tax-exempt, while interest income from foreign currency loans granted by FCDUs of depositary banks to residents other than OBUs or other depository banks under the expanded system is subject to 10% final tax. All other income of FCDUs is taxable at regular corporate income tax of 30%.

On 19 December 2017, the President of the Philippines signed into law the TRAIN Law which took effect on 1 January 2018. The TRAIN Law amends certain provisions of the Tax Code and is the first package of the Comprehensive Tax Reform Program (**CTRP**) of the Duterte administration. The relevant changes of the TRAIN Law are incorporated in the section titled "*Philippine Taxation*" of this Offering Circular.

On 14 February 2019, the President signed into law the Tax Amnesty Act of 2019 or Republic Act No. 11213 (**Tax Amnesty Law**), which was intended to complement the provisions of the TRAIN Law. However, following the

President's veto of the provisions granting general tax amnesty for all unpaid national internal revenue taxes for taxable year 2017 and prior years, the current Tax Amnesty Law only grants estate tax amnesty for estates of decedents who died on or before 31 December 2017 and whose estate taxes have remained unpaid or have accrued as at 31 December 2017 and tax amnesty on delinquencies covering all national internal revenue taxes for taxable year 2017 and prior years.

Meanwhile, the second package of the tax reform package, also known as CITIRA, was passed by the Philippine House of Representatives on 13 September 2019, and has been approved by the Ways and Means Committee of the Philippine Senate on 19 February 2020. CITIRA proposes to lower corporate income tax and rationalize fiscal incentives. If CITIRA is approved in its current form, the corporate income tax rate for domestic corporation, resident foreign corporations, and non-resident foreign corporations shall be reduced by 1% point every year beginning 1 January 2020 until 1 January 2029; the income tax rate of resident foreign corporations on interest income derived from a depository bank under the expanded foreign currency deposit system will be increased from 7.5% to 15%; the 10% special income tax rates of offshore banking units will be repealed; and the tax provisions granting incentives to banks and financial institutions will be repealed effective two years from the implementation of the CITIRA. *See also "Investment Considerations—Risks Relating to the Bank's Business—Changes to regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP, the Bureau of Internal Revenue (the BIR) and international bodies, including the Financial Action Task Force (the FATF) may have an adverse impact on the Bank."*

The other tax reform packages that the government hopes to implement include tax amnesty (estate, general), as well as "sin" (e.g., alcohol, gaming), property, passive income and financial intermediaries, and luxury taxes. The fourth package under the CTRP relating to passive income and financial intermediaries proposes to impose (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from DST.

Other Regulations

Set out below are other regulations applicable to banks operating in the Philippines:

- *Implementation of Basel III Framework on Liquidity Standards*. On 10 March 2016, the BSP issued BSP Circular No. 905 which provided guidelines for the implementation of Basel III framework on Liquidity Standards as it relates to LCR and Disclosure Standards. The Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Beginning on 1 January 2018, the LCR threshold that banks will be required to meet will be 90.0%, which was increased to 100.0% commencing on 1 January 2019. On 3 November 2017, the BSP issued BSP Circular No. 981 which amended the guidelines on liquidity risk management. The banks have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that banks complete a gap analysis of the requirements in BSP Circular No. 981 vis-à-vis their existing risk management systems by 31 March 2018, the result of such gap analysis shall be documented and made available for review of the BSP. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework and extended its coverage to subsidiaries of universal and commercial banks and quasi banks on both solo (head office and branches/other offices) and consolidated (parent bank and subsidiary financial allied undertakings) bases.

  On 15 March 2019, BSP issued Circular No. 1035 to introduce certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. Circular No. 1035: (i) extended the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adopted the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio.

- *Implementation of Basel III Framework for Dealing with D-SIBs*. On 29 October 2014, the BSP issued BSP

Circular No. 856 which provided the guidelines for implementing the Framework for dealing with D-SIBs under Basel III. Banks deemed as D-SIBs by the BSP will be imposed with capital surcharge to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1% to 2.5%. Aside from the added capital pressure, D SIBs may be put at an undue disadvantage compared to G-SIBs given that this framework was patterned for regional/global banks and which may not thus be appropriate for local banks. The phased-in compliance started on 1 January 2017 and will become fully effective on 1 January 2019. On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by DSIBs which shall form part of the DSIBs' ICAAP submitted to the BSP every 31 March of each year. The recovery plan identifies the course of action that a DSIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the DSIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a preemptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document, which includes the first recovery plan, was submitted on 30 June 2016 and will be re-submitted on the 31st of March of each year.

- *Regulations Governing the Derivatives Activities of Banks*. In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, BSP Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks and trust entities. Furthermore, BSP Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk weighted assets for banks that will engage in derivatives activities as end-users for hedging purposes and/or under limited-use authority. The BSP also issued BSP Circular No. 891 on 9 November 2015 amending the sales and marketing guidelines for derivatives under the Manual. Banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitisation structures and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank's standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees. In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives shall be subject to margin requirements pursuant to the policy framework adopted by the BCBS and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in time of stress. Variation margin requirements were phased in from 1 September 2016 to 1 March 2017 while initial margin requirements are being phased in from 1 September 2016 to 1 September 2020. As an initial step, banks and quasi-banks should make a determination of the transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements.

- *Amendments to unit investment trust fund (**UITF**) Regulations*. In September 2004, the BSP issued BSP Circular No. 447 (as amended by BSP Circular No. 675 (2009), BSP Circular No. 676 (2009), Memorandum No. M-2010-033 (2010), BSP Circular No. 767 (2012), BSP Circular No. 852 (2014), BSP Circular No. 876 (2015) and BSP Circular No. 907 (2016)) which provided guidelines for the launching and offering of new products to be known as UITFs, and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organised exchange, loans traded in an organised market, loans arising from repo agreements which are transacted through an exchange recognised by the Philippine SEC and such other tradable investments outlets/categories as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued BSP Circular No. 593 to improve risk disclosure on investing in UITFs, by requiring banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in, and to update the client's profile at least every three years. In December 2009, the BSP issued BSP Circular No. 676 allowing cross-currency investment for Peso trust, other fiduciary and investment management accounts, including Peso UITFs. In September 2012, the BSP issued BSP Circular No. 767 to include investments by UITFs in units/ shares in collective investment schemes as an allowable investment and recognizing UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued BSP Circular No. 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the Key Information and Investment Disclosure Statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued BSP Circular No. 907 to amend certain exposure limits, and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds. UITF investments shall only be limited to bank deposits and collective investment schemes (e.g., target fund, exchange-traded funds), subject to such target fund not being structured or similarly structured as a feeder fund or a fund-of-funds. On 14 March 2018, BSP issued BSP Circular No. 999 which further amended the allowable investment and valuation of UITFs invested in feeder fund or fund-of-funds. Under the circular, offshore/global funds which use financial derivatives for efficient portfolio management (**EPM**) may be allowed as target fund, provided that financial derivatives are not extensively or primarily used as an investment strategy of the target fund and that the risk level of the target fund remain consistent with the objective and risk profile of the investor fund. Alternatively, the target fund shall comply with the relevant regulatory requirements of its home jurisdiction as regards the use of financial derivatives for EPM.

- *Limit on Real Estate Loans of Universal Banks*. In February 2008, the BSP issued BSP Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans, and amending the inclusions and exclusions to be observed in the computation. On 10 October 2017, the BSP issued BSP Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20.0% limit on real estate loans.

- *Exemption of Paired ROP Warrants from Capital Charge for Market Risk*. In connection with the Government's Paired Warrants Program, the BSP issued BSP Circular No. 605 in March 2008 exempting warrants paired with ROP Global Bonds from capital charge for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50.0% of total qualifying capital.

- *Guidelines on Securities Borrowing and Lending Transactions*. Guidelines by the PSE on SBL govern SBL transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008, provides guidelines on SBL transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors/lenders. In May 2008, the BSP Monetary Board authorised the issuance of BSP Registration Documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from the SBL transaction, such as rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso denominated government securities and PSE-listed shares used as collateral.

- *Reclassification of Financial Assets between Categories*. The BSP issued BSP Circular No. 628 dated 31 October 2008, amending BSP Circular No. 626 dated 23 October 2008 and the Resolution of the Monetary Board No.

1423 dated 30 October 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial Institutions shall be allowed to reclassify all or a portion of their financial assets from "held for trading" or "available for sale" categories to the "available for sale" or "held to maturity" or "unquoted debt securities classified as loans" categories effective 1 July 2008. Any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.

- *Rules and Regulations on the Mandatory Allocation for Agriculture and Agrarian Reform Credit*. In July 2011, the BSP issued BSP Circular No. 736 as a component of the Implementing Rules and Regulations of the Republic Act No. 10000 or the Agri-Agra Reform Credit Act. Aside from retaining the mandatory credit allocation, it also rationalises the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided. On 20 July 2018, the BSP issued BSP Circular No. 1009, Series of 2018 further amending the Rules and Regulations on the Mandatory Credit Allocation for Agriculture and Agrarian Reform Credit.

- *Valuations of Government Securities Held by Banks*. In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates in accordance with BSP-approved guidelines shall be used

- *Segregation of Customer Funds and Securities Received by Banks*. On 14 August 2015, the BSP issued BSP Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.

- *Creation of Personal Management Trust*. On 18 August 2016, the BSP issued BSP Circular No. 920 allowing for the creation of the personal management trust (**PMT**), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third-party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual's financial affairs. Upon the effectivity of the circular, all living trust accounts (**LTAs**) were discontinued and all those that remained valid were automatically considered as PMT.

- *Clearing of Checks via Electronic Presentment*. On 7 September 2016, the BSP issued BSP Circular No. 924, amending the Manual in view of the clearing of checks via electronic presentment, which shall be implemented by the Philippine Clearing House Corporation (**PCHC**). On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information shall be required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.

- *Effective Reporting System Generation and Timely Submission of Reports*. On 26 June 2017, the BSP amended the Manual through BSP Circular No. 963, Series of 2017, which issuance instituted governance processes in accordance with the BSP's expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must comply with the standards prescribed by the BSP, and the banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provided that banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision. Its full implementation started on 1 January 2018.

- *Additional Requirements for the Issuance of Bonds and Commercial Papers.* On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:

(1) The bank must have a CAMELS composite rating of at least "3" and a "Management" rating of not lower than "3".
(2) The bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
(3) The bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
(4) The bonds issued are enrolled and/or traded in a market which is organised in accordance with the Philippine SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or -controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank's listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, shall be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

- *Guidelines on the Adoption of PFRS 9.* On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option is allowed, or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provides that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:

  (1) in preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of PAS 28.

  In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

  (2) banks shall recognise adequate and timely allowance for credit losses at all times. ln this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP Manual.

- *Marking to market of financial instruments*. BSP Circular No. 1021 dated 15 November 2018 provides that financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9 shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Philippine SEC.

- *Adoption of National Retail Payment System (**NRPS**) Framework.* On 6 November 2017, in line with BSP's adoption of the NRPS framework consistent with its regulations on risk management, the BSP issued Circular No. 980, which requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management and effective and efficient interoperability. The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. Under this framework, sound governance shall be performed by a payment system management body (**PSMB**), which is duly recognised and overseen by BSP. In the absence of a PSMB, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by BSP.

- *Guidelines on Liquidity Risk Management*. On 3 November 2017, the BSP issued Circular No. 981, amending the guidelines on liquidity risk management and the related amendments to the Manual. Among the highlights of the said changes were the additional guidelines relative to Foreign Currency Management, Intraday Liquidity Management, Intragroup Liquidity Management, Collateral Management, Liquidity Stress Testing, Contingency Funding Plans, Factors to Consider in Developing a Funding Strategy, and Factors to Consider in Developing Cash Flow Projections. Banks shall have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that they complete a gap analysis of the requirements of the said BSP Circular vis-a-vis their existing risk management systems by 31 March 2018.

- *Enhanced Guidelines in Information Security Management*. On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management of BSFIs in view of the rapidly evolving technology and cyber-threat landscape in which they operate. The amendments highlight the role of the BSFIs' board and senior management in spearheading sound information security governance and strong security culture within their respective networks. Likewise, BSFIs are mandated to manage information security risks and exposures within acceptable levels through a dynamic interplay of people, policies, processes, and technologies following a continuing cycle (i.e. identify, prevent, detect, respond, recover and test phases). The new guidelines also recognise that BSFIs are at varying levels of cyber-maturity and cyber-risk exposures which may render certain requirements restrictive and costly vis-à-vis expected benefits. Thus, the IT profile classification has been expanded from two to three, namely: "Complex," "Moderate" and "Simple" to provide greater flexibility in complying with the requirements.

- *Guidelines on the Conduct of Stress Testing Exercises*. On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of DSIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.

- *Basic Deposit Accounts.* BSP Circular No. 992, issued on 1 February 2018, requires banks to establish a basic deposit account which refers to interest or non-interest-bearing account designed to promote financial inclusion. The basic deposit account shall have an opening amount of not more than ₱100.00 and no minimum maintaining balance but with a maximum balance of not more than ₱50,000.00. If the depositor exceeds the ₱50,000.00 maximum balance, the bank shall convert the basic deposit account to a regular deposit account. The basic deposit account shall have no dormancy charges and has no reserve requirement. On 1 March 2018, the BSP issued Circular No. 998, clarifying the guidelines on the basic security deposit requirements. The circular provides that, as security for the faithful performance of its trust and other fiduciary duties, the basic security deposit shall be at least one percent (1%) of the book value of the total trust, other fiduciary and investment management assets, and at no time shall be less than ₱500,000.00; further, as security for the faithful performance of its investment management activities, the basic security deposit shall be at least one percent of the book value of the total investment management assets, and at no time less than ₱500,000.00. The Circular also prescribes the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, and amends the compliance period to require banks, that are authorised to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis, as well as, at the time of withdrawal, replacement or redemption of the government securities deposited with the BSP within the quarter period. On 15 February 2019, the BSP issued Circular No. 1032 amending the guidelines on the basic security deposit requirement. The circular provided that the trustee or fiduciary/investment manager shall ensure compliance with the required basic security deposit. Any deficiency must be corrected through the immediate posting of additional securities. Trustees or fiduciary/investment managers shall submit quarterly reports on compliance with the basic security deposit requirement and report on the basic security deposit transactions.

- *Electronic Banking Services and Other Electronic Operations.* On 22 February 2019, the BSP issued BSP Circular No. 1033, which classifies electronic payments and financial services (**EPFS**) into basic and advanced and establishes guidelines for the licensing of EPFS. Further, BSFIs that are licensed to offer funds transfer services shall make these interoperable by participating in automated clearing houses.

- *Reserves against trust and other fiduciary accounts (**TOFA**)*. BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorised to engage in trust and other fiduciary business shall maintain reserves on TOFA -others, except accounts held under (1) administratorship; (2) trust under indenture; (3) custodianship and safekeeping; (4) depository and reorganisation; (5) employee benefit plans under trust; (6) escrow; (7) personal trust (testamentary trust); (8) executorship; (9) guardianship; (10) life insurance trust; (11) pre-need plans (institutional/individual); (12) Personal Equity And Retirement Account (**PERA**); (13) legislated and quasi-judicial trust; and (l4) specialise institutional accounts under trust.

- *Currency Rate Risk Protection program (**CRPP Facility**) and the Implementing Guidelines*. On 24 September 2018, and 5 October 2018, the BSP issued Circular No. 1014 and 1015, respectively, revising the guidelines on the CRPP Facility. The CRPP Facility is a non-deliverable USD/PHP forward contract between BSP and a universal/commercial bank in response to the request of bank clients desiring to hedge their eligible foreign currency obligations. Transactions under the CRPP facility are considered part of banks' Generally Authorised Derivatives Activities. Under the CRPP Facility, only the net difference between the contracted forward rate and the prevailing spot rate shall be settled in pesos at maturity of the contract. Should the eligible obligation be denominated in a foreign currency other than the USD, the CRPP contract shall be denominated in USD equivalent using the exchange rate indicated in the BSP Reference Exchange Rate Bulletin on deal date. The BSP shall have supervisory enforcement actions or right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the guidelines. Any violation of the guidelines, including willful delay in the submission, non-submission and/or willful making of a false or misleading statement in the notarised certification required to be submitted therein to the BSP Sections shall constitute grounds for the imposition on the bank of penalties.

- *Adoption of Policy Framework on the Grant of Regulatory Relief to Banks/Quasi Banks Affected by Calamities*. On 10 October 2018, the BSP issued Circular No. 1017, which provides the policy framework on the grant of regulatory relief measures to banks/quasi-banks affected by calamities. Under the framework, banks/quasi-banks may avail of the regulatory relief packages, including the provision of financial assistance to officers who are affected by the calamity even in the absence of BSP approved purposes, for a period of one (1) year from the date of declaration of state of calamity.

- *Technology and Cyber-Risk Reporting and Notification Requirements*. On 31 October 2018, the BSP issued Circular No. 1019, which amended provisions relating to the technology and cyber-risk reporting and notification requirements for BSFIs. The amendments were made to enable the BSP to have ready access to accurate, timely, and actionable information regarding BSFI's technology risk profiles as well as the evolving cyber-threat environment for a more responsive, proactive and effective banking supervision.

- *Amendments to the FX Manual.* On 5 February 2019, the BSP issued Circular No. 1030, which amended provisions of the Manual of Regulations on Foreign Exchange Transactions in furtherance of the BSP's aim of liberalizing the regulations applicable to (among others) inward investments. The issuance expanded the scope of the categories of inward foreign investments such that the presence of control and significant degree of influence between the investor and the investee firm is considered for certain types of investments to be categorized as direct investment or portfolio investment. It also established a grace period to register existing investments that are unregistered as at the effectivity date of the issuance.

- *Revised Framework on the Selection of External Auditors.* On 20 May 2019, the BSP issued Circular No. 1040, which revised the framework on selection of external auditors for BSP Supervised Financial Institutions in accordance with the cooperative arrangement among the BSP, SEC, Insurance Commission and the PDIC.

- *Rules and Regulations on the Registration of Operators of Payment Systems.* On 9 September 2019, Circular No. 1049 was issued approving the rules and regulation on the registration of operators of payment systems to implement Republic Act No. 11127 or the National Payment Systems Act. These rules and regulations form part of the newly-created Manual of Regulations for Payment Systems.

- *Guidelines on Voluntary Surrender of a Banking License.* On 18 September 2019, Circular No. 1050 issued the guidelines on voluntary surrender of banking license in case of voluntary dissolution and liquidation, or to convert into a non-bank entity.

- *Amendments to the Prudential Requirements and Guidelines on the Public Offering and Listing of Bank Shares for Universal Banks.* On 15 November 2019, Circular No. 1060 was issued amending the prudential requirements on the public offering and listing of bank shares for universal banks. The amendments are aimed at supplementing the enhanced corporate governance frameworks of the BSP by encouraging dispersed shareholdings on banks.

- *Amendment of the Requirements on the lssuance of Long-Term Negotiable Certificates of Time Deposit (LTNCTDs), Bonds and Commercial Papers*. On 26 November 2019, Circular 1062 was issued amending the provisions of the Manual to relax certain requirements on the issuance of LTNCTDs, Bonds and Commercial Papers. Of note is the amendment expanding the entities that are now prohibited from holding the LTNCTDs, Bonds and Commercial Papers.

- *Report on Intraday Liquidity of Universal and Commercial Banks (UBs/KBs) and their Subsidiary Banks/Quasi-Banks (QBs).* On 3 December 2019, Circular No. 1064 was issued amending the Manual to implement and adopt the report on intraday liquidity for universal banks and their subsidiary thrift banks/quasi-banks. The report is aimed at appropriately monitoring the intraday liquidity position of BSP supervised financial institutions, their sources of intraday liquidity, and their ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. The reporting requirements are also intended to facilitate the sound management of intraday liquidity risk as well as provide sufficient understanding and allocation of resources to effectively manage the same.

- *Amendments to Regulations on Financial Audit of Banks*. In 7 February 2020, Circular No. 1074 was issued amending regulations on the financial audit of BSP supervised financial institutions which aim to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting. Amendments pertain to changes in prescribed formats of statements in the financial statements, changes in deadline of report submissions to the BSP, new and amended disclosure requirements to the financial statements, among others.

- *Amendments to the Regulations on the Disqualifications and Watchlisting of Directors/Officers*. In 18 February 2020, Circular No. 1076 was issued to strengthen the disqualification and watchlisting of directors and officers of banks and other financial institutions. The amendments aim to further promote the integrity of the financial system and better protect the interest of the public.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws applicable in the Philippines or the United Kingdom and each country of which they are residents.

Philippine Taxation

The following is a general description of certain Philippine tax aspects of the Notes. It is based on the **Tax Code** (the National Internal Revenue Code of 1997, as amended by Republic Act No. 10963), the regulations promulgated thereunder and judicial and ruling authorities in force as at the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis.

As used in this section, the term “resident alien” refers to an individual whose residence is within the Philippines and who is not a citizen of the Philippines while the term “non-resident alien” means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who stays in the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “non-resident alien doing business in the Philippines”; otherwise, such non-resident alien is considered a “non-resident alien not engaged in trade or business within the Philippines”. A “resident foreign corporation” is a foreign corporation engaged in trade or business in the Philippines and a “non-resident foreign corporation” is a foreign corporation that is not engaged in trade or business within the Philippines. The term “non-Philippine holders” refers to beneficial owners of the Notes who are (1) non-resident aliens not engaged in trade or business within the Philippines or (2) non-resident foreign corporations.

Value -Added Tax

Gross receipts derived by dealers in securities from the sale of the Notes in the Philippines, equivalent to the gross selling price less the acquisition cost of the Notes sold, shall be subject to value-added tax of 12%. “Dealer in securities” means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

Documentary Stamp Taxes

Under the Tax Code, a documentary stamp tax is imposed upon every original issue of debt instruments, such as bonds and notes, at the rate of ₱1.50 on each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided, that for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be proportionate to the ratio of the debt instrument’s term in number of days to 365 days. The documentary stamp tax due on the Notes will be for the account of the Bank.

No documentary stamp tax is imposed on the subsequent sale, exchange, or trading of the Notes in a secondary market or through an exchange. Likewise, any assignment or reassignment of the Notes is not subject to documentary stamp tax as long as there is no change in the maturity date or the material terms and conditions of the Notes or it does not carry with it a renewal or issuance of new Notes in the name of the transferee.

Interest on the Notes

The tax treatment of interest generally depends on the type of instrument from which the interest arises and whether the class of taxpayer receiving the interest is a resident or a non-resident for Philippine tax purposes. Interest on debt instruments arising from borrowing from the public (which for this purpose means more than nineteen lenders), long-term deposits or investment certificates, currency bank deposits, trust funds and similar instruments is generally subject to a 20% final withholding tax if received by Philippine citizens, resident aliens, non-resident aliens engaged in trade or business within the Philippines, domestic corporations and resident foreign corporations (all of which may generally be considered as "residents" in respect of taxation of Philippine-sourced income). Interest on debt instruments not covered by the foregoing instruments received by the same categories of residents will form part of their taxable income and will be subject to ordinary income tax rates (at graduated rates from 0% – 35% for individuals and 30% regular corporate income tax or 2% minimum corporate income tax (**MCIT**), as the case may be, for domestic and resident foreign corporations), subject to the withholding by the issuer of an amount equivalent to 20% of such interest, which shall be creditable against the income tax liability of the resident for the relevant taxable year.

Interest on debt instruments received by non-residents will generally be subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 20%, if the holder is a non-resident foreign corporation on the assumption that the debt instrument is a "foreign loan" granted by such non-resident foreign corporation. "Foreign loans/borrowings" arise when a non-resident creditor lends funds (regardless of currency denomination) directly to a resident debtor, and are evidenced by documents that are not negotiable.

The tax withheld constitutes a final settlement of Philippine tax liability in respect of such interest income earned by the non-resident individual not engaged in trade or business within the Philippines or by the non-resident foreign corporation.

The Bank, as required by the Tax Code, will withhold and make payment of the applicable withholding tax described above. However, the Bank shall pay Additional Amounts as may be necessary and subject to certain exceptions, so that the net amounts received by Noteholders equal the amounts which would otherwise have been receivable by them had no such deduction or withholding been required. See "*Terms and Conditions of the Notes – Taxation.*"

Sale or other Disposition of the Notes

Under Section 32(B)(7)(g) of the Tax Code, gains realised from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with a maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) (**Long Term Bonds**) are exempt from income tax. The BIR, however, has not had occasion to confirm whether bonds issued by foreign entities, such as the Notes, may constitute Long Term Bonds for purposes of such exemption. In any case, any gain from the sale or exchange of the Notes is not subject to Philippine income tax if the sale or exchange of the Notes by a non-resident holder takes place outside the Philippines.

If the Notes are considered ordinary assets, gains from the sale or disposition of such Notes within the Philippines that are subject to Philippine income tax will be included in the computation of taxable income, which, after being reduced by the applicable deductions, is subject to ordinary income tax rates (at graduated rates from 0%-35% for individuals and 30% regular corporate income tax or 2% MCIT, as the case may be, for domestic and resident foreign corporations). On the other hand, gains realized by non-residents from the sale or transfer of the Notes are subject to final withholding tax at the rate of 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines. Gains derived by non-resident foreign corporations on the sale or other disposition of the Notes shall form part of their gross income which is subject to a 30% final withholding tax unless such foreign corporation is entitled to preferential tax treatment pursuant to a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

If the Notes are considered as capital assets of individual Noteholders, gains from the sale or disposition of such Notes shall be subject to the same income tax rates as if the Notes were held as ordinary assets, except that if the gain is realised by an individual who held the Notes for a period of more than twelve (12) months prior to the sale, only 50% of the gain will be recognised and included in the computation of taxable income, subject to the applicable deductions. On the other hand, if the Notes were held by an individual for a period of twelve (12) months or less, 100% of the gain will be included in the computation of the taxable income.

Estate and Donor's Taxes

As the Notes are issued by a corporation organised or constituted in the Philippines in accordance with Philippine laws, they are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and donor's taxes.

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Notes shall be subject to an estate tax which is levied on the net estate of the deceased at a rate of 6%. A holder of the Notes shall be subject to donor's tax at a rate of 6% based on the total net gifts in excess of ₱250,000 exempt gifts made during the calendar year on the transfer of the Notes, whether the donee is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. The estate tax and the donor's tax, in respect of the Notes, shall not be collected in respect of intangible property, such as the Notes, (1) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (2) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Notes are transferred for less than adequate and full consideration in money or money's worth, the amount by which the fair market value of the Notes exceeded the value of the consideration may be deemed a gift and donor's taxes may be imposed on the transferor of the Notes. Transfer of the Notes made in the ordinary course of business (a transaction which is *bona fide*, at arm's length, and free from any donative intent) is considered as made for an adequate and full consideration in money or money's worth.

Tax Exempt Status

Noteholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income paid by the Bank may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. The BIR has prescribed certain procedures for availment of such exemption or preferential withholding tax rate. Assuming the payments to be made by the Bank are subject to withholding tax, subject to the filing of the Bank's application and its approval by the BIR, the Bank will not withhold or will withhold at a reduced rate provided that such holder furnishes the Bank with the following documents, in form and substance prescribed by the Bank: (a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of effectivity specified therein; (b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Noteholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator; (c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; (d) With respect to tax treaty relief, (1) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (**CORTT**) Form prescribed under Revenue Memorandum Order No. 8-2017), and (2) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and (e) Any other document that the Bank may require from time to time; (ii) a duly notarised declaration and undertaking in the prescribed form, executed by (ii.a) the Corporate Secretary or any authorised representative, who has personal knowledge of the exemption based on his official functions, if the Noteholder purchases Notes for its account, or (ii.b) the Trust Officer, if the Noteholder is a universal bank authorised under Philippine law to perform trust and fiduciary functions and purchase the Notes pursuant to its management of tax-exempt entities (i.e., Employee Retirement Fund, etc.), declaring and warranting that the same Noteholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Bank of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Bank free and harmless against any claims, actions, suits, and liabilities, or any tax or charge resulting from the non-withholding of the required tax; and (iii) if applicable, such other documentary requirements as may be reasonably required by the Bank, or as may be required under applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Bank to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Noteholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Bank.

If the regular rate mentioned above is withheld by the Bank, instead of the reduced rate, the Noteholder may file a claim for a refund from the BIR. However, because the refund process in the Philippines could be cumbersome, requiring the filing of an administrative claim and the possible filing of a judicial appeal, it may be impractical to pursue such a refund.

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

- Maturity period is five years or less 5%
- Maturity period is more than five years 1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

- Maturity period is five years or less 5%
- Maturity period is more than five years 1%

If the net trading gains realised within the taxable year on the sale or disposition of the Notes by banks and nonbank financial intermediaries performing quasi-banking functions are considered as gross receipts derived from sources within the Philippines, such gains shall be subject to gross receipts tax at the rate of 7%.

Taxation outside the Philippines

The tax treatment of a non-resident holder of any of the Notes by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such holder by reason of domicile or business activities and may vary depending upon such holder's situation. Each holder of any of the Notes should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Notes, including the applicability and effect of any state, local and national laws.

SUBSCRIPTION AND SALE

The Dealers have, in an Amended and Restated Programme Agreement (such Amended and Restated Programme Agreement as modified, supplemented, or restated from time to time, the **Programme Agreement**) dated 13 March 2020, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". The Issuer will pay each relevant Dealer a commission as may be agreed between them in respect of Notes subscribed by it. The Issuer has agreed, unless otherwise agreed in respect of an issue of Notes, to pay all expenses incidental to the performance of their respective obligations under the Programme Agreement. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the applicable Pricing Supplement. The Notes may also be sold by the Issuer through the Dealers, acting as the Issuer's agents. The Dealers may also offer and sell Notes through certain of their affiliates. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price set forth in the applicable Pricing Supplement (less commissions, if any, in connection with such issue of Notes), the Notes may be reoffered and resold by the relevant Dealer(s) at a price different from their Issue Price, including (without limitation) at prevailing market prices, or at prices related thereto, at the time of such reoffer and resale, in each case as may be determined by the relevant Dealer(s).

In order to facilitate the offering of any Tranche of the Notes, the Dealer or Dealers (if any) named as Stabilising Managers for persons acting on behalf of any Stabilising Manager(s) in the applicable Pricing Supplement and participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect, which support the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. There is no assurance that the Stabilising Manager(s) or persons acting on behalf of a Stabilising Manager will undertake stabilisation action. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Under the laws and regulations of the United Kingdom any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of Notes and 60 days after the date of the allotment of the relevant tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, including any Tranche of Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Each Tranche of Notes issued under the Programme may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

In connection with each Tranche of Notes issued under the Programme, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

1. United States

1.1 In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement, the Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment except in accordance with Rule 903 of Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act.

Terms used in this paragraph 1.1 have the meanings given to them by Regulation S.

1.2 In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, the Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Subject to paragraph 1.5 below, each Dealer has represented and agreed that it has offered, sold and delivered any Notes, and will offer, sell and deliver any Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who has purchased Notes of a Tranche hereunder (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant Lead Arranger) shall determine and certify to the Principal Paying Agent the completion of the distribution of the Notes of such Tranche. On the basis of such notification or notifications, the Principal Paying Agent has agreed to notify such Dealer / Lead Arranger of the end of the distribution compliance period with respect to such Tranche. Each Dealer has also agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the Securities Act), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Arranger, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S".

Terms used in this paragraph 1.2 have the meanings given to them by Regulation S.

1.3 Prior to the issuance of any Bearer Notes under the Programme, the Issuer will confirm with its counsel that all Programme documents have been reviewed, revised and updated to the extent necessary to ensure that such documents properly allow for the issuance of Bearer Notes in accordance with U.S. federal income tax law.

1.4 Each Dealer has further represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and, in respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, it and they have complied and will comply with the offering restrictions requirement of Regulation S.

1.5 The applicable Pricing Supplement will specify whether U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (**TEFRA D**), as in effect prior to the repeal of Section 163(f)(2)(B) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), or any successor rules that are substantially in the same form, in each case, are applicable (or relevant under IRS Notice 2012-20) for purposes of Section 4701 of the Code. In respect of Bearer Notes where TEFRA D is specified in the applicable Pricing Supplement:

(i) except to the extent permitted under TEFRA D, each Dealer (i) has represented and agreed that it has not offered or sold, and has agreed that during a 40-day restricted period it will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) has represented that it has not delivered and agreed that it will not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

(ii) each Dealer has represented and agreed that it has and agreed that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by TEFRA D;

(iii) if it is a United States person, each Dealer has represented and agreed that it is acquiring Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it will only do so in accordance with TEFRA D (including the requirements of U.S. Treas. Reg. Section l.163-5(c)(2)(i)(D)(6));

(iv) it will provide the Issuer with the documentation specified (at the time specified) in U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(3); and

(v) with respect to each affiliate of such Dealer that acquires Notes in bearer form from such Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has repeated and confirmed the representations and agreements contained in subparagraphs (i), (ii), (iii) and (iv) on such affiliate's behalf.

Terms used in this paragraph 1.5 have the meanings given to them by the Code and Treasury regulations promulgated thereunder, including TEFRA D.

1.6 The applicable Pricing Supplement will specify whether U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(C) (**TEFRA C**), as in effect prior to the repeal of Section 163(f)(2)(B) of the Code, or any successor rules that are substantially in the same form, in each case, are applicable (or relevant under IRS Notice 2012-20) for purposes of Section 4701 of the Code. In respect of Bearer Notes where TEFRA C is specified in the applicable Pricing Supplement, such Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed in connection with the original issuance of such Bearer Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of such Bearer Notes. Further, the Issuer will comply with the documentary requirements described in U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(C)(4).

Terms used in this paragraph 1.6 have the meanings given to them by the Code and Treasury regulations promulgated thereunder.

1.7 Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement. The relevant Dealer agrees that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

2. European Economic Area and the United Kingdom

Unless the Pricing Supplement specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer represents and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the pricing supplement in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or

(ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Regulation (EU) No 2017/1129 (as amended, the **Prospectus Regulation**); and

(b) the expression an offer includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes.

If the Pricing Supplement specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area or in the United Kingdom, each Dealer represents and agrees that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the pricing supplement in relation thereto to the public in that Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Member State:

(a) if the pricing supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes and the expression Prospectus Regulation means Regulation (EU) No 2017/1129.

3. United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (**FSMA**) by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

4. Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

5. Singapore

Each Dealer has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the

Securities and Futures Act, Chapter 289 of Singapore (the **SFA**)) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

i. to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

ii. where no consideration is or will be given for the transfer;

iii. where the transfer is by operation of law;

iv. as specified in Section 276(7) of the SFA; or

v. as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

6. Hong Kong

In relation to each Tranche of Notes to be issued by the Issuer under the Programme, each of Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**), by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **Securities and Futures Ordinance**) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance and any rules made under that Ordinance.

7. Philippines

THE NOTES BEING OFFERED OR SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES AND ITS IMPLEMENTING RULES AND REGULATIONS (THE **SRC**). ANY FUTURE OFFER OR SALE OF THE NOTES WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE IS MADE UNDER CIRCUMSTANCES IN WHICH THE NOTES QUALIFY AS EXEMPT SECURITIES OR QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE SRC.

Any offer or sale of the Notes within the Philippines is subject to registration unless such offer or sale is made under circumstances in which the Notes qualify as exempt securities or pursuant to an exempt transaction under the SRC. The Notes, being securities issued by a bank registered as such under the laws of the Republic of the Philippines, constitute exempt securities within the meaning of Subsection 9.1(e) of the SRC and as such are not required to be registered under the provisions thereof before they can be sold or offered for sale or distribution in the Philippines. Any sale or offer of the Notes, however, can only be made in accordance with the applicable regulations of the Bangko Sentral ng Pilipinas and the Philippine Securities and Exchange Commission.

8. PRC

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any of the Notes in the People's Republic of China (for such purposes, not including Hong Kong, Macau SAR or Taiwan) or to residents of the People's Republic of China unless such offer or sale is made in compliance with all applicable laws and regulations of the People's Republic of China.

9. General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and any applicable pricing supplement and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Trustee and any of the other Dealers shall have any responsibility therefore.

None of the Issuer, the Trustee, and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

1. The update of the Programme (including the increase of the aggregate size of the Programme to U.S.$5,000,000,000) and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer issued on 27 February 2020.

Listing

2. Application has been made to the SGX-ST for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List.

   For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, Notes which are listed on the SGX-ST will be traded with a minimum board lot size of at least S$200,000 or its equivalent in foreign currencies.

   Admission to the Official List and any quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, for so long as such Notes are listed on the SGX-ST, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Delisting of Notes

3. The Trust Deed provides that if the applicable Pricing Supplement indicates that the Notes are listed on a stock exchange (the **relevant Stock Exchange**), the Bank will use its best endeavours to maintain the listing on the relevant Stock Exchange of those of the Notes which are listed on the relevant Stock Exchange or, if it is unable to do so having used its best endeavours or if the Trustee considers that the maintenance of such listings is unduly onerous whether as a result of the implementation of the EU Transparency Directive (Directive 2004/109/EC of the European Parliament and of the Council on the Harmonisation of Transparency Requirements in relation to information about issuers whose securities are admitted to trading on a regulated market) or otherwise, it may cease to maintain such listing provided that it shall use its best endeavours promptly to obtain and maintain a quotation or listing of such Notes on such other stock exchange or exchanges or securities market or markets on which it is then accepted in the sphere of international issues of debt securities to list securities such as the Notes as it may (with the approval of the Trustee (which approval of the Trustee may only be given if the Trustee has received confirmation from the relevant Dealer(s) in respect of such Notes that such other stock exchange or exchanges or securities market or markets is so accepted)) decide and shall also upon obtaining a quotation or listing of such Notes issued by it on such other stock exchange or exchanges or securities market or markets enter into a trust deed supplemental to this Trust Deed to effect such consequential amendments to these presents as the Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market.

Clearing systems

4. The Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

No significant change

5. Save as disclosed in this Offering Circular, there has been no significant or material adverse change in the financial or trading position or prospects of the Parent Bank or the Bank since 31 December 2019.

Litigation

6. The Parent Bank or the Bank is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this Offering Circular a significant effect on the financial position of the Parent Bank or the Bank.

Accounts

7. The auditors of the Issuer for the years ended 31 December 2017, 2018 and 2019 were Punongbayan & Araullo (**P&A**), independent auditors.

   Such auditors have issued, in accordance with Philippine Standards on Auditing, an unqualified audit report for the financial years ended 31 December 2017, 2018 and 2019.

Trustee's Reliance on Certificates

8. The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors (as defined in the Trust Deed) or any other person in accordance with the provisions of the Trust Deed as sufficient evidence of the facts stated therein whether or not called for by or addressed to the Trustee and whether or not any such certificate or report or engagement letter or other document entered into by the Trustee and the Auditors or such other person in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person. However, the Trustee will have no recourse to the Auditors or such other person in respect of such certificates or reports unless the Auditors or such other person have agreed to address such certificates or reports to the Trustee.

Documents Available

9. So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the corporate office of the Issuer and from the specified office of the Paying Agent in London:

   (a) the audited financial statements of the Bank in respect of the financial years ended 31 December 2017, 2018 and 2019;

   (b) the most recently published audited unconsolidated and (if produced) consolidated financial statements of the Bank and the most recently published unaudited consolidated and (if produced) consolidated interim financial results of the Bank (the Bank currently prepares unaudited consolidated interim results on a quarterly basis under Philippine regulatory requirements);

   (c) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

   (d) a copy of this Offering Circular;

   (e) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and

   (f) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

INDEX TO THE FINANCIAL STATEMENTS

P&A
Grant Thornton
An instinct for growth™

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288

Report of Independent Auditors

The Board of Directors and Stockholders
BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Unibank, Inc. and subsidiaries (collectively referred to as the BDO Unibank Group) and of BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the BDO Unibank Group and of the Parent Bank as at December 31, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

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

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

(a) Proper Valuation of Loans and Other Receivables

Description of the Matter

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

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

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

The disclosures of the BDO Unibank Group and the Parent Bank on the allowance for impairment of loans and other receivables, and the related credit risk are included in Notes 4 and 10 to the financial statements.

How the Matter was Addressed in the Audit

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

- testing the design and operating effectiveness of key controls across the processes, as assisted by our own Information Technology specialists, over the loan classification into stages, and the calculation and recognition of the allowance for impairment;

- evaluating appropriateness of the BDO Unibank Group's and the Parent Bank's credit policy and loan impairment process as approved by the Board of Directors;

- verifying that the loans are allocated to the appropriate stage, and challenging the criteria used to categorize the loan to Stage 1, 2 or 3 in accordance with PFRS 9, *Financial Instruments*;

- on a sample basis, evaluating the appropriateness of the credit risk ratings of performing Stage 1 loans to assess appropriateness of credit risk monitoring;

- evaluating the inputs and assumptions, as well as the formulas used in the development of the ECL models for each of the loan portfolio. This includes assessing the appropriateness of design of the ECL impairment model, formula and inputs used in determining the probability of default, loss given default and exposure at default;

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

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

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

(b) Valuation of Financial Instruments

Description of the Matter

The fair valuation of financial instruments of the BDO Unibank Group and the Parent Bank is considered a key area of focus in our audit due to the use of inputs from external sources in computing the market value of these financial instruments. For some financial instruments such as derivatives, the determination of fair value includes the use of estimates by the management. The fair value of derivative financial instruments is usually determined using the discounted cash flow approach. To the extent practicable, models use observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

As of December 31, 2019, the financial assets and financial liabilities of the BDO Unibank Group that are carried at fair value amounted to P172,320 million and P3,172 million, respectively, while that of the Parent Bank amounted to P97,970 million and P1,734 million, respectively.

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

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

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

(c) Adoption of PFRS 16, Leases

Description of the Matter

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

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

How the Matter was Addressed in the Audit

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

- understanding the accounting policies and procedures applied by the BDO Unibank Group and the Parent Bank in identifying leases that qualify under PFRS 16, and leases that qualify under the recognition exemptions on short-term leases and low-value leases, and compliance therewith;
- assessing the completeness of the lease contracts and verifying the accuracy of the lease information provided;

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

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

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

Carrying Value of Goodwill

Description of the Matter

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

Under PFRS, BDO Unibank Group is required to annually test the amount of goodwill for impairment. This annual impairment testing of goodwill is considered to be a key audit matter because the management's process in assessing the recoverability of goodwill is complex. In addition, the assumptions used in determining cash generating units (CGUs) where the goodwill is allocated and estimating the recoverable amount involves significant judgment. The recoverable amount of the CGUs has been computed using discounted cash flows method. This valuation method uses several key assumptions, including estimates for forecasted statement of financial position and net profit of CGUs, terminal value growth rates and discount rate.

The BDO Unibank Group's disclosures about goodwill are included in Notes 2 and 14 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to impairment of goodwill included, among others, evaluating the appropriateness of assumptions and methodologies used by the management, in particular, those relating to the forecasted statement of financial position and statement of income as well as the discount rate used. We have involved our Firm valuation specialist to assist in evaluating the appropriateness of assumptions used in estimating the recoverable amount of CGUs. In addition, our audit of the financial statements of BDO Network as of and for the year ended December 31, 2019 did not identify events or conditions that may cast significant doubt on BDO Network 's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in the BDO Unibank Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the BDO Unibank Group and the Parent Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 30 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under the Revised Securities Regulation Code Rule 68 of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Leonardo D. Cuaresma, Jr.

PUNONGBAYAN & ARAULLO

By: **Leonardo D. Cuaresma, Jr.**
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 8116542, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-5 (until July 9, 2021)
Firm - No. 0002-FR-5 (until March 26, 2021)
BIR AN 08-002511-7-2017 (until June 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until July 24, 2021)

February 27, 2020

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(Amounts in Millions of Philippine Pesos)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Millions of Philippine Pesos Except Per Share Data)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group														
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Losses	Revaluation Increment	Remeasurement on Life Insurance Reserves	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2019																
As previously stated		P 43,740	P 5,150	P 123,377	P 14,788	P 9	P 156,327	(P 10,390)	(P 8,893)	P 1,008	P 2,257	P 13	(P 14)	P 327,372	P 777	P 328,149
Effect of adoption of PFRS 16	2	-	-	-	-	-	(847)	-	-	-	-	-	-	(847)	-	(847)
As restated		43,740	5,150	123,377	14,788	9	155,480	(10,390)	(8,893)	1,008	2,257	13	(14)	326,525	777	327,302
Transactions with owners	21															
Issuance of shares during the year		74	-	672	-	-	-	-	-	-	-	-	-	746	-	746
Options transferred during the year		-	-	-	860	-	-	-	-	-	-	-	-	860	-	860
Options expensed during the year		-	-	-	890	-	-	-	-	-	-	-	-	890	-	890
Cash dividends		-	-	-	-	-	(5,593)	-	-	-	-	-	-	(5,593)	-	(5,593)
		74	-	672	1,750	-	(5,593)	-	-	-	-	-	-	(3,097)	-	(3,097)
Total comprehensive income (loss)		-	-	-	-	-	44,194	7,862	(2,347)	-	(5,046)	(2)	14	44,675	8	44,683
Transfer from Surplus Free																
Trust reserve	21, 27	-	-	-	272	-	(272)	-	-	-	-	-	-	-	-	-
Other reserves	21	-	-	-	1,552	-	(1,552)	-	-	-	-	-	-	-	-	-
		-	-	-	1,824	-	(1,824)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	-	(689)	729	-	-	-	-	-	40	-	40
Other adjustments																
Change in ownership interest in subsidiaries	29	-	-	-	-	3	689	58	16	-	-	-	-	766	870	1,636
Disposal of properties	21	-	-	-	-	-	76	-	-	(53)	-	-	-	23	-	23
		-	-	-	-	3	765	58	16	(53)	-	-	-	789	870	1,659
BALANCE AT DECEMBER 31, 2019		**P 43,814**	**P 5,150**	**P 124,049**	**P 18,362**	**P 12**	**P 192,333**	**(P 1,741)**	**(P 11,224)**	**P 955**	**(P 2,789)**	**P 11**	**P -**	**P 368,932**	**P 1,655**	**P 370,587**
BALANCE AT JANUARY 1, 2018																
As previously stated		P 43,690	P 5,150	P 122,966	P 3,354	P 11	P 133,529	(P 3,991)	(P 6,805)	P 1,008	(P 1,398)	(P 21)	(P 5)	P 297,488	P 852	P 298,340
Effect of adoption of PFRS 9	2	-	-	-	9,520	-	(2,010)	(529)	-	-	-	-	-	6,981	17	6,998
As restated		43,690	5,150	122,966	12,874	11	131,519	(4,520)	(6,805)	1,008	(1,398)	(21)	(5)	304,469	869	305,338
Transactions with owners	21															
Issuance of shares during the year		50	-	411	-	-	-	-	-	-	-	-	-	461	-	461
Cash dividends		-	-	-	-	-	(5,585)	-	-	-	-	-	-	(5,585)	(27)	(5,612)
		50	-	411	-	-	(5,585)	-	-	-	-	-	-	(5,124)	(27)	(5,151)
Total comprehensive income (loss)		-	-	-	-	-	32,708	(6,275)	(2,088)	-	3,655	34	(9)	28,025	(113)	27,912
Transfer from Surplus Free																
Trust reserve	21, 27	-	-	-	251	-	(251)	-	-	-	-	-	-	-	-	-
Reversal of appropriations during the year	21	-	-	-	(207)	-	207	-	-	-	-	-	-	-	-	-
Other reserves	21	-	-	-	1,870	-	(1,870)	-	-	-	-	-	-	-	-	-
		-	-	-	1,914	-	(1,914)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	-	(401)	405	-	-	-	-	-	4	-	4
Other adjustments	29															
Additional capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	49	49
Change in ownership interest in subsidiaries		-	-	-	-	(2)	-	-	-	-	-	-	-	(2)	(1)	(3)
		-	-	-	-	(2)	-	-	-	-	-	-	-	(2)	48	46
BALANCE AT DECEMBER 31, 2018		P 43,740	P 5,150	P 123,377	P 14,788	P 9	P 156,327	(P 10,390)	(P 8,893)	P 1,008	P 2,257	P 13	(P 14)	P 327,372	P 777	P 328,149
BALANCE AT JANUARY 1, 2017		P 36,500	P 5,150	P 70,127	P 2,972	P 12	P 111,423	(P 3,919)	(P 4,259)	P 1,008	(P 2,183)	(P 13)	(P 2)	P 216,816	P 743	P 217,559
Transactions with owners	21															
Stock rights issuance		7,164	-	52,662	-	-	-	-	-	-	-	-	-	59,826	-	59,826
Issuance of shares during the year		26	-	177	-	-	-	-	-	-	-	-	-	203	-	203
Cash dividends		-	-	-	-	-	(5,582)	-	-	-	-	-	-	(5,582)	(50)	(5,632)
		7,190	-	52,839	-	-	(5,582)	-	-	-	-	-	-	54,447	(50)	54,397
Total comprehensive income (loss)		-	-	-	-	-	28,070	(72)	(2,546)	-	785	(8)	(3)	26,226	11	26,237
Transfer from Surplus Free																
Appropriations during the year	21	-	-	-	126	-	(126)	-	-	-	-	-	-	-	-	-
Trust reserve	21, 27	-	-	-	256	-	(256)	-	-	-	-	-	-	-	-	-
		-	-	-	382	-	(382)	-	-	-	-	-	-	-	-	-
Other adjustments	21, 29															
Additional capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	147	147
Change in ownership interest in subsidiaries		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	1	-
		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	148	147
BALANCE AT DECEMBER 31, 2017		P 43,690	P 5,150	P 122,966	P 3,354	P 11	P 133,529	(P 3,991)	(P 6,805)	P 1,008	(P 1,398)	(P 21)	(P 5)	P 297,488	P 852	P 298,340

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

		Parent Bank										
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity
BALANCE AT JANUARY 1, 2019												
As previously stated		P 43,740	P 5,150	P 123,358	P 13,885	P 155,583	(P 4,281)	(P 8,504)	P 1,005	(P 1)	(P 2,314)	P 327,621
Effect of adoption of PFRS 16	2	-	-	-	-	(856)	-	-	-	-	-	(856)
As restated		43,740	5,150	123,358	13,885	154,727	(4,281)	(8,504)	1,005	(1)	(2,314)	326,765
Transactions with owners	21											
Issuance of shares during the year		74	-	672	-	-	-	-	-	-	-	746
Options transferred during the year		-	-	-	860	-	-	-	-	-	-	860
Options expensed during the year		-	-	-	890	-	-	-	-	-	-	890
Cash dividends		-	-	-	-	(5,593)	-	-	-	-	-	(5,593)
		74	-	672	1,750	(5,593)	-	-	-	-	-	(3,097)
Total comprehensive income (loss)		-	-	-	-	44,233	3,476	(2,240)	-	(5)	34	45,498
Transfer from Surplus Free												
Trust reserve	21, 27	-	-	-	189	(189)	-	-	-	-	-	-
Other reserves	21	-	-	-	1,563	(1,563)	-	-	-	-	-	-
		-	-	-	1,752	(1,752)	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	(689)	(23)	-	-	-	-	(712)
Other adjustment												
Change in ownership interest in subsidiaries	14, 29	-	-	-	-	733	-	-	-	-	-	733
Disposal of properties	21	-	-	-	-	76	-	-	(53)	-	-	23
		-	-	-	-	809	-	-	(53)	-	-	756
BALANCE AT DECEMBER 31, 2019		**P 43,814**	**P 5,150**	**P 124,030**	**P 17,387**	**P 191,735**	**(P 828)**	**(P 10,744)**	**P 952**	**(P 6)**	**(P 2,280)**	**P 369,210**
BALANCE AT JANUARY 1, 2018												
As previously stated		P 43,690	P 5,150	P 122,947	2,524	P 132,625	(P 1,203)	(P 6,452)	P 1,005	(P 2)	(P 2,623)	P 297,661
Effect of adoption of PFRS 9	2	-	-	-	9,356	(1,846)	(653)	-	-	-	126	6,983
As restated		43,690	5,150	122,947	11,880	130,779	(1,856)	(6,452)	1,005	(2)	(2,497)	304,644
Transactions with owners	21											
Issuance of shares during the year		50	-	411	-	-	-	-	-	-	-	461
Cash dividends		-	-	-	-	(5,585)	-	-	-	-	-	(5,585)
		50	-	411	-	(5,585)	-	-	-	-	-	(5,124)
Total comprehensive income (loss)		-	-	-	-	32,712	(2,427)	(2,052)	-	1	(220)	28,014
Transfer from Surplus Free												
Trust reserve	21, 27	-	-	-	181	(181)	-	-	-	-	-	-
Other reserves	21	-	-	-	1,824	(1,824)	-	-	-	-	-	-
		-	-	-	2,005	(2,005)	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	(401)	2	-	-	-	403	4
Other adjustment												
Change in ownership interest in subsidiaries	14, 29	-	-	-	-	83	-	-	-	-	-	83
BALANCE AT DECEMBER 31, 2018		P 43,740	P 5,150	P 123,358	P 13,885	P 155,583	(P 4,281)	(P 8,504)	P 1,005	(P 1)	(P 2,314)	P 327,621
BALANCE AT JANUARY 1, 2017		P 36,500	P 5,150	P 70,108	P 2,238	P 110,564	(P 1,688)	(P 4,007)	P 1,005	P 12	(P 4,325)	P 215,557
Transactions with owners	21											
Stock rights issuance		7,164	-	52,662	-	-	-	-	-	-	-	59,826
Issuance of shares during the year		26	-	177	-	-	-	-	-	-	-	203
Cash dividends		-	-	-	-	(5,582)	-	-	-	-	-	(5,582)
		7,190	-	52,839	-	(5,582)	-	-	-	-	-	54,447
Total comprehensive income (loss)		-	-	-	-	28,006	485	(2,445)	-	(14)	1,702	27,734
Transfer from Surplus Free												
Appropriation during the year	21	-	-	-	96	(96)	-	-	-	-	-	-
Trust reserve	21, 27	-	-	-	190	(190)	-	-	-	-	-	-
		-	-	-	286	(286)	-	-	-	-	-	-
Other adjustment												
Change in ownership interest in subsidiaries	29	-	-	-	-	(77)	-	-	-	-	-	(77)
BALANCE AT DECEMBER 31, 2017		P 43,690	P 5,150	P 122,947	P 2,524	P 132,625	(P 1,203)	(P 6,452)	P 1,005	(P 2)	(P 2,623)	P 297,661

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

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

	Notes	BDO Unibank Group 2019	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2019	Parent Bank 2018	Parent Bank 2017
NET INCREASE IN CASH AND CASH EQUIVALENTS ***(Brought Forward)***		**(P 92,326)**	P 35,971	P 13,433	**(P 83,417)**	P 48,025	P 15,373
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**53,749**	45,006	40,909	**52,492**	43,882	39,813
Due from Bangko Sentral ng Pilipinas (BSP)	7	**354,132**	353,308	318,002	**349,017**	340,596	304,285
Due from other banks	8	**55,292**	51,479	41,794	**48,780**	41,088	33,463
Investment securities at amortized cost	9	**9,168**	2,097	-	**6,490**	2,097	-
HTM securities	9	**-**	-	894	**-**	-	894
Securities purchased under reverse repurchase agreement (SPURRA)	10	**22,009**	18,260	14,302	**22,009**	14,872	7,891
Interbank loans receivables	10	**42,214**	31,576	72,749	**42,214**	31,576	72,749
Foreign currency notes and coins (FCNC)	14	**4,828**	3,695	3,338	**4,828**	3,694	3,337
		541,392	505,421	491,988	**525,830**	477,805	462,432
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**64,140**	53,749	45,006	**62,726**	52,492	43,882
Due from BSP	7	**309,040**	354,132	353,308	**306,938**	349,017	340,596
Due from other banks	8	**38,956**	55,292	51,479	**35,820**	48,780	41,088
Investment securities at amortized cost	9	**308**	9,168	-	**308**	6,490	-
HTM securities	9	**-**	-	2,097	**-**	-	2,097
SPURRA	10	**-**	22,009	18,260	**-**	22,009	14,872
Interbank loans receivables	10	**31,277**	42,214	31,576	**31,277**	42,214	31,576
FCNC	14	**5,345**	4,828	3,695	**5,344**	4,828	3,694
		P 449,066	P 541,392	P 505,421	**P 442,413**	P 525,830	P 477,805

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

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

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

Other Information

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

See Notes to Financial Statements.

1. CORPORATE MATTERS

1.1 Incorporation and Operations

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

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

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2019, BDO Unibank Group had 1,436 branches (including two foreign branches), 2,472 on-site and 1,994 off-site automated teller machines (ATMs) and 562 cash accept machines (CAMs). As of December 31, 2019, the Parent Bank had 1,173 branches (including two foreign branches), 2,274 on-site and 1,951 off-site ATMs and 562 CAMs. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and the United States. These foreign operations accounted for 1.1%, 1.3% and 1.2% of BDO Unibank Group's total revenues in 2019, 2018 and 2017, respectively, and 1.8% and 1.4% of BDO Unibank Group's total resources as of December 31, 2019 and 2018, respectively. BDO Unibank Group's subsidiaries and associates are shown in Notes 2.3 and 14.2.

1.2 Approval of Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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

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

(b) Presentation of Financial Statements

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

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

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

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

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

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

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

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

(ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The application of these amendments had no significant impact on the BDO Unibank Group and the Parent Bank's financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Unibank Group:

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

Parent Bank:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) PFRS 10 (Amendments), *Consolidated Financial Statements,* and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

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

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

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

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

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

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

2.3 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of BDO Unibank Group's share of the identifiable net assets acquired, is recognized as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as a gain in profit or loss [see Note 2.3(d)].

On the other hand, business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls BDO Unibank Group are accounted for under the pooling-of-interests method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparative periods presented are restated. The resources and liabilities acquired are recognized in BDO Unibank Group's financial statements at their carrying amounts. The components of equity of the acquired entities are added to the same components within BDO Unibank Group's equity.

Investments in subsidiaries are initially recognized at cost and subsequently accounted for using the equity method in the Parent Bank's financial statements (see Note 2.11).

(b) Investment in Associates

Associates are those entities over which the BDO Unibank Group and the Parent Bank are able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the BDO Unibank Group and the Parent Bank's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the BDO Unibank Group and the Parent Bank's share in the associate is included in the amount recognized as investment in an associate.

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

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

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

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

(c) Transactions with Non-controlling Interests

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

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

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

The BDO Unibank Group holds interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership 2019	2018	2017
Rural Bank			
BDO Network Bank, Inc. (BDO Network) [previously One Network Bank, Inc. (A Rural Bank of BDO) (ONB)]	**84.87%**	99.86%	99.79%
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**99.88%**	99.88%	99.88%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	**100%**	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	**88.54%**	88.54%	88.54%
Averon Holdings Corporation (Averon)	**99.88%**	99.88%	99.88%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%	88.54%
BDO Finance Corporation (BDO Finance)	**100%**	-	-
Securities Companies			
BDO Securities Corporation (BDO Securities)	**99.88%**	99.88%	99.88%
BDO Nomura Securities, Inc. (BDO Nomura)	**51%**	51%	51%
Armstrong Securities, Inc. (ASI)	**80%**	80%	80%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%	100%
Equimark-NFC Development Corporation (Equimark)	**60%**	60%	60%
Insurance Companies			
BDO Life Assurance Company Inc., (BDO Life)	**100%**	100%	100%
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	100%	100%
BDO Remit (Canada) Ltd.	**100%**	100%	100%
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
BDO Remit International Holdings B.V. (BDO RIH)	**96.32%**	96.32%	96.32%
Express Padala (Hongkong), Ltd.	**-**	100%	100%
PCIB Europe S.p.A.	**-**	-	100%
Others			
PCI Realty Corporation	**100%**	100%	100%

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

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

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

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

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

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

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

(d) Business Combination

Business acquisitions are accounted for using the acquisition method of accounting [see Note 2.3(a)].

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.21). Impairment losses on goodwill are not reversed.

Negative goodwill, if any, which is the excess of BDO Unibank Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost of investment is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segments.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by BDO Unibank Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting or pooling-of-interest method [see Note 2.3(a)].

2.4 Segment Reporting

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

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

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

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

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

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

2.5 Financial Assets and Financial Liabilities

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

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

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

(a) Classification, Measurement and Reclassification of Financial Assets

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

(i) Financial Assets at Amortized Cost

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

- the asset is held within BDO Unibank Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("held to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

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

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of income as part of Interest Income.

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

BDO Unibank Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, BDO Unibank Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the BDO Unibank Group for trading or as mandatorily required to be classified as FVTPL. The BDO Unibank Group has designated equity instruments as at FVOCI.

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

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the BDO Unibank Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the BDO Unibank Group, and, the amount of dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

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

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

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

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

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

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

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

(b) Effective Interest Rate Method and Interest Income

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

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

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

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

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

(c) Impairment of Financial Assets

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

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

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

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

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

(d) *Measurement of ECL*

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

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

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

- *Exposure at Default (EAD)* – it represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the BDO Unibank Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the BDO Unibank Group shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur, unless the drawdown after default will be mitigated by the normal credit risk management actions and policies of the BDO Unibank Group.

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

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

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

(e) Derecognition of Financial Assets

(i) Modification of Loans

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

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

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

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

(ii) Derecognition of Financial Assets Other than Through Modification

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

(f) Classification and Measurement of Financial Liabilities

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

- *Deposit liabilities and other liabilities* are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

- *Bills payable and subordinated notes payable* are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

- *Derivatives with negative fair values* are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

- *Lease deposits from operating and finance leases* (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day-one gain and is included as part of Miscellaneous – net under Other Operating Income account in the statement of income. Meanwhile, interest expense on the subsequent amortization of the lease deposits is accrued using the effective interest method and is included as part of Interest Expense account in the statement of income.

- *Dividend distributions to shareholders* are recognized as financial liabilities when the dividends are declared by BDO Unibank Group and subject to the requirements of BSP Circular 888.

(g) Derecognition of Financial Liabilities

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

(h) Financial Guarantees and Undrawn Loan Commitments

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

2.6 Derivative Financial Instruments

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

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

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

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

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

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

2.7 Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, related carrying amounts are not depreciated. All other premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value. Property items of the former Equitable PCI Bank (EPCIB), entity merged with BDO Unibank in 2008, stated at appraised values were included in BDO Unibank Group balances at their deemed costs at the date of transition to PFRS in 2005. The revaluation increment is credited to Revaluation Increment account in the equity section of the statement of financial position, net of applicable deferred tax (see Note 2.16).

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

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

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

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

Fully depreciated assets are retained in accounts until they are no longer in use and no further change for depreciation is made in respect of those assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.21).

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

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

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

2.8 Investment Properties

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

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Notes 2.7 and 2.21).

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

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

2.9 Real Properties for Development and Sale

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

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

2.10 Non-current Assets Held for Sale

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

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

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

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

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in the statement of income (see Note 24).

2.11 Equity Investments

In the Parent Bank's financial statements, investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.21). Associates are all entities over which the BDO Unibank Group and the Parent Bank have significant influence but which are neither subsidiaries nor interest in a joint venture.

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

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

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

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

2.12 Other Resources

Other resources pertain to other assets that are controlled by BDO Unibank Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to BDO Unibank Group and the asset has a cost or value that can be measured reliably. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.21).

2.13 Intangible Assets

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

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired at the date of acquisition [see Note 2.3(d)]. Goodwill is classified as intangible asset with indefinite useful life and, thus, not subject to amortization but to an annual test for impairment (see Note 2.21). Goodwill is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each primary reporting segment.

Trading rights represent the rights given to securities subsidiaries of BDO Unibank Group engage in stock brokerage to preserve access to the trading facilities and to transact business on PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment loss, if any. BDO Unibank Group has no intention to sell its trading right in the future as it intends to continue to operate its stock brokerage business. The trading right is tested annually for any impairment in realizable value (see Note 2.21).

Branch licenses, on the other hand, represent the rights given to BDO Unibank Group to establish certain number of branches as an incentive in acquiring distressed banks or as provided by the BSP in addition to the current branches of the acquired banks. Branch licenses are assessed as having an indefinite useful life and is tested annually for any impairment (see Note 2.21).

Customer lists consist of information about customers such as their name, contact information, and managed accounts under BDO Unibank Group's trust business. The customer list is classified as intangible asset with indefinite useful life, hence, would be reviewed for impairment by assessing at each reporting date whether there is any indication that the trust business brought about by the customer lists may be impaired (see Note 2.21).

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

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

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

2.14 Insurance Contract Liabilities

(a) Legal Policy Reserves

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

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

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

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

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

(b) Insurance Contracts with Fixed and Guaranteed Terms

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

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

(c) Variable Unit-linked Insurance Contracts

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

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

(d) Liability Adequacy Test

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

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

(a) Insurance Premiums

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

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

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

(b) Insurance Benefits and Claims

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

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

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

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

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

2.15 Offsetting Financial Instruments

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

2.16 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus reserves pertain to reserve for trust business representing the accumulated amount set aside by BDO Unibank Group and the Parent Bank under existing regulations requiring the BDO Unibank Group to carry to surplus 10% of its net profits accruing from its trust business until the surplus shall amount to 20% of the regulatory capital and, to the appropriation for general loan loss provision as prescribed by BSP. Surplus reserves also consist of reserve for insurance fund and additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 21). Share options outstanding (SOO), which is also included in the surplus reserve, represents the accumulated total of employee share options' amortizations over the vesting period as the share-based employee remuneration are recognized and reported in the statement of income. SOO will be deducted for any exercise or forfeiture of share options already vested.

Other reserves pertain to amount recognized from increase in percentage of ownership to any of the subsidiaries of BDO Unibank Group.

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

NUGL on FVOCI compose of cumulative mark-to-market valuation of outstanding securities and accumulated impairment on debt securities classified as FVOCI.

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

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

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

Accumulated translation adjustment pertains to foreign exchange differences arising on translation of the resources and liabilities of foreign branch and subsidiaries that are taken up in other comprehensive income (see Note 2.22).

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

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

2.17 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with BDO Unibank Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of BDO Unibank Group that gives them significant influence over BDO Unibank Group and close members of the family of any such individual; and, (d) BDO Unibank Group's funded retirement plan (see Note 25.2).

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

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

2.18 Other Income and Expense Recognition

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

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

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

(a) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. These include the following accounts:

(i) *Commission and fees* arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

(ii) *Loan syndication fees* are recognized as revenue when the syndication has been completed and that BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

(iii) *Arranger fees* arising from negotiating or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the completion of the underlying assumptions.

(iv) *Portfolio and other management advisory and service fees* are recognized based on the applicable service contracts, usually on a time-proportionate basis.

(b) *Trust fees* – Trust fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(c) *Income/loss from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income account.

Collections from accounts, which did not qualify from revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

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

2.19 *Provisions and Contingencies*

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

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

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

The BDO Unibank Group offers monetized rewards to active cardholders in relation to its credit card business' rewards program. Provisions for rewards are recognized at a certain rate of cardholders' credit card availments, determined by management based on redeemable amounts.

2.20 *Leases*

BDO Unibank Group accounts for its leases as follows:

(a) *BDO Unibank Group as Lessor*

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in profit or loss as part of Rental under Other Operating Income account in the statement of income on a straight-line basis over the lease term.

(b) BDO Unibank Group as Lessee

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

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

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

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

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

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

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

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

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

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

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

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

The BDO Unibank Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;

- a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

- there is a change in the determination of whether fulfillment is dependent on a specified asset; or,

- there is a substantial change to the asset.

The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. The residual value of the leased asset at the end of the lease term is generally applied against the guaranty deposit of the lessee.

2.21 Impairment of Non-financial Assets

BDO Unibank Group's equity investments, goodwill, branch licenses, trading rights, trademark and customer lists recorded as part of Other Resources, Premises, Furniture, Fixtures and Equipment, Investment Properties and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill, branch licenses, customer lists and trading rights are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.22 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

The financial statements of the Foreign Currency Deposit Unit (FCDU) of BDO Unibank Group are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as FVOCI securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

(b) Foreign Currency Translation

The accounting records of BDO Unibank Group are maintained in Philippine pesos except for foreign branches and subsidiaries, which are maintained in U.S. dollars, Canadian Dollar (CAD), European Union Euro (Euro), Great Britain Pound (GBP), Japanese Yen (JPY), Hong Kong Dollars (HKD) or Singapore Dollar (SGD).

The operating results and financial position of foreign branches and subsidiaries which are measured using the U.S. dollars, CAD, Euro, GBP, JPY, HKD or SGD, respectively, are translated to Philippine pesos (BDO Unibank Group's functional currency) as follows:

(i) Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation due from foreign branch and net investment in foreign subsidiaries is recognized in other comprehensive income as part of Accumulated Translation Adjustment (see Note 2.16). When a foreign operation is sold, the cumulative amount of exchange differences is recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the US dollar, Euro, GBP, JPY, HKD or SGD amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.23 Compensation and Benefits Expense

BDO Unibank Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits, which are recognized as follows (see Note 25):

(a) *Post-employment Defined Benefit*

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

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

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

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

(b) Post-employment Defined Contribution Plan

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

(c) Short-term Benefits

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

(d) Termination Benefits

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

(e) *Bonus Plans*

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

(f) *Employee Stock Option Plan*

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

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

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

(g) *Unavailed Leaves*

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

2.24 Income Taxes

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority (see Note 30.1).

2.25 Earnings Per Share

Basic earnings per share is determined by dividing consolidated net profit by the weighted average number of common shares issued and outstanding during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per share is also computed by dividing consolidated net profit by the weighted average number of common shares issued and outstanding during the period. However, consolidated net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares and stock option plan granted by BDO Unibank Group to the qualified officers (to the extent that shares under the stock option plan shall be issued from the unissued authorized capital stock and not purchased from the market or stock exchange).

Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. The stock option plan is deemed to have been converted into common stock in the year the stock option is granted.

2.26 Trust Activities

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

2.27 *Events After the End of the Reporting Period*

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 *Critical Management Judgments in Applying Accounting Policies*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(e) Distinction Between Investment Properties and Owner-occupied Properties

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generates cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

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

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

(g) Classification and Fair Value Determination of Acquired Properties

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, chattels as Non-current assets held for sale (presented under Other Resources account) if expected to be recovered through sale rather than use, real properties as Investment Properties if intended to be held for capital appreciation or lease, as Financial Assets if qualified as such in accordance with PFRS 9 or as Other properties (presented under Other Resources account) if held for sale but the depreciable properties (other than building) are not yet disposed within three years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties. The BDO Unibank Group's methodology in determining the fair value of acquired properties are further discussed in Note 6.5.

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

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

ARSA provides that investors shall be entitled to nominate one director for as long as it owns at least 10% of the equity of NLEX Corporation, or shall be entitled to nominate two directors for as long as it owns at least 16.5% of the equity of NLEX Corporation.

Failure to make the right judgment will result in either overstatement or understatement of resources, liabilities, income and expenses.

(i) Determination of Timing of Satisfaction of Performance Obligations

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

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

(j) Recognition of Provisions and Contingencies

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

3.2 Key Sources of Estimation Uncertainty

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

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

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

(b) Estimation of Allowance for ECL

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

The carrying value of financial assets at FVOCI, Investments securities at amortized cost and Loans and Other Receivables and, the analysis of the allowance for impairment on such financial assets, are shown in Notes 9.2, 9.3, 10, and 15 respectively.

(c) Fair Value Measurement for Financial Instruments

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

The carrying values of the BDO Unibank Group and the Parent Bank's financial assets at FVTPL and financial assets at FVOCI and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 9.1 and 9.2, respectively.

(d) Determination of Fair Value of Derivatives

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques normally using the discounted cash flow model.

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

BDO Unibank Group and the Parent Bank use judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

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

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

The carrying amounts of Premises, Furniture, Fixtures and Equipment are analyzed in Note 11 while investment properties and other resources, including trademark, are analyzed in Notes 13 and 14, respectively.

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

Investment properties are measured using the cost model. The fair value disclosed in Note 13 to the financial statements is determined by BDO Unibank Group and the Parent Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period such as selling price under installment sales, expected timing of sale and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition (see Note 6.5).

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

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

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant judgment is applied by the management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of BDO Unibank Group's future taxable income together with its future tax planning strategies. The BDO Unibank Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets.

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

(h) Impairment of Non-financial Assets

Except for goodwill and other intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.21. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized in profit or loss are disclosed in Note 15.

(i) Valuation of Post-employment Defined Benefit

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 25.2 and include, among others, discount rates, expected rate of return on plan asset and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 25.2.

(j) Recognition of Reward Points

BDO Unibank Group provides rewards points to its banking clients and customers each time they avail of the pre-identified products and services of the Parent Bank and the companies which the Parent Bank has identified as partners in the rewards program. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

BDO Unibank Group sets up a liability to cover the cost of future reward redemptions for points earned to date. The estimated liability is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.

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

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank are presented as part of Accrued expenses under Other Liabilities account in the statement of financial position as disclosed in Note 20.

(k) Valuation of Legal Policy Reserves

Legal policy reserves represent estimates of present value of future benefits and expenses in excess of present value of future gross premiums. These estimates are based on interest rates, mortality/morbidity tables, and valuation method subject to the provisions of the Insurance Code and guidelines set by IC.

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

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

4. RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

4.1 Liquidity Risk

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

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

BDO Unibank Group

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

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

** *Insurance Contract Liabilities with maturity of one month to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

BDO Unibank Group

	2018				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 53,749	P -	P -	P -	P 53,749
Due from BSP and other banks	130,290	1,570	782	276,782	409,424
Trading and investment securities	13,825	56,729	98,227	216,416	385,197
Loans and other receivables - net	463,437	201,081	349,271	1,058,045	2,071,834
Other resources - net*	216	61	-	101,766	102,043
Total Resources	661,517	259,441	448,280	1,653,009	3,022,247
Liabilities and Equity:					
Deposit liabilities	448,970	24,151	18,963	1,927,881	2,419,965
Bills and subordinated notes payable	31,674	21,458	59,258	41,263	153,653
Insurance contract liabilities**	125	(1,078)	984	28,475	28,506
Other liabilities	27,564	2,739	4,712	56,959	91,974
Total Liabilities	508,333	47,270	83,917	2,054,578	2,694,098
Equity	-	-	-	328,149	328,149
Total Liabilities and Equity	508,333	47,270	83,917	2,382,727	3,022,247
On-book gap	153,184	212,171	364,363	(729,718)	-
Cumulative on-book gap	153,184	365,355	729,718	-	-
Contingent assets	178,126	47,437	15,049	6,978	247,590
Contingent liabilities	216,731	49,330	15,131	6,872	288,064
Off-book gap	(38,605)	(1,893)	(82)	106	(40,474)
Net Periodic Gap	114,579	210,278	364,281	(729,612)	40,474
Cumulative Total Gap	P 114,579	P 324,857	P 689,138	(P 40,474)	P -

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

** *Insurance Contract Liabilities with maturity of one month to three years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

Parent Bank

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

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

Parent Bank

	2018				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 52,492	P -	P -	P -	P 52,492
Due from BSP and other banks	125,574	-	-	272,223	397,797
Trading and investment securities	9,197	51,017	85,021	159,046	304,281
Loans and other receivables - net	451,821	185,561	325,786	1,055,985	2,019,153
Other resources - net*	-	-	-	118,089	118,089
Total Resources	639,084	236,578	410,807	1,605,343	2,891,812
Liabilities and Equity:					
Deposit liabilities	467,983	20,164	18,261	1,855,894	2,362,302
Bills and subordinated notes payable	13,092	17,756	52,833	44,042	127,723
Other liabilities	23,876	-	-	50,290	74,166
Total Liabilities	504,951	37,920	71,094	1,950,226	2,564,191
Equity	-	-	-	327,621	327,621
Total Liabilities and Equity	504,951	37,920	71,094	2,277,847	2,891,812
On-book gap	134,133	198,658	339,713	(672,504)	-
Cumulative on-book gap	134,133	332,791	672,504	-	-
Contingent assets	172,428	30,373	4,148	1,054	208,003
Contingent liabilities	211,162	32,551	4,418	1,044	249,175
Off-book gap	(38,734)	(2,178)	(270)	10	(41,172)
Net Periodic Gap	95,399	196,480	339,443	(672,494)	41,172
Cumulative Total Gap	P 95,399	P 291,879	P 631,322	(P 41,172)	P -

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

4.2 Market Risk

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

4.2.1 Foreign Exchange Risk

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

BDO Unibank Group's net foreign exchange exposure is computed as its foreign currency resources less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the BDO Unibank Group excess foreign exchange holding of banks in the Philippines. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

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

The breakdown of the financial assets and financial liabilities as to foreign and peso-denominated balances as of December 31, 2019 and 2018 follows:

BDO Unibank Group

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

Parent Bank

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

4.2.2 Interest Rate Risk

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

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

BDO Unibank Group

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

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*
** *Insurance Contract Liabilities with maturity of one month to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

BDO Unibank Group

	2018					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 53,749	P 53,749
Due from BSP and other banks	23,248	-	-	-	386,176	409,424
Trading and investment securities	11,664	56,431	178,738	118,056	20,308	385,197
Loans and other receivables - net	1,025,682	189,261	620,802	236,089	-	2,071,834
Other resources - net*	-	-	-	-	102,043	102,043
Total Resources	1,060,594	245,692	799,540	354,145	562,276	3,022,247
Liabilities and Equity:						
Deposit liabilities	608,569	71,985	75,763	16,766	1,646,882	2,419,965
Bills and subordinated notes payable	48,967	21,429	78,898	3,861	498	153,653
Insurance contract liabilities**	(405)	(1,270)	1,082	19,494	9,605	28,506
Other liabilities	-	1,072	4,742	93	86,067	91,974
Total Liabilities	657,131	93,216	160,485	40,214	1,743,052	2,694,098
Equity	-	-	-	-	328,149	328,149
Total Liabilities and Equity	657,131	93,216	160,485	40,214	2,071,201	3,022,247
On-book gap	403,463	152,476	639,055	313,931	(1,508,925)	-
Cumulative on-book gap	403,463	555,939	1,194,994	1,508,925	-	-
Contingent assets	10,835	1,618	-	-	-	12,453
Contingent liabilities	4,943	1,577	-	-	-	6,520
Off-book gap	5,892	41	-	-	-	5,933
Net Periodic Gap	409,355	152,517	639,055	313,931	(1,508,925)	(5,933)
Cumulative Total Gap	P 409,355	P 561,872	P 1,200,927	P 1,514,858	P 5,933	P -

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

** *Insurance Contract Liabilities with maturity of one month to five years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

Parent Bank

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

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

Parent Bank

	2018					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 52,492	P 52,492
Due from BSP and other banks	22,000	-	-	-	375,797	397,797
Trading and investment securities	7,586	51,017	155,786	85,635	4,257	304,281
Loans and other receivables - net	1,015,170	166,254	597,213	240,516	-	2,019,153
Other resources - net*	-	-	-	-	118,089	118,089
Total Resources	1,044,756	217,271	752,999	326,151	550,635	2,891,812
Liabilities and Equity:						
Deposit liabilities	583,500	67,010	73,865	20,936	1,616,991	2,362,302
Bills and subordinated notes payable	26,492	17,756	74,931	8,544	-	127,723
Other liabilities	-	-	-	-	74,166	74,166
Total Liabilities	609,992	84,766	148,796	29,480	1,691,157	2,564,191
Equity	-	-	-	-	327,621	327,621
Total Liabilities and Equity	609,992	84,766	148,796	29,480	2,018,778	2,891,812
On-book gap	434,764	132,505	604,203	296,671	(1,468,143)	-
Cumulative on-book gap	434,764	567,269	1,171,472	1,468,143	-	-
Contingent assets	5,784	-	-	-	-	5,784
Contingent liabilities	-	-	-	-	-	-
Off-book gap	5,784	-	-	-	-	5.784
Net Periodic Gap	440,548	132,505	604,203	296,671	(1,468,143)	(5,784)
Cumulative Total Gap	P 440,548	P 573,053	P 1,177,256	P 1,473,927	P 5,784	P -

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Unibank Group

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

Parent Bank

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

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

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

BDO Unibank Group

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

	2018			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 4,533)	P 4,533	(P 2,266)	P 2,266
As a percentage of the BDO Unibank Group's net interest income for 2018	(4.60%)	4.60%	(2.30%)	2.30%
EAR	P 5,104			
As a percentage of the BDO Unibank Group's net interest income for 2018	5.19%			
Average (1yr) EAR	P 7,912			
Stress EAR	P 16,651			

Parent Bank

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

	2018			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 4,715)	P 4,715	(P 2,358)	P 2,358
As a percentage of the Parent Bank's net interest income for 2018	(5.00%)	5.00%	(2.50%)	2.50%
EAR	P 5,715			
As a percentage of the Parent Bank's net interest income for 2018	6.09%			
Average (1yr) EAR	P 8,209			
Stress EAR	P 17,305			

4.2.3 Price Risk

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

The table below summarizes the impact of equity prices on listed equity securities classified as financial assets at FVTPL and financial assets at FVOCI on BDO Unibank Group and Parent Bank's net profit after tax and equity as of December 31, 2019 and 2018. The results are based on the volatility assumption of the benchmark equity index, which was 2.33% and 2.28% in 2019 and 2018, respectively, for securities classified as financial assets at FVTPL and FVOCI securities with all other variables held constant and all the BDO Unibank Group and the Parent Bank's equity instruments moved according to the historical correlation with the index.

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

4.3 Credit Risk

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

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

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

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

4.3.1 Credit Risk Assessment

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

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

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

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

(a) Current

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

(b) Watchlisted

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

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

(c) Adversely Classified

(i) Loans Especially Mentioned (LEM)

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

(ii) Substandard

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

(iii) Doubtful

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

(iv) Loss

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

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

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

4.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, financial assets measured at amortized cost, and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2019 and 2018, there are no POCI financial assets in both BDO Unibank Group and Parent Bank's financial statements.

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

BDO Unibank Group

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

BDO Unibank Group

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

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

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

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

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

	Total		Exchange-traded		Over-the-counter: Central Counterparties		Over-the-counter: Other Bilateral Collateralized	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
2019								
Derivative assets	**P 161,883**	**P 3,562**	**P 131,305**	**P 1,523**	**P 3,730**	**P 26**	**P 26,848**	**P 2,013**
Derivative liabilities	**159,580**	**3,172**	**107,228**	**1,406**	**27,157**	**327**	**25,195**	**1,439**
2018								
Derivative assets	P 169,103	P 6,230	P -	P -	P 138,743	P 2,621	P 30,360	P 3,609
Derivative liabilities	133,144	4,497	-	-	105,775	1,680	27,369	2,817

As of December 31, 2019 and 2018, the BDO Unibank Group held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P412,136 and P463,173, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

Parent Bank

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

Parent Bank

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

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

Parent Bank

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

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

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

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

	Total		Exchange-traded		Over-the-counter: Central Counterparties		Over-the-counter: Other Bilateral Collateralized	
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
2019								
Derivative assets	**P 135,165**	**P 1,549**	**P 131,105**	**P 1,523**	**P 3,730**	**P 26**	**P 130**	**P -**
Derivative liabilities	**134,515**	**1,734**	**107,228**	**1,406**	**27,157**	**328**	**130**	**-**
2018								
Derivative assets	P 138,743	P 2,621	P -	P -	P 138,743	P 2,621	P -	P -
Derivative liabilities	105,775	1,680	-	-	105,775	1,680	-	-

As of December 31, 2019 and 2018, the Parent Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P405,484 and P450,289, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

4.3.3 Concentrations of Credit Risk

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

BDO Unibank Group

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

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

Parent Bank

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

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

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

4.3.4 Collateral Held as Security and Other Credit Enhancements

BDO Unibank Group and the Parent Bank hold collateral against credit exposures from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity. The BDO Unibank Group and the Parent Bank hold collateral against credit exposures in the form of property, debt securities, equity securities, holdout deposits and others.

Estimate of the fair value of collateral and other security enhancements held against the following credit exposures as of December 31 follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Receivable from customers – corporate:				
Property	**P 511,930**	P 497,150	**P 483,845**	P 460,617
Equity securities	**126,655**	131,529	**126,655**	131,529
Hold-out deposits	**93,768**	141,806	**93,765**	141,806
Debt securities	**1,964**	5,147	**1,964**	5,109
Others	**229,282**	220,603	**225,522**	210,049
	963,599	996,235	**931,751**	949,110
Receivable from customers – consumer:				
Property	**334,772**	286,512	**327,160**	278,268
Hold-out deposits	**2,841**	3,950	**2,775**	3,881
Debt securities	**647**	849	**239**	571
Equity securities	**591**	171	**102**	171
Others	**199,222**	170,747	**189,263**	159,536
	538,073	462,229	**519,539**	442,427
Other receivables:				
Property	**2,165**	2,139	**2,165**	2,139
Others	**44,434**	72,053	**44,434**	71,805
	46,599	74,192	**46,599**	73,944
	P 1,548,271	P 1,532,656	**P 1,497,889**	P 1,465,481

As of December 31, 2019 and 2018, no collateral is held for due from other banks and trading and investment securities.

BDO Unibank Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

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

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

(a) Receivable from Customers - Corporate

The net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables to corporate customers amounted to P9,948 and P10,210 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P8,440 and P9,302 as of December 31, 2019 and 2018, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P963,559 and P996,235 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P931,751 and P949,110 as of December 31, 2019 and 2018, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(b) Receivable from Customers - Consumer

The net carrying amount of credit-impaired receivables to individual customers amounted to P8,573 and P6,321 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P6,613 and P5,126 as of December 31, 2019 and 2018, respectively, for the Parent Bank. The value of identifiable collateral held against those loans and advances amounted to P538,073 and P462,229 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P519,539 and P442,427 as of December 31, 2019 and 2018, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(c) Other Receivables

The net carrying amount of credit-impaired other receivables amounted to P204 and P911 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P89 and P764 as of December 31, 2019 and 2018, respectively, for the Parent Bank. The value of identifiable collateral held against those loans and advances amounted to P46,559 and P74,192 as of December 31, 2019 and 2018, respectively, for the BDO Unibank Group and P46,599 and P73,944 as of December 31, 2019 and 2018, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(d) Debt Investment Securities

The maximum exposure to credit risk of the investment securities at amortized cost, FVOCI securities and FVTPL are their carrying amounts of P263,585, P134,123 and P8,604, respectively, as of December 31, 2019, and P244,500, P110,150 and P5,014, respectively, as of December 31, 2018 for the BDO Unibank Group. Meanwhile, maximum exposure to credit risk of the investment securities at amortized cost, FVOCI securities and FVTPL are their carrying amounts of P247,308, P89,431 and P2,620, respectively, as of December 31, 2019, and P222,909, P73,741 and P1,635, respectively, as of December 31, 2018 for the Parent Bank.

4.3.5 Amounts Arising from Expected Credit Losses

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

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

(a) Significant Increase in Credit Risk

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

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

- the remaining lifetime PD as at the reporting date; with

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

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

(i) Credit risk grading

The BDO Unibank Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit 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 BDO Unibank Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used.

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

(iii) Determining whether credit risk has significantly increased

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

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

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

(b) Definition of Default

The BDO Unibank Group considers a financial asset to be in default when:

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

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

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

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

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

(c) Forward-looking Information

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

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

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

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

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

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

(d) Modified Financial Assets

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

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

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

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

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants for such loans as consumer and corporate loans and credit card receivables. The BDO Unibank Group's Credit Committee regularly reviews reports on restructured activities.

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

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 4.3.2). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(e) Measurement of ECL

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

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

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

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

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

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

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

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

(f) *Write-offs*

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

(g) Loss allowance

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

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

BDO Unibank Group

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

BDO Unibank Group

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

BDO Unibank Group

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,684	P 455	P 5,209	P 12,348
Transfers to:				
Stage 1	7	(7)	-	-
Stage 2	(28)	28	-	-
Stage 3	(25)	(2)	27	-
Net remeasurement of loss allowance	(676)	1,554	1,174	2,052
New financial assets originated or purchased	3,058	-	-	3,058
Derecognition of financial assets	(2,396)	(60)	(137)	(2,593)
Write-offs	-	-	(31)	(31)
Foreign exchange	6	4	1	11
Balance at December 31	P 6,630	P 1,972	P 6,243	P 14,845
Receivables from customers – consumer				
Balance at January 1	P 3,787	P 505	P 6,147	P 10,439
Transfers to:				
Stage 1	416	(148)	(268)	-
Stage 2	(64)	94	(30)	-
Stage 3	(332)	(167)	499	-
Net remeasurement of loss allowance	(877)	468	5,243	4,834
New financial assets originated or purchased	1,382	-	-	1,382
Derecognition of financial assets	(521)	(180)	(2,215)	(2,916)
Write-offs	-	-	(1,830)	(1,830)
Foreign exchange	3	-	4	7
Others	-	-	-	-
Balance at December 31	P 3,794	P 572	P 7,550	P 11,916

BDO Unibank Group

	2018			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Balance at January 1	P 205	P 32	P 2,928	P 3,165
Transfers to:				
Stage 1	24	(1)	(23)	-
Stage 2	-	2	(2)	-
Stage 3	(1)	(1)	2	-
Net remeasurement of loss allowance	(33)	11	1,081	1,059
New financial assets originated or purchased	61	-	-	61
Derecognition of financial assets	(17)	(6)	(1,516)	(1,539)
Write-offs	(4)	-	(459)	(463)
Foreign exchange	-	-	1	1
Balance at December 31	P 235	P 37	P 2,012	P 2,284
Debt investment securities at amortized cost				
Balance at January 1	P 128	P -	P 1,387	P 1,515
Net remeasurement of loss allowance	(15)	-	-	(15)
New financial assets originated or purchased	21	-	-	21
Foreign exchange	6	-	61	67
Derecognition of financial assets	(5)	-	(2)	(7)
Balance at December 31	P 135	P -	P 1,446	P 1,581
Debt investment securities at FVOCI				
Balance at January 1	P 69	P -	P -	P 69
Net remeasurement of loss allowance	13	-	-	13
New financial assets originated or purchased	6	-	-	6
Derecognition of financial assets	(1)	-	-	(1)
Balance at December 31	P 87	P -	P -	P 87
Loan commitments and other contingent accounts				
Balance at January 1	P 329	P 2	P -	P 331
Net remeasurement of loss allowance	(96)	3	-	(93)
New financial assets originated or purchased	83	-	-	83
Derecognition of financial assets	(114)	(1)	-	(115)
Foreign exchange	-	-	-	-
Balance at December 31	P 202	P 4	P -	P 206

Parent Bank

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

Parent Bank

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

Parent Bank

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,537	P 433	P 4,865	P 11,835
Transfers to:				
Stage 1	7	(7)	-	-
Stage 2	(28)	28	-	-
Stage 3	(6)	(2)	8	-
Net remeasurement of loss allowance	(662)	1,565	1,158	2,061
New financial assets originated or purchased	3,007	-	-	3,007
Derecognition of financial assets	(2,355)	(53)	(109)	(2,517)
Write-offs	-	-	(30)	(30)
Foreign exchange	6	4	1	11
Balance at December 31	P 6,506	P 1,968	P 5,893	P 14,367
Receivables from customers – consumer				
Balance at January 1	P 3,311	P 459	P 5,259	P 9,029
Transfers to:				
Stage 1	199	(130)	(69)	-
Stage 2	(60)	71	(11)	-
Stage 3	(297)	(138)	435	-
Net remeasurement of loss allowance	(504)	327	4,082	3,905
New financial assets originated or purchased	1,287	-	-	1,287
Derecognition of financial assets	(394)	(160)	(2,065)	(2,619)
Write-offs	-	-	(1,830)	(1,830)
Foreign exchange	3	-	4	7
Balance at December 31	P 3,545	P 429	P 5,805	P 9,779
Other receivables				
Balance at January 1	P 54	P 32	P 2,854	P 2,940
Transfers to:				
Stage 1	24	(1)	(23)	-
Stage 2	-	2	(2)	-
Stage 3	(1)	(1)	2	-
Net remeasurement of loss allowance	(37)	11	1,066	1,040
New financial assets originated or purchased	60	-	-	60
Derecognition of financial assets	(17)	(6)	(1,508)	(1,531)
Write-offs	-	-	(459)	(459)
Foreign exchange	-	-	1	1
Balance at December 31	P 83	P 37	P 1,931	P 2,051
Debt investment securities at amortized cost				
Balance at January 1	P 115	P -	P 1,387	P 1,502
Net remeasurement of loss allowance	(11)	-	-	(11)
New financial assets originated or purchased	14	-	-	14
Foreign exchange	6	-	61	67
Derecognition of financial assets	(1)	-	(2)	(3)
Balance at December 31	P 123	P -	P 1,446	P 1,569

Parent Bank

	2018			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at January 1	P 62	P -	P -	P 62
Net remeasurement of loss allowance	1	-	-	1
New financial assets originated or purchased	5	-	-	5
Derecognition of financial assets	(1)	-	-	(1)
Balance at December 31	P 67	P -	P -	P 67
Loan commitments and other contingent accounts				
Balance at January 1	P 329	P 2	P -	P 331
Net remeasurement of loss allowance	(96)	3	-	(93)
New financial assets originated or purchased	83	-	-	83
Derecognition of financial assets	(114)	(1)	-	(115)
Foreign exchange	-	-	-	-
Balance at December 31	P 202	P 4	P -	P 206

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

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

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

4.4 Operational Risk

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

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

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

Framework

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

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

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

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

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

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

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

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

5. SEGMENT REPORTING

5.1 Business Segments

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

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

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

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

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

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

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

(f) ***Others*** – includes asset management, realty management, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

These segments are the basis on which BDO Unibank Group reports its segment information. Transactions between the segments are on normal commercial terms and conditions. Inter-segment transactions are eliminated in consolidation.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BDO Unibank Group's cost of capital. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of BDO Unibank Group's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

Currently, BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and holding company in Europe and various remittance subsidiaries operating in Asia, Europe, Canada and United States. Geographical segment information is not presented as these foreign operations accounted for only 1.1%, 1.3% and 1.2% of BDO Unibank Group's total revenues in 2019, 2018 and 2017, respectively, and 1.8% and 1.4% of BDO Unibank Group's total resources as of December 31, 2019 and 2018, respectively (see Note 1.1).

5.2 Analysis of Segment Information

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

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

December 31, 2018	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
Revenues							
From external customer							
Interest income	P 124,190	P 35	P 1,703	P 1,960	P 1,140	P 12	P 129,040
Interest expense	(28,840)	(2)	(815)	(1,008)	(82)	(1)	(30,748)
Net interest income	95,350	33	888	952	1,058	11	98,292
Intersegment revenues							
Interest income	248	9	1	-	30	36	324
Interest expense	(42)	(55)	(2)	(155)	-	(70)	(324)
Net interest income	206	(46)	(1)	(155)	30	(34)	-
Other operating income							
Investment banking fees	-	1,081	-	-	-	-	1,081
Others	36,702	324	1,004	1,254	11,956	594	51,834
	36,702	1,405	1,004	1,254	11,956	594	52,915
Total net revenues	132,258	1,392	1,891	2,051	13,044	571	151,207
Expenses							
Other operating expenses							
Impairment losses	6,266	2	(2)	1	18	1	6,286
Depreciation and amortization	4,747	54	33	881	37	24	5,776
Others	79,574	981	1,359	748	10,330	378	93,370
	90,587	1,037	1,390	1,630	10,385	403	105,432
Segment operating income	41,671	355	501	421	2,659	168	45,775
Tax expense	9,363	161	200	90	1,151	42	11,007
Segment net income	P 32,308	P 194	P 301	P 331	P 1,508	P 126	P 34,768
Statement of Financial Position							
Total resources							
Segment assets	P 2,905,520	P 5,745	P 48,802	P 41,382	P 43,167	P 5,486	P 3,050,102
Deferred tax assets (liabilities) - net	8,319	(181)	29	126	34	(15)	8,312
Intangible assets	5,223	207	17	15	54	1	5,517
	P 2,919,062	P 5,771	P 48,848	P 41,523	P 43,255	P 5,472	P 3,063,931
Total liabilities	P 2,586,747	P 2,075	P 43,711	P 36,180	P 34,746	P 2,375	P 2,705,834
Other segment information							
Capital expenditures	P 9,791	P 37	P 26	P 986	P 75	P 27	P 10,942
Investment in associates under equity method	P -	P -	P -	P 235	P -	P 4,846	P 5,081
Share in the profit of associates	P -	P -	P -	(P 31)	P -	P 662	P 631

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
December 31, 2017							
Revenues							
From external customer							
Interest income	P 95,224	P 62	P 1,779	P 1,913	P 806	P 11	P 99,795
Interest expense	(16,686)	-	(599)	(690)	(65)	(2)	(18,042)
Net interest income	78,538	62	1,180	1,223	741	9	81,753
Intersegment revenues							
Interest income	232	5	-	1	16	14	268
Interest expense	(23)	(48)	-	(154)	-	(43)	(268)
Net interest income	209	(43)	-	(153)	16	(29)	-
Other operating income							
Investment banking fees	-	1,766	-	-	-	-	1,766
Others	34,646	412	855	1,242	12,642	457	50,254
	34,646	2,178	855	1,242	12,642	457	52,020
Total net revenues	113,393	2,197	2,035	2,312	13,399	437	133,773
Expenses							
Other operating expenses							
Impairment losses	6,332	3	2	64	136	-	6,537
Depreciation and amortization	4,171	61	29	836	49	26	5,172
Others	67,025	897	1,367	693	10,389	349	80,720
	77,528	961	1,398	1,593	10,574	375	92,429
Segment operating income	35,865	1,236	637	719	2,825	62	41,344
Tax expense	8,138	340	223	148	587	16	9,452
Net profit	P 27,727	P 896	P 414	P 571	P 2,238	P 46	P 31,892
Statement of Financial Position							
Total resources							
Segment assets	P 2,540,028	P 7,153	P 64,439	P 42,676	P 38,454	P 5,486	P 2,698,236
Deferred tax assets (liabilities) - net	7,441	(182)	31	111	26	(24)	7,403
Intangible assets	5,374	134	26	29	32	1	5,596
	P 2,552,843	P 7,105	P 64,496	P 42,816	P 38,512	P 5,463	P 2,711,235
Total liabilities	P 2,250,781	P 2,690	P 59,147	P 37,374	P 31,391	P 2,292	P 2,383,675
Other segment information							
Capital expenditures	P 9,414	P 42	P 18	P 788	P 26	P 386	P 10,674
Investment in associates under equity method	P -	P -	P -	P 267	P -	P 4,678	P 4,945
Share in the profit of associates	P -	P -	P -	(P 14)	P -	P 626	P 612

5.3 Reconciliation

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

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

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

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

BDO Unibank Group

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

BDO Unibank Group

	2018							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial assets								
At amortized cost:								
Cash and other cash items	P	53,749	P	-	P	53,749	P	53,749
Due from BSP		354,132		-		354,132		354,132
Due from other banks		55,292		-		55,292		55,292
Loans and other receivables		2,071,834		-		2,071,834		2,056,012
Other resources		7,070		-		7,070		7,070
Financial assets at FVTPL		-		20,308		20,308		20,308
Financial assets at FVOCI		-		120,389		120,389		120,389
Investment securities at amortized cost		244,500		-		244,500		234,973
	P	2,786,577	P	140,697	P	2,927,274	P	2,901,925
Financial liabilities								
At amortized cost:								
Deposit liabilities	P	2,419,965	P	-	P	2,419,965	P	2,462,134
Bills payable		143,623		-		143,623		138,501
Subordinated notes payable		10,030		-		10,030		9,757
Insurance contract liabilities		28,506		-		28,506		28,506
Other liabilities		76,577		-		76,577		76,577
At fair value –								
Other liabilities		-		4,497		4,497		4,497
	P	2,678,701	P	4,497	P	2,683,198	P	2,719,972

Parent Bank

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

Parent Bank

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

	2018			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
At amortized cost:				
Cash and other cash items	P 52,492	P -	P 52,492	P 52,492
Due from BSP	349,017	-	349,017	349,017
Due from other banks	48,780	-	48,780	48,780
Loans and other receivables	2,019,153	-	2,019,153	2,004,881
Other resources	5,002	-	5,002	5,002
Financial assets at FVTPL	-	4,257	4,257	4,257
Financial assets at FVOCI	-	77,115	77,115	77,115
Investment securities at amortized cost	222,909	-	222,909	215,659
	P 2,697,353	P 81,372	P 2,778,725	P 2,757,203
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,362,302	P -	P 2,362,302	P 2,399,846
Bills payable	117,693	-	117,693	115,373
Subordinated notes payable	10,030	-	10,030	9,757
Other liabilities	63,073	-	63,073	63,073
At fair value –				
Other liabilities	-	1,680	1,680	1,680
	P 2,553,098	P 1,680	P 2,554,778	P 2,589,729

6.2 Fair Value Hierarchy

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

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

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

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

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

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

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

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

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2019 and 2018 are grouped into the fair value hierarchy as presented in the tables in the succeeding pages. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2019					
Resources:					
Financial assets at FVTPL:	9.1				
Equity securities – quoted		**P 14,595**	**P 320**	**P -**	**P 14,915**
Government debt securities		**5,178**	**-**	**-**	**5,178**
Corporate debt securities		**1,597**	**1,829**	**-**	**3,426**
Derivative financial assets		**-**	**3,562**	**-**	**3,562**
		21,370	**5,711**	**-**	**27,081**
Financial assets at FVOCI:	9.2				
Government debt securities		**81,514**	**-**	**-**	**81,514**
Corporate debt securities		**52,609**	**-**	**-**	**52,609**
Equity securities – quoted		**9,190**	**256**	**-**	**9,446**
Equity securities – not quoted		**-**	**-**	**1,670**	**1,670**
		143,313	**256**	**1,670**	**145,239**
		P 164,683	**P 5,967**	**P 1,670**	**P 172,320**
Liabilities – Derivatives with negative fair values	20	**P 87**	**P 3,085**	**P -**	**P 3,172**
December 31, 2018					
Resources:					
Financial assets at FVTPL:	9.1				
Equity securities – quoted		P 9,049	P 15	P -	P 9,064
Derivative financial assets		-	6,230	-	6,230
Government bonds		2,347	-	-	2,347
Corporate debt securities		204	2,463	-	2,667
		11,600	8,708	-	20,308
Financial assets at FVOCI:	9.2				
Government debt securities		60,165	-	-	60,165
Corporate debt securities		49,985	-	-	49,985
Equity securities – quoted		8,563	237	-	8,800
Equity securities – not quoted		-	-	1,439	1,439
		118,713	237	1,439	120,389
		P 130,313	P 8,945	P 1,439	P 140,697
Liabilities – Derivatives with negative fair values	20	P 79	P 4,418	P -	P 4,497

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2019					
Resources:					
Financial assets at FVTPL:	9.1				
Government debt securities		**P 2,348**	**P -**	**P -**	**P 2,348**
Derivative financial assets		-	**1,549**	**-**	**1,549**
Corporate debt securities		**272**	**-**	**-**	**272**
Equity securities – quoted		**1**	**-**	**-**	**1**
		2,621	**1,549**	**-**	**4,170**
Financial assets at FVOCI:	9.2				
Government debt securities		**53,547**	**-**	**-**	**53,547**
Corporate debt securities		**35,884**	**-**	**-**	**35,884**
Equity securities – quoted		**3,898**	**252**	**-**	**4,150**
Equity securities – not quoted		**-**	**-**	**219**	**219**
		93,329	**252**	**219**	**93,800**
		P 95,950	**P 1,801**	**P 219**	**P 97,970**
Liabilities –					
Derivatives with negative fair values	20	**P 87**	**P 1,647**	**P -**	**P 1,734**
December 31, 2018					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 2,621	P -	P 2,621
Government debt securities		1,616	-	-	1,616
Corporate debt securities		19	-	-	19
Equity securities – quoted		1	-	-	1
		1,636	2,621	-	4,257
Financial assets at FVOCI:	9.2				
Government debt securities		36,865	-	-	36,865
Corporate debt securities		36,876	-	-	36,876
Equity securities – quoted		2,974	233	-	3,207
Equity securities – not quoted		-	-	167	167
		76,715	233	167	77,115
		P 78,351	P 2,854	P 167	P 81,372
Liabilities –					
Derivatives with negative fair values	20	P 79	P 1,601	P -	P 1,680

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

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

(a) Equity securities

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

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

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

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

(b) Debt securities

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

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

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

(c) Derivatives

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

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

The table below and in the succeeding page summarizes the fair value hierarchy of BDO Unibank Group and Parent Bank's financial assets and financial liabilities, which are measured at amortized cost in the statements of financial position but for which fair value is disclosed.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Resources:				
Cash and other cash items	**P 64,140**	**P -**	**P -**	**P 64,140**
Due from BSP	**309,040**	**-**	**-**	**309,040**
Due from other banks	**38,956**	**-**	**-**	**38,956**
Investment securities at amortized cost	**270,967**	**-**	**-**	**270,967**
Loans and other receivable	**-**	**-**	**2,196,798**	**2,196,798**
Other resources	**5,639**	**-**	**352**	**5,991**
	P 688,742	**P -**	**P 2,197,150**	**P 2,885,892**
Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 2,492,812**	**P 2,492,812**
Bills payable	**-**	**168,772**	**-**	**168,772**
Insurance contract liabilities	**-**	**-**	**42,473**	**42,473**
Subordinated notes payable	**-**	**9,876**	**-**	**9,876**
Other liabilities	**-**	**-**	**98,660**	**98,660**
	P -	**P 178,648**	**P 2,633,945**	**P 2,812,593**
December 31, 2018				
Resources:				
Cash and other cash items	P 53,749	P -	P -	P 53,749
Due from BSP	354,132	-	-	354,132
Due from other banks	55,292	-	-	55,292
Investment securities at amortized cost	233,974	-	999	234,973
Loans and other receivable	-	-	2,056,012	2,056,012
Other resources	6,742	-	328	7,070
	P 703,889	P -	P 2,057,339	P 2,761,228
Liabilities:				
Deposit liabilities	P -	P -	P 2,462,134	P 2,462,134
Bills payable	-	115,680	22,821	138,501
Insurance contract liabilities	-	-	28,506	28,506
Subordinated notes payable	-	9,757	-	9,757
Other liabilities	-	-	76,577	76,577
	P -	P 125,437	P 2,590,038	P 2,715,475

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Resources:				
Cash and other cash items	P 62,726	P -	P -	P 62,726
Due from BSP	306,938	-	-	306,938
Due from other banks	35,820	-	-	35,820
Investment securities at amortized cost	256,288	-	-	256,288
Loans and other receivables	-	-	2,148,083	2,148,083
Other resources	5,542	-		5,542
	P 667,314	P -	P 2,148,083	P 2,815,397
Liabilities:				
Deposit liabilities	P -	P -	P 2,440,268	P 2,440,268
Bills payable	-	148,838	-	148,838
Subordinated notes payable	-	9,876	-	9,876
Other liabilities	-	-	86,504	86,504
	P -	P 158,714	P 2,526,772	P 2,685,486
December 31, 2018				
Resources:				
Cash and other cash items	P 52,492	P -	P -	P 52,492
Due from BSP	349,017	-	-	349,017
Due from other banks	48,780	-	-	48,780
Investment securities at amortized cost	215,659	-	-	215,659
Loans and other receivables	-	-	2,004,881	2,004,881
Other resources	5,002	-	-	5,002
	P 670,950	P -	P 2,004,881	P 2,675,831
Liabilities:				
Deposit liabilities	P -	P -	P 2,399,846	P 2,399,846
Bills payable	-	115,373	-	115,373
Subordinated notes payable	-	9,757	-	9,757
Other liabilities	-	-	63,073	63,073
	P -	P 125,130	P 2,462,919	P 2,588,049

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

(a) Due from BSP and Other Banks

Due from BSP pertains to deposits made by BDO Unibank Group to the BSP for clearing and reserve requirements. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) Investment Securities at Amortized Cost

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

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

(c) Loans and Other Receivables

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

(d) Deposits and Borrowings

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

(e) Other Resources and Liabilities

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

6.5 Fair Value Measurement for Non-financial Assets

Details of BDO Unibank Group and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2019 and 2018 are shown below.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Investment properties				
Land	**P -**	**P -**	**P 21,077**	**P 21,077**
Building and improvements	**-**	**-**	**12,396**	**12,396**
Non-current assets held for sale	**-**	**-**	**1,020**	**1,020**
	P -	**P -**	**P 34,493**	**P 34,493**
December 31, 2018				
Investment properties				
Land	P -	P -	P 22,585	P 22,585
Building and improvements	-	-	16,096	16,096
Non-current assets held for sale	-	-	722	722
	P -	P -	P 39,403	P 39,403

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Investment properties				
Land	**P -**	**P -**	**P 16,164**	**P 16,164**
Building and improvements	**-**	**-**	**11,569**	**11,569**
Non-current assets held for sale	**-**	**-**	**1,017**	**1,017**
	P -	**P -**	**P 28,750**	**P 28,750**
December 31, 2018				
Investment properties				
Land	P -	P -	P 17,644	P 17,644
Building and improvements	-	-	12,318	12,318
Non-current assets held for sale	-	-	711	711
	P -	P -	P 30,673	P 30,673

The fair value of the investment properties of the BDO Unibank Group and the Parent Bank as of December 31, 2019 and 2018 (see Note 13) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of the BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers were used by the BDO Unibank Group and the Parent Bank in determining the fair value of the Investment Properties and the Non-Current Assets Held for Sale.

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

(a) Fair Value Measurement for Land

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

(b) Fair Value Measurement for Buildings and Improvements

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

(c) Fair Value Measurement for Assets Held for Sale

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

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

6.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of the BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2019 and 2018 are subject to offsetting, enforceable master netting arrangements and similar agreements:

BDO Unibank Group

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2019				
Financial assets at FVTPL:				
Currency swaps	**P 323**	**P 298**	**P -**	**P 25**
Interest rate swaps	**1,151**	**1,094**	**-**	**57**
Loans and receivables –				
Receivables from customers	**42,164**	**-**	**40,160**	**2,004**
	P 43,638	**P 1,392**	**P 40,160**	**P 2,086**
December 31, 2018				
Financial assets at FVOCI	P 1,232	P 196	P -	P 1,036
Financial assets at FVTPL:				
Currency swaps	322	296	-	26
Interest rate swaps	130	65	-	65
Loans and receivables –				
Receivables from customers	51,202	30	50,835	337
	P 52,886	P 587	P 50,835	P 1,464

Parent Bank

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2019				
Financial assets at FVTPL:				
Currency swaps	**P 5**	**P -**	**P -**	**P 5**
Interest rate swaps	**1,100**	**1,043**	**-**	**57**
Loans and receivables –				
Receivables from customers	**38,955**	**-**	**38,955**	**-**
	P 40,060	**P 1,043**	**P 38,955**	**P 62**
December 31, 2018				
Financial assets at FVTPL –				
Interest rate swaps	P 65	P -	P -	P 65
Loans and receivables –				
Receivables from customers	50,779	-	50,779	-
	P 50,844	P -	P 50,779	P 65

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

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

BDO Unibank Group

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

Parent Bank

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

Parent Bank

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

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

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

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

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims (see Note 16). Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate ranging from 0.00% to 4.75% in 2019, from 2.50% to 5.25% in 2018 and from 2.50% and 3.50% in 2017. Total interest income earned amounted to P422, P899 and P1,441 in 2019, 2018 and 2017, respectively, in BDO Unibank Group's financial statements and P417, P785 and P1,165 in 2019, 2018 and 2017, respectively, in the Parent Bank's financial statements (see Note 22).

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

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

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

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
U.S. dollars	**P 27,683**	P 37,669	**P 27,147**	P 34,924
Philippine pesos	**2,114**	2,339	**52**	51
Other foreign currencies	**9,159**	15,284	**8,621**	13,805
	P 38,956	P 55,292	**P 35,820**	P 48,780

Annual interest rates on these deposits range from 0.00% to 5.75% in 2019, from 0.00% to 2.45% in 2018, and from 0.00% to 3.00% in 2017 in the BDO Unibank Group's financial statements, and from 0.00% to 2.00% in 2019, from 0.00% to 2.45% in 2018, and from 0.00% to 1.35% in 2017 in the Parent Bank's financial statements. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to P959, P834, and P301 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements, and P817, P661, and P234 in 2019, 2018, and 2017, respectively, in the Parent Bank's financial statements (see Note 22).

Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2019**	2018	**2019**	2018
Financial assets at FVTPL	9.1	**P 27,081**	P 20,308	**P 4,170**	P 4,257
Financial assets at FVOCI	9.2	**145,239**	120,389	**93,800**	77,115
Investment securities at amortized cost - net	9.3	**263,585**	244,500	**247,308**	222,909
		P 435,905	P 385,197	**P 345,278**	P 304,281

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Derivative financial assets	**P 3,562**	P 6,230	**P 1,549**	P 2,621
Government debt securities	**5,178**	2,347	**2,348**	1,616
Corporate debt securities	**3,426**	2,667	**272**	19
	12,166	11,244	**4,169**	4,256
Equity securities – quoted	**14,915**	9,064	**1**	1
	P 27,081	P 20,308	**P 4,170**	P 4,257

All financial assets at FVTPL are held for trading.

The following table shows net income (loss) contributed by financial assets at FVTPL to the BDO Unibank Group and the Parent Bank.

	Notes	BDO Unibank Group		
		2019	2018	2017
Interest income	22	**P 197**	P 72	P 162
Trading gain (loss) - net	24	**1,606**	(1,863)	202
Dividend income	24	**72**	87	3
Foreign exchange gain (loss)	24	**(449)**	137	147
Total other income (loss)		**1,229**	(1,639)	352
Total other expenses		**7**	10	1
Net income (loss)		**P 1,419**	(P 1,577)	P 513

	Notes	Parent Bank		
		2019	2018	2017
Interest income	22	**P 87**	P 51	P 116
Trading gain (loss) - net	24	**267**	(126)	(51)
Net income (loss)		**P 354**	(P 75)	P 65

The BDO Unibank Group's government and corporate debt securities earn interest at annual rates ranging from 0.00% to 10.63%, from 2.75% to 10.63% and from 0.00% to 10.63% in 2019, 2018 and 2017, respectively, while the Parent Bank's government and corporate debt securities earn interest at annual rates ranging from 0.00% to 10.63%, from 2.75% to 10.63% and from 0.38% to 10.63% in 2019, 2018 and 2017, respectively.

Foreign currency-denominated securities amounted to P5,671 and P4,093 as of December 31, 2019 and 2018, respectively, in the BDO Unibank Group's financial statements and P2,487 and P2,880 as of December 31, 2019 and 2018, respectively, in the Parent Bank's financial statements.

Derivative instruments used by BDO Unibank Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Foreign currency and interest rate forwards/futures represent commitments to purchase/sell or contractual obligations to receive or pay a new amount based on changes in currency rates or interest rates on a future date at a specified price. Foreign currency and interest rate swaps are commitments to exchange one set of cash flows for another.

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and financial liabilities are shown below [see Notes 20 and 26(d)(i)(4)].

BDO Unibank Group

	2019			2018		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 249,230**	**P 1,129**	**P 1,714**	P 220,114	P 1,884	P 1,020
Cross currency swaps	**32,866**	**2,184**	**1,202**	35,255	4,037	3,083
Interest rate swaps	**30,892**	**249**	**180**	38,402	309	315
ROP warrants	**8,475**	**-**	**76**	8,475	-	79
	P 321,463	**P 3,562**	**P 3,172**	P 302,246	P 6,230	P 4,497

Parent Bank

	2019			2018		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 244,530**	**P 1,084**	**P 1,260**	P 213,708	P 1,769	P 1,020
Cross currency swaps	**8,037**	**384**	**333**	10,379	787	491
Interest rate swaps	**8,638**	**81**	**65**	11,956	65	90
ROP warrants	**8,475**	**-**	**76**	8,475	-	79
	P 269,680	**P 1,549**	**P 1,734**	P 244,518	P 2,621	P 1,680

Certain financial assets at FVTPL of the BDO Unibank Group and the Parent Bank amounting to P1,474 and P1,105, respectively, in 2019 and P452 and P65, respectively, in 2018, are subject to offsetting against the related derivatives with negative fair value presented under Other Liabilities of the BDO Unibank Group and the Parent Bank amounting to P1,392 and P1,043, respectively, in 2019 and P361 and nil, respectively, for 2018. This indicates an enforceable master netting arrangements and similar agreements with an intention to settle on a net basis (see Note 6.6).

9.2 Financial Assets at FVOCI

The details of the carrying amounts of these financial assets are as follows:

	BDO Unibank Group		**Parent Bank**	
	2019	2018	**2019**	2018
Government debt securities	**P 81,514**	P 60,165	**P 53,547**	P 36,865
Corporate debt securities	**52,609**	49,985	**35,884**	36,876
Equity securities:				
Quoted	**9,446**	8,800	**4,150**	3,207
Not quoted	**1,670**	1,439	**219**	167
	P 145,239	P 120,389	**P 93,800**	P 77,115

As to currency, this account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Foreign currencies	**P 82,468**	P 75,464	**P 64,337**	P 61,026
Philippine peso	**62,771**	44,925	**29,463**	16,089
	P 145,239	P 120,389	**P 93,800**	P 77,115

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Within one year	**P 35,277**	P 29,763	**P 25,273**	P 20,595
One to five years	**71,408**	61,935	**51,502**	44,096
Beyond five years	**38,554**	28,691	**17,025**	12,424
	P 145,239	P 120,389	**P 93,800**	P 77,115

Government debt securities issued by the ROP and foreign sovereigns and corporate debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 0.00% to 12.13% in 2019, from 1.75% to 12.13% in 2018 and from 0.00% to 12.13% in 2017 for BDO Unibank Group's financial statements while from 0.00% to 10.63% in 2019, from 2.38% to 10.63% in 2018, and from 2.13% to 10.63% in 2017 in the Parent Bank's financial statements (see Note 22).

The fair values of government debt, equity and corporate debt securities have been determined directly by reference to published prices generated in an active market (see Note 6.3).

The reconciliation of the carrying amounts of financial assets at FVOCI is as follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Balance at beginning of year	**P 120,389**	P 110,799	**P 77,115**	P 70,188
Additions	**58,665**	40,130	**39,656**	17,629
Disposals	**(39,235)**	(28,550)	**(24,045)**	(11,305)
Unrealized fair value gains (losses)	**7,662**	(6,194)	**3,478**	(2,421)
Foreign currency revaluation	**(2,244)**	4,215	**(2,404)**	3,024
Deferred tax liability	**2**	(11)	**-**	-
Balance at end of year	**P 145,239**	P 120,389	**P 93,800**	P 77,115

Unrealized fair value gains and losses recognized in the NUGL account is not reclassified to profit or loss but is reclassified directly to Surplus Free account except for those debt securities classified as FVOCI wherein fair value changes are recycled back to profit or loss.

Government securities of BDO Unibank Group and the Parent Bank with an aggregate principal amount of P1,232 and nil, respectively, as of December 31, 2018 (nil as of December 31, 2019) were pledged as collaterals for bills payable under repurchase agreements (see Notes 6.6, 17 and 32).

Impairment losses recognized for FVOCI debt securities presented in NUGL for BDO Unibank Group and the Parent Bank amounted to P13 and P5, respectively, in 2019 and P18 and P5, respectively, in 2018. Total accumulated impairment losses presented in NUGL for the BDO Unibank Group and the Parent Bank amounted to P100 and P72, respectively, as of December 31, 2019 and P87 and P67, respectively, as of December 31, 2018 (see Note 4.3.5).

9.3 Investment Securities at Amortized Cost

This account consists of:

		BDO Unibank Group		**Parent Bank**	
	Note	**2019**	2018	**2019**	2018
Government debt securities		**P 213,366**	P 199,004	**P 199,904**	P 182,861
Corporate debt securities:					
Quoted		**48,581**	44,240	**47,339**	40,369
Not quoted		**3,191**	2,837	**1,608**	1,248
		265,138	246,081	**248,851**	224,478
Allowance for impairment	15	**(1,553)**	(1,581)	**(1,543)**	(1,569)
		P 263,585	P 244,500	**P 247,308**	P 222,909

As to currency, this account is composed of the following:

	BDO Unibank Group		**Parent Bank**	
	2019	2018	**2019**	2018
Foreign currencies	**P 134,678**	P 138,103	**P 130,533**	P 130,830
Philippine peso	**128,907**	106,397	**116,775**	92,079
	P 263,585	P 244,500	**P 247,308**	P 222,909

The maturity profile of this account is presented below.

	BDO Unibank Group		**Parent Bank**	
	2019	2018	**2019**	2018
Less than one year	**P 36,183**	P 49,070	**P 34,816**	P 43,910
One to five years	**156,461**	117,777	**148,705**	112,049
Beyond five years	**70,941**	77,653	**63,787**	66,950
	P 263,585	P 244,500	**P 247,308**	P 222,909

The reconciliation of the carrying amounts of investment securities at amortized cost is as follows:

	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Balance at beginning of year	**P 244,500**	P 203,764	**P 222,909**	P 183,805
Additions	**79,199**	87,158	**78,983**	60,406
Maturities	**(54,988)**	(52,687)	**(49,647)**	(27,459)
Foreign currency gains - net	**(5,098)**	6,264	**(4,911)**	6,157
Impairment recovery (loss)	**(28)**	1	**(26)**	-
Balance at end of year	**P 263,585**	P 244,500	**P 247,308**	P 222,909

Annual coupon interest rates on government and corporate debt securities range from 0.00% to 18.25% in 2019, from 1.40% to 15.00% in 2018 and from 0.00% to 10.63% in 2017 for BDO Unibank Group's financial statements while from 0.00% to 15.00% in 2019, from 2.38% to 15.00% in 2018 and from 0.00% to 10.63% in 2017 for the Parent Bank's financial statements (see Note 22).

Government securities with an aggregate principal amount of nil for both the BDO Unibank Group and the Parent Bank as of December 31, 2019 were pledged as collateral for bills payable under repurchase agreements (see Notes 17 and 32).

As mentioned in Note 27, certain government debt securities are deposited with the BSP.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Receivables from customers:					
Loans and discounts	26	**P 2,031,016**	P 1,847,364	**P 1,979,672**	P 1,792,227
Credit card receivables		**99,391**	78,738	**99,391**	78,738
Customers' liabilities under letters of credit and trust receipts		**62,043**	79,476	**62,043**	79,476
Bills purchased		**17,097**	16,641	**17,089**	16,632
		2,209,547	2,022,219	**2,158,195**	1,967,073
Unearned interests or discounts		**(1,497)**	(2,157)	**(329)**	(571)
Allowance for impairment	15	**(30,068)**	(26,761)	**(27,382)**	(24,146)
		(31,565)	(28,918)	**(27,711)**	(24,717)
		2,177,982	1,993,301	**2,130,484**	1,942,356
Other receivables:					
Interbank loans receivables		**38,571**	49,264	**38,571**	49,264
Accounts receivable	26	**10,010**	7,698	**8,153**	6,550
Sales contract receivables		**977**	1,150	**898**	1,025
Others		**835**	696	**-**	-
SPURRA		**-**	22,009	**-**	22,009
		50,393	80,817	**47,622**	78,848
Allowance for impairment	15	**(2,598)**	(2,284)	**(2,451)**	(2,051)
		47,795	78,533	**45,171**	76,797
		P 2,225,777	P 2,071,834	**P 2,175,655**	P 2,019,153

Non-performing loans (NPL) included in the total loan portfolio of the BDO Unibank Group and the Parent Bank as of December 31, 2019 and 2018 are presented below as net of specific allowance for impairment in compliance with BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans.*

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
NPL	**P 25,228**	P 19,977	**P 22,275**	P 17,108
Allowance for impairment	**(16,495)**	(13,408)	**(14,868)**	(11,346)
	P 8,733	P 6,569	**P 7,407**	P 5,762

Per MORB, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The maturity profile of receivable from customers (net of unearned interest or discounts) is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Less than one year	**P 607,894**	P 586,394	**P 604,785**	P 580,735
One to five years	**277,107**	266,661	**248,584**	243,128
Beyond five years	**1,323,049**	1,167,007	**1,304,497**	1,142,639
	P 2,208,050	P 2,020,062	**P 2,157,866**	P 1,966,502

BDO Unibank Group and Parent Bank's credit concentration of receivable from customers (net of unearned interest or discounts) as to industry is presented in Note 4.3.3.

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to secured and unsecured follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Secured:				
Real estate mortgage	**P 306,031**	P 292,723	**P 301,476**	P 288,276
Chattel mortgage	**118,795**	113,812	**103,400**	90,928
Other securities	**96,205**	119,541	**95,296**	118,422
	521,031	526,076	**500,172**	497,626
Unsecured	**1,687,019**	1,493,986	**1,657,694**	1,468,876
	P 2,208,050	P 2,020,062	**P 2,157,866**	P 1,966,502

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to type of interest rate follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Variable interest rates	**P 1,711,190**	P 1,596,046	**P 1,690,853**	P 1,569,277
Fixed interest rates	**496,860**	424,016	**467,013**	397,225
	P 2,208,050	P 2,020,062	**P 2,157,866**	P 1,966,502

Loans and receivables bear annual interest rates of 0% (e.g., non-performing loans and zero percent credit card installment program) to 4.10% per month in 2019, 2018 and 2017 (see Note 22).

The BDO Unibank Group and the Parent Bank's receivables from customers amounting to nil as of December 31, 2019 and, P269 and nil, respectively, as of December 31, 2018 are pledged as collaterals to secure borrowings under rediscounting privileges (see Notes 17 and 32).

Certain receivables from customers of the BDO Unibank Group and the Parent Bank amounting to P42,164 and P38,955, respectively, for 2019, and P51,202 and P50,779, respectively, for 2018, are subject to offsetting with the corresponding collaterals received as a means of security amounting to P40,160 and P38,955, respectively, for 2019, and P50,835 and P50,779, respectively, for 2018, indicating a legally enforceable right to offset the recognized amounts with an intention to settle on a net basis (see Note 6.6.).

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of premises, furniture, fixtures and equipment at the beginning and end of 2019 and 2018 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
December 31, 2019							
Cost	P 8,190	P 26,789	P 22,697	P 7,623	P 1,137	P 12,913	P 79,349
Accumulated depreciation and amortization	-	(16,392)	(7,748)	(5,580)	-	(2,433)	(32,153)
Allowance for impairment(see Note 15)	(269)	-	(376)	-	-	-	(645)
Net Carrying Amount	**P 7,921**	**P 10,397**	**P 14,573**	**P 2,043**	**P 1,137**	**P 10,480**	**P 46,551**
December 31, 2018							
Cost	P 6,199	P 25,976	P 20,017	P 7,086	P 985	P -	P 60,263
Accumulated depreciation and amortization	-	(15,267)	(5,939)	(4,882)	-	-	(26,088)
Allowance for impairment(see Note 15)	(140)	-	(375)	-	-	-	(515)
Net Carrying Amount	P 6,059	P 10,709	P 13,703	P 2,204	P 985	P -	P 33,660
January 1, 2018							
Cost	P 6,155	P 24,452	P 16,744	P 6,201	P 711	P -	P 54,263
Accumulated depreciation and amortization	-	(14,837)	(5,368)	(4,197)	-	-	(24,402)
Allowance for impairment(see Note 15)	(140)	-	(375)	-	-	-	(515)
Net Carrying Amount	P 6,015	P 9,615	P 11,001	P 2,004	P 711	P -	P 29,346

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
December 31, 2019							
Cost	P 7,450	P 21,083	P 21,450	P 6,926	P 1,137	P 12,781	P 70,827
Accumulated depreciation and amortization	-	(13,047)	(7,285)	(5,118)	-	(2,387)	(27,837)
Allowance for impairment(see Note 15)	(125)	-	(371)	-	-	-	(496)
Net Carrying Amount	**P 7,325**	**P 8,036**	**P 13,794**	**P 1,808**	**P 1,137**	**P 10,394**	**P 42,494**
December 31, 2018							
Cost	P 5,458	P 19,723	P 18,829	P 6,504	P 984	P -	P 51,498
Accumulated depreciation and amortization	-	(11,714)	(5,546)	(4,470)	-	-	(21,730)
Allowance for impairment(see Note 15)	(125)	-	(371)	-	-	-	(496)
Net Carrying Amount	P 5,333	P 8,009	P 12,912	P 2,034	P 984	P -	P 29,272
January 1, 2018							
Cost	P 5,414	P 18,395	P 15,588	P 5,659	P 711	P -	P 45,767
Accumulated depreciation and amortization	-	(11,461)	(5,043)	(3,850)	-	-	(20,354)
Allowance for impairment(see Note 15)	(125)	-	(371)	-	-	-	(496)
Net Carrying Amount	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P -	P 24,917

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 of premises, furniture, fixtures and equipment is shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
Balance at January 1, 2019, net of accumulated depreciation, amortization and impairment							
As previously stated	P 6,059	P 10,709	P 13,703	P 2,204	P 985	P -	P 33,660
Effect of adoption of PFRS 16 (see Note 2.2)	-	-	-	-	-	10,212	10,212
As restated	6,059	10,709	13,703	2,204	985	10,212	43,872
Additions	312	2,494	699	548	344	2,801	7,198
Disposals	(77)	(196)	(4)	-	-	-	(277)
Reclassifications	1,756	84	1,436	107	(187)	-	3,196
Allowance for impairment	(129)	-	(1)	-	-	-	(130)
Revaluation		1	(3)	(3)		-	(5)
Reversal	-	-	-	-	(5)		(5)
Depreciation and amortization charges for the year	-	(2,695)	(1,257)	(813)	-	(2,533)	(7,298)
Balance at December 31, 2019, net of accumulated depreciation, amortization and impairment	**P 7,921**	**P 10,397**	**P 14,573**	**P 2,043**	**P 1,137**	**P 10,480**	**P 46,551**
Balance at January 1, 2018, net of accumulated depreciation, amortization and impairment	P 6,015	P 9,615	P 11,001	P 2,004	P 711	P -	P 29,346
Additions	69	3,833	3,082	615	536	-	8,135
Disposals	-	(160)	-	(9)	(71)	-	(240)
Reclassifications	(25)	28	191	361	(191)	-	364
Revaluation	-	-	6	4	-	-	10
Depreciation and amortization charges for the year	-	(2,607)	(577)	(771)	-	-	(3,955)
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	P 6,059	P 10,709	P 13,703	P 2,204	P 985	P -	P 33,660

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of-Use Assets	Total
Balance at January 1, 2019, net of accumulated depreciation, amortization and impairment,							
As previously stated	P 5,333	P 8,009	P 12,912	P 2,034	P 984	P -	P 29,272
Effect of adoption of PFRS 16 (see Note 2.2)	-	-	-	-	-	10,188	10,188
As restated	5,333	8,009	12,912	2,034	984	10,188	39,460
Additions	312	1,757	631	402	344	2,693	6,139
Disposals	(77)	(59)	-	-	-	-	(136)
Reclassifications	1,757	83	1,436	106	(186)	-	3,196
Revaluation	-	-		(1)		-	(1)
Reversal	-	-	-	-	(5)		(5)
Depreciation and amortization charges for the year	-	(1,754)	(1,185)	(733)	-	(2,487)	(6,159)
Balance at December 31, 2019, net of accumulated depreciation, amortization and impairment	**P 7,325**	**P 8,036**	**P 13,794**	**P 1,808**	**P 1,137**	**P 10,394**	**P 42,494**
Balance at January 1, 2018, net of accumulated depreciation, amortization and impairment	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P -	P 24,917
Additions	69	2,686	3,056	573	536	-	6,920
Disposals	-	(48)	-	(7)	(71)	-	(126)
Reclassifications	(25)	30	191	364	(192)	-	368
Revaluation	-	-	-	1	-	-	1
Depreciation and amortization charges for the year	-	(1,593)	(509)	(706)	-	-	(2,808)
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	P 5,333	P 8,009	P 12,912	P 2,034	P 984	P -	P 29,272

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2019 and 2018, the BDO Unibank Group and the Parent Bank have complied with this requirement.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2019 and 2018 are still being used in operations with acquisition costs amounting to P8,114 and P7,619, respectively, in the BDO Unibank Group's financial statements and P6,971 and P6,885, respectively, in the Parent Bank's financial statements.

12. LEASES

The BDO Unibank Group and the Parent Bank have leases for certain land and building. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a Right-of-use asset under Premises, Furniture, Fixtures and Equipment (see Note 11) and a Lease liability under Other Liabilities (see Note 20) on the 2019 statement of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the BDO Unibank Group and the Parent Bank to sublet the asset to another party, the right-of-use asset can only be used by the BDO Unibank Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The BDO Unibank Group and the Parent Bank are prohibited from selling or pledging the underlying leased assets as security. For leases over land and office spaces, the BDO Unibank Group and the Parent Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the BDO Unibank Group and the Parent Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The tables below describe the nature of BDO Unibank Group and the Parent Bank's leasing activities by type of right-of-use asset recognized as part of Premises, Furniture, Fixtures and Equipment in the statements of financial position.

BDO Unibank Group

	Number of Right-of-use Asset Leased	Range of Remaining Term	Average Remaining Lease Term
Land	46	9 months – 27 years	12 years
Buildings	1,246	1 month – 28 years	4.5 years

Parent Bank

	Number of Right-of-use Asset Leased	Range of Remaining Term	Average Remaining Lease Term
Land	49	9 months – 27 years	12 years
Buildings	1,088	1 month – 28 years	4.5 years

12.1 Right-of-Use Assets

The carrying amounts of BDO Unibank Group and the Parent Bank's right-of-use assets as at December 31, 2019 and the movements during the period are shown below (see Note 11).

BDO Unibank Group

	Land	Buildings	Total
Balance at the beginning of the year	P 470	P 9,742	P 10,212
Additions	26	2,775	2,801
Depreciation and amortization	(47)	(2,486)	(2,533)
Balance at the end of year	**P 449**	**P 10,031**	**P 10,480**

Parent Bank

	Land	Buildings	Total
Balance at the beginning of the year	P 499	P 9,689	P 10,188
Additions	27	2,666	2,693
Depreciation and amortization	(48)	(2,439)	(2,487)
Balance at the end of year	**P 478**	**P 9,916**	**P 10,394**

12.2 Lease Liabilities

Lease liabilities are presented in the statements of financial position as part of Other Liabilities amounting to P12,043 and P11,961 for the BDO Unibank Group and the Parent Bank, respectively, as at December 31, 2019 (see Note 20).

The use of extension and termination options gives the BDO Unibank Group and the Parent Bank added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the BDO Unibank Group and the Parent Bank's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost. As at December 31, 2019, the terms of the lease contracts of the BDO Unibank Group and the Parent Bank are renewable upon mutual agreement of the parties.

As of December 31, 2019, the BDO Unibank Group and the Parent Bank had not committed to any lease which had not yet commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2019 for the BDO Unibank Group and the Parent Bank are as follows:

BDO Unibank Group

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 10 Years	10 or More Years	Total
Lease payments	P 3,120	P 2,697	P 2,335	P 1,817	P 1,316	P 3,158	P 532	P 14,975
Finance charges	(723)	(576)	(443)	(332)	(249)	(460)	(149)	(2,932)
Net present value	P 2,397	P 2,121	P 1,892	P 1,485	P 1,067	P 2,698	P 383	P 12,043

Parent Bank

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 10 Years	10 or More Years	Total
Lease payments	P 3,053	P 2,652	P 2,320	P 1,808	P 1,311	P 3,204	P 595	P 14,943
Finance charges	(722)	(578)	(446)	(335)	(251)	(477)	(173)	(2,982)
Net present value	P 2,331	P 2,074	P 1,874	P 1,473	P 1,060	P 2,727	P 422	P 11,961

The total cash outflow in respect of leases amounted to P3,122 and P3,076 in 2019 for the BDO Unibank Group and the Parent Bank, respectively. Interest expense in relation to lease liabilities amounted to P827 and P822 for the BDO Unibank Group and the Parent Bank, respectively, which are presented as part of Interest expense on lease liabilities under Interest Expense account in the 2019 statement of income (see Notes 20 and 23).

12.3 Lease Payments Not Recognized as Liabilities

The BDO Unibank Group and the Parent Bank have elected not to recognize a lease liability for short-term leases or for leases of low value assets. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities. Payments made under such leases are expensed as incurred.

The expenses relating to short-term leases and low-value assets amounted to P1 and P404 for BDO Unibank Group, respectively, and nil and P399 for Parent Bank, respectively. Moreover, expenses recognized by the BDO Unibank Group and the Parent Bank relating to variable lease payments amounted to P267 and P260, respectively. These are presented as part of Occupancy under Other Operating Expenses account in the 2019 statement of income (see Note 24). As of December 31, 2019, the BDO Unibank Group and the Parent Bank do not have lease commitments in relation to short term leases.

13. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P435 and P88 in 2019, P381 and P87 in 2018, and P290 and P71 in 2017 in BDO Unibank Group and Parent Bank's financial statements, respectively, and are presented as part of Rental under Other Operating Income account (see Note 24). Direct expenses incurred from these properties such as taxes and licenses amounted to P32 and P3 in 2019, P5 and P2 in 2018, and P19 and P2 in 2017 in BDO Unibank Group and Parent Bank's financial statements, respectively, and are presented as part of Taxes and licenses under Other Operating Expenses account in the BDO Unibank Group and Parent Bank's financial statements, respectively (see Note 24).

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2019 and 2018 are shown below and in the succeeding page.

	Land	Buildings	Total
BDO Unibank Group			
December 31, 2019			
Cost	**P 9,616**	**P 13,359**	**P 22,975**
Accumulated depreciation	**-**	**(4,189)**	**(4,189)**
Allowance for impairment (see Note 15)	**(1,776)**	**(99)**	**(1,875)**
Net carrying amount	**P 7,840**	**P 9,071**	**P 16,911**
December 31, 2018			
Cost	P 11,094	P 14,768	P 25,862
Accumulated depreciation	-	(4,190)	(4,190)
Allowance for impairment (see Note 15)	(1,783)	(104)	(1,887)
Net carrying amount	P 9,311	P 10,474	P 19,785
January 1, 2018			
Cost	P 9,429	P 13,471	P 22,900
Accumulated depreciation	-	(3,217)	(3,217)
Allowance for impairment (see Note 15)	(1,539)	(104)	(1,643)
Net carrying amount	P 7,890	P 10,150	P 18,040
Parent Bank			
December 31, 2019			
Cost	**P 7,218**	**P 10,712**	**P 17,930**
Accumulated depreciation	**-**	**(3,810)**	**(3,810)**
Allowance for impairment (see Note 15)	**(1,474)**	**(51)**	**(1,525)**
Net carrying amount	**P 5,744**	**P 6,851**	**P 12,595**

	Land	Buildings	Total
Parent Bank			
December 31, 2018			
Cost	P 8,693	P 12,182	P 20,875
Accumulated depreciation	-	(3,913)	(3,913)
Allowance for impairment (see Note 15)	(1,479)	(57)	(1,536)
Net carrying amount	P 7,214	P 8,212	P 15,426
January 1, 2018			
Cost	P 8,129	P 10,874	P 19,003
Accumulated depreciation	-	(2,943)	(2,943)
Allowance for impairment (see Note 15)	(1,504)	(60)	(1,564)
Net carrying amount	P 6,625	P 7,871	P 14,496

A reconciliation of the carrying amounts, at the beginning and end of 2019 and 2018, of investment properties is shown below and in the succeeding page.

	Land	**Buildings**	**Total**
BDO Unibank Group			
Balance at January 1, 2019, net of accumulated depreciation and impairment	**P 9,311**	**P 10,474**	**P 19,785**
Additions	**1,111**	**1,487**	**2,598**
Reclassifications	**(1,751)**	**(1,229)**	**(2,980)**
Disposals	**(826)**	**(707)**	**(1,533)**
Revaluation	**(5)**	**(2)**	**(7)**
Depreciation for the year	**-**	**(952)**	**(952)**
Balance at December 31, 2019, net of accumulated depreciation and impairment	**P 7,840**	**P 9,071**	**P 16,911**
Balance at January 1, 2018, net of accumulated depreciation and impairment	P 7,890	P 10,150	P 18,040
Additions	916	1,891	2,807
Reclassifications	898	3	901
Disposals	(400)	(281)	(681)
Revaluation	7	(21)	(14)
Depreciation for the year	-	(1,268)	(1,268)
Balance at December 31, 2018, net of accumulated depreciation and impairment	P 9,311	P 10,474	P 19,785

	Land	Buildings	Total
Parent Bank			
Balance at January 1, 2019, net of accumulated depreciation and impairment	**P 7,214**	**P 8,212**	**P 15,426**
Additions	**1,106**	**1,438**	**2,544**
Disposals	**(818)**	**(706)**	**(1,524)**
Reclassifications	**(1,752)**	**(1,244)**	**(2,996)**
Revaluation	**(6)**	**-**	**(6)**
Depreciation for the year	**-**	**(849)**	**(849)**
Balance at December 31, 2019, net of accumulated depreciation and impairment	**P 5,744**	**P 6,851**	**P 12,595**
Balance at January 1, 2018, net of accumulated depreciation and impairment	P 6,625	P 7,871	P 14,496
Additions	915	1,851	2,766
Disposals	(386)	(280)	(666)
Reclassifications	53	-	53
Revaluation	7	-	7
Depreciation for the year	-	(1,230)	(1,230)
Balance at December 31, 2018, net of accumulated depreciation and impairment	P 7,214	P 8,212	P 15,426

The fair value of investment properties as of December 31, 2019 and 2018, determined using observable recent prices of the reference properties adjusted for difference and replacement cost approach, amounted to P33,473 and P38,681, respectively, for the BDO Unibank Group's financial statements and P27,733 and P29,962, respectively, for the Parent Bank's financial statements. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.5.

The recoverable amount of impaired investment properties as of December 31, 2019 and 2018 was based on value in use computed through discounted cash flows method at an effective rate of 1.92% and 2.63% in 2019 and 2018, respectively.

BDO Unibank Group has no contractual obligations to purchase, construct or develop investment properties, or to repair, neither maintain or enhance the same nor are there any restrictions on the future use or realizability of the investment properties.

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, financial assets at FVOCI, other resources or non-current assets held for sale. As of December 31, 2019 and 2018, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Investment properties	**P 11,822**	P 11,581	**P 11,596**	P 11,389
Financial assets at FVOCI	**1,130**	687	**1,130**	687
Non-current assets held for sale	**1,057**	764	**1,054**	758
	P 14,009	P 13,032	**P 13,780**	P 12,834

14. OTHER RESOURCES

The components of this account are shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2019**	2018	**2019**	2018
Deferred charges	14.1	**P 9,696**	P 7,926	**P 9,694**	P 7,925
Deferred tax assets - net	30.1	**8,927**	8,312	**8,179**	7,608
Credit card acquiring		**8,185**	6,182	**8,185**	6,182
Foreign currency notes and coins on hand		**5,345**	4,828	**5,344**	4,828
Equity investments	14.2	**5,048**	5,081	**40,398**	36,919
Goodwill	14.3, 29.1, 29.6, 29.7	**4,535**	4,435	**1,391**	1,391
Branch licenses	14.4	**3,020**	3,020	**3,020**	3,020
Computer software - net		**1,829**	1,909	**1,662**	1,732
Non-current assets held for sale	14.5	**1,057**	764	**1,054**	758
Prepaid documentary stamps		**590**	956	**555**	923
Customer lists - net	14.7, 29.8	**487**	487	**487**	487
Real properties for development and sale		**353**	382	**-**	-
Returned checks and other cash items		**330**	361	**330**	360
Margin deposits		**292**	2,279	**197**	173
Trademark - net	14.6, 29.2	**58**	91	**58**	91
Dividend receivable		**39**	54	**-**	-
Others	14.7, 19	**4,160**	3,852	**3,121**	3,078
		53,951	50,919	**83,675**	75,475
Allowance for impairment	15	**(2,373)**	(2,321)	**(2,081)**	(2,084)
		P 51,578	P 48,598	**P 81,594**	P 73,391

14.1 Deferred Charges

Deferred charges represent the unamortized portion of loan origination fees, which consist of commission and other fees, related to auto loans presented as part of Receivables from customers - Loans and discounts account under Loans and Other Receivables in the statements of financial position (see Note 10). This amount is initially deducted from the loan proceeds issued to the borrowers and then subsequently amortized over the term of the loan. In addition, this account also includes origination costs related to Long-term Negotiable Certificate of Deposits (LTNCD) presented as part of Time deposit liabilities under Deposit Liabilities account in the statements of financial position (see Note 16).

14.2 Equity Investments

Equity investments consist of the following:

		BDO Unibank Group		Parent Bank	
	Held	**2019**	2018	**2019**	2018
Acquisition costs:					
Philippine subsidiaries					
BDO Network	84.87%	**P -**	P -	**P 8,166**	P 8,700
BDOSHI	100%	**-**	-	**5,684**	5,684
BDO Life	L 97%	**-**	-	**3,403**	3,403
BDO Private	100%	**-**	-	**2,579**	2,579
BDO Leasing	87.43%	**-**	-	**1,878**	1,878
BDO Capital	99.88%	**-**	-	**1,878**	1,878
BDO Nomura	51%	**-**	-	**243**	243
PCI Realty Corporation	100%	**-**	-	**34**	34
BDOI	100%	**-**	-	**11**	11
Equimark	60%	**-**	-	**4**	4
		-	-	**23,880**	24,414
Foreign subsidiaries					
BDORO	100%	P **-**	P -	P **169**	**P** 169
BDO Remit (Japan) Ltd.	100%	**-**	-	**92**	92
BDO Remit (Canada) Ltd.	100%	**-**	-	**50**	50
BDO Remit (USA), Inc.	100%	**-**	-	**26**	26
Express Padala (Hongkong), Ltd.	-	**-**	-	-	28
		-	-	**337**	365
Associates					
SM Keppel Land, Inc. (SM Keppel)	50%	**1,658**	1,658	**1,658**	1,658
NLEX Corporation	11.70%	**1,405**	1,405	**1,405**	1,405
Northpine Land Incorporated	20%	**232**	232	**232**	232
Taal Land, Inc.	33.33%	**170**	170	**170**	170
MMPC Auto-Financial Services Corporation (MAFSC)	-	**-**	300	**-**	-
Others	*	**5**	5	**5**	5
		3,470	3,770	**3,470**	3,470
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**1,311**	1,182	**8,670**	9,397
Equity in net profit		**696**	631	**6,046**	2,740
Equity in other comprehensive income (loss)		**15**	(17)	**(721)**	(92)
Dividends		**(550)**	(485)	**(2,035)**	(3,458)
Disposal		**106**	-	**-**	-
Change in percentage ownership in subsidiaries		**-**	-	**733**	83
Liquidation		**-**	-	**18**	-
Balance at end of year		**1,578**	1,311	**12,711**	8,670
Net investments in associates/subsidiaries		**5,048**	5,081	**40,398**	36,919
Allowance for impairment		**(158)**	(155)	**(158)**	(155)
		P 4,890	P 4,926	**P 40,240**	P 36,764

* *This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2019 and 2018, except for BDO Life and BDO Leasing which is at 100% and 88.54% for BDO Unibank Group, respectively (see Note 2.3) and 97% and 87.43% in the Parent Bank, respectively, as shown above, in both years.

The fair value of BDO Leasing amounts to P3,581 and P4,193 as of December 31, 2019 and 2018, respectively, which had been determined directly by reference to published prices quoted in an active market. The fair value of the remaining equity investments is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

BDO Unibank Group's subsidiaries as of December 31, 2019 are all incorporated in the Philippines, except for the following:

Foreign Subsidiaries	Country of Incorporation
BDO Remit (USA), Inc.	United States of America
BDORO	United Kingdom
BDO Remit International Holdings B.V**	Netherlands
BDO Remit UK, Ltd. **	United Kingdom
BDO Remit (Ireland) Designated Activity Company**	Ireland
BDO Remit (Spain), S.A** (formerly CBN Remittance Centre S.A.)	Spain
CBN Greece S.A. **	Greece
BDO Remit (Italia) S.p.A*	Italy
BDO Remit (Japan) Ltd.	Japan
BDO Remit (Canada) Ltd.	Canada
BDO Remit Limited*	Hongkong
BDO Remit (Macau) Ltd.*	Macau

**Wholly-owned subsidiaries of BDOSHI.*
***Subsidiaries of BDO Capital*

On May 30, 2012, BDORO was registered with the Registrar of Companies for England and Wales (UK) as a private limited company with registered office at the 8th floor, 20 Farringdon, Street, London. BDORO will provide commercial banking services in UK and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. In 2012, BDORO applied for a banking license in the UK. However, due to the ongoing political and economic developments in the UK and Europe on account of the ongoing Brexit negotiation, the Parent Bank has decided to put BDORO's application for a banking license on hold. The Parent Bank will re-evaluate the business model for BDORO when the terms of the Brexit become clearer and evaluate how any agreement ultimately impacts the BDO Unibank Group's ability to provide cross border services to Europe. In 2012, the Parent Bank has an outstanding investment in BDORO amounting to P133 (absolute amount) representing the minimal capitalization of 2 GBP as an initial contribution to incorporate BDORO. Starting in 2013, the Parent Bank's outstanding investment in BDORO increased to P169.

On March 23, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Canada) Ltd., in Vancouver, Canada. BDO Remit (Canada) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on November 28, 2013 and was incorporated on June 23, 2014. In 2015, the Parent Bank paid CND500,000 for the subscribed shares. On October 29, 2016, the Parent Bank's BOD approved an increase in the capitalization of BDO Remit (Canada) Ltd. by an amount of CND600,000, which was later approved by the BSP on December 23, 2016. On February 22, 2017, the Parent Bank paid CND600,000 for the subscribed shares.

In May 2013, BDO Capital obtained control over CBN Grupo International Holdings B.V. (CBN Grupo) (now BDO RIH) through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established. In October 2016, BDO Capital acquired additional shares which increased its ownership interest to 96.32%. Additional goodwill acquired amounted to P32 (see Note 29.1). On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon, a company engaged primarily in the leasing business.

On January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new BDO Network shares thereby increasing its shareholdings in BDO Network to 99.81%. On May 15, 2019, January 23, 2018 and December 27, 2018, the Parent Bank subscribed to an additional 18,758, 124,275 and 14,276 shares, respectively, from BDO Network's total issued and outstanding capital stock thereby increasing its shareholdings in BDO Network to 99.86%. On October 1, 2018, the Parent Bank, together with BDO Network, has entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire a 15% ownership interest in BDO Network via the purchase of 17,341,475 shares held by the Parent Bank and the subscription of 34,682,949 unissued common shares of BDO Network at a price of P31.77 per share. The transaction was completed on May 16, 2019. This results to decrease in shareholdings in BDO Network to 84.87%.

On July 4, 2019, BDO Leasing sold to JACCS Co. Ltd. (JACCS), a corporation duly organized and existing under the laws of Japan, its 3,000,000 common shares representing 40% ownership interest in MAFSC for P166 (see Note 29.5). The principal place of business of MAFSC is 38th Floor, Robinsons Equitable Tower, ADB Avenue cor. Poveda St., Ortigas Center, Pasig City.

On September 4, 2019, Express Padala (Hongkong), Ltd. had been dissolved and remaining cash had been repatriated to the Parent Bank.

BDO Unibank Group includes two subsidiaries, BDO Leasing and BDO Network, with significant NCI:

	Proportion of Ownership Interest and Voting Rights Held by NCI		Profit Allocated to NCI		Accumulated NCI	
Name	**2019**	2018	**2019**	2018	**2019**	2018
BDO Leasing	**11.46%**	11.46%	**P 5**	P 38	**P 643**	P 612
BDO Network	**15.13%**	0.15%	**26**	(1)	**914**	7

The registered office and principal place of business of BDO Leasing is located at 39th Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

The registered office and principal place of business of BDO Network is located at BDO Network Bank Corporate Center, Km. 9, Sasa, Davao City.

Dividends paid to NCI were nil and P25 in 2019 and 2018, respectively (see Note 21.4).

Summarized consolidated financial information of BDO Leasing and BDO Network, before intragroup eliminations, follows:

	BDO Leasing	
	2019	2018
Statements of financial position:		
Total resources	**P 30,954**	P 41,549
Total liabilities	**25,340**	36,206
Equity attributable to owners of the parent	**4,971**	4,731
Non-controlling interest	**643**	612
Statements of comprehensive income:		
Total interest income	**1,976**	1,960
Total other operating income	**1,054**	1,254
Profit attributable to owners of the parent	**42**	293
Profit attributable to NCI	**5**	38
Profit	**47**	331
Total comprehensive income attributable to owners of the parent	**241**	31
Total comprehensive income attributable to NCI	**31**	4
Total comprehensive income	**P 272**	P 35
Statements of cash flows:		
Net cash from operating activities	**P 7,956**	P 1,401
Net cash from investing activities	**631**	133
Net cash used in financing activities	**(8,732)**	(1,717)
Net cash outflow	**(P 145)**	(P 183)

	BDO Network	
	2019	2018
Statements of financial position:		
Total resources	**P 32,535**	P 27,250
Total liabilities	**26,494**	22,555
Equity attributable to owners of the parent	**5,127**	4,688
Non-controlling interest	**914**	7
Statements of comprehensive income:		
Total interest income	**2,613**	1,822
Total other operating income	**1,540**	879
Profit attributable to owners of the parent	**144**	(403)
Profit attributable to NCI	**26**	(1)
Profit	**170**	(404)
Total comprehensive income attributable to owners of the parent	**207**	(496)
Total comprehensive income attributable to NCI	**37**	(1)
Total comprehensive income	**P 244**	(P 497)

	BDO Network 2019	BDO Network 2018
Statements of cash flows:		
Net cash from (used in) operating activities	**(P 684)**	P 945
Net cash used in investing activities	**(498)**	(564)
Net cash from financing activities	**1,102**	1,000
Net cash inflow (outflow)	**(P 80)**	P 1,381

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2019, 2018 and 2017:

	NLEX Corporation	SM Keppel	Others	Total
December 31, 2019 (Unaudited)				
Assets	**P 53,658**	**P 11,813**	**P 3,789**	**P 69,260**
Liabilities	**31,736**	**9,717**	**1,489**	**42,942**
Equity	**21,922**	**2,096**	**2,300**	**26,318**
Revenues	**13,988**	**458**	**1,195**	**15,641**
Net profit (loss)	**5,865**	**(128)**	**1,021**	**6,758**
December 31, 2018 (Audited)				
Assets	P 49,401	P 10,600	P 2,846	P 62,847
Liabilities	30,840	8,375	752	39,967
Equity	18,561	2,225	2,094	22,880
Revenues	13,393	328	1,236	14,957
Net profit (loss)	5,756	(105)	207	5,858
December 31, 2017 (Audited)				
Assets	P 40,146	P 9,270	P 2,506	P 51,922
Liabilities	29,490	6,941	564	36,995
Equity	10,656	2,329	1,942	14,927
Revenues	11,880	191	1,099	13,170
Net profit	4,644	32	153	4,829

14.3 Goodwill

Goodwill represents the excess of the cost of acquisition of the Parent Bank over the fair value of the net assets acquired at the date of acquisition and relates mainly to business synergy for economics of scale and scope. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines (UOBP), American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc., Rural Bank of San Enrique, Inc., BDO RIH, BDO Savings, BDO Network and Rural Bank of Pandi, Inc., which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015, 2016 and 2019, respectively (see Note 29).

The reconciliation of the carrying amount of goodwill (net of allowance for impairment) of BDO Unibank Group is as follows:

		2019		2018
Balance at beginning of year	P	3,044	P	3,044
Acquisition		100		-
Impairment	(	69)		-
Balance at end of year	P	3,075	P	3,044

In 2019 and 2018, there were no movement for the goodwill account of the Parent Bank, which was already provided with full allowance.

Significant portion of goodwill of the BDO Unibank Group pertains to the goodwill from acquisition of BDO Network amounting to P2,907.

The BDO Unibank Group recognized goodwill in 2019 amounting to P100 arising from asset sale and purchase agreement with Rural Bank of Pandi, Inc. (RBPI) through BDO Network (see Note 29.7).

The BDO Unibank Group recognized impairment loss on goodwill of P69 in 2019. The Parent Bank also recognized impairment loss of nil in 2019 and 2018 and P2 in 2017, to write-down the value of the goodwill to their recoverable amount (see Note 15). The BDO Unibank Group and the Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. The recoverable amount to determine any impairment on the goodwill was determined using discounted cash flow method approach based on five-year cash flow projection to be realized by the acquired entity and the estimated terminal value. The growth rate used to extrapolate the five-year cash flow projection ranges from 16% to 35% at a discount rate of 7.02%. The BDO Unibank Group also considered key assumptions in determining the cash flow projections which includes volume and growth target projection on salary loans and micro, small and medium enterprises (MSME) loans offered by BDO Network.

14.4 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Bank to establish certain number of branches as an incentive in acquiring The Real Bank (A Thrift Bank), Inc. [TRB] and BDO Savings in addition to the current branches of the acquired banks. In 2019 and 2018, allowance on impairment loss was recognized on branch licenses at the BDO Unibank Group's financial statements amounting to nil and P80, respectively, for unutilized branch licenses upon the expiry of the term given by the BSP to the Parent Bank in establishing certain number of branches.

14.5 Non-current Assets Held for Sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group and the Parent Bank intend to sell within one year from the date of classification as held for sale. No impairment loss was recognized in 2017 to 2019 in both BDO Unibank Group and Parent Bank's financial statements.

14.6 Trademark

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio (see Note 29.2) amounted to P33 per year from 2017 to 2019. This is recorded under Miscellaneous under Other Operating Expenses account in the statements of income (see Note 24).

14.7 Others

Amortization expense on computer software licenses amounted to P546, P516 and P528 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements and P502, P480 and P477 in 2019, 2018, and 2017, respectively, in the Parent Bank's financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 24).

Depreciation expense on certain assets amounting to P21, P4 and P2 in 2019, 2018 and 2017, respectively, in both BDO Unibank Group and Parent Bank's financial statements are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 24).

No impairment loss was recognized by the Parent Bank from 2017 to 2019 on the value of customer lists. The customer list was recognized as a result of the Parent Bank's acquisition of a trust business in 2014 (see Note 29.8).

15. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

		BDO Unibank Group		Parent Bank	
	Notes	**2019**	2018	**2019**	2018
Balance at beginning of year:					
Investment securities at amortized cost	9.3	**P 1,581**	P 730	**P 1,569**	P 356
Loans and other receivables	10	**29,045**	26,248	**26,197**	23,961
Bank premises	11	**515**	515	**496**	496
Investment properties	13	**1,887**	1,643	**1,536**	1,564
Other resources	14	**2,321**	2,662	**2,084**	2,139
		35,349	31,798	**31,882**	28,516
Impairment losses - net		**6,208**	6,243	**5,749**	5,670
Write-offs		**(2,273)**	(2,325)	**(1,992)**	(2,320)
Foreign currency revaluation		**(180)**	244	**(180)**	243
Reclassification		**18**	(226)	**18**	(226)
Adjustments		**(9)**	(6)	**1**	(1)
Reversals		**(1)**	(379)	**-**	-
		P 39,112	P 35,349	**P 35,478**	P 31,882
Balance at end of year:					
Investment securities at amortized cost	9.3	**P 1,553**	P 1,581	**P 1,543**	P 1,569
Loans and other receivables	10	**32,666**	29,045	**29,833**	26,197
Bank premises	11	**645**	515	**496**	496
Investment properties	13	**1,875**	1,887	**1,525**	1,536
Other resources	14	**2,373**	2,321	**2,081**	2,084
		P 39,112	P 35,349	**P 35,478**	P 31,882

The BDO Unibank Group and the Parent Bank provide impairment loss on debt securities measured as FVOCI amounting to P13 and P5, respectively, in 2019 and P18 and P5, respectively, in 2018. The impairment losses on debt securities classified as FVOCI are recognized as part of items that are or will be reclassified subsequently to profit or loss in the statements of comprehensive income (see Note 9.2). Moreover, the BDO Unibank Group and the Parent Bank provide impairment loss (recovery) on loan commitments and other contingent accounts amounting to (P67) and P25 in 2019 and 2018, respectively, which is recognized as Provision – Others under Other Liabilities in the statements of financial position (see Note 20).

The BDO Unibank Group and the Parent Bank also provide impairment loss related to provision for damage suits amounting to P12 in 2019 (nil in 2018) which is recognized as part of Others under Other Liabilities in the 2019 statement of financial position (see Note 20).

Total impairment losses on certain financial assets amounted to P6,008, P6,141, and P6,531 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements and P5,749, P5,569 and P5,807 in 2019, 2018, and 2017, respectively, in the Parent Bank's financial statements.

Total impairment losses on non-financial assets amounted to P200, P102, and P6 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements and nil, P101, and P2 in 2019, 2018, and 2017, respectively, in the Parent Bank's financial statements.

16. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Demand	**P 232,995**	P 179,944	**P 217,527**	P 151,492
Savings	**1,589,639**	1,505,680	**1,571,333**	1,490,664
Time	**662,594**	734,341	**649,877**	720,146
	P2,485,228	P 2,419,965	**P2,438,737**	P 2,362,302

This account is composed of the following (by counterparties):

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Due to other banks:				
Demand	**P 2,106**	P 2,282	**P 2,091**	P 2,271
Savings	**3,970**	7,647	**3,970**	7,636
Time	**5,694**	2,159	**5,594**	2,154
Carried forward	**P 11,770**	P 12,088	**P 11,655**	P 12,061

	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Brought forward	**P 11,770**	P 12,088	**P 11,655**	P 12,061
Due to customers:				
Demand	**230,889**	177,662	**215,436**	149,221
Savings	**1,585,669**	1,498,033	**1,567,363**	1,483,028
Time	**656,900**	732,182	**644,283**	717,992
	2,473,458	2,407,877	**2,427,082**	2,350,241
	P2,485,228	P 2,419,965	**P2,438,737**	P 2,362,302

The breakdown of deposit liabilities as to currency is as follows:

	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Philippine pesos	**P 2,111,999**	P 2,003,582	**P 2,081,964**	P 1,963,461
Foreign currencies	**373,229**	416,383	**356,773**	398,841
	P2,485,228	P 2,419,965	**P2,438,737**	P 2,362,302

The maturity profile of this account is presented below.

	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Less than one year	**P 2,374,819**	P 2,279,536	**P2,329,093**	P 2,223,549
One to five years	**32,470**	45,420	**31,705**	43,744
Beyond five years	**77,939**	95,009	**77,939**	95,009
	P2,485,228	P 2,419,965	**P2,438,737**	P 2,362,302

The BDO Unibank Group and the Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates ranging from 0.00% to 5.38% in 2019, from 0.0% to 6.75% in 2018, and 0.0% to 5.25% in 2017. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 23).

The BDO Unibank Group's time deposit liabilities include the Parent Bank's LTNCD as of December 31, 2019 and 2018 as follows:

BSP Approval	Effective Rate	Outstanding Balance 2019	Outstanding Balance 2018	Issue Date	Maturity Date
August 15, 2019	4.000%	**P 6,500**	P -	September 27, 2019	March 27, 2025
May 11, 2018	5.375%	**7,320**	-	April 12, 2019	October 12, 2024
June 23, 2017	4.375%	**8,200**	8,200	May 7, 2018	November 7, 2023
June 23, 2017	3.625%	**11,800**	11,800	August 18, 2017	February 18, 2023
July 10, 2014	3.750%	**7,500**	7,500	April 6, 2015	October 6, 2020
October 25, 2013	3.125%	**-**	5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.500%	**5,000**	5,000	September 12, 2013	September 12, 2020
May 3, 2012	5.250%	**-**	5,000	October 15, 2012	October 15, 2019
		P 46,320	P 42,500		

The net proceeds from the issuance of LTNCD are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

Effective December 6, 2019, Philippine Peso deposit liabilities, LTNCD under Circular No. 824 and LTNCD under Circular No. 304 of BDO Unibank Group are subject to a reserve requirement of 14%, 4% and 3%, respectively, in compliance with the BSP Circular No. 1063 issued on December 3, 2019 (see Note 7).

17. BILLS PAYABLE

This account is composed of the following borrowings from:

		BDO Unibank Group		Parent Bank	
	Note	**2019**	2018	**2019**	2018
Senior notes	17.1	**P 57,298**	P 59,437	**P 57,298**	P 59,437
Foreign banks		**54,916**	55,406	**54,882**	55,312
Fixed rate bonds	17.2	**35,141**	-	**35,141**	-
Local banks		**13,427**	22,443	**-**	-
Others		**6,742**	6,337	**-**	2,944
		P 167,524	P 143,623	**P 147,321**	P 117,693

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Foreign currencies	**P 112,719**	P 117,787	**P 112,180**	P 117,693
Philippine pesos	**54,805**	25,836	**35,141**	-
	P 167,524	P 143,623	**P 147,321**	P 117,693

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
One to three months	**P 44,454**	P 33,898	**P 26,891**	P 13,697
More than three months to one year	**43,374**	11,683	**40,767**	7,854
More than one to three years	**38,090**	54,882	**38,064**	53,005
More than three years	**41,606**	43,160	**41,599**	43,137
	P 167,524	P 143,623	**P 147,321**	P 117,693

Bills payable bear annual interest rates of 0.33% to 6.42% in 2019, 1.00% to 7.20% in 2018, and 0.60% to 3.50% in 2017 (see Note 23). Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9.2, 10 and 32).

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 23):

	2019	2018	2017
BDO Unibank Group			
Fixed rate peso bonds	P 1,997	P -	P -
Foreign banks	1,873	1,566	814
Senior notes	1,772	1,778	823
Local banks	901	698	339
Deposit substitutes	-	-	91
BSP	1	-	-
Others	471	374	503
	P 7,015	P 4,416	P 2,570
Parent Bank			
Fixed rate peso bonds	P 1,997	P -	P -
Foreign banks	1,859	1,564	814
Senior notes	1,772	1,778	823
Local banks	-	2	3
Deposit substitutes	-	-	91
Others	42	59	146
	P 5,670	P 3,403	P 1,877

17.1 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance 2019	Outstanding Balance 2018
February 20, 2018	February 20, 2025	4.16%	150	7,660	7,945
September 6, 2017	March 6, 2023	2.95%	676	34,376	35,646
October 24, 2016	October 24, 2021	2.63%	300	15,262	15,846
				P 57,298	P 59,437

The issuance of senior notes in 2019, 2018 and 2017 is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds.

17.2 Issuance of Fixed Rate Peso Bonds

On February 11, 2019, the Parent Bank issued P35,000 fixed rate peso bonds. The bonds have a tenor of 1.5 years and bear a coupon rate of 6.42%. Interest will be paid quarterly, calculated on a 30/360 count basis. This represents the initial issuance from P100 billion peso bond program approved by the BOD in August 31, 2018. The issue aims to further diversify the Parent Bank's funding sources and support business expansion.

17.3 Reconciliation of Liabilities Arising from Financing Activities

Presented below is the reconciliation of liabilities arising from financing activities both in 2019 and 2018, which includes both cash and non-cash changes.

BDO Unibank Group

	Foreign Banks	Senior Notes	Fixed Rate Peso Bonds	Local Banks	Deposit Substitutes	BSP	Others	Total
Balance as of January 1, 2019	P 55,406	P 59,437	P -	P 22,443	P -	P -	P 6,337	P 143,623
Cash flows from financing activities								
Additional borrowings	100,891	-	34,734	301,463	-	2,000	71,063	510,151
Repayment of borrowings	(99,269)	-	-	(310,332)	-	(2,000)	(70,650)	(482,251)
Non-cash financing activities								
Interest amortization	91	55	407	(87)	-	-	(8)	458
Revaluation	(2,203)	(2,194)	-	(60)	-	-	-	(4,457)
Balance as of December 31, 2019	**P 54,916**	**P 57,298**	**P 35,141**	**P 13,427**	**P -**	**P -**	**P 6,742**	**P 167,524**
Balance as of January 1, 2018	P 48,499	P 50,093	P -	P 15,658	P 907	P -	P 15,327	P 130,484
Cash flows from financing activities								
Additional borrowings	109,470	7,694	-	121,358	907	-	58,046	297,475
Repayment of borrowings	(105,101)	(1,308)	-	(114,677)	1,812)	-	(67,027)	(289,925)
Non-cash financing activities								
Interest amortization	261	73	-	72	(2)	-	(9)	395
Revaluation	2,277	2,885	-	32		-		5,194
Balance as of December 31, 2018	P 55,406	P 59,437	P -	P 22,443	P -	P -	P 6,337	P 143,623

Parent Bank

	Foreign Banks	Senior Notes	Fixed Rate Peso Bonds	Local Banks	Deposit Substitutes	BSP	Others	Total
Balance as of January 1, 2019	P 55,312	P 59,437	P -	P -	P -	P -	P 2,944	P 117,693
Cash flows from financing activities								
Additional borrowings	97,733	-	34,734	-	-	-		132,467
Repayment of borrowings	(96,108)	-	-	-	-	-	(2,936)	(99,044)
Non-cash financing activities								
Interest amortization	90	55	407	-	-	-	(8)	544
Revaluation	(2,145)	(2,194)	-	-	-	-	-	(4,339)
Balance as of December 31, 2019	**P 54,882**	**P 57,298**	**P 35,141**	**P -**	**P -**	**P -**	**P -**	**P 147,321**
Balance as of January 1, 2018	P 48,430	P 50,093	P -	P 1,500	P 907	P -	P 4,693	P 105,623
Cash flows from financing activities								
Additional borrowings	105,207	7,694	-		907	-	2,936	116,744
Repayment of borrowings	(100,872)	(1,308)	-	(1,498)	(1,812)	-	(4,676)	(110,166)
Non-cash financing activities								
Interest amortization	261	73	-	(2)	(2)	-	(9)	321
Revaluation	2,286	2,885	-	-	-	-	-	5,171
Balance as of December 31, 2018	P 55,312	P 59,437	P -	P -	P -	P -	P 2,944	P 117,693

18. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (the Notes) represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation (PDIC), or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The Notes were used further to expand the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

The issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014. The Notes has a principal amount of P10,000 and will mature on March 10, 2025. As of December 31, 2019 and 2018, the outstanding balance of the Notes including accrued interest amounted to P10,030.

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to P519 in 2019, 2018 and 2017 both in BDO Unibank Group and Parent Bank's statements of income (see Note 23).

In its letter dated December 2, 2019, the BSP approved the Parent Bank's request to exercise its right of early redemption of the Notes on March 10, 2020. The noteholders have been informed of the early redemption by registered mail and through advertisements which appeared in newspapers of general circulation on January 8 and 15, 2020. The Notes will be redeemed on March 10, 2020 and noteholders will be paid the redemption price equal to the par value of the Notes plus all accrued and unpaid interest up to but excluding March 10, 2020 after which the Notes will be considered redeemed and cancelled.

19. INSURANCE CONTRACT LIABILITIES

This account consists of:

	2019	2018
Legal policy reserves	**P 40,232**	P 26,514
Policy and contract claims payable	**1,606**	1,524
Policyholders' dividends	**635**	468
	P 42,473	P 28,506

The maturity profile of this account is presented below.

	2019	2018
Within one year	**(P 1,103)**	(P 952)
More than one year	**43,576**	29,458
	P 42,473	P 28,506

Insurance contract liabilities maturing within one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities		**Reinsurer's Share of Liabilities**		**Net**	
	2019	2018	**2019**	2018	**2019**	2018
Aggregate reserves for:						
Ordinary life policies	**P 26,221**	P 17,718	**P -**	P -	**P 26,221**	P 17,718
Variable unit-linked (VUL) contracts	**13,759**	8,535	**-**	-	**13,759**	8,535
Group life insurance polices	**277**	248	**54**	44	**223**	204
Accident and health policies	**(25)**	13	**-**	-	**(25)**	13
Policy and contract claims	**1,606**	1,524	**19**	17	**1,587**	1,507
Policyholders' dividends	**635**	468	**-**	-	**635**	468
	P 42,473	P 28,506	**P 73**	P 61	**P 42,400**	P 28,445

The movements in legal policy reserves are as follows:

	Legal Policy Reserves		Reinsurer's Share of Liabilities		Net	
	2019	2018	**2019**	2018	**2019**	2018
Balance at the beginning of the year	**P 26,514**	P 24,602	**P 44**	P 27	**P 26,470**	P 24,575
Premiums received	**14,977**	11,968	**101**	99	**14,876**	11,869
Liability released for payments of death, maturity and surrender benefits and claims	**(7,685)**	(7,033)	**(91)**	(82)	**(7,594)**	(6,951)
Accretion of investment income or change in unit prices	**1,644**	286	**-**	-	**1,644**	286
Changes in valuation of interest rate	**5,046**	(3,656)	**-**	-	**5,046**	(3,656)
Foreign exchange adjustments	**(264)**	347	**-**	-	**(264)**	347
Balance at end of year	**P 40,232**	P 26,514	**P 54**	P 44	**P 40,178**	P 26,470

Reinsurers' share of liabilities is recorded as part of Others under Other Resources in the BDO Unibank Group's statements of financial position (see Note 14).

The movement in Legal policy reserves for the years ended December 31, 2019 and 2018 is recognized as part of Policy reserves, insurance benefits and claims under Other Operating Expenses in the BDO Unibank Group's statements of income (see Note 24).

20. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	BDO Unibank Group		Parent Bank	
		2019	2018	**2019**	2018
Accounts payable		**P 24,568**	P 20,688	**P 22,072**	P 18,572
Manager's checks		**17,382**	14,447	**17,255**	14,379
Accrued expenses		**14,396**	11,151	**13,445**	10,181
Bills purchased – contra		**12,483**	10,774	**12,483**	10,774
Lease liabilities	12.2	**12,043**	-	**11,961**	-
Lease deposits		**4,868**	6,760	**122**	115
Premium on deposit fund		**3,735**	3,605	**-**	-
Outstanding acceptances payable		**3,597**	3,591	**3,597**	3,591
Retirement benefit obligation	25.2	**3,305**	4,537	**3,203**	4,379
Derivatives with negative fair values	9.1, 26(d)	**3,172**	4,497	**1,734**	1,680
Withholding taxes payable		**1,761**	1,342	**1,594**	1,204
Due to BSP and Treasurer of the Philippines		**526**	100	**522**	96
Capitalized interest and other charges		**486**	411	**430**	362
Due to principal		**351**	451	**-**	-
Others	15, 34.1.2	**10,343**	9,620	**9,384**	8,833
		P 113,016	P 91,974	**P 97,802**	P 74,166

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Within one year	**P 87,791**	P 79,776	**P 79,736**	P 70,626
More than one year	**25,225**	12,198	**18,066**	3,540
	P 113,016	P 91,974	**P 97,802**	P 74,166

Accounts payable in 2018 includes the amount pertaining to BDO Unibank Group's ESOP which is equivalent to the cumulative amount of amortized awarded share options and the amounts paid by the eligible senior officers who exercised their options (see Notes 21.5.1 and 25.3).

The liability for unredeemed reward points amounting to P3,985 and P3,377 as of December 31, 2019 and 2018, respectively, presented as part of Accrued expenses above represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.19).

Others include margin deposits, life insurance deposits, cash letters of credit and other miscellaneous liabilities.

Interest expense in relation to lease liabilities amounted to P827 and P822 for the BDO Unibank Group and the Parent Bank, which are presented as part of Interest expense on finance lease liabilities under Interest expense account in the 2019 statement of income (see Note 23).

Interest expense on certain liabilities amounting to P117, P101 and P85 in 2019, 2018, and 2017, respectively, in the BDO Unibank Group's financial statements and P28, P19 and P12 in 2019, 2018, and 2017, respectively, in Parent Bank's financial statements are presented as part of Interest expense on bills payable and other borrowings under Interest Expense account in the statements of income (see Note 23).

Impairment losses (recoveries) recognized for off-books account amounted to (P67) and P25 for both the BDO Unibank Group and the Parent Bank in 2019 and 2018, respectively. The accumulated impairment losses as of December 31, 2019 and 2018 amounting to P114 and P206, respectively, for both the BDO Unibank Group and the Parent Bank are recorded as part of Others under Other Liabilities account in the statements of financial position (see Note 15).

21. EQUITY

21.1 Capital Management and Regulatory Capital

On January 15, 2009, the BSP issued Circular No. 639 articulating the need for banks to adopt and document an Internal Capital Adequacy Assessment Process (ICAAP). All universal and commercial banks are expected to perform a thorough assessment of all their material risks and maintain adequate capital to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which covered only credit, market and operational risks. On December 29, 2009, the BSP issued Circular No. 677 effectively extending the implementation of ICAAP from January 2010 to January 2011.

In October 2009, BDO Unibank Group presented its ICAAP and submitted the initial draft of its ICAAP document to the BSP. Based on comments from the BSP, BDO Unibank Group subsequently revised its ICAAP document and secured approval from its BOD on January 8, 2011. Annually as required, BDO Unibank Group submits its updated ICAAP to the BSP.

The ICAAP document articulates BDO Unibank Group's capital planning strategy and discusses governance, risk assessment, capital assessment and planning, capital adequacy monitoring and reporting, as well as internal control reviews.

The lead regulator of the banking industry, the BSP, sets and monitors capital requirements for BDO Unibank Group. In implementing current capital requirements, the BSP requires BDO Unibank Group to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which was amended on January 1, 2019, which requires BDO Unibank Group to maintain:

(a) Common Equity Tier 1 (CET 1) of at least 6.0% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets;
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital; and,
(e) Countercyclical Capital Buffer (CCyB) of 0% subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%.

The regulatory capital is analyzed as CET 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

BDO Unibank Group's policy is to maintain a strong capital base to promote investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and BDO Unibank Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

At the end of each reporting period, the BDO Unibank Group and the Parent Bank have complied with the prescribed ratio of qualifying capital to risk-weighted assets.

Under BSP Circular 781, universal banks with more than 100 branches are required to comply with the minimum capital requirement of P20 billion. As of December 31, 2019 and 2018, the Parent Bank has complied with the above capitalization requirement.

The BSP issued Circular 856 on the guidelines on the framework for dealing with domestic systemically important banks (DSIB) that is consistent with the Basel principles, as amended by BSP Circular No. 1051 dated September 27, 2019. Banks, which are identified as DSIB, shall be required to have a higher loss absorbency (HLA) depending on their computed systemic importance. The HLA requirement is aimed at ensuring that DSIBs have a higher share of their statements of financial position funded by instruments, which increase their resilience as a going concern. The HLA requirement is to be met with CET 1 capital.

Under BSP Circular No. 1051, banks identified by the BSP as DSIB are required to put up lower HLA to be met CET 1 capital ranging from 1.50% to 2.50%, effective October 12, 2019.

BSP Circular 1024 requires banks to put up a CCyB, which is set initially at 0%, composed of CET 1. CCyB may be subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. This took effect last December 21, 2018.

BDO Unibank Group and the Parent Bank's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of December 31, 2019 and 2018 follows:

	BDO Unibank Group	Parent Bank
December 31, 2019		
Tier 1 Capital		
CET 1	P 349,780	P 350,362
Additional Tier 1	5,150	5,150
	354,930	355,512
Tier 2 Capital	33,399	32,632
Total Regulatory Capital	388,329	388,144
Deductions	(34,013)	(59,216)
Total Qualifying Capital	P 354,316	P 328,928
Total Risk-Weighted Assets	P 2,492,890	P 2,395,545
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.2%	13.7%
Tier 1 Capital Ratio	12.9%	12.4%
Total CET 1 Ratio	12.7%	12.2%

	BDO Unibank Group	Parent Bank
December 31, 2018		
Tier 1 Capital		
CET 1	P 309,694	P 310,281
Additional Tier 1	5,150	5,150
	314,844	315,431
Tier 2 Capital	31,799	30,925
Total Regulatory Capital	346,643	346,356
Deductions	(32,872)	(56,908)
Total Qualifying Capital	P 313,771	P 289,448
Total Risk-Weighted Assets	P 2,279,864	P 2,171,899
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	13.8%	13.3%
Tier 1 Capital Ratio	12.4%	11.9%
Total CET 1 Ratio	12.1%	11.7%

21.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2019	2018	**2019**	2018
Preferred shares – P10 par value				
Authorized				
Balance at beginning of year	**1,000,000,000**	2,000,000,000	**P 10,000**	P 20,000
Reclassification to common shares (see Note 21.2.1)	**-**	(1,000,000,000)	**-**	(10,000)
Balance at end of year	**1,000,000,000**	1,000,000,000	**P 10,000**	P 10,000
Issued, fully paid and outstanding	**515,000,000**	515,000,000	**P 5,150**	P 5,150
Common shares – P10 par value				
Authorized				
Balance at beginning of year	**5,500,000,000**	4,500,000,000	**P 55,000**	P 45,000
Reclassification from preferred shares (see Note 21.2.1)	**-**	1,000,000,000	**-**	10,000
Balance at end of year	**5,500,000,000**	5,500,000,000	**P 55,000**	P 55,000
Issued, fully paid and outstanding				
Balance at beginning of year	**4,374,048,064**	4,368,974,554	**P 43,740**	P 43,690
Issued during the year	**7,322,270**	5,073,510	**74**	50
Balance at end of year	**4,381,370,334**	4,374,048,064	**P 43,814**	P 43,740

21.2.1 Preferred Shares

The following are the features of the BDO Unibank Group and the Parent Bank's preferred shares:

(a) Perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A shares;

(b) Convertible to common shares at the option of the holder after five years from the issue date or at the option of BDO Unibank Group at any time after issue date; and,

(c) Dividend rate is 6.50% per annum of the par value.

On January 7, 2017, the Parent Bank's BOD authorized the conversion of 1,000,000,000 unissued shares of the Parent Bank, consisting of 500,000,000 unissued Series A Preferred Shares and 500,000,000 unissued ordinary Preferred Shares, each with a par value of P10 per share, into 1,000,000,000 common shares with par value of P10 per share. This will provide BDO with the flexibility to issue common shares should the need arise in the future. The BSP approved the transaction on December 22, 2017 and endorsed it to the SEC. The SEC approved the conversion of the unissued preferred shares into common shares, and the corresponding amendment of the Parent Bank's articles of incorporation to reflect said conversion on March 9, 2018.

21.2.2 Common Shares

The Parent Bank's application for listing of its common shares was approved by the PSE on April 24, 2002. The application is for the initial listing of up to 952,708,650 common shares, with par value of P10 per share, at an offer price range of P17.80 to P23.80 per share. The proceeds from the sale of BDO Unibank's listed shares amounted to about P2,200.

On September 24, 2016, the Parent Bank's BOD authorized the Parent Bank to raise P60,000 in additional core capital through a stock rights offer. The BSP and the PSE approved the transaction on November 23, 2016 and December 14, 2016, respectively. On January 3, 2017, the Parent Bank fixed the final terms for the stock rights offer which entitled eligible shareholders to subscribe to one common share for every 5.095 common shares held as of January 5, 2017 record date at an offer price of P83.75 per rights share. The offer period ran from January 16, 2017 to January 24, 2017.

Following the close of the offer period, the Parent Bank successfully completed its stock rights offer and 716,402,886 common shares were issued and subsequently listed on the PSE on January 31, 2017. The issuance resulted in recognition of Additional Paid-in Capital amounting to P52,662, net of related transaction costs totaling to P172. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

The history of shares issuances from the initial public offering (IPO) and subsequently, private placements exempt from registration pursuant to Section 10.1 of the Securities Regulation Code and other issuances, is as follows:

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
Private placement	Sybase Equity Investments Corp.	July 20, 2015	64,499,890
Stock options	Various employees	June 6, 2016 to December 31, 2016	4,592,430
Stock options	Various employees	January 3, 2017 to December 27, 2017	2,604,020
Stock rights	Various employees	January 31, 2017	716,402,886
Stock rights	Various employees	January 31, 2018	5,073,510
Stock options	Various employees	January 7, 2019 to December 26, 2019	7,322,270
			4,381,370,334

As of December 31, 2019 and 2018, there are 12,470 and 12,583, respectively, holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P158.00 and P130.80 per share as of December 27, 2019 and December 28, 2018, respectively, (the last trading day in 2019 and 2018).

21.3 BDO American Depositary Receipt Program

On April 18, 2013, the Parent Bank launched its Sponsored Level 1 American Depositary Receipt (ADR) Program by which negotiable securities representing underlying BDO common shares can be traded in the U.S. over-the-counter (OTC) market. This provides flexibility for U.S. investors to trade BDO common shares in their time zone and settle their transactions locally. It is meant to tap the pool of U.S. ADR investors, enhance visibility and global presence and diversify and broaden the Parent Bank's shareholder base. ADRs are quoted and traded in U.S. dollars, and cash dividends received on the underlying shares are paid to investors also in U.S. dollars. The ADR ratio for BDO's sponsored Level 1 ADR Program is 1:10, with each ADR representing ten underlying BDO common shares.

The sponsored Level 1 ADR Program does not necessitate the issuance of new shares as ADRs are traded on the U.S. OTC/secondary market using existing shares, in contrast to the sponsored Level II ADR or sponsored Level III ADR where shares are fully listed on a recognized U.S. exchange (e.g., NYSE, NASDAQ). As such, a Level 1 ADR is not a capital raising transaction, to differentiate it from Level III ADR, which allows the issuer to raise capital through a public offering of ADRs in the U.S.

The sponsored Level 1 ADR is exempt, under U.S. SEC Rule 12g3-2(b), from SEC registration, disclosure requirements and reporting obligations, including Sarbanes-Oxley and U.S. generally accepted accounting principles.

Given its sponsored Level 1 ADR Program, the Parent Bank appointed Deutsche Bank (DB) as the exclusive depositary of ADRs for a period of five years. As depositary bank, DB is responsible for the issuance and cancellation, as well as the registration of the ADRs; custody of the underlying BDO common shares and maintenance of the register of holders; the distribution of dividends; and execution of corporate actions and services to the Issuer (i.e., BDO)/Investor/Broker.

As of December 31, 2019 and 2018, 669,676 and 581,041 ADRs valued at US$21,483,206 and US$14,711,958 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$32.08/share and US$25.32/share, respectively).

21.4 Surplus Free

On December 7, 2019, the Parent Bank's BOD approved the declaration of cash dividends on common shares at the rate of P0.30 per share or a total of P1,314. The dividends were declared to stockholders of record as of December 23, 2019 and paid on December 27, 2019.

On August 31, 2019, the Parent Bank's BOD approved the declaration of cash dividends on common shares at the rate of P0.30 per share or a total of P1,314. The dividends were declared to stockholders of record as of September 17, 2019 and paid on September 30, 2019.

On July 31, 2019, the Parent Bank entered into a deed of sale of certain parcel of land to a third party for a total consideration of P119. The related revaluation increment on land arose from previous business combination amounting to P76 was subsequently transferred to Surplus Free account in the 2019 statement of changes in equity.

On May 25, 2019, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,313. The dividends were declared to stockholders of record as of June 11, 2019 and paid on June 24, 2019.

On February 23, 2019, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,313. The dividends were declared to stockholders of record as of March 12, 2019 and paid on March 25, 2019.

On January 26, 2019, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.50% per annum for a total dividend amount of P339. The dividends were paid on March 8, 2019.

On December 8, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of December 21, 2018 and paid on December 28, 2018.

On November 21, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P70.00 per share or a total of P700. The dividends were declared to stockholders as of November 30, 2018 and paid on December 5, 2018, of which, total dividends paid to non-controlling interest amounted to P0.8.

On August 31, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of September 14, 2018 and paid on September 28, 2018.

On May 26, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of June 13, 2018 and paid on June 29, 2018.

On March 2, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P80.00 per share or a total of P800. The dividends were declared to stockholders of record as of February 28, 2018 and paid on March 23, 2018, of which, total dividends paid to non-controlling interest amounted to P1.

On February 24, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of March 13, 2018 and paid on March 28, 2018.

On February 21, 2018, the BOD of BDO Leasing approved the declaration of cash dividends at P0.10 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P216. The dividends were declared to stockholders of record as of March 9, 2018 and paid on March 27, 2018, of which, total dividends paid to non-controlling interest amounted to P25.

On January 27, 2018, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.50% per annum for a total dividend amount of P339. The dividends were paid on March 2, 2018.

On December 2, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of December 19, 2017 and paid on December 29, 2017.

On August 26, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of September 13, 2017 and paid on September 29, 2017.

On May 26, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,310. The dividends were declared to stockholders of record as of June 15, 2017 and paid on June 30, 2017.

On February 24, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,310. The dividends were declared to stockholders of record as of March 14, 2017 and paid on March 31, 2017.

On February 22, 2017, the BOD of BDO Leasing approved the declaration of cash dividends at P0.20 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P433. The dividends were declared to stockholders of record as of March 10, 2017 and paid on March 29, 2017, of which, total dividends paid to non-controlling interest amounted to P50.

On January 27, 2017, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.50% per annum for a total dividend amount of P340. The dividends were paid on February 17, 2017.

21.5 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to nil in 2019 and 2018 and P96 in 2017, representing insurance fund on losses due to fire, robbery and other cash losses. This was approved by the Parent Bank's President. BDO Network appropriated its Surplus Free amounting to P5, nil and P25 in 2019, 2018 and 2017, respectively, representing insurance fund on losses due to fire, robbery and other cash losses, which was approved by its Chairman.

The BDO Unibank Group and the Parent Bank appropriated its Surplus Free for impairment of general loan loss portfolio amounting to P1,543 and P1,563, respectively, in 2019 and P1,860 and P1,824, respectively, in 2018. The accumulated amount of appropriation to surplus reserves for general loan loss portfolio as of December 31, 2019 and 2018 amounted to P12,923 and P11,380, respectively, for BDO Unibank Group and P12,743 and P11,180, respectively, for the Parent Bank, respectively. This appropriation was prescribed by BSP and was recognized as part of Surplus Reserves account.

In compliance with BSP regulations, 10% of BDO Unibank Group and the Parent Bank's profit from trust business amounting to P272, P251 and P256 in 2019, 2018 and 2017 respectively, and P189, P181 and P190 in 2019, 2018 and 2017 respectively, is appropriated to surplus reserves (see Note 27).

On April 19, 2018, the BOD of BDO Insurance approved the reversal of the previously approved appropriation for branches/satellite office expansion amounting to P7.

On February 12, 2018, the BOD of BDO Securities approved the reversal of the previously approved appropriation for proprietary trading amounting to P200.

Also, included in the 2019, 2018 and 2017 surplus reserve are the appropriations made by BDO Securities and Armstrong Securities, Inc. totaling P4, P10 and P5, respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers*.

21.5.1 ESOP

For options that were vested in 2019 and 2018, BDO Unibank Group issued new common shares of 7,322,270 and 5,073,510, respectively, from its authorized capital stock (see Note 21).

Set out below are summaries of number of options vested under the plan:

	BDO Unibank Group		**Parent Bank**	
	2019	2018	**2019**	2018
Balance at beginning of year	**7,260,696**	5,177,283	**5,538,989**	3,727,213
Vested during the year	**14,504,751**	9,455,129	**13,145,911**	8,189,694
Exercised during the year	**(9,225,770)**	(7,371,716)	**(8,278,920)**	(6,377,918)
Balance at end of year	**12,539,677**	7,260,696	**10,405,980**	5,538,989

In prior years, the Parent Bank settles the stock options being exercised by the employees through acquisition of the BDO Unibank shares in the secondary market. Accordingly, the Parent Bank recognizes liability in accounting for the ESOP, wherein a liability account is recognized for the monthly amortization of the expense related to the share option and was presented as part of Accounts payable under Other Liabilities account in the 2018 statement of financial position. In 2019, the Parent Bank has changed its strategy in settling the stock options exercised through issuance of primary shares. Consequently, the previously recognized liability, which amounted to P860, was accordingly transferred to Surplus Reserve. Share options expensed in 2019 amounted to P890.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Average option life	5 years
Average share price at grant date	P 133.70
Average exercise price at grant date	P 119.01
Average fair value of options at grant date	P 48.76
Average standard deviation of share price returns	28.70%
Average dividend yield	0.93%
Average risk-free investment rate	5.13%

The underlying expected volatility was determined by reference to historical prices of the Parent Bank's shares over a period of one year.

22. INTEREST INCOME

Interest income consists of the following:

		BDO Unibank Group		
	Notes	**2019**	2018	2017
Loans and other receivables	10, 26	**P 142,908**	P 115,384	P 88,178
Trading and investment securities:				
At amortized cost	9.3	**10,415**	7,812	-
At FVOCI	9.2	**5,607**	3,982	-
At FVTPL	9.1	**197**	72	162
AFS securities	9.2	**-**	-	3,468
Held-to-maturity (HTM) investments	9.3	**-**	-	6,061
Due from BSP and other banks	7, 8	**1,381**	1,733	1,742
Others		**64**	57	184
		P 160,572	P 129,040	P 99,795

	Notes	Parent Bank 2019	2017	2017
Loans and other receivables	10, 26	**P 138,521**	P 111,685	P 84,431
Trading and investment securities at:				
At amortized cost	9.3	**9,642**	6,995	-
At FVOCI	9.2	**3,550**	2,391	-
At FVTPL	9.1	**87**	51	116
AFS securities	9.2	**-**	-	2,032
HTM investments	9.3	**-**	-	5,634
Due from BSP and other banks	7, 8	**1,234**	1,446	1,399
Others		**47**	47	174
		P 153,081	P 122,615	P 93,786

23. INTEREST EXPENSE

Interest expense is composed of the following:

	Notes	BDO Unibank Group 2019	2018	2017
Deposit liabilities	16, 26	**P 32,047**	P 25,595	P 14,919
Bills payable and other borrowings	17, 18, 20, 25.2	**7,807**	5,153	3,123
Finance lease liabilities	12.2, 20	**827**	-	-
		P 40,681	P 30,748	P 18,042

	Notes	Parent Bank 2019	2018	2017
Deposit liabilities	16, 26	**P 31,384**	P 24,671	P 14,076
Bills payable and other borrowings	17, 18, 20, 25.2	**6,375**	4,049	2,358
Finance lease liabilities	12.2, 20	**822**	-	-
		P 38,581	P 28,720	P 16,434

24. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	BDO Unibank Group 2019	2018	2017
Service charges, fees and commissions	26	**P 31,722**	P 27,372	P 25,701
Insurance premiums		**14,764**	11,799	9,871
Foreign exchange gains	9.1	**3,821**	3,789	3,412
Trust fees	27	**3,532**	3,314	3,246
Trading gains (loss) - net	9.1	**1,867**	(1,619)	450
Rental	13	**1,526**	1,653	1,588
Income from assets sold or exchanged	13	**1,131**	1,057	798
Dividends	9.1	**560**	630	551
Miscellaneous - net		**1,698**	1,679	1,589
		P 60,621	P 49,674	P 47,206

	Notes	Parent Bank 2019	2018	2017
Service charges, fees and commissions	26	**P 27,707**	P 24,372	P 21,755
Share in net income of subsidiaries and associates	14.2	**6,046**	2,740	4,312
Foreign exchange gains		**3,715**	3,412	3,072
Trust fees	27	**2,727**	2,593	2,647
Income from assets sold or exchanged	13	**1,047**	943	751
Rental	13	**523**	583	534
Trading gains (losses) - net	9.1	**290**	130	(405)
Dividends		**180**	188	184
Miscellaneous - net		**910**	862	783
		P 43,145	P 35,823	P 33,633

Other operating expenses consist of the following:

	Notes	BDO Unibank Group 2019	2018	2017
Compensation and benefits	25.1	**P 35,385**	P 30,449	P 27,405
Fees and commissions		**18,826**	13,807	12,095
Taxes and licenses	13	**14,106**	11,639	8,270
Policy reserves, insurance benefits and claims	19	**11,285**	7,494	7,463
Occupancy	14.7, 12, 26, 34.2	**9,680**	9,509	8,412
Insurance		**5,255**	4,805	4,144
Advertising		**4,260**	4,301	3,431
Security, clerical, messengerial and janitorial		**3,993**	3,723	3,276
Representation and entertainment		**2,163**	2,313	1,861
Repairs and maintenance		**1,437**	1,463	1,316
Travelling		**1,344**	1,369	1,308
Power, light and water		**1,206**	1,214	1,058
Supplies		**1,001**	1,062	943
Information technology		**869**	647	538
Telecommunication		**661**	667	557
Litigation on assets acquired		**548**	542	473
Amortization of computer software	14.7	**546**	516	528
Freight		**402**	331	307
Miscellaneous	14.6	**2,192**	2,183	1,480
		P 115,159	P 98,034	P 84,865

	Notes	Parent Bank 2019	2018	2017
Compensation and benefits	25.1	**P 30,777**	P 26,538	P 23,909
Fees and commissions		**18,305**	13,190	11,372
Taxes and licenses	13	**12,904**	10,476	7,222
Occupancy	14.7, 12, 26, 34.2	**8,278**	8,129	7,046
Insurance		**5,158**	4,661	3,911
Advertising		**4,199**	4,208	3,319
Security, clerical, messengerial and janitorial		**3,723**	3,484	3,054
Representation and entertainment		**1,913**	2,063	1,623
Repairs and maintenance		**1,296**	1,351	1,218
Power, light and water		**1,108**	1,112	953
Travelling		**1,060**	1,128	1,089
Supplies		**883**	971	827
Information technology		**836**	615	510
Telecommunication		**552**	573	465
Litigation on assets acquired		**535**	527	431
Amortization of computer software	14.7	**502**	480	477
Freight		**375**	312	285
Miscellaneous	14.6	**1,933**	1,976	1,218
		P 94,337	P 81,794	P 68,929

25. COMPENSATION AND BENEFITS

25.1 Compensation and Benefits

Expenses recognized for compensation and benefits (see Note 24) are presented below.

	Notes	BDO Unibank Group 2019	2018	2017
Salaries and wages		**P 21,065**	P 18,550	P 16,732
Bonuses		**6,712**	5,870	5,255
Retirement – defined benefit plan	25.2	**1,819**	1,558	1,432
Employee stock option plan	25.3	**994**	649	518
Social security costs		**884**	716	629
Other benefits		**3,911**	3,106	2,839
	24	**P 35,385**	P 30,449	P 27,405

	Notes	Parent Bank 2019	2018	2017
Salaries and wages		**P 18,097**	P 16,001	P 14,432
Bonuses		**5,988**	5,253	4,696
Retirement – defined benefit plan	25.2	**1,585**	1,340	1,248
Employee stock option plan	25.3	**890**	582	464
Social security costs		**752**	603	539
Other benefits		**3,465**	2,759	2,530
	24	**P 30,777**	P 26,538	P 23,909

25.2 Post-employment Benefits

(a) *Characteristics of the Defined Benefit Plan*

The BDO Unibank Group and the Parent Bank maintain a fully funded, multi-employer and tax-qualified noncontributory retirement plan that is being administered by the Parent Bank's trust and investment group as trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provided for an early retirement at age of 50 with a minimum of ten years of credited service and late retirement up to age 65, both subject to the approval of Parent Bank's BOD. Normal retirement benefit is an amount equivalent to a percentage ranging from 50% to 200% of plan salary for every year of credited service.

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2019 and 2018.

The amounts of Retirement benefit obligation recognized under Other Liabilities accounts (see Note 20) in the statements of financial position are determined as follows:

	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Present value of the DBO	P 33,937	P 28,599	P 31,189	P 26,331
Fair value of plan assets	(30,633)	(24,070)	(27,986)	(21,952)
Deficiency of plan assets	3,304	4,529	3,203	4,379
Effect of asset ceiling	1	8	-	-
	P 3,305	P 4,537	P 3,203	P 4,379

The movements in the present value of the DBO are as follows:

	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Balance at beginning of year	P 28,599	P 25,347	P 26,331	P 23,171
Current service cost	1,819	1,535	1,585	1,340
Interest expense	2,153	1,445	1,983	1,321
Benefits paid by the plan	(1,632)	(1,405)	(1,541)	(1,247)
Past service cost	-	23	-	-
Remeasurements:				
Actuarial losses (gains) arising from changes in:				
- experience adjustments	1,114	5,645	826	5,156
- demographic assumptions	(554)	(1,951)	-	(2,195)
- financial assumption	2,438	(2,040)	2,005	(1,215)
Balance at end of year	P 33,937	P 28,599	P 31,189	P 26,331

The movements in the fair value of plan assets are presented below.

	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Balance at beginning of year	P 24,070	P 22,575	P 21,952	P 20,629
Contributions paid into the plan	6,572	2,899	6,119	2,542
Interest income	1,998	1,329	1,825	1,213
Benefits paid by the plan	(1,632)	(1,405)	(1,541)	(1,247)
Remeasurement loss - return on plan assets (excluding amounts included in net interest)	(375)	(1,328)	(369)	(1,185)
Balance at end of year	P 30,633	P 24,070	P 27,986	P 21,952

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Placements in debt instruments:				
Government bonds	P 11,665	P 2,552	P 10,774	P 2,182
Corporate bonds	9,868	12,970	9,090	12,100
UITFs	7,756	5,088	7,307	4,715
Equity instruments	1,001	777	490	433
Cash and cash equivalents	32	1,002	31	933
Loans and other receivables	12	1,425	11	1,339
Other properties	299	256	283	250
	P 30,633	P 24,070	P 27,986	P 21,952

Actual returns on plan assets were P1,624 and P1,456 in 2019 and nil and P27 in 2018 in the BDO Unibank Group and the Parent Bank's financial statements, respectively.

Certain plan assets include BDO Unibank Group's own financial instruments [see Note 26(c)].

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for UITFs which are at Level 2, loans and other receivables and other properties, which are at Level 3.

The components of amounts recognized in profit or loss and in other comprehensive income of the BDO Unibank Group and the Parent Bank in respect of the defined benefit plan as follows:

	BDO Unibank Group		
	2019	2018	2017
Recognized in profit or loss:			
Current service costs	**P 1,819**	P 1,535	P 1,432
Past service costs	**-**	23	-
Interest expense (income)	**156**	117	(51)
	P 1,975	P 1,675	P 1,381
Recognized in other comprehensive income, net of tax (see Note 30.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 780**	P 3,951	P 9,702
- demographic assumptions	**(388)**	(1,365)	(6,790)
- financial assumptions	**1,706**	(1,428)	(857)
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**262**	930	536
- changes in the effect of the asset ceiling	**(5)**	-	(41)
	P 2,355	P 2,088	P 2,550

	Parent Bank		
	2019	2018	2017
Recognized in profit or loss:			
Current service costs	**P 1,585**	P 1,340	P 1,248
Interest expense	**158**	108	(50)
	P 1,743	P 1,448	P 1,198

	Parent Bank		
	2019	2018	2017
Recognized in other comprehensive income, net of tax (see Note 30.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 578**	P 3,609	P 9,290
- demographic assumptions	**-**	(1537)	(6,466)
- financial assumptions	**1,403**	(850)	(851)
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**259**	830	504
- changes in the effect of the asset ceiling	**-**	-	(32)
	2,240	2,052	2,445
Share in actuarial losses (gains) of subsidiaries and associates	**88**	36	(92)
	P 2,328	P 2,088	P 2,353

Current service costs are presented as part of Compensation and benefits under Other Operating Expenses account (see Note 24) while interest expense or income are presented or netted against Interest Expense account (see Note 23) in the statements of income of the BDO Unibank Group and the Parent Bank.

Amounts recognized in other comprehensive income were included within the items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income.

In determining the amounts of post-employment benefit obligation, the following significant actuarial assumptions were used:

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Discount rates	**5.22%**	7.52%	**5.23%**	7.53%
Expected rate of salary increases	**2.00 - 11.00%**	2.00 - 11.00%	**6.50 - 11.00%**	7.00 - 8.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 24 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the BDO Unibank Group and the Parent Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan is composed of investment in UITF, debt and equity instruments, cash and cash equivalents, and loans and receivables. Due to the long-term nature of plan obligation, a level of continuing debt securities is an appropriate element of the BDO Unibank Group's long-term strategy to manage the plans effectively.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit asset as of December 31, 2019 and 2018:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
BDO Unibank Group			
December 31, 2019			
Discount rate	**+/-1%**	**(P 1,058)**	**P 1,150**
Salary increase rate	**+/-1%**	**1,106**	**(1,039)**
December 31, 2018			
Discount rate	+/-1%	(P 845)	P 924
Salary increase rate	+/-1%	910	(849)

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Parent Bank			
December 31, 2019			
Discount rate	**+/-1%**	**(P 840)**	**P 890**
Salary increase rate	**+/-1%**	**857**	**(825)**
December 31, 2018			
Discount rate	+/-1%	(P 639)	P 675
Salary increase rate	+/-1%	666	(643)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, BDO Unibank Group through its Compensation Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds or UITFs) with maturities that match the benefit payments as they fall due and in the appropriate currency. BDO Unibank Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2019 and 2018 consists of debt instruments and UITFs, although the BDO Unibank Group and the Parent Bank also invest in cash and cash equivalents, equity instruments, and properties. The debt instruments include government bonds and corporate bonds.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2019, the plan of the BDO Unibank Group and the Parent Bank is underfunded by P3,305 and P3,203, respectively, based on the latest actuarial valuation report. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The BDO Unibank Group and the Parent Bank expect to pay P5,731 and P5,294, respectively, as contributions to retirement benefit plans in 2020.

The expected maturity of undiscounted expected benefits payments of BDO Unibank Group and the Parent Bank from the plan for the next ten years is presented as follows:

	BDO Unibank Group	Parent Bank
Between one to five years	P 37,443	P 35,582
Between six to ten years	13,603	12,078
	P 51,046	**P 47,660**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 2.8 to 14.6 years for the BDO Unibank Group and 2.8 years for the Parent Bank.

25.3 ESOP

BDO Unibank Group's ESOP expense includes the amounts recognized by the Parent Bank and its subsidiaries over the vesting period. In 2019 and 2018, vested shares totaled 14,504,751 shares and 9,455,129 shares, respectively, for BDO Unibank Group, and 13,145,911 shares and 8,189,694 shares, respectively, for Parent Bank.

The ESOP expense, included as part of Compensation and benefits under Other Operating Expenses in the BDO Unibank Group's statements of income, amounted to P994, P649 and P518 in 2019, 2018, and 2017, respectively, and in the Parent Bank's statements of income, amounted to P890, P582 and P464, respectively (see Note 25.1).

26. RELATED PARTY TRANSACTIONS

The Parent Bank created a Related Party Transaction Committee composed of all independent directors and non-executive directors. The said Committee exercises oversight role to ensure bank compliance with BSP regulations on related party transactions.

The summary of BDO Unibank Group's significant transactions with its related parties as of December 31, 2019 and 2018 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction 2019	Amounts of Transaction 2018	Amounts of Transaction 2017	Outstanding Balance 2019	Outstanding Balance 2018
DOSRI Loans	26(a)					
Stockholders		**P 23,713**	P 35,813	P 78,597	**P 27,765**	P 51,131
Related Parties Under Common Ownership		**75**	476	3,314	**623**	1,032
Officers and Employees		**1,802**	1,601	1,504	**2,167**	2,019
Deposit Liabilities	26(b)					
Stockholders		**576,553**	638,830	554,530	**23,191**	46,873
Related Parties Under Common Ownership		**6,568**	12,638	80,630	**437**	3,765
Officers and Employees		**433**	620	349	**12**	21
Other Transactions with Associates	26(d)					
Loans and Advances		**2,820**	1,800	2,700	**7,784**	6,936
Interest Income		**509**	370	254	**6**	96
Related Parties Under Common Ownership						
Right-of-use Asset	26(d)	**833**	-	-	**1,951**	-
Lease Liabilities	26(d)	**200**	-	-	**2,145**	-
Depreciation Expense	26(d)	**655**	-	-	-	-
Interest Expense	26(d)	**142**	-	-	-	-
Rent Expense	26(d)	**-**	1,157	1,031	-	92
Key Management Personnel	26(d)					
Compensation		**1,653**	1,574	1,413	-	-
Retirement Plan	26(c)	**72**	(135)	64	**6,654**	5,188

The summary of the Parent Bank's significant transactions with its related parties as of December 31, 2019 and 2018 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction 2019	Amounts of Transaction 2018	Amounts of Transaction 2017	Outstanding Balance 2019	Outstanding Balance 2018
DOSRI Loans	26(a)					
Stockholders		**P 23,713**	P 35,813	P 78,597	**P 27,765**	P 51,131
Related Parties Under Common Ownership		**75**	476	3,314	**623**	1,032
Officers and Employees		**1,798**	1,600	1,500	**2,161**	2,014
Deposit Liabilities	26(b)					
Stockholders		**576,553**	638,830	554,530	**23,191**	46,873
Related Parties Under Common Ownership		**6,039**	12,405	80,630	**329**	3,703
Officers and Employees		**433**	621	349	**12**	21
Other Transactions with Subsidiaries	26(d)					
Loans and Advances		**48,034**	69,388	69,613	**3,659**	5,887
Derivative Assets		**-**	-	100	**-**	-
Derivative Liabilities		**1,033**	538	1,276	**11**	5
Deposit Liabilities		**1,257**	423	697	**6,078**	4,821
Interest Income		**231**	247	232	**12**	46
Rent Income		**124**	120	115	**-**	-
Service Fees		**792**	637	539	**-**	-
Interest Expense		**83**	41	23	**4**	5
Right-of-use Asset		**-**	-	-	**117**	-
Lease Liabilities		**(10)**	-	-	**129**	-
Amortization Expense		**13**	-	-	**-**	-
Interest Expense		**8**	-	-	**-**	-
Rent Expense		**-**	14	9	**-**	-
Other Transactions with Associates	26(d)					
Loans and Advances		**2,820**	1,800	2,700	**7,600**	6,750
Interest Income		**494**	342	197	**5**	95

Related Party Category	Note	Amounts of Transaction 2019	Amounts of Transaction 2018	Amounts of Transaction 2017	Outstanding Balance 2019	Outstanding Balance 2018
Related Parties Under Common Ownership	26(d)					
Right-of-use Asset		**P 833**	P -	P -	**P 1,951**	P -
Lease Liabilities		**200**	-	-	**2,145**	-
Amortization Expense		**655**	-	-	**-**	-
Interest Expense		**142**	-	-	**-**	-
Rent Expense		**-**	1,009	912	**-**	92
Key Management Personnel	26(d)					
Compensation		**1,107**	1,060	985	**-**	-
Retirement Plan	26(c)	**72**	(135)	64	**6,653**	5,187

In the ordinary course of business, the BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below and in the succeeding pages.

(a) Loans to Related Parties

Under existing policies of the BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.5% to 6% per annum in 2019, 2.5% to 6.5% per annum in 2018 and 2.0% to 3.5% per annum in 2017, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in the BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2019 and 2018, the BDO Unibank Group and the Parent Bank are in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Total DOSRI loans	**P 30,555**	P 54,182	**P 30,549**	P 54,177
Unsecured DOSRI loans	**1,867**	1,726	**1,867**	1,726
Past due DOSRI loans	**9**	7	**9**	7
Non-performing DOSRI loans	**24**	15	**24**	15
% of DOSRI loans to total loan portfolio	**1.38%**	2.68%	**1.42%**	2.75%
% of unsecured DOSRI loans to total DOSRI loans	**6.11%**	3.19%	**6.11%**	3.19%
% of past due DOSRI loans to total DOSRI loans	**0.03%**	0.01%	**0.03%**	0.01%
% of non-performing DOSRI loans to total DOSRI loans	**0.08%**	0.03%	**0.08%**	0.03%

DOSRI loans of the BDO Unibank Group and the Parent Bank bear annual interest rates of 0.00% to 9.00% in 2019 and 2018 and 0.00% to 10.60% in 2017 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

Total DOSRI loans of the BDO Unibank Group and the Parent Bank include loans to officers under the BDO Unibank Group and Parent Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within one month to 20 years.

Total loan releases and collections in 2019 amounted to P25,590 and P49,217 for the BDO Unibank Group and P25,586 and P49,214 for the Parent Bank, respectively. Total loan releases and collections in 2018 amounted to P37,890 and P39,548 for the BDO Unibank Group and P37,889 and P39,544 for the Parent Bank, respectively. Total loan releases and collections in 2017, on the other hand, amounted to P83,415 and P50,813 for the BDO Unibank Group and P83,411 and P50,805 for the Parent Bank, respectively.

(b) *Deposits from Related Parties*

Total deposits made by the related parties amounted to P583,554, P652,088 and P635,509 in 2019, 2018 and 2017 for the BDO Unibank Group, and P583,025, P651,856 and P635,509 in 2019, 2018 and 2017 for the Parent Bank, respectively, and bearing interest rates range of 0% to 4.53% in 2019, 0.00% to 5.50% in 2018 and 0.00% to 4.32% in 2017. The related interest expense from deposits amounted to P1,611, P1,873 and P2,181 in 2019, 2018 and 2017, respectively (see Note 23).

(c) *Transactions with Retirement Plan*

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group as of December 31, 2019 and 2018 and for each of the three years ended are as follows:

Related Party Category	Amounts of Transaction			Outstanding Balance	
	2019	2018	2017	**2019**	2018
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 13**	P 18
BDO Leasing	**-**	-	-	**-**	-
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**25**	20
BDO Leasing	**-**	-	-	**1**	1
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**6,615**	5,149
Trading gain					
BDO Unibank, Inc.	**65**	(159)	59	**-**	-
Interest expense					
BDO Unibank, Inc.	**7**	24	5	**-**	-

The BDO Unibank Group's retirement fund has transactions directly and indirectly with the Parent Bank as of December 31, 2019 and 2018 and for each of the three years ended are as follows:

	Amounts of Transaction			Outstanding Balance	
Related Party Category	**2019**	2018	2017	**2019**	2018
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 13**	P 18
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**25**	20
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**6,615**	5,149
Trading gain					
BDO Unibank, Inc.	**65**	(159)	59	**-**	-
Interest expense					
BDO Unibank, Inc.	**7**	24	5	**-**	-

Details of the contributions of the BDO Unibank Group and the Parent Bank, and benefits paid out by the plan to the employees are presented in Note 25.

(d) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown in the section that follows. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Transactions with and between subsidiaries have been eliminated in the BDO Unibank Group's financial statements. Significant transactions with subsidiaries are as follows:

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. Total advances granted and collected amounted to P25 and P79, P79 and P85 and P85 and P29, in 2019, 2018 and 2017, respectively. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables in the Parent Bank's statements of financial position amounted to P25 and P79 as of December 31, 2019 and 2018, respectively (see Note 10).

The Parent Bank also grants both secured and unsecured interest-bearing loans to subsidiaries with outstanding balance of P3,634 and P5,808 as of December 31, 2019 and 2018, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 10). Total loans granted amounted to P48,009, P69,309 and P69,528 while total loans collected amounted to P50,183, P71,955 and P67,005 for 2019, 2018 and 2017, respectively. These loans are payable in cash with a term between seven days to five years. Interest income recognized on these is presented as part of Interest Income in the Parent Bank's statements of income (see Note 22). Interest rate on these loans ranges from 2.5% to 6.0%, 2.5% to 6.5% and 2.0% to 3.5% per annum in 2019, 2018, and 2017, respectively.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice, at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank. Total service fees are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 24). There are no outstanding balance arising from these transactions as of December 31, 2019 and 2018. Total service fees amounted to P792, P637 and P539 in 2019, 2018 and 2017, respectively.

BDO Life has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life pays the Parent Bank management fees in cash equivalent to certain percentage based on the average daily balance of the fund and are deducted quarterly from the fund. Total service fees is presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 24). Outstanding balances arising from this as of December 31, 2019 and 2018 is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

Certain subsidiaries lease office space from the Parent Bank. Total rent collected from the subsidiaries is included as part of Miscellaneous under Other Operating Income in the Parent Bank's statements of income (see Note 24). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2019 and 2018. Total rent income amounted to P124, P120 and P115 in 2019, 2018 and 2017, respectively.

BDO Capital, BDO Securities and BDOI, have reimbursed the Parent Bank in cash on the actual costs and expenditures in relation to its services amounting to nil in both 2019 and 2018 and P67 in 2017. There are no outstanding receivable from subsidiaries as of December 31, 2019 and 2018.

(3) Expenses of the Parent Bank

Under PFRS 16, the Parent Bank, as a lessee, recognized right-of-use assets related to lease of space from BDO Network, BDOSHI and Averon for its branch operations, amounting to P117, as of December 31, 2019, which is presented as part of Premises, Furniture, Fixtures and Equipment (see Note 11). Depreciation expense and amortization of the right-of-use assets arising from this transaction, amounting to P13 is presented as part of Occupancy under Other Operating Expenses account in the Parent Bank's 2019 statement of income (see Note 24). Total interest expense on lease liability is included as part of Interest expense on finance lease liabilities under the Interest Expense account in the Parent Bank's 2019 statement of income which amounted to P8 (see Note 23). Outstanding balance arising from these transactions amounted to P129 as of December 31, 2019 and is included as part of Lease liabilities under Other Liabilities (see Note 20).

Under PAS 17, the Parent Bank leases space from BDO Network, BDOSHI and Averon for its branch operations. Total rent paid is included as part of Occupancy account under Other Operating Expenses account in the Parent Bank statements of income (see Note 24). The lease term is between 10 to 30 years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2018. Total rent expense amounted to P14 and P9 in 2018 and 2017, respectively.

(4) Derivatives

In 2019 and 2018, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards, interest rate swap and cross currency swaps. As of December 31, 2019 and 2018, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account (see Note 9.1) and Derivatives with negative fair values under Other Liabilities account in the statements of financial position (see Note 20).

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank bear interest rates of 0.00% to 6.65% in 2019, 0.00% to 6.75% in 2018 and 0.00% to 2.50% in 2017. These related interest expense from these deposits are included as part of Interest Expense account on deposit liabilities in the statements of financial position (see Note 23).

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2019 and 2018, there is an outstanding secured and unsecured interest-bearing loans and advances to associates amounting to P7,784 and P6,936 for the BDO Unibank Group and P7,600 and P6,750 for the Parent Bank, respectively, and are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable in cash between one year to twelve years. Total collections on loans and advances amounted to P1,987, P1,736 and P8 for BDO Unibank Group and P1,970, P1,200 and nil for the Parent Bank in 2019, 2018 and 2017, respectively.

Annual interest rate on these loans ranges from 5.00% to 7.70%, 6.37% to 7.70%, and 3.81% to 7.70% for the years 2019, 2018 and 2017, respectively. The related interest income is presented as part of Interest Income on loans and other receivables in the BDO Unibank Group's statements of income (see Note 22). As of December 31, 2019, 2018 and 2017, there were no impairment losses recognized on these loans and advances.

(iii) Transaction of the Parent Bank with related parties under common ownership is shown below.

Under PFRS 16, the Parent Bank, as a lessee, recognized right-of-use assets related to lease of space from related parties for its branch operations, amounting to P1,951, as of December 31, 2019, which is presented as part of Premises, Furniture, Fixtures and Equipment (see Note 11). Amortization expense on right-of-use assets arising from this transaction, amounting to P655 is presented as part of Occupancy under Other Operating Expenses account in the Parent Bank's 2019 statement of income (see Note 24).

Total interest expense on lease liabilities from related parties, included as part of Interest expense on finance lease liabilities under the Interest Expense account amounted to P142 in the Parent Bank's 2019 statement of income (see Note 23). Outstanding balances arising from this transaction amounted to P2,145 as of December 31, 2019 and is included as part of Lease liabilities under Other Liabilities (see Note 20).

Under PAS 17, for the years ended December 31, 2018 and 2017, total rent paid to related parties amounted to P1,009 and P912, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 24). Outstanding balances arising from this transaction amounted to P92 as of December 31, 2018 and is included as part of Accounts payable under Other Liabilities (see Note 20).

The terms of the lease are from two to five years and is payable in cash.

(iv) Key Management Personnel Compensation

The compensation and benefits given to BDO Unibank Group and the Parent Bank's key management are as follows (see Note 25.1):

	BDO Unibank Group		
	2019	2018	2017
Salaries and other benefits	**P 1,445**	P 1,374	P 1,267
Retirement expense	**208**	200	146
	P 1,653	P 1,574	P 1,413

	Parent Bank		
	2019	2018	2017
Salaries and other benefits	**P 957**	P 931	P 886
Retirement expense	**150**	129	99
	P 1,107	P 1,060	P 985

27. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group and the Parent Bank's statements of financial position since these are not resources of the BDO Unibank Group (see Note 34.4).

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Investments	**P 1,325,160**	P 1,150,783	**P 970,499**	P 841,019
Others	**11,208**	10,934	**8,546**	8,665
	P 1,336,368	P 1,161,717	**P 979,045**	P 849,684

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities which are shown as part of Investment securities at amortized cost with a total face value of P14,869 and P13,136 as of December 31, 2019 and 2018 (see Note 9.3), respectively, in BDO Unibank Group and, P9,861 and P8,628 as of December 31, 2019 and 2018, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2019 and 2018, the additional reserve for trust functions amounted to P272 and P251, respectively, for BDO Unibank Group and P189 and P181, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 21.5).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P3,532, P3,314 and P3,246 for the years ended December 31, 2019, 2018 and 2017, respectively, in BDO Unibank Group statements of income and P2,727, P2,593, and P2,647 for the years ended December 31, 2019, 2018 and 2017, respectively, in the Parent Bank statements of income (see Note 24).

28. UNIT-LINKED FUNDS

VUL life insurance contracts of BDO Life are life insurance policies wherein a portion of the premiums received are invested in VUL funds, which are composed mainly of investments in equity and debt securities. The withdrawal or surrender amount of a VUL policy can be computed by multiplying the total units held by the policyholder by the fund's Net Asset Value (NAV) per unit, which changes daily depending on the fund's performance.

In 2013, BDO Life obtained the approval from IC to issue VUL products, where payments to policyholders are linked to internal investment funds set up by BDO Life. The VUL funds are mainly managed by the Trust and Investment Group of the Parent Bank.

As of December 31, 2019 and 2018, BDO Life has 12 VUL funds. The details of the investment funds, which comprise the assets backing the unit-linked liabilities, are presented in the table below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the BDO Unibank Group's financial statements.

		2019		2018
Assets:				
Cash and cash equivalents	**P**	**52**	P	73
Financial assets at FVTPL		**13,696**		8,514
Other receivables		**38**		13
	P	**13,786**	P	8,600
Liabilities and Equity:				
Other liabilities	**P**	**77**	P	45
Net assets attributable to unitholders		**13,709**		8,555
	P	**13,786**	P	8,600

29. MERGERS AND ACQUISITIONS

29.1 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo for €3. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued the shares to BDO Capital, making BDO Capital the owner of approximately 96% of the outstanding capital stock of CBN Grupo (see Note 14.2). CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered, thereafter, with The Netherlands Chamber of Commerce on October 24, 2016. The total goodwill recognized amounted to P123 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Notes 14.2 and 14.3).

29.2 Acquisition of Credit Card Portfolio

On June 14, 2016, the Parent Bank signed an agreement with SB Cards Corporation (SB Cards) to be the exclusive issuer and acquirer of Diners Club credit cards in the Philippines. The acquisition includes SB Cards' existing Diners Club portfolio and its cardholder base. The agreement took effect on September 30, 2016.

The Parent Bank recognized the acquisition-date fair value of the existing credit card receivables and liabilities assumed and compared the net assets acquired with the cash consideration given up resulting in the recognition of Trademark for the excess relating to the use of Diners Club trade name by the Parent Bank for a period of five years. Presented below is the analysis of the transaction.

Credit card receivables	P	586
Liabilities	(	18)
Net asset acquired		568
Cash consideration	(	733)
Trademark (see Note 14.6)	P	165

29.3 Acquisition of BDO Life

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of BDO Life, a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by GPHCI. As of December 31, 2015, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of BDO Life.

On June 30, 2016, BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. Although the acquisition was consummated in 2016, the consideration was agreed by the parties in 2014. During 2015, BDO Life's net asset substantially increased as a result of the improvement in the latter's insurance operations. Accordingly, the fair value of the net assets exceeded the amount of consideration received by the BDO Unibank Group resulting in the recognition of a gain on fair valuation of previously-held interest and gain on bargain purchase (negative goodwill) amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214.

BDO Unibank Group is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market. By assuming full control of BDO Life Assurance's operations, BDO Unibank Group will be able to adapt more readily to the demands of its target markets.

On the date of acquisition, the equity share in BDO Life was remeasured at fair value, as follows:

Fair value	P	2,549
Book value	(	1,921)
Gain on fair valuation of previously-held interest	P	628

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	851
Trading and investment securities		25,882
Loans and other receivables		563
Bank premises, furniture, fixtures and equipment		54
Other resources		104
Total resources		27,454
Insurance contract liabilities		17,910
Other liabilities		3,173
Total liabilities		21,083
Net assets acquired		6,371
Fair value of the investment for the previously held interest in BDO Life	(	2,549)
Consideration transferred (for the 60% ownership interest)	(	2,236)
Gain on bargain purchase	P	1,586

Pre-acquisition income arising from the step-up acquisition amounted to P391. Subsequently, GPHCI was renamed to BDO Life Holdings (see Notes 2.3 and 14.2).

On November 24, 2016, the BOD of BDO Life Holdings and BDO Life, at their respective meetings, approved the merger of the two companies, with BDO Life as the surviving entity, and the Plan of Merger. The same were likewise approved by the respective stockholders of the companies on December 3, 2016. The merger was approved by the SEC on September 4, 2017 and was implemented on the same date.

Under the Articles of Merger, the capital stock owned by the Parent Bank and BDO Capital in BDO Life Holdings shall be exchanged for shares in the capital stock of BDO Life on the basis of the net asset value of BDO Life Holdings. BDO Life issued a total of 15,931,324 shares with a par value of P100 per share to the shareholders of BDO Life Holdings in exchange for the net asset of BDO Life Holdings, composed of 15,150,505 shares reacquired by BDO Life as a consequence of the merger, since it was previously wholly-owned by BDO Life Holdings, and 780,819 shares from the unissued authorized capital stock of BDO Life. The shareholdings of the Parent Bank and BDO Capital after the merger is 97.0% and 3.0%, respectively.

29.4 Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in an Investment Agreement (the Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share. Such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 new common shares of PCIB Securities at P370.34 per share, resulting to new percentage of ownership of the Parent Bank to 51.0% and Nomura having 49.0% over PCIB Securities. Subsequently, PCIB Securities was renamed as BDO Nomura.

On July 20, 2017, BDO Nomura's BOD and stockholders approved the increase in its authorized capital stock from P100, divided into 1,000,000 shares with P100 par value per share to P1,000, divided into 10,000,000 shares with P100 par value per share. In relation to the increase in authorized capital stock, BDO Nomura received a cash infusion from the Parent Bank and Nomura Asia Investment (Singapore) Pte. Ltd. amounting to P153 and P147, respectively, for future subscription of additional shares of stock of BDO Nomura with a total par value of P300. The deposit for future stock subscription were recorded as part of Equity investments under Other Resources account in the Parent Bank's 2017 statement of financial position (see Note 14.2). On February 5, 2018, the application for the increase in authorized capital stock of BDO Nomura was approved by the SEC. Accordingly, such deposit was applied against subscription of additional shares of stock of BDO Nomura in 2018.

On November 27, 2018 additional cash infusion was received from the Parent Bank and Nomura Asia Investment (Singapore) Pte. Ltd amounting to P51 and P49, respectively, with a total par value of P100.

29.5 Joint Venture Investment Agreement with Mitsubishi Motors Philippines Corp. (MMPC), Sojitz Corporation (SJC) and JACCS Co. Ltd.

On January 28, 2016, BDO Leasing entered into a joint venture investment agreement with MMPC, SJC and JACCS to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles in the Philippines. The joint venture, incorporated and named MAFSC, is seen harnessing the complementary strengths of the partners of the joint venture to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and a growing population. Upon the incorporation of MAFSC on May 31, 2016, BDO Leasing contributed P300 for 3,000,000 common shares, thereby owning 40% of the company while MMPC, SJC and JACCS jointly hold the remaining 60% stake (see Note 14.2).

On July 4, 2019, BDO Leasing sold to JACCS Co. Ltd., a corporation duly organized and existing under the laws of Japan, its 3,000,000 common shares representing 40% ownership interest in MMPC Auto Financial Services Corporation for P166.

29.6 Acquisition of One Network Bank, Inc. (A Rural Bank)

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of Additional Paid-in Capital amounting to P6,028, net of related transaction costs amounting to P3. Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%. The total goodwill recognized in 2015 amounting to P2,903 is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 14.3).

As of December 31, 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. These additional purchases of ONB common shares by the Parent Bank increased its total shareholdings in ONB to 99.76%. Total additional goodwill recognized in 2016 amounted to P4.

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	3,294
Trading and investment securities		2,457
Loans and other receivables		20,532
Bank premises, furniture, fixtures and equipment		1,510
Other resources		403
Total resources		28,196
Deposit liabilities		20,920
Other liabilities		3,478
Total liabilities		24,398
Net asset position		3,798
Non-controlling share in equity	(	14)
Cost of investment	(	6,687)
Goodwill (see Note 14.3)	P	2,903

On December 3, 2016, the Parent Bank's BOD authorized a P1,000 capital infusion into ONB to allow the subsidiary to provide for its ongoing expansion plans and to comply with BSP regulations. The BSP approved the additional equity investment into ONB on August 10, 2017. On September 13, 2017, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.79%.

On September 30, 2017, the Parent Bank's BOD authorized an additional P1,000 capital infusion into ONB to support its MSME initiatives and give it additional leeway in its expansion plans. The BSP approved the additional equity investments into ONB on December 13, 2017. Moreover, on January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.81%. On May 15, 2019, January 23, 2018 and December 27, 2018, the Parent Bank subscribed to an additional 18,758, 124,275 and 14,276 shares, respectively, from ONB's total issued and outstanding capital stock thereby increasing its shareholdings in ONB to 99.86% resulting to increase in Surplus Free amounting to P763.

On October 1, 2018, the Parent Bank has entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire a 15% ownership interest in ONB. The transaction was completed on May 16, 2019. The Parent Bank's shareholdings after the transaction amounted to 84.87%. The change in ownership interest resulted in a decrease in Surplus Free amounting to P30.

On July 31, 2019, the SEC approved the resolution changing the corporate name of ONB to BDO Network Bank, Inc. doing business under the names and styles of BDO Network Bank, BDO Network Bank, a Rural Bank, BDO Network, a Rural Bank.

29.7 Purchase of Loans and Deposits of Rural Bank of Pandi by BDO Network

On February 4, 2019, BDO Network, entered into an asset sale and purchase agreement with RBPI to purchase RBPI's gross loan receivables and assume its recorded deposit liabilities. The transaction was entered into to provide BDO Network with a stronger presence in Bulacan and fast track its expansion in Central Luzon.

On August 22, 2019, the Monetary Board of the BSP approved the asset sale and purchase agreement between BDO Network and RBPI. The transaction was completed on October 31, 2019. The total goodwill recognized in 2019, representing cash premium, amounted to P100 and is presented as part of Goodwill under Other Resources account on BDO Unibank Group's statements of financial position (see Note 14.3).

29.8 Acquisition of Trust Business

In 2014, the Parent Bank entered into a definitive agreement for the acquisition of the trust business of Deutsche Bank AG's Manila branch (Deutsche) comprising of trust, other fiduciary and investment management activities amounting to P35,751 and presented as part of contingent accounts under Trust department accounts (see Note 34.4). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources account in the statements of financial position (see Note 14.7).

30. TAXES

30.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	BDO Unibank Group		
	2019	2018	2017
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 12,310**	P 9,305	P 8,031
Minimum corporate income tax (MCIT) at 2%	**7**	23	14
Final taxes at 20%, 15%, 10% and 7.5%	**2,248**	1,685	1,371
	14,565	11,013	9,416
Deferred tax expense (income) relating to origination and reversal of temporary differences	**454**	(6)	36
	P 15,019	P 11,007	P 9,452
Reported in other comprehensive income:			
Actuarial losses	**(P 1,016)**	(P 859)	(P 1,125)
Fair value of financial assets at FVOCI	**(30)**	(44)	-
Revaluation increment	**(23)**	-	-
Fair value of AFS securities	**-**	-	20
	(P 1,069)	(P 903)	(P 1,105)

	Parent Bank		
	2019	2018	2017
Reported in profit or loss:			
Current tax expense:			
RCIT at 30%	**P 11,219**	P 8,080	P 7,045
Final taxes at 20%, 15%, 10% and 7.5%	**1,745**	1,234	978
	12,964	9,314	8,023
Deferred tax expense relating to origination and reversal of temporary differences	**412**	198	218
	P 13,376	P 9,512	P 8,241
Reported in other comprehensive income:			
Actuarial losses	**(P 960)**	(P 879)	(P 1,048)
Revaluation increment	**(23)**	-	-
	(P 983)	(P 879)	(P 1,048)

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	BDO Unibank Group		
	2019	2018	2017
Tax on pretax profit at 30%	**P 17,756**	P 13,094	P 11,267
Adjustment for income subjected to lower income tax rates	**(1,072)**	(617)	(379)
Tax effects of:			
Income exempt from tax	**(4,325)**	(3,494)	(2,552)
Non-deductible expenses	**3,557**	2,278	2,545
Deductible temporary differences not recognized	**(551)**	(659)	(908)
Net operating loss carryover (NOLCO) not recognized	**(89)**	127	17
Utilization of previously unrecognized NOLCO	**(25)**	-	-
Application of previously unrecognized MCIT	**(15)**	-	(4)
Others	**(217)**	278	(534)
Tax expense reported in profit or loss	**P 15,019**	P 11,007	P 9,452

	Parent Bank		
	2019	2018	2017
Tax on pretax profit at 30%	**P 17,283**	P 12,667	P 10,874
Adjustment for income subjected to lower income tax rates	**(872)**	(621)	(484)
Tax effects of:			
Income exempt from tax	**(5,729)**	(3,882)	(3,492)
Non-deductible expenses	**3,305**	1,998	2,259
Deductible temporary differences not recognized	**(611)**	(650)	(916)
Tax expense reported in profit or loss	**P 13,376**	P 9,512	P 8,241

Components of the net deferred tax assets (see Note 14) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Deferred tax assets:				
Allowance for impairment	**P 6,536**	P 6,560	**P 5,858**	P 5,858
Unamortized past service costs	**2,185**	1,219	**2,156**	1,182
Retirement obligation	**792**	863	**548**	901
Recognition of right-of-use assets and lease liabilities	**70**	-	**70**	-
Lease income differential	**-**	146	**-**	146
Others	**33**	217	**-**	-
	9,616	9,005	**8,632**	8,087
Deferred tax liabilities:				
Revaluation increment	**409**	432	**408**	431
Capitalized interest	**45**	48	**45**	48
Retirement asset	**17**	-	**-**	-
Changes in fair values of financial assets at FVOCI	**6**	36	**-**	-
Lease income differential	**2**	2	**-**	-
Others	**210**	175	**-**	-
	689	693	**453**	479
Net deferred tax assets	**P 8,927**	P 8,312	**P 8,179**	P 7,608

Movements in net deferred tax assets for the years ended December 31 follow:

BDO Unibank Group

	Statements of Income		
	2019	2018	2017
Retirement obligation	**P 1,292**	P 332	P 23
Unamortized past service costs	**(966)**	(103)	222
Lease income differential	**146**	(25)	(51)
Recognition of right-of-use assets and lease liabilities	**(70)**	-	-
Allowance for impairment	**24**	(175)	(115)
Capitalized interest	**(3)**	(3)	(3)
NOLCO	**-**	-	(2)
Others	**31**	(32)	(38)
Deferred tax expense (income)	**P 454**	(P 6)	P 36

Parent Bank

	Statements of Income		
	2019	2018	2017
Retirement asset (obligation)	**P 1,313**	P 328	P 46
Unamortized past service costs	**(974)**	(110)	183
Lease income differential	**146**	(17)	(8)
Recognition of right-of-use assets and lease liabilities	**(70)**	-	-
Capitalized interest	**(3)**	(3)	(3)
Deferred tax expense	**P 412**	P 198	P 218

	Statements of Comprehensive Income					
	BDO Unibank Group			Parent Bank		
	2019	2018	2017	**2019**	2018	2017
Movements in actuarial losses	**(P 1,016)**	(P 859)	(P 1,125)	**(P 960)**	(P 879)	(P 1,048)
Movements in fair value of financial assets at FVOCI	**(30)**	(44)	-	**-**	-	-
Movements in revaluation increment	**(23)**	-	-	**(23)**	-	-
Movements in fair value of AFS securities	**-**	-	20	**-**	-	-
Deferred tax income	**(P 1,069)**	(P 903)	(P 1,105)	**(P 983)**	(P 879)	(P 1,048)

The BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods follows for the BDO Unibank Group (nil for the Parent Bank):

Year	NOLCO	MCIT	Valid Until
2019	P 136	P -	2022
2018	199	1	2021
2017	56	-	2020
	P 391	P 1	

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2019 and 2018 are as follows:

	BDO Unibank Group			
	2019		2018	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 16,694**	**P 5,008**	P 13,247	P 3,974
NOLCO	**391**	**117**	299	90
MCIT	**1**	**-**	31	31
Others	**1,205**	**362**	1,206	362
	P 18,291	**P 5,487**	P 14,783	P 4,457

	Parent Bank			
	2019		2018	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 15,954**	**P 4,786**	P 12,357	P 3,707
Others	**1,088**	**326**	1,214	364
	P 17,042	**P 5,112**	P 13,571	P 4,071

The BDO Unibank Group and the Parent Bank continue claiming itemized deduction for income tax purposes.

30.2 Gross Receipts Tax

Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code, is imposed on banks, non-banks financial intermediaries and finance companies (per RA 9238).

GRT is levied on the BDO Unibank Group's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income (per RA 9337).

30.3 Documentary Stamp Tax

Documentary stamp tax (DST) (at varying rates) is imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On December 19, 2017, RA No. 10963 known as train law was passed amending the rates of DST, the significant provisions of which are summarized as follows:

(a) On every issue of debt instruments, there shall be collected a DST of one peso and fifty centavos on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of one peso and 50 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

(c) On all bills of exchange or drafts, there shall be collected a DST of 60 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;

- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;

- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the affectivity of RA No. 9243;

- Fixed income and other securities traded in the secondary market or through an exchange;

- Derivatives including repurchase agreements and reverse repurchase agreements;

- Bank deposit accounts without a fixed term or maturity; and,

- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

30.4 Supplementary Information Required by the Bureau of Internal Revenue (BIR)

The BIR issued Revenue Regulations (RR) No. 15-2010 on November 25, 2010, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under the revised Securities Regulation Code Rule 68.

The Parent Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

31. EARNINGS PER SHARE

Basic earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	2019	2018	2017
Net profit attributable to shareholders of the Parent Bank	**P 44,194**	P 32,708	P 28,070
Dividends on preferred shares	**(339)**	(339)	(340)
Net profit available to common shares	**43,855**	32,369	27,730
Divided by the weighted average number of outstanding common shares (in millions)	**4,378**	4,372	4,322
Basic earnings per share	**P 10.02**	P 7.40	P 6.42

Diluted earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	2019	2018	2017
Net profit attributable to shareholders of the Parent Bank	**P 43,855***	P 32,369*	P 27,730*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**4,378**	4,372	4,322
Potential common shares from assumed conversion of preferred shares	*****	*	*
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**4,378**	4,372	4,322
Diluted earnings per share	**P 10.02**	P 7.40	P 6.42

* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

** *Potential common shares from assumed conversion of stock option plan made through primary issuance do not significantly affect the computation of diluted earnings per share.*

32. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some measures of BDO Unibank Group and Parent Bank's financial performance:

	2019	2018	2017
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**12.6%**	10.6%	10.2%
Return on average resources:			
Net profit / Average total resources	**1.4%**	1.1%	1.1%
Net interest margin:			
Net interest income / Average interest earning resources	**4.2%**	3.6%	3.5%
Return on common equity:			
Net profit / Average common equity	**12.8%**	10.7%	10.2%
Liquidity ratio:			
Total liquid resources / Total resources	**27.8%**	30.4%	31.6%
Debt to equity:			
Total liabilities / Total equity	**760.5%**	821.0%	794.3%
Resources to equity:			
Total resources / Total equity	**860.5%**	921.0%	894.3%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**245.5%**	241.9%	308.2%
Profit margin:			
Net profit / Revenues	**20.0%**	18.3%	19.1%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**14.2%**	13.8%	14.5%

* *Computed using balances prepared under PFRS*

	2019	2018	2017
BDO Unibank Group			
Basel III Leverage Ratio:			
Capital Measure / Exposure Measure	**10.0%**	9.3%	**
Liquidity Coverage Ratio:			
Total Stock of High – Quality Liquid Assets / Total Net Cash Outflows	**108.4%**	**	**
Net Stable Funding Ratio:			
Available Stable Funding / Required Stable Funding	**116.7%**	**	N/A

** *Public disclosure is not required by the BSP during this period.*

	2019	2018	2017
Parent Bank			
Return on average equity:			
Net profit / Average total capital accounts	**12.7%**	10.6%	10.2%
Return on average resources:			
Net profit / Average total resources	**1.5%**	1.2%	1.2%
Net interest margin:			
Net interest income / Average interest earning resources	**4.1%**	3.7%	3.5%
Return on common equity:			
Net profit / Average common equity	**12.8%**	10.7%	10.2%
Liquidity ratio:			
Total liquid resources / Total resources	**25.8%**	28.6%	29.2%
Debt to equity:			
Total liabilities / Total equity	**729.6%**	782.7%	748.2%

Parent Bank

	2019	2018	2017
Resources to equity:			
Total resources / Total equity	**829.6%**	882.7%	848.2%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**249.3%**	247.0%	320.6%
Profit margin:			
Net profit / Revenues	**22.5%**	20.6%	22.0%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**13.7%**	13.3%	13.8%
Basel III Leverage Ratio:			
Capital Measure / Exposure Measure	**9.6%**	8.9%	**
Liquidity Coverage Ratio:			
Total Stock of High – Quality Liquid Assets / Total Net Cash Outflows	**109.2%**	**	**
Net Stable Funding Ratio:			
Available Stable Funding / Required Stable Funding	**117.4%**	**	N/A

* *Computed using balances prepared under PFRS*
** *Public disclosure is not required by the BSP during this period.*

Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2019	2018	**2019**	2018
Aggregate amount of secured liabilities	**P -**	P 226	**P -**	P -
Aggregate amount of resources pledged as security	**P 597**	P 1,501	**P -**	P -

33. EVENTS AFTER THE END OF THE REPORTING PERIOD

33.1 Dividends

On February 1, 2020, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.50% per annum of the par value for a total dividend of P339. The dividends will be paid within 60 days from dividend declaration date.

33.2 Sale of BDO Leasing

On January 24, 2020, the Parent Bank and BDO Capital entered into an agreement to sell their entire controlling stake in BDO Leasing to a third party as part of the Parent Bank's restructuring of its leasing business. The completion of the transaction is still subject to regulatory approvals and the fulfilment of other closing conditions.

33.3 Issuance of Fixed Rate Peso Bonds

On February 3, 2020, the Parent Bank issued P40,100 fixed rate peso bonds. The bonds have a tenor of 2.5 years and bear a coupon rate of 4.408%. Interest will be paid and calculated on a quarterly basis. This follows the P35,000 fixed rate peso bond issuance in February 11, 2019 and is a component of the P100,000 peso bond program approved by the BOD on August 31, 2018 (see Note 17.2). The issuance is part of the Parent Bank's continuing efforts to diversify its funding sources and support its lending activities.

34. COMMITMENTS AND CONTINGENCIES

34.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2019, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

34.1.1 Applicability of RR 4-2011

On March 15, 2011, the BIR issued RR No. 4-2011 regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

RR No. 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

On April 6, 2015, 19 banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court of Makati. The Parent Bank and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR No. 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR No. 4-2011 and that the scope of RR No. 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR No. 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR No. 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR No. 4-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 25, 2018, the RTC declared RR 4-2011 as null and void. The writs of preliminary injunction issued by the RTC on April 25, 2015 and February 28, 2018 were also made permanent, thereby enjoining Department of Finance (DOF) and BIR from implementing RR 4-2011 and prohibiting them from issuing a preliminary assessment notice or final assessment notice, or deciding any administrative matter pending before it, according to or in relation to said regulation.

On July 10, 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari ("Motion for Extension"). The Supreme Court granted the Motion for Extension.

On August 9, 2018, Petitioners filed a Petition for Review on Certiorari dated August 1, 2018 ("Petition") to assail the RTC decision based on the following grounds: (i) the RTC had no jurisdiction over petitions assailing the constitutionality and validity of tax laws, rules and regulation, and other administrative issuance of the BIR. Allegedly, it is the Court of Tax Appeals that has exclusive jurisdiction to determine the constitutionality or validity of Tax Laws, Rules and Regulations issued by the Commissioner of Internal Revenue; and (ii) RR 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

In a Resolution dated March 27, 2019, the Supreme Court ordered Respondents to file their Comment on the Petition. On August 5, 2019, the Respondents filed its Comment on/Opposition to the Petition for Review on Certiorari.

All other Respondents have their respective Comments and/or Oppositions to the Petition.

The case remains pending as of December 31, 2019.

34.1.2 First e-Bank

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting Philippine Deposit Insurance Corporation ("PDIC") to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with the Parent Bank wherein consideration of the assumption by the Parent Bank of FeB's liabilities in the maximum amount of P10,000, PDIC will provide the Parent Bank P10,000 of financial assistance and PDIC will receive FeB's assets to recover said financial assistance.

About P5,000 of the financial assistance was released to the Parent Bank and the remaining P5,000 was deposited in escrow with BDO Trust and Investments Group ("BDO-TIG") in accordance with the escrow agreement dated October 23, 2002 entered into by the Parent Bank, PDIC, and BDO-TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets the Parent Bank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon.

Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against the Parent Bank, which case was raffled to RTC Makati City Branch 60. On October 14, 2016, the Parent Bank filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

In a judgement dated May 31, 2018, RTC Makati dismissed the complaint, granted BDO Unibank's counterclaim and ordered BDO - TIG to immediately release the remaining escrow amount, plus interests, to BDO Unibank. PDIC filed Motion for Reconsideration but the same was denied by RTC Makati. PDIC filed Notice of Appeal.

On June 18, 2018, the Parent Bank received an amount of P1,243 for the full termination of escrow. As of December 31, 2019, the difference between the amount received and the balance of the amount in escrow is presented as part of Others under Other Liabilities account, pending the resolution of the Appeal filed by the counterparty (see Note 20).

The case is still pending before the Court of Appeals as of December 31, 2019.

34.1.3 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2019, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

34.2 Lease Commitments – as Lessee (2018)

BDO Unibank Group, as a lessee, leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the BDO Unibank Group's statements of income, amounted to P3,597 and P3,220 in 2018 and 2017, respectively, for the BDO Unibank Group and P3,385 and P3,012 in 2018 and 2017, respectively, in the Parent Bank (see Note 24).

As of December 31, 2018, the estimated minimum future annual receivables of the BDO Unibank Group and the Parent Bank follow:

	BDO Unibank Group	Parent Bank
Within one year	P 3,466	P 3,457
After one year but not more five years	8,618	8,591
More than five years	4,890	4,927
	P 16,974	P 16,975

34.3 Lease Commitments – as Lessor

34.3.1 Finance Leases

BDO Unibank Group, as a lessor, enters into a finance leases covering various equipment and vehicles with lease term ranging from one to five. To manage its risks over these finance leases, the BDO Unibank Group retains its legal title over the underlying assets, and are used as securities over the finance lease receivables. Future minimum lease payments receivable (MLPR) under this finance lease together with the present value of net minimum lease payments receivable (NMLPR) follow:

	2019		2018	
	Future MLPR	**PV of NMLPR**	Future MLPR	PV of NMLPR
Within one year	**P 5,377**	**P 5,311**	P 7,868	P 7,793
After one year but not more than two years	**4,183**	**4,013**	5,700	5,555
After two years but not more than three years	**3,006**	**2,609**	4,357	3,913
After three years but not more than five years	**2,458**	**1,838**	4,009	3,054
Total MLP	**15,024**	**13,771**	21,934	20,315
Unearned lease income	**(1,253)**	**-**	(1,619)	-
Present value of MLPR	**P 13,771**	**P 13,771**	P 20,315	P 20,315

34.3.2 Operating Leases

The BDO Unibank Group and the Parent Bank entered into various operating leases covering land, offices and equipment with lease terms ranging from 1 to 10 years. Operating lease income, presented under Rental account as part of Other Operating Income and Expenses in the BDO Unibank Group's statements of income for the years ended December 31, 2019, 2018 and 2017, amounted to P1,526, P1,653 and P1,588, respectively, for the BDO Unibank Group and P523, P583 and P534, respectively, for the Parent Bank (see Note 24).

Future minimum rental receivables as of December 31, 2019 under operating leases follow:

	BDO Unibank Group	Parent Bank
Within one year	P 1,464	P 566
More than one year to two years	959	401
More than two years to three years	499	227
More than three years to four years	237	132
More than four years to five years	147	73
More than five years	228	10
	P 3,534	P 1,409

34.4 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2019 and 2018, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies. The summary of BDO Unibank Group's commitments and contingent accounts is shown in the succeeding page.

	Notes	BDO Unibank Group 2019	BDO Unibank Group 2018	Parent Bank 2019	Parent Bank 2018
Trust department accounts	27	**P 1,336,368**	P 1,161,717	**P 979,045**	P 849,684
Committed credit lines	4.3.2	**404,078**	349,732	**404,078**	349,732
Forward exchange sold		**140,128**	132,422	**126,189**	118,276
Forward exchange bought		**141,969**	122,948	**126,377**	105,811
Unused commercial letters of credit	4.3.2	**53,703**	48,950	**53,703**	48,950
Interest rate swap receivable		**15,446**	19,201	**4,319**	5,978
Interest rate swap payable		**15,446**	19,201	**4,319**	5,978
Spot exchange sold		**20,148**	10,818	**19,287**	10,290
Bills for collection		**10,846**	10,716	**10,846**	10,716
ROP warrants		**8,475**	8,475	**8,475**	8,475
Spot exchange bought		**9,764**	7,273	**8,902**	6,745
Export letters of credit confirmed		**7,868**	6,180	**7,868**	6,180
Other contingent accounts		**3,038**	3,038	**3,038**	3,038
Late deposits/payments received		**3,174**	2,674	**3,150**	2,654
Outstanding guarantees issued		**2,942**	1,715	**2,942**	1,715

P&A
Grant Thornton
An instinct for growth™

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288

Report of Independent Auditors

The Board of Directors and Stockholders
BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Unibank, Inc. and subsidiaries (collectively referred to as the BDO Unibank Group) and of BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the BDO Unibank Group and of the Parent Bank as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the BDO Unibank Group and of the Parent Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

I. Key Audit Matters Applicable to the BDO Unibank Group and the Parent Bank Financial Statements

(a) Adoption of PFRS 9, Financial Instruments

Description of the Matter

Effective January 1, 2018, the BDO Unibank Group and the Parent Bank adopted PFRS 9, *Financial Instruments*, (PFRS 9) which replaced PAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of this new standard, which primarily affected the BDO Unibank Group's and Parent Bank's classification and measurement of their financial assets and impairment of financial instruments using the expected credit losses, is considered significant in our audit due to the complexity of the accounting requirements and the significant judgement required in determining assumptions to be used in applying the standard.

The impact of the adoption of PFRS 9, and the related changes in accounting policies, basis of judgement and estimates, and risk management are disclosed in Notes 2, 3 and 4 to the financial statements.

How the Matter was Addressed in the Audit

We have obtained an understanding of the BDO Unibank Group's and the Parent Bank's implementation process of PFRS 9, including the changes to the BDO Unibank Group's and the Parent Bank's policies and Information Technology systems and processes. Our audit procedures for each of the new requirements of the PFRS 9 are the following:

(i) Classification and Measurement

- Evaluating the appropriateness of the BDO Unibank Group's and the Parent Bank's policy for classification and measurement of financial instruments based on the requirements of PFRS 9.

- Reviewing the sufficiency and appropriateness of the business model assessment and contractual cash flows characteristics assessment (i.e., testing if the cash flows arising relate solely to payment of principal and interest) performed by the BDO Unibank Group and the Parent Bank on their financial assets.

- Reviewing the classification and measurement analysis done by the BDO Unibank Group and the Parent Bank regarding the classification of financial assets into fair value through profit or loss, amortized cost and fair value through other comprehensive income (FVOCI).

- Evaluating the appropriateness of transition adjustments as a result of the adoption of PFRS 9 on classification and measurement of financial assets, and determining the adequacy of related financial statement disclosures, including changes in accounting policies and basis of judgement and estimates.

(ii) Impairment

- Evaluating the appropriateness of the impairment policies, particularly those requiring the exercise of judgement such as when a credit exposure has experienced a significant increase in credit risk.

- Understanding and assessing appropriateness of expected credit loss (ECL) models used, including reasonableness of overlays or forward looking information.

- Assessing completeness, accuracy, relevance and reliability of inputs in the ECL models, including historical information sourced outside of the controllership function or obtained from the third party sources.

- Reviewing the assessment done by the BDO Unibank Group and the Parent Bank regarding appropriateness of the ECL models and assumptions and estimates used and reasonableness of computed impairment loss.

- Evaluating appropriateness of the impairment adjustments resulting in the transition to PFRS 9, including completeness and reasonableness of related ECL disclosures.

(b) Proper Valuation of Loans and Other Receivables

Description of the Matter

The BDO Unibank Group and the Parent Bank had loans and other receivables that are subject to impairment. As of December 31, 2018, the BDO Unibank Group and the Parent Bank had loans and other receivables amounting to P2,071,834 million and P2,019,153 million, respectively, net of allowance for impairment of P29,045 million and P26,197 million, respectively. Loans and other receivables are the most significant resources of the BDO Unibank Group and the Parent Bank which account for 69% and 70% of the BDO Unibank Group's and the Parent Bank's total resources, respectively.

The allowance for impairment of loans and other receivables is considered to be a matter of significance as it requires the application of critical management judgment and use of subjective estimates in determining how much impairment loss are required to be recognized in the financial statements. These judgment and estimates are disclosed in the BDO Unibank Group and Parent Bank's accounting policies in Notes 2 and 3 to the financial statements.

As discussed in item I(a) above, on January 1, 2018, the BDO Unibank Group and the Parent Bank adopted PFRS 9, which introduced the ECL model in determining impairment of financial assets. Accordingly, the BDO Unibank Group and the Parent Bank used the ECL model in determining impairment of their loans and other receivables. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated loss ratios and of default correlations between counterparties. Furthermore, the BDO Unibank Group and the Parent Bank incorporated forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement of ECL. The BDO Unibank Group and the Parent Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The disclosures of the BDO Unibank Group and the Parent Bank on the allowance for impairment of loans and other receivables, and the related credit risk are included in Notes 4 and 10 to the financial statements.

How the Matter was Addressed in the Audit

In addition to the procedures performed in I(a), our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of loans and other receivables, which were considered to be a significant risk, included:

- testing the design and operating effectiveness of key controls across the processes, as assisted by our own Information Technology specialists, over the loan classification into stages, and the calculation and recognition of the allowance for impairment;
- evaluating appropriateness of BDO Unibank Group's and the Parent Bank's credit policy and loan impairment process as approved by the Board of Directors;
- verifying that the loans are allocated to the appropriate stage, and challenging the criteria used to categorize the loan to Stage 1, 2 or 3 in accordance with PFRS 9;
- on a sample basis, evaluating the appropriateness of the credit risk ratings of performing Stage 1 loans to assess appropriateness of credit risk monitoring;
- evaluating the inputs and assumptions, as well as the formulas used in the development of the ECL models for each of their loan portfolio. This includes assessing the appropriateness of design of the ECL impairment model and formula used in determining the probability of default, loss given default and exposure at default;
- for forward-looking information used, evaluating whether the forecasted macro-economic factors, which generally include but not limited to Gross Domestic Product growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates, were appropriate. In addition, assessing the level of significance of correlation of selected macro-economic factors to the default rates as well as the impact of these variables to the ECL;
- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts; and,
- on selected non-performing loan accounts, evaluating the management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery from other sources of collection.

(c) Valuation of Financial Instruments

Description of the Matter

The fair valuation of financial instruments of the BDO Unibank Group and the Parent Bank is considered a key area of focus in our audit due to the use of inputs from external sources in computing the market value of these financial instruments. For some financial instruments such as derivatives, the determination of fair value includes the use of estimates by the management. The fair value of derivative financial instruments is determined using the net present value computation. To the extent practicable, models use observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

As of December 31, 2018, the financial assets and financial liabilities of the BDO Unibank Group that are carried at fair value amounted to P140,697 million and P4,497 million, respectively, while that of the Parent Bank amounted to P81,372 million and P1,680 million, respectively.

The disclosures of the BDO Unibank Group and the Parent Bank on exposure to financial instruments valuation risk are included in Note 4 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

- evaluating whether fair value prices used were appropriate by testing the inputs against reliable market sources, such as Philippine Dealing & Exchange Corp., Bloomberg and Philippine Stock Exchange;

- recomputing the fair values based on the inputs and compared with the market values used by the BDO Unibank Group and the Parent Bank;

- testing of controls over the valuation process of the BDO Unibank Group and the Parent Bank on financial instruments, particularly the measurement of derivative valuation adjustments; and,

- reviewing the formulas used in fair market valuation.

II. Key Audit Matter Applicable to the BDO Unibank Group Financial Statements

Carrying Value of Goodwill

Description of the Matter

BDO Unibank Group has goodwill of P4,435 million as of December 31, 2018, and the significant portion of which relates to the acquisition of One Network Bank (ONB) in prior years.

Under PFRS, BDO Unibank Group is required to annually test the amount of goodwill for impairment. This annual impairment testing of goodwill is considered to be a key audit matter because the management's process in assessing the recoverability of goodwill is complex. In addition, assumptions used in determining cash generating units (CGUs) where the goodwill is allocated and estimating the recoverable amount involves significant judgment. The recoverable amount of the CGUs has been computed using discounted cash flows method. This valuation method uses several key assumptions, including estimates for forecasted statement of financial position and net profit of CGUs, terminal value growth rates and discount rate.

The BDO Unibank Group's disclosures about goodwill are included in Notes 2 and 13 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to impairment of goodwill included, among others, evaluating the appropriateness of assumptions and methodologies used by the management, in particular, those relating to the forecasted statement of financial position and statement of income as well as the discount rate used. We have involved our Firm valuation specialist to assist in evaluating the appropriateness of assumptions used in estimating the recoverable amount of CGUs. In addition, our audit of the financial statements of ONB as of and for the year ended December 31, 2018 did not identify events or conditions that may cast significant doubt on ONB's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in the BDO Unibank Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the BDO Unibank Group's and the Parent Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the BDO Unibank Group and the Parent Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the BDO Unibank Group's and the Parent Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BDO Unibank Group's and the Parent Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BDO Unibank Group's and the Parent Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the BDO Unibank Group and the Parent Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the BDO Unibank Group and the Parent Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 29 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under Securities Regulation Code Rule 68, as amended, of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Leonardo D. Cuaresma, Jr.

PUNONGBAYAN & ARAULLO

By: **Leonardo D. Cuaresma, Jr.**
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 7333690, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-5 (until July 9, 2021)
Firm - No. 0002-FR-5 (until March 26, 2021)
BIR AN 08-002511-7-2017 (until June 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until July 24, 2021)

February 23, 2019

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
RESOURCES					
CASH AND OTHER CASH ITEMS	7	**P 53,749**	P 45,006	**P 52,492**	P 43,882
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**354,132**	353,308	**349,017**	340,596
DUE FROM OTHER BANKS	8	**55,292**	51,479	**48,780**	41,088
TRADING AND INVESTMENT SECURITIES	9	**385,197**	332,927	**304,281**	258,214
LOANS AND OTHER RECEIVABLES - Net	10	**2,071,834**	1,791,786	**2,019,153**	1,730,732
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**33,660**	29,346	**29,272**	24,917
INVESTMENT PROPERTIES - Net	12	**19,785**	18,040	**15,426**	14,496
OTHER RESOURCES - Net	13	**48,598**	46,212	**73,391**	70,700
TOTAL RESOURCES		**P 3,022,247**	P 2,668,104	**P 2,891,812**	P 2,524,625
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	**P 2,419,965**	P 2,121,012	**P 2,362,302**	P 2,045,321
BILLS PAYABLE	16	**143,623**	130,484	**117,693**	105,623
SUBORDINATED NOTES PAYABLE	17	**10,030**	10,030	**10,030**	10,030
INSURANCE CONTRACT LIABILITIES	18	**28,506**	25,986	**-**	-
OTHER LIABILITIES	19	**91,974**	82,252	**74,166**	65,990
Total Liabilities		**2,694,098**	2,369,764	**2,564,191**	2,226,964
EQUITY	20				
Attributable to:					
Shareholders of the Parent Bank		**327,372**	297,488	**327,621**	297,661
Non-controlling Interests		**777**	852	**-**	-
		328,149	298,340	**327,621**	297,661
TOTAL LIABILITIES AND EQUITY		**P 3,022,247**	P 2,668,104	**P 2,891,812**	P 2,524,625

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos Except Per Share Data)

	Notes	BDO Unibank Group 2018	2017	2016	Parent Bank 2018	2017	2016
INTEREST INCOME	21	**P 129,040**	P 99,795	P 82,037	**P 122,615**	P 93,786	P 76,647
INTEREST EXPENSE	22	**30,748**	18,042	16,413	**28,720**	16,434	14,989
NET INTEREST INCOME		**98,292**	81,753	65,624	**93,895**	77,352	61,658
IMPAIRMENT LOSSES - Net	9, 13, 14	**6,286**	6,537	3,815	**5,700**	5,809	3,003
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**92,006**	75,216	61,809	**88,195**	71,543	58,655
OTHER OPERATING INCOME	23	**49,674**	47,206	41,613	**35,823**	33,633	27,494
OTHER OPERATING EXPENSES	23	**98,034**	84,865	69,988	**81,794**	68,929	56,379
PROFIT BEFORE PRE-ACQUISITION INCOME		**43,646**	37,557	33,434	**42,224**	36,247	29,770
PRE-ACQUISITION INCOME	28	**-**	-	(391)	**-**	-	-
PROFIT BEFORE TAX		**43,646**	37,557	33,043	**42,224**	36,247	29,770
TAX EXPENSE	29	**11,007**	9,452	6,797	**9,512**	8,241	5,713
NET PROFIT		**P 32,639**	P 28,105	P 26,246	**P 32,712**	P 28,006	P 24,057
Attributable to:							
Shareholders of the Parent Bank		**P 32,708**	P 28,070	P 26,234			
Non-controlling Interests		**(69)**	35	12			
		P 32,639	P 28,105	P 26,246			
Earnings Per Share:	30						
Basic		**P 7.40**	P 6.42	P 6.81	**P 7.40**	P 6.40	P 6.23
Diluted		**P 7.40**	P 6.42	P 6.81	**P 7.40**	P 6.40	P 6.23

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	BDO Unibank Group 2016	Parent Bank 2018	Parent Bank 2017	Parent Bank 2016
NET PROFIT		**P 32,639**	P 28,105	P 26,246	**P 32,712**	P 28,006	P 24,057
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that are or will be reclassified subsequently to profit or loss:							
Net unrealized losses on debt investments at fair value through other comprehensive income (FVOCI), net of tax	9	**(4,984)**	-	-	**(2,475)**	-	-
Transfer of realized gains on disposed debt investments at FVOCI to statements of income, net of tax	9	**(143)**	-	-	**(11)**	-	-
Impairment losses on debt investments at FVOCI	9	**18**	-	-	**5**	-	-
Unrealized gains (losses) on available-for-sale (AFS) securities, net of tax	9	**-**	622	(943)	**-**	255	899
Transfer of amortized unrealized fair value losses on reclassified AFS securities to held-to-maturity investments to statements of income	9	**-**	621	275	**-**	288	292
Transfer of realized losses on impaired AFS securities to statements of income, net of tax	9	**-**	139	346	**-**	-	-
Transfer of realized gains on disposed AFS securities to statements of income, net of tax	9	**-**	(1,474)	(2,959)	**-**	(58)	(2,355)
Net losses on FVOCI securities, net of tax		**(5,109)**	-	-	**(2,481)**	-	-
Net gains (losses) on AFS securities, net of tax		**-**	(92)	(3,281)	**-**	485	(1,164)
Translation adjustment related to foreign operations		**34**	(8)	78	**1**	(14)	2
		(5,075)	(100)	(3,203)	**(2,480)**	471	(1,162)
Items that will not be reclassified to profit or loss:							
Remeasurement on life insurance reserves		**3,655**	785	(324)	**-**	-	-
Actuarial losses on remeasurement of retirement benefit obligation, net of tax	24	**(2,088)**	(2,550)	(645)	**(2,052)**	(2,445)	(516)
Unrealized gains (losses) on equity investments at FVOCI, net of tax	9	**(1,210)**	-	-	**54**	-	-
		357	(1,765)	(969)	**(1,998)**	(2,445)	(516)
Share in other comprehensive income (loss) of subsidiaries and associates accounted for under equity method	13	**(9)**	(3)	1	**(220)**	1,702	(2,413)
Other Comprehensive Loss, net of tax		**(4,727)**	(1,868)	(4,171)	**(4,698)**	(272)	(4,091)
TOTAL COMPREHENSIVE INCOME		**P 27,912**	P 26,237	P 22,075	**P 28,014**	P 27,734	P 19,966
Attributable to:							
Shareholders of the Parent Bank		**P 28,025**	P 26,226	P 22,016			
Non-controlling Interests		**(113)**	11	59			
		P 27,912	P 26,237	P 22,075			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group														
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Losses	Revaluation Increment	Remeasurement on Life Insurance Reserves	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2018																
As previously stated		P 43,690	P 5,150	P 122,966	P 3,354	P 11	P 133,529	(P 3,991)	(P 6,805)	P 1,008	(P 1,398)	(P 21)	(P 5)	P 297,488	P 852	P 298,340
Effect of adoption of PFRS 9	2	-	-	-	9,520	-	(2,010)	(529)	-	-	-	-	-	6,981	17	6,998
As restated		43,690	5,150	122,966	12,874	11	131,519	(4,520)	(6,805)	1,008	(1,398)	(21)	(5)	304,469	869	305,338
Transactions with owners	20															
Issuance of shares during the year		50	-	411	-	-	-	-	-	-	-	-	-	461	-	461
Cash dividends		-	-	-	-	-	(5,585)	-	-	-	-	-	-	(5,585)	(27)	(5,612)
		50	-	411	-	-	(5,585)	-	-	-	-	-	-	(5,124)	(27)	(5,151)
Total comprehensive income (loss)		-	-	-	-	-	32,708	(6,275)	(2,088)	-	3,655	34	(9)	28,025	(113)	27,912
Transfer from Surplus Free																
Trust reserve	20, 26	-	-	-	251	-	(251)	-	-	-	-	-	-	-	-	-
Reversal of appropriations during the period		-	-	-	(207)	-	207	-	-	-	-	-	-	-	-	-
Other reserves	20	-	-	-	1,870	-	(1,870)	-	-	-	-	-	-	-	-	-
		-	-	-	1,914	-	(1,914)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	-	(401)	405	-	-	-	-	-	4	-	4
Other adjustments	28															
Additional capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	49	49
Change in ownership interest in subsidiaries		-	-	-	-	(2)	-	-	-	-	-	-	-	(2)	(1)	(3)
		-	-	-	-	(2)	-	-	-	-	-	-	-	(2)	48	46
BALANCE AT DECEMBER 31, 2018		**P 43,740**	**P 5,150**	**P 123,377**	**P 14,788**	**P 9**	**P 156,327**	**(P 10,390)**	**(P 8,893)**	**P 1,008**	**P 2,257**	**P 13**	**(P 14)**	**P 327,372**	**P 777**	**P 328,149**
BALANCE AT JANUARY 1, 2017		P 36,500	P 5,150	P 70,127	P 2,972	P 12	P 111,423	(P 3,919)	(P 4,259)	P 1,008	(P 2,183)	(P 13)	(P 2)	P 216,816	P 743	P 217,559
Transactions with owners	20															
Stock rights issuance		7,164	-	52,662	-	-	-	-	-	-	-	-	-	59,826	-	59,826
Issuance of shares during the year		26	-	177	-	-	-	-	-	-	-	-	-	203	-	203
Cash dividends		-	-	-	-	-	(5,582)	-	-	-	-	-	-	(5,582)	(50)	(5,632)
		7,190	-	52,839	-	-	(5,582)	-	-	-	-	-	-	54,447	(50)	54,397
Total comprehensive income (loss)		-	-	-	-	-	28,070	(72)	(2,546)	-	785	(8)	(3)	26,226	11	26,237
Transfer from Surplus Free																
Appropriations during the year	20	-	-	-	126	-	(126)	-	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	256	-	(256)	-	-	-	-	-	-	-	-	-
		-	-	-	382	-	(382)	-	-	-	-	-	-	-	-	-
Other adjustments	20, 28															
Additional capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	147	147
Change in ownership interest in subsidiaries		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	1	-
		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	148	147
BALANCE AT DECEMBER 31, 2017		P 43,690	P 5,150	P 122,966	P 3,354	P 11	P 133,529	(P 3,991)	(P 6,805)	P 1,008	(P 1,398)	(P 21)	(P 5)	P 297,488	P 852	P 298,340
BALANCE AT JANUARY 1, 2016		P 36,453	P 5,150	P 69,936	P 2,696	P 12	P 88,884	(P 622)	(P 3,614)	P 1,008	P -	(P 60)	(P 748)	P 199,095	P 623	P 199,718
Transactions with owners	20															
Issuance of shares during the year		47	-	191	-	-	-	-	-	-	-	-	-	238	-	238
Cash dividends		-	-	-	-	-	(4,716)	-	-	-	-	-	-	(4,716)	(50)	(4,766)
		47	-	191	-	-	(4,716)	-	-	-	-	-	-	(4,478)	(50)	(4,528)
Total comprehensive income (loss)		-	-	-	-	-	26,234	(3,297)	(645)	-	(324)	47	1	22,016	59	22,075
Transfer from Surplus Free																
Appropriations during the year	20	-	-	-	36	-	(36)	-	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	240	-	(240)	-	-	-	-	-	-	-	-	-
		-	-	-	276	-	(276)	-	-	-	-	-	-	-	-	-
Other adjustments																
Effect of restatement on a subsidiary previously classified as an associate		-	-	-	-	-	1,297	-	-	-	(1,859)	-	661	99	111	210
Consolidation of a new subsidiary	20, 28	-	-	-	-	-	-	-	-	-	-	-	84	84	-	84
		-	-	-	-	-	1,297	-	-	-	(1,859)	-	745	183	111	294
BALANCE AT DECEMBER 31, 2016		P 36,500	P 5,150	P 70,127	P 2,972	P 12	P 111,423	(P 3,919)	(P 4,259)	P 1,008	(P 2,183)	(P 13)	(P 2)	P 216,816	P 743	P 217,559

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

	Notes	Parent Bank: Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity
BALANCE AT JANUARY 1, 2018												
As previously stated		P 43,690	P 5,150	P 122,947	P 2,524	P 132,625	(P 1,203)	(P 6,452)	P 1,005	(P 2)	(P 2,623)	P 297,661
Effect of adoption of PFRS 9	2	-	-	-	9,356	(1,846)	(653)	-	-	-	126	6,983
As restated		43,690	5,150	122,947	11,880	130,779	(1,856)	(6,452)	1,005	(2)	(2,497)	304,644
Transactions with owners	20											
Issuance of shares during the year		50	-	411	-	-	-	-	-	-	-	461
Cash dividends		-	-	-	-	(5,585)	-	-	-	-	-	(5,585)
		50	-	411	-	(5,585)	-	-	-	-	-	(5,124)
Total comprehensive income (loss)		-	-	-	-	32,712	(2,427)	(2,052)	-	1	(220)	28,014
Transfer from Surplus Free												
Trust reserve	20, 26	-	-	-	181	(181)	-	-	-	-	-	-
Other reserves	20	-	-	-	1,824	(1,824)	-	-	-	-	-	-
		-	-	-	2,005	(2,005)	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	(401)	2	-	-	-	403	4
Other adjustment	28											
Change in ownership interest in subsidiaries		-	-	-	-	83	-	-	-	-	-	83
		-	-	-	-	83	-	-	-	-	-	83
BALANCE AT DECEMBER 31, 2018		**P 43,740**	**P 5,150**	**P 123,358**	**P 13,885**	**P 155,583**	**(P 4,281)**	**(P 8,504)**	**P 1,005**	**(P 1)**	**(P 2,314)**	**P 327,621**
BALANCE AT JANUARY 1, 2017		P 36,500	P 5,150	P 70,108	P 2,238	P 110,564	(P 1,688)	(P 4,007)	P 1,005	P 12	(P 4,325)	P 215,557
Transactions with owners	20											
Stock rights issuance		7,164	-	52,662	-	-	-	-	-	-	-	59,826
Issuance of shares during the year		26	-	177	-	-	-	-	-	-	-	203
Cash dividends		-	-	-	-	(5,582)	-	-	-	-	-	(5,582)
		7,190	-	52,839	-	(5,582)	-	-	-	-	-	54,447
Total comprehensive income (loss)		-	-	-	-	28,006	485	(2,445)	-	(14)	1,702	27,734
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	96	(96)	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	190	(190)	-	-	-	-	-	-
		-	-	-	286	(286)	-	-	-	-	-	-
Other adjustment												
Change in ownership interest in subsidiaries	28	-	-	-	-	(77)	-	-	-	-	-	(77)
BALANCE AT DECEMBER 31, 2017		P 43,690	P 5,150	P 122,947	P 2,524	P 132,625	(P 1,203)	(P 6,452)	P 1,005	(P 2)	(P 2,623)	P 297,661
BALANCE AT JANUARY 1, 2016		P 36,453	P 5,150	P 69,917	P 2,028	P 89,533	(P 524)	(P 3,491)	P 1,005	P 10	(P 718)	P 199,363
Transactions with owners	20											
Issuance of shares during the year		47	-	191	-	-	-	-	-	-	-	238
Cash dividends		-	-	-	-	(4,716)	-	-	-	-	-	(4,716)
		47	-	191	-	(4,716)	-	-	-	-	-	(4,478)
Total comprehensive income (loss)		-	-	-	-	24,057	(1,164)	(516)	-	2	(2,413)	19,966
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	28	(28)	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	182	(182)	-	-	-	-	-	-
		-	-	-	210	(210)	-	-	-	-	-	-
Other adjustment												
Effect of restatement on a subsidiary previously classified as an associate		-	-	-	-	1,900	-	-	-	-	(1,194)	706
BALANCE AT DECEMBER 31, 2016		P 36,500	P 5,150	P 70,108	P 2,238	P 110,564	(P 1,688)	(P 4,007)	P 1,005	P 12	(P 4,325)	P 215,557

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	BDO Unibank Group 2016	Parent Bank 2018	Parent Bank 2017	Parent Bank 2016
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 43,646	P 37,557	P 33,043	P 42,224	P 36,247	P 29,770
Adjustments for:							
Interest income	21	(129,040)	(99,795)	(82,037)	(122,615)	(93,786)	(76,647)
Interest received		125,410	97,862	80,887	119,115	91,455	75,720
Interest expense	22	30,748	18,042	16,413	28,720	16,434	14,989
Interest paid		(23,833)	(17,650)	(12,488)	(21,948)	(16,085)	(11,117)
Impairment losses	9, 13, 14	6,286	6,537	3,815	5,700	5,809	3,003
Depreciation and amortization	11, 12, 13	5,776	5,172	4,782	4,555	3,958	3,668
Fair value losses (gains)	9	672	(199)	(96)	(476)	(67)	45
Share in net profit of subsidiaries and associates	13	(631)	(612)	(481)	(2,740)	(4,312)	(3,657)
Income from acquisition of a subsidiary	28	-	-	(2,214)	-	-	-
Operating profit before changes in operating resources and liabilities		59,034	46,914	41,624	52,535	39,653	35,774
Decrease (increase) in financial assets at fair value through profit or loss		1,048	(1,048)	1,988	487	(32)	1,076
Increase in loans and other receivables		(265,648)	(259,476)	(226,766)	(266,500)	(255,626)	(219,711)
Increase in investment properties		(2,113)	(3,573)	(794)	(2,107)	(3,389)	(624)
Decrease (increase) in other resources		(13,823)	(17,395)	(3,612)	(8,121)	(16,848)	2,722
Increase in deposit liabilities		297,683	215,758	241,312	315,718	212,278	229,972
Increase in insurance contract liabilities		6,175	6,206	2,486	-	-	-
Increase in other liabilities		18,587	18,631	13,005	13,935	17,244	10,423
Cash generated from (used in) operations		100,943	6,017	69,243	105,947	(6,720)	59,632
Cash paid for income tax		(10,631)	(8,836)	(6,528)	(9,087)	(7,552)	(5,342)
Net Cash From (Used in) Operating Activities		90,312	(2,819)	62,715	96,860	(14,272)	54,290
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of investment securities at amortized cost	9	(87,158)	-	-	(60,406)	-	-
Maturities of investment securities at amortized cost		54,036	-	-	26,154	-	-
Acquisitions of securities at fair value through other comprehensive income (FVOCI)	9	(40,130)	-	-	(17,629)	-	-
Proceeds from disposals of securities at FVOCI		24,417	-	-	8,387	-	-
Acquisitions of premises, furniture, fixtures and equipment	11	(8,135)	(6,158)	(5,537)	(6,920)	(4,989)	(3,811)
Proceeds from disposals of premises, furniture, fixtures and equipment		230	113	144	125	17	30
Acquisitions of held-to-maturity (HTM) investments	9	-	(83,061)	(49,939)	-	(74,111)	(48,139)
Acqusitions of available-for-sale (AFS) securities	9	-	(59,161)	(77,520)	-	(26,052)	(40,953)
Proceeds from disposals of AFS securities		-	46,033	92,532	-	17,816	63,539
Maturities of HTM investments		-	34,503	13,194	-	33,013	12,832
Acquisition of a subsidiary	28	-	-	(2,298)	-	-	(2,298)
Net Cash Used in Investing Activities		(56,740)	(67,731)	(29,424)	(50,289)	(54,306)	(18,800)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from bills payable	16	297,475	342,828	246,547	116,744	172,575	93,177
Payments of bills payable	16	(289,925)	(313,242)	(247,420)	(110,166)	(143,071)	(98,122)
Dividends paid	20	(5,612)	(5,632)	(4,766)	(5,585)	(5,582)	(4,716)
Proceeds from issuance of common stock	20	461	203	238	461	203	238
Net proceeds from issuance of stock rights	20	-	59,826	-	-	59,826	-
Net Cash From (Used in) Financing Activities		2,399	83,983	(5,401)	1,454	83,951	(9,423)
NET INCREASE IN CASH AND CASH EQUIVALENTS ***(Carried Forward)***		P 35,971	P 13,433	P 27,890	P 48,025	P 15,373	P 26,067

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	BDO Unibank Group 2016	Parent Bank 2018	Parent Bank 2017	Parent Bank 2016
NET INCREASE IN CASH AND CASH EQUIVALENTS ***(Brought Forward)***		**P 35,971**	P 13,433	P 27,890	**P 48,025**	P 15,373	P 26,067
CASH AND CASH EQUIVALENTS ACQUIRED FROM NEW SUBSIDIARY	28	**-**	-	851	**-**	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**45,006**	40,909	42,729	**43,882**	39,813	41,767
Due from Bangko Sentral ng Pilipinas	7	**353,308**	318,002	271,808	**340,596**	304,285	260,841
Due from other banks	8	**51,479**	41,794	24,837	**41,088**	33,463	20,944
Investment securities at amortized cost	9	**2,097**	-	-	**2,097**	-	-
HTM securities	9	**-**	894	-	**-**	894	-
Securities purchased under reverse repurchase agreement (SPURRA)	10	**18,260**	14,302	69,490	**14,872**	7,891	58,431
Interbank loans receivables	10	**31,576**	72,749	51,139	**31,576**	72,749	51,139
Foreign currency notes and coins (FCNC)	13	**3,695**	3,338	3,244	**3,694**	3,337	3,243
		505,421	491,988	463,247	**477,805**	462,432	436,365
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**53,749**	45,006	40,909	**52,492**	43,882	39,813
Due from Bangko Sentral ng Pilipinas	7	**354,132**	353,308	318,002	**349,017**	340,596	304,285
Due from other banks	8	**55,292**	51,479	41,794	**48,780**	41,088	33,463
Investment securities at amortized cost	9	**9,168**	-	-	**6,490**	-	-
HTM securities	9	**-**	2,097	894	**-**	2,097	894
SPURRA	10	**22,009**	18,260	14,302	**22,009**	14,872	7,891
Interbank loans receivables	10	**42,214**	31,576	72,749	**42,214**	31,576	72,749
FCNC	13	**4,828**	3,695	3,338	**4,828**	3,694	3,337
		P 541,392	P 505,421	P 491,988	**P 525,830**	P 477,805	P 462,432

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

a. On June 30, 2016, the BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life Assurance Holdings Corp. (BDO Life) from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. As of the date of acquisition, the fair value of previously-held interest of the Parent Bank, total resources and total liabilities of BDO Life amounted to P2,549, P27,454 and P21,083, respectively. The transaction resulted in the recognition in 2016 of gain on fair valuation of previously-held interest and gain on bargain purchase or negative goodwill amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214 (see Note 28).

b. On July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of One Network Bank, Inc. (ONB) in exchange for 64,499,890 common shares of the Parent Bank equivalent to P6,685. The acquisition resulted to recognition of additional paid-in capital amounting to P6,028. Goodwill amounted to P2,903 and non-controlling share in equity totalled P14 at the date the Parent Bank's control was established. As of the date of acquisition, total resources and total liabilities of ONB amounted to P28,196 and P24,398, respectively. In 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. Total additional goodwill recognized in 2016 amounted to P4 (see Note 28).

c. The BDO Unibank Group and the Parent Bank foreclosed real and other properties totalling to P13,032 and P12,834, respectively, in 2018, P11,975 and P11,784, respectively, in 2017, P10,342 and P10,074, respectively, in 2016, in settlement of certain loan accounts (see Note 12).

Other Information

Certain HTM securities, SPURRA and interbank loans receivables, and FCNC are included as part of cash and cash equivalents for cash flow purposes but are presented as part of Trading and Investment Securities, Loans and Other Receivables, and Other Resources, respectively, in the statements of financial position (see Note 2.5).

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

BDO Unibank, Inc. (BDO Unibank, BDO or the Parent Bank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Philippine Securities and Exchange Commission (SEC) granted the Parent Bank extension of its corporate term for another 50 years from December 20, 2017 until December 20, 2067. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private, insurance and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, life insurance and insurance brokerage, credit card services, stock brokerage, trust and others.

As a banking institution, BDO Unibank Group's operations are regulated and supervised by the BSP. In this regard, BDO Unibank Group is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. BDO Unibank Group is subject to the provisions of the General Banking Law of 2000 or Republic Act (RA) No. 8791.

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2018, BDO Unibank Group had 1,309 branches (including two foreign branches), 2,347 on-site and 1,978 off-site automated teller machines (ATMs) and 484 cash accept machines (CAMs). As of December 31, 2018, the Parent Bank had 1,126 branches (including two foreign branches), 2,167 on-site and 1,930 off-site ATMs and 484 CAMs. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and the United States. These foreign operations accounted for 1.3%, 1.2% and 1.1% of BDO Unibank Group's total revenues in 2018, 2017 and 2016, respectively, and 1.4% of BDO Unibank Group's total resources both as of December 31, 2018 and 2017. BDO Unibank Group's subsidiaries and associates are shown in Notes 2.3 and 13.1.

1.2 Approval of Financial Statements

The financial statements of the BDO Unibank Group and the Parent Bank as of and for the year ended December 31, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 23, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Financial Reporting Standards in the Philippines

The consolidated financial statements of BDO Unibank Group and the separate financial statements of the Parent Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resources, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The BDO Unibank Group and the Parent Bank presents a statement of comprehensive income separate from the statement of income.

The BDO Unibank Group and the Parent Bank presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

In 2018, the BDO Unibank Group and the Parent Bank adopted PFRS 9, *Financial Instruments,* which was applied using the transitional relief allowed by the standard. This allows BDO Unibank Group and Parent Bank not to restate its prior periods' financial statements. Accordingly, the adoption of this new accounting standards did not require BDO Unibank Group and Parent Bank to present its third statement of financial position. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Surplus Free or other components of equity in the current year [see table in the next page and Note 2.2(a)(iv)].

The table below shows the impact of the adoption of PFRS 9 to the total equity as at January 1, 2018.

BDO Unibank Group:

	Surplus Free	Surplus Reserve	Effects on Net Unrealized Loss on FVOCI	Non-Controlling Interest	Total Equity
Balance at December 31, 2017 under PAS 39	P 133,529	P 3,354	(P 3,991)	P 852	P 298,340
Impact of PFRS 9 [see Note 2.2(a)(iv)]					
Effect of reclassifications and remeasurements of financial assets	915	-	(598)	1	318
Decrease in allowance for impairment on loans and other receivables	6,792	-	-	16	6,808
Recognition of allowance for impairment on debt securities:					
At amortized cost	(128)	-	-	-	(128)
At fair value through other comprehensive income (FVOCI)	(69)	-	69	-	-
Appropriation of surplus free for general loan loss provision per BSP requirements	(9,520)	9,520	-	-	-
Total impact of PFRS 9	(2,010)	9,520	(529)	17	6,998
Balance at January 1, 2018 under PFRS 9	**P 131,519**	**P 12,874**	**(P 4,520)**	**P 869**	**P 305,338**

Parent Bank

	Surplus Free	Surplus Reserve	Effects on Net Unrealized Loss on FVOCI	Accumulated Share in Other Comprehensive Income (Loss)	Total Equity
Balance at December 31, 2017 under PAS 39	P 132,625	P 2,524	(P 1,203)	(P 2,623)	P 297,661
Impact of PFRS 9 [see Note 2.2(a)(iv)]					
Effect of reclassifications and remeasurements of financial assets	881	-	(715)	126	292
Decrease in allowance for impairment on loans and other receivables	6,806	-	-	-	6,806
Recognition of allowance for impairment on debt securities:					
At amortized cost	(115)	-	-	-	(115)
At FVOCI	(62)	-	62	-	-
Appropriation of surplus free for general loan loss provision per BSP requirements	(9,356)	9,356	-	-	-
Total impact of PFRS 9	(1,846)	9,356	(653)	126	6,983
Balance at January 1, 2018 under PFRS 9	**P 130,779**	**P 11,880**	**(P 1,856)**	**(P 2,497)**	**P 304,644**

The impact of PFRS 9 has no effects in deferred tax asset since the BDO Unibank Group and the Parent Bank opted not to recognize deferred tax effect of the foregoing allowance for impairment.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, BDO Unibank Group and the Parent Bank's functional and presentation currency, and all values are presented in millions, except for per share data or when otherwise indicated (see also Note 2.22).

Items included in the financial statements of BDO Unibank Group and the Parent Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which BDO Unibank Group and the Parent Bank operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to BDO Unibank Group

BDO Unibank Group and the Parent Bank adopted for the first time the following new PFRS, amendments to PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4, *Insurance Contracts*
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle) PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value through Profit or Loss Classification

Discussed below are the relevant information about these new standards, amendments, interpretation and improvements.

(i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provided a non-exhaustive list of examples constituting change in use. The application of these amendments has no significant impact on BDO Unibank Group's financial statements.

(ii) PFRS 2 (Amendments), *Share-based Payment – Classification and Measurement of Share-based Transactions*. The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The application of these amendments has no significant impact on BDO Unibank Group's financial statements.

(iii) PFRS 4 (Amendments), *Insurance Contracts – Applying PFRS 9 with PFRS 4*. The amendments address the temporary accounting consequences of the different effective dates of PFRS 9, and the anticipated new insurance contracts standard by introducing the following options: (a) overlay approach, which is an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; or, (b) an optional temporary exemption from applying PFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of PAS 39, *Financial Measurements: Recognition and Measurement*. The application of these amendments has no significant impact on BDO Unibank Group's financial statements.

(iv) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments i.e., financial asset at amortized cost, at fair value through profit or loss (FVTPL), and at FVOCI;

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The new accounting policies relative to the adoption of PFRS 9 are fully disclosed in Notes 2.5, 2.6 and 2.15

The following table shows the effects of the adoption of PFRS 9 in the carrying amounts (CA) and presentation of the categories of the affected financial asset accounts in the statement of financial position as at January 1, 2018:

BDO Unibank Group

	Notes	CA, PAS 39 December 31, 2017	Reclassification	Remeasurement	CA, PFRS 9 January 1, 2018
Financial assets at FVTPL		P 14,710	P -	P -	P 14,710
Reclassification from AFS securities	a	-	7,321	-	7,321
Reclassification to:					
Investment securities at amortized cost	b	-	(34)	-	(34)
Financial assets at FVOCI	c	-	(13)	-	(13)
Financial assets at FVTPL		**P 14,710**	**P 7,274**	**P -**	**P 21,984**
Financial assets at FVOCI		P -	P -	P -	P -
Reclassification from:					
AFS securities	d	-	106,704	-	106,704
HTM investments	e	-	4,073	9	4,082
Financial assets at FVTPL	c	-	13	-	13
Financial assets at FVOCI		**P -**	**P 110,790**	**P 9**	**P 110,799**
AFS securities		P 121,019	P -	P -	P 121,019
Reclassification to:					
Financial assets at FVOCI	d	-	(106,704)	-	(106,704)
Financial assets at FVTPL	a	-	(7,321)	-	(7,321)
Investment securities at amortized cost	f	-	(6,945)	-	(6,945)
Other resources	g	-	(49)	-	(49)
AFS Securities		**P 121,019**	**(P 121,019)**	**P -**	**P -**
Investment securities at amortized cost					
Reclassification from:					
HTM investments	h	P -	P 193,125	P 191	P 193,316
AFS securities	f	-	6,945	111	7,056
Loans and other receivables	i	-	3,486	-	3,486
Financial assets at FVTPL	b	-	34	-	34
Allowance for impairment	j	-	-	(128)	(128)
Investment securities at amortized cost		**P -**	**P 203,590**	**P 174**	**P 203,764**
HTM investments		P 197,198	P -	P -	P 197,198
Reclassification to:					
Investment securities at amortized cost	h	-	(193,125)	-	(193,125)
Financial assets at FVOCI	e	-	(4,073)	-	(4,073)
HTM investments		**P 197,198**	**(P 197,198)**	**P -**	**P -**
Loans and other receivables		P 1,791,786	P -	P -	P 1,791,786
Reclassification to investment securities at amortized cost	i	-	(3,486)	-	(3,486)
Remeasurement of allowance for impairment	k	-	-	6,808	6,808
Loans and Other receivables		**P 1,791,786**	**(P 3,486)**	**P 6,808**	**P 1,795,108**
Other resources		P 5,555	P -	P -	P 5,555
Reclassification from AFS securities	g	-	49	-	49
Remeasurement of equity investments in associate		-	-	7	7
Other resources		**P 5,555**	**P 49**	**P 7**	**P 5,611**

Parent Bank

	Notes	CA, PAS 39 December 31, 2017	Reclassification	Remeasurement	CA, PFRS 9 January 1, 2018
Financial assets at FVTPL		P 4,260	P -	P -	P 4,260
Reclassification from AFS securities	a	-	1	-	1
Financial assets at FVTPL		**P 4,260**	**P 1**	**P -**	**P 4,261**
Financial assets at FVOCI	d	**P -**	**P 70,188**	**P -**	**P 70,188**
AFS securities		P 70,232	P -	P -	P 70,232
Reclassification to:					
Financial assets at FVOCI	d	-	(70,188)	-	(70,188)
Financial assets at FVTPL	a	-	(1)	-	(1)
Other resources	g	-	(43)	-	(43)
AFS Securities		**P 70,232**	**(P 70,232)**	**P -**	**P -**
Investment securities at amortized cost					
Reclassification from:					
HTM investments	h	P -	P 183,722	P 191	P 183,913
Loans and other receivables	i	-	7	-	7
Allowance for impairment	j	-	-	(115)	(115)
Investment securities at amortized cost		**P -**	**P 183,729**	**P 76**	**P 183,805**
HTM investments		P 183,722	P -	P -	P 183,722
Reclassification to investment securities at amortized cost	h	-	(183,722)	-	(183,722)
HTM investments		**P 183,722**	**(P 183,722)**	**P -**	**P -**
Loans and other receivables		P 1,730,732	P -	P -	P 1,730,732
Reclassification to investment securities at amortized cost	i	-	(7)	-	(7)
Remeasurement of allowance for impairment	k	-	-	6,806	6,806
Loans and other receivables		**P 1,730,732**	**(P 7)**	**P 6,806**	**P 1,737,531**
Other resources		P 4,241	P -	P -	P 4,241
Reclassification from AFS securities	g	-	43	-	43
Remeasurement of equity investments in subsidiaries and associates		-	-	101	101
Other resources		**P 4,241**	**P 43**	**P 101**	**P 4,385**

a. *Equity Securities Reclassified from AFS Securities to FVTPL*

The BDO Unibank Group and Parent Bank reclassified to FVTPL certain equity securities previously classified as AFS securities with fair value of P7,321 and P1, respectively, as these financial assets are now held with the objective of selling them in the short to medium term.

b. *Debt Instruments Reclassified from FVTPL to Investment Securities at Amortized Cost*

BDO Unibank Group reclassified certain government debt securities from FVTPL to Investment securities at amortized cost since the Bank Unibank Group determined that the objective of the business model is to hold these investments to collect the contractual cash flows, wherein said cash flows pertain solely to payment of principal and interest. As a result, these securities with fair value of P34 were reclassified to amortized cost wherein the fair value becomes the new gross carrying amount.

c. Equity Securities Reclassified from FVTPL to FVOCI

Certain equity securities which were previously classified as FVTPL were reclassified by the BDO Unibank Group as FVOCI because the Group irrevocably elected to hold these securities for long-term strategic investments and are not expected to provide the Group with short-to-medium term profit other than dividends.

d. Financial Assets Reclassified from AFS Securities to FVOCI

Certain debt securities which were previously classified as AFS securities were classified by BDO Unibank Group and Parent Bank as financial assets at FVOCI because these securities were determined that the investment objective of the business model is to hold these investments to collect the contractual cash flows, and sell but are held for long-term strategic investment and are not expected to be traded in the short-to-medium term. Consequently, the Group and the Parent Bank made an assessment whether these securities are impaired based on the ECL model developed by the Group [see Note 2.2 (a)(iv)j]. Furthermore, certain equity securities which were previously classified as AFS securities were designated as financial assets at FVOCI because the Group irrevocably elected to hold these securities for long-term strategic investments and does not expect to obtain profit through short-to-medium term trading other than dividends.

e. Debt Instruments Reclassified from HTM Investments to FVOCI

The BDO Unibank Group reclassified certain government and corporate debt securities under HTM investments to financial assets at FVOCI since it was determined that the investment objective of the business model is to hold these investments to collect the contractual cash flows, and sell but are held for long-term strategic investment and are not expected to be traded in the short-to-medium term. As a result, these securities valued at amortized cost are remeasured at fair value at the reclassification date. The BDO Unibank Group recognized an accumulated net unrealized fair value gain on FVOCI securities amounting to P9, which was adjusted to the opening balance of Net Unrealized Fair Value Gains/Losses (NUGL) on FVOCI account as at January 1, 2018. In addition, the BDO Unibank Group determined whether these securities are impaired based on the ECL model developed by the Group [(see Note 2.2(a)(iv)j].

f. Debt Instruments Reclassified from AFS Securities to Investment Securities at Amortized Cost

There are certain investments in debt instruments previously classified as AFS securities that met the criteria to be classified as financial assets at amortized cost under PFRS 9 because the business model is to hold these debt instruments in order to collect contractual cash flows. Accordingly, the accumulated net unrealized fair value losses on AFS securities amounting to P111 was adjusted to the opening balance of NUGL on FVOCI account as of January 1, 2018. Also, the BDO Unibank Group determined whether these securities are impaired based on the ECL model developed by the Group [(see Note 2.2(a)(iv)j].

g. Unquoted Equity Securities Reclassified from AFS Securities to Other Resources

The BDO Unibank Group and Parent Bank reclassified unquoted equity securities amounting to P49 and P43, respectively, previously classified as AFS securities to Other Resources account since the BDO Unibank Group and Parent Bank is not entitled to a contractual right to receive cash but for a privilege to use the facilities and services of the issuing corporation.

h. Debt Instruments Reclassified from HTM Investments to Investment Securities at Amortized Cost

The BDO Unibank Group and Parent Bank reclassified certain government and corporate debt securities under HTM investments as investment securities at amortized cost with the objective of holding these investments to collect the contractual cash flows, wherein said cash flows pertain solely to payment of principal and interest. Portion of these securities represents government and corporate debt securities that were previously subjected to tainting provision of PAS 39 (see Note 9.4). Under PFRS 9, these securities are no longer subject to the previous tainting rule but any disposal shall be within the context of permitted sales as defined by its business model. Moreover, the Group determined whether these securities are impaired based on the ECL model developed by the Group [see Note 2.2(a)(iv)j].

i. Unquoted Debt Securities Reclassified from Loans and Receivable to Investment Securities Amortized Cost

The BDO Unibank Group and Parent Bank reclassified unquoted debt securities previously classified under loans and other receivables to investment securities at amortized cost that meet the criteria set by the business model for investment securities at amortized cost. Furthermore, the Bank determined whether these securities are impaired based on the expected credit model developed [see Note 2.2 (a)(iv)j].

j. Credit Losses on Investment in Debt Securities

All of the BDO Unibank Group's and Parent Bank's investments in debt securities classified at amortized cost and FVOCI are considered to have low credit risk, and the loss allowance recognized was therefore limited to 12-month expected credit loss. Management considers 'low credit risk' for debt securities issued by listed companies and the government that has an investment grade credit rating with at least one reputable rating agency. Other instruments are considered to have low credit risk when they have a low probability of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The application of the ECL model developed by the Group resulted in the recognition of allowance for impairment in investment securities at amortized cost amounting to P128 and P115 and were adjusted against the opening balance of Surplus Free account [see Note 2.1(b)] in the BDO Unibank Group's and Parent Bank's financial statements, respectively. The Group and the Parent Bank also recognized allowance for impairment on debt securities at FVOCI amounting to P69 and P62 and were adjusted against the opening balance of NUGL [see Note 2.1(b)] in the BDO Unibank Group's and Parent Bank's financial statement's, respectively.

k. *Credit Losses on Loans and Receivables*

The application of the ECL methodology based on the stages of impairment assessment for loans and receivables resulted in the reversal of allowance for impairment amounting to P6,808 and P6,806, with adjustment charged against the opening balance of Surplus Free and Non-Controlling Interest accounts in the BDO Unibank Group's financial statements and Surplus Free account in the Parent Bank's financial statements [see Note 2.1(b)]. Also, in 2018, a general loan loss provision amounting to P9,520 and P9,356, which represents the excess of the 1% required allowance of the BSP over the computed allowance for ECL, was recognized by the Group and reported as part of Surplus Reserves account in the BDO Unibank Group's and Parent Bank's statement of changes in equity, respectively.

The reconciliation of the prior year's closing allowance for impairment measured in accordance with PAS 39 incurred loss model to the new impairment allowance measured in accordance with PFRS 9 ECL is presented in Note 4.3.5.

(v) PFRS 15, *Revenue from Contract with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The BDO Unibank Group and the Parent Bank's significant sources of revenue pertain to its lending activities which generate interest income, service charges, fees and commissions. Except for service charges, fees and commissions, significant amount of the Bank's revenues are out of scope of PFRS 15. Recognition and measurement of revenue streams within the scope of PFRS 15 did not vary from PAS 18.

The adoption of PFRS 15 has resulted in changes in the Group's accounting policies (see Note 2.18). The Group has applied the new standard retrospectively without restatement, with the cumulative effect of initial application, if any, recognized as an adjustment to the opening balance of Surplus Free at January 1, 2018. However, the adoption of this standard has no significant impact on the financial statements. Accordingly, no remeasurements nor reclassifications were recognized by the BDO Unibank Group and the Parent Bank at the date of initial application.

(vi) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no impact on the BDO Unibank Group financial statements.

(vii) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* is relevant to the Group and the Parent Bank. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. The application of this improvement has no impact on the BDO Unibank Group's financial statements.

(b) Effective in 2018 that are not Relevant to the Group and the Parent Bank

The annual improvements to PFRS (2014-2016 Cycle), PFRS 1 (Amendments): *First-time adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions* are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's financial statements.

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, interpretation, annual improvements to PFRS and amendments to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, management is currently assessing the impact on the Group and the Parent Bank's financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

(ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the solely for payment of principal and interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. Management initially assessed that these amendments will not affect the Group and the Parent Bank's financial statements since it has no financial instruments having prepayment features with negative compensation.

(iv) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the partial retrospective application of PFRS 16. The Group and the Parent Bank will elect to apply the standard to contracts that were previously identified as leases applying PAS 17.

(v) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group and the Parent Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group and the Parent Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(vi) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(vii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group and the Parent Bank but had no material impact on the Group and the Parent Bank's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group and the Parent Bank obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group and the Parent Bank obtains joint control of the business.

2.3 Basis of Consolidation

The BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Company, and its subsidiaries as enumerated in Notes 2.3(c) and 13.1, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the BDO Unibank Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Bank, using consistent accounting principles.

The Parent Bank accounts for its investments in subsidiaries, associates and transactions with non-controlling interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Parent Bank has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Bank controls another entity. The Parent Bank obtains and exercises control when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity, usually through voting rights. Subsidiaries are consolidated from the date the Parent Bank obtains control.

The Parent Bank reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries [see Note 2.3(d)]. Acquisition method requires recognizing and measuring the identifiable resources acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the BDO Unibank Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of BDO Unibank Group's share of the identifiable net assets acquired, is recognized as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as a gain in profit or loss [see Note 2.3(d)].

On the other hand, business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls BDO Unibank Group are accounted for under the pooling-of-interests method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparative periods presented are restated. The resources and liabilities acquired are recognized in BDO Unibank Group's financial statements at their carrying amounts. The components of equity of the acquired entities are added to the same components within BDO Unibank Group's equity.

Investments in subsidiaries are initially recognized at cost and subsequently accounted for using the equity method in the Parent Bank's financial statements (see Note 2.11).

(b) Investment in Associates

Associates are those entities over which the BDO Unibank Group and the Parent Bank are able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the BDO Unibank Group and the Parent Bank's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the BDO Unibank Group and the Parent Bank's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the BDO Unibank Group and the Parent Bank's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in net profit (loss) of associates as part of Miscellaneous under Other Operating Income account in the statements of income.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 13.1).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the BDO Unibank Group and the Parent Bank, as applicable. However, when the BDO Unibank Group and the Parent Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BDO Unibank Group and the Parent Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

(c) *Transactions with Non-controlling Interests*

BDO Unibank Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of BDO Unibank Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the subsidiary's net assets is recognized in equity. Disposals of equity investments to non-controlling interests, which result in gains or losses for BDO Unibank Group are also recognized in equity.

When BDO Unibank Group ceases to have control, any interest retained in the subsidiary is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The initial carrying amount for the purposes of subsequently accounting for the interest retained as an associate, joint venture or financial asset is the fair value. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if BDO Unibank Group had directly disposed of the related resources or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

In BDO Unibank Group's financial statements, the non-controlling interest component is shown in its statement of changes in equity, and in its statement of income and statement of comprehensive income for the share of profit or loss and movement of other comprehensive income, respectively, during the year.

The BDO Unibank Group holds interests in the following subsidiaries:

	Percentage of Ownership		
Subsidiaries	**2018**	2017	2016
Rural Bank			
One Network Bank, Inc. (A Rural Bank of BDO) (ONB)	**99.86%**	99.79%	99.76%
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**99.88%**	99.88%	99.88%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	**100%**	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	**88.54%**	88.54%	88.54%
Averon Holdings Corporation (Averon)	**99.88%**	99.88%	99.88%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%	88.54%
Securities Companies			
BDO Securities Corporation (BDO Securities)	**99.88%**	99.88%	99.88%
BDO Nomura [previously PCIB Securities, Inc. (PCIB Securities)]	**51%**	51%	51%
Armstrong Securities, Inc. (ASI)	**80%**	80%	80%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%	100%
Equimark-NFC Development Corporation (Equimark)	**60%**	60%	60%

Subsidiaries	Percentage of Ownership 2018	2017	2016
Insurance Companies			
BDO Life Assurance Company Inc., (BDO Life) [previously Generali Pilipinas Life Assurance Company, Inc. (GPLAC)]	**100%**	100%	100%
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	**-**	-	100%
BDO Life Assurance Holdings Corp. (BDO Life Holdings) [previously Generali Pilipinas Holdings Company, Inc. (GPHCI)]	**-**	-	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
Express Padala (Hongkong), Ltd.	**100%**	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	100%	100%
BDO Remit (Canada) Ltd.	**100%**	100%	100%
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
BDO Remit International Holdings B.V. (BDO RIH) [previously CBN Grupo International Holdings B.V. (CBN Grupo)]	**96.32%**	96.32%	96.32%
PCIB Europe S.p.A.	**-**	100%	100%
Others			
PCI Realty Corporation	**100%**	100%	100%

Non-controlling interests in 2018 and 2017 represent the interests not held by BDO Unibank Group in ONB, BDO Capital, BDO Leasing, Averon, BDO Rental, BDO Securities, BDO Nomura, ASI, Equimark and BDO RIH.

On July 31, 2016, BDO Capital, BDO Elite and BDO Savings consummated a three-way merger transaction with BDO Capital as the surviving entity (see Note 28.3).

On September 4, 2017, a downstream merger occurred between BDO Life and BDO Life Holdings resulting in the dissolution of the latter (see Note 28.4).

In 2018 and 2017, the Parent Bank subscribed to additional shares of ONB (see Note 28.6).

In 2018, PCIB Europe S.p.A. has been dissolved after the liquidation proceeding was completed.

(d) Business Combination

Business acquisitions are accounted for using the acquisition method of accounting [see Note 2.3(a)].

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.21). Impairment losses on goodwill are not reversed.

Negative goodwill, if any, which is the excess of BDO Unibank Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost of investment is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segments.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by BDO Unibank Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting or pooling-of-interest method [see Note 2.3(a)].

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to BDO Unibank Group's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows BDO Unibank Group's products and services as disclosed in Note 5, which represent the main products and services provided by BDO Unibank Group.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of BDO Unibank Group used for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements.

In addition, corporate assets, which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been significant changes from prior periods in the measurement methods used to determine reported segment information.

2.5 Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

(i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within BDO Unibank Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("held to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, BDO Unibank Group and the Parent Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, BDO Unibank Group and the Parent Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(c)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

BDO Unibank Group and the Parent Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Loans and Other receivables, Investment securities at amortized cost and certain accounts under Other Resources account in the statement of financial position.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, foreign currency notes and coins (FCNC), securities purchased under reverse repurchase agreement (SPURRA), certain interbank bank loans receivables and investment securities at amortized cost with original maturities of three months or less from placement date.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of income as part of Interest Income.

(ii) Financial Assets at Fair Value Through Other Comprehensive Income

BDO Unibank Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, BDO Unibank Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the BDO Unibank Group for trading or as mandatorily required to be classified as FVTPL. The BDO Unibank Group has designated equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of NUGL account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the NUGL account is not reclassified to profit or loss but is reclassified directly to Surplus Free account except for those debt securities classified as FVOCI wherein fair value changes are recycled back to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the BDO Unibank Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and, the amount of dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The BDO Unibank Group's financial assets at FVTPL include equity securities which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Trading Gain – net under Other Operating Income in the statements of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using valuation technique when no active market exists.

Interest earned on these investments is recorded under Interest Income while dividend income is reported as part of Dividends under Other Income account in the statements of income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

BDO Unibank Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, BDO Unibank Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the BDO Unibank Group's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS securities.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

A more detailed description of the four categories of financial assets is as follows:

(i) Financial Assets at FVTPL

This category includes derivative financial instruments and financial assets that are either classified as held for trading (HFT) or that meet certain conditions and are designated by BDO Unibank Group to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as HFT unless they are designated and effective as hedging instrument. Financial assets at FVTPL include derivatives, quoted equity securities, government bonds and other debt securities.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category, on rare circumstance, if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the BDO Unibank Group provides money, goods or services directly to the debtor with no intention of trading the receivables.

BDO Unibank Group's financial assets categorized as loans and receivables are presented as Cash and cash equivalents, Loans and Other Receivables and certain accounts under Other Resources in the statement of financial position. Cash and cash equivalents consist of cash and other cash items, due from BSP and amounts due from other banks. Loans and other receivables also include receivables from customers and other receivables. Loans and other receivables also includes the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, FCNC, SPURRA, certain interbank bank loans receivables and HTM securities with original maturities of three months or less from placement date.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in the value of loans and receivables is recognized in profit or loss, except for reclassified financial assets under PAS 39 and PFRS 7, *Financial Instruments: Disclosures*. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. SPURRA, wherein BDO Unibank Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP, are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight-line method.

(iii) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that BDO Unibank Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included under this category.

HTM investments consists of government and other debt securities. If BDO Unibank Group were to sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; *(ii)* occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group. Upon tainting, BDO Unibank Group shall not classify any financial assets as HTM investments for the next two reporting periods after the year of tainting.

Subsequent to initial recognition, HTM investments are measured at amortized costs using effective interest method, less impairment losses, if any.

(iv) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. BDO Unibank Group's AFS securities include government and corporate bonds, equity securities and golf club shares.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes, except for interest and dividend income, impairment loss and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, that is when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

Non-derivative financial assets classified as AFS securities may be reclassified to loans and receivable category if that financial asset would have met the definition of loans and receivable and if there is an intention and ability to hold that financial asset for the foreseeable future or until maturity.

If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available or because the two preceding financial years' of tainting have passed, it becomes appropriate to carry a financial asset at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable. Any previous gain or loss that has been recognized in other comprehensive income shall be accounted for depending on whether the financial asset is with or without fixed maturity.

Previous gain or loss on reclassified AFS securities that has been recognized in other comprehensive income shall be accounted for as follows:

- In the case of a financial asset with a fixed maturity, the gain or loss shall be amortized to profit or loss over the remaining life of the HTM investment using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

- In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

A financial asset is reclassified out of the FVTPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term under rare circumstances. A financial asset that is reclassified out of the FVTPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(c) Effective Interest Rate Method and Interest Income

Under both PFRS 9 and PAS 39, interest income is recognized using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under PFRS 9, similar to interest bearing financial assets classified as AFS or HTM under PAS 39, are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. BDO Unibank Group and the Parent Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statements of income.

BDO Unibank Group and the Parent Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition [see Note 2.5(d)], interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(d) Impairment of Financial Assets Under PFRS 9

From January 1, 2018, BDO Unibank Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost, debt instruments measured at FVOCI and other contingent accounts. No impairment loss is recognized on equity investments. Recognition of credit losses or impairment is no longer dependent on the Company's identification of a credit loss event. Instead, BDO Unibank Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The BDO Unibank Group measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,

- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.3

Measurement of ECL

The key elements used in the calculation of ECL are as follows:

- *Probability of Default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss Given Default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those BDO Unibank Group and the Parent Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at Default (EAD)* – it represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Group shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Group's detailed ECL measurement as determined by the management is disclosed in Note 4.3.5.

(e) Impairment of Financial Assets under PAS 39

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of BDO Unibank Group about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

BDO Unibank Group recognizes impairment loss based on the category of financial assets as follows:

(i) Carried at Amortized Cost – Loans and Receivables and HTM Investments

BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets either individually or collectively. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, BDO Unibank Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, BDO Unibank Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of BDO Unibank Group's or BSP's grading process that considers asset type, industry, collateral type, status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by BDO Unibank Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income, which is reported as part of Miscellaneous – net under Other Operating Income account in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

When possible, BDO Unibank Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the carrying value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses account.

In addition, under Section 9(f) of the Rules and Regulations to implement the provisions of RA No. 8556, *The Financing Company Act of 1998*, a 100% allowance is also set up by BDO Leasing, a subsidiary, for the following:

- clean loans and advances past due for a period of more than six months;

- past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;

- past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;

- when the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;

- accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,

- accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by BDO Unibank Group in the determination of impairment loss provision on assets carried at amortized cost particularly on receivables related to financing.

Moreover, BDO Unibank Group also considers the requirements of BSP Circular No. 855, *Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions*, wherein for those loans where objective evidence of impairment does not exist, whether individually or collectively assessed for impairment, an impairment loss is recognized equivalent to the amount of expected loss computed using the loan loss methodology of BDO Unibank Group. Expected loss is computed by considering the PD, LGD and EAD of each loan.

(ii) Carried at Cost – AFS Securities

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(iii) Carried at Fair Value – AFS Securities

In the case of investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(f) Derecognition of Financial Assets

(i) Modification of Loans

When the BDO Unibank Group renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Group assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the BDO Unibank Group derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the BDO Unibank Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets Other than Through Modification

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(g) Classification and Measurement of Financial Liabilities

As the accounting for financial liabilities remains largely the same under PFRS 9 compared to PAS 39, the BDO Unibank Group and the Parent Bank's financial liabilities were not impacted by the adoption of PFRS 9. However, for completeness, the accounting policy is disclosed below.

Financial liabilities include deposit liabilities, bills payable, subordinated notes payable, and other liabilities (including derivatives with negative fair values, except taxes payable, unearned income and capitalized interest and other charges).

- *Deposit liabilities and other liabilities* are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

- *Bills payable and subordinated notes payable* are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

- *Derivatives with negative fair values* are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

- *Lease deposits from operating and finance leases* (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day-one gain and is included as part of Miscellaneous – net under Other Operating Income account in the statement of income. Meanwhile, interest expense on the subsequent amortization of the lease deposits is accrued using the effective interest method and is included as part of Interest Expense account in the statement of income.

- *Dividend distributions to shareholders* are recognized as financial liabilities when the dividends are declared by BDO Unibank Group and subject to the requirements of BSP Circular 888, .

(h) Derecognition of Financial Liabilities

Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.6 Derivative Financial Instruments

BDO Unibank Group is a party to various foreign currency forwards, cross-currency swaps and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing BDO Unibank Group's foreign exchange and interest rate exposures, as well as for trading purposes.

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, BDO Unibank Group recognizes profit or loss at initial recognition.

For more complex instruments, BDO Unibank Group uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

Prior to 2018, under PAS 39, certain derivatives embedded in other financial instruments are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. Accordingly, these embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

With the adoption of PFRS 9, financial assets are no longer bifurcated; instead, the whole instrument (including the host contract) is measured at FVTPL.

Certain derivatives, if any, may be designated as either: *(i)* hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or, *(ii)* hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge). Changes in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument, if any, depends on the hedging relationship designated by BDO Unibank Group.

2.7 Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, related carrying amounts are not depreciated. All other premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value. Property items of the former Equitable PCI Bank (EPCIB), entity merged with BDO Unibank in 2008, stated at appraised values were included in BDO Unibank Group balances at their deemed costs at the date of transition to PFRS in 2005. The revaluation increment is credited to Revaluation Increment account in the equity section of the statement of financial position, net of applicable deferred tax (see Note 2.16).

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Furniture, fixtures and equipment	3 to 15 years
Buildings	10 to 50 years
Leasehold rights and improvements	5 to 10 years

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

Fully depreciated assets are retained in accounts until they are no longer in use and no further change for depreciation is made in respect of those assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.21).

The residual values, estimated useful lives and method of depreciation and amortization of premises, furniture, fixtures and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period.

An item of premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and any impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

2.8 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable costs incurred. This also includes land and building acquired by BDO Unibank Group from defaulting borrowers not held for sale in the next 12 months. For these properties, the cost is recognized initially at fair value. Investment properties, except land, are depreciated on a straight-line basis over a period of 10 to 25 years.

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Notes 2.7 and 2.21).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 23).

2.9 Real Properties for Development and Sale

Real properties for development and sale (included as part of Other Resources account) consist of subdivision land for sale and development, and land acquired for home building, home development, and other types of real estate development. These are carried at the lower of aggregate cost and net realizable value (NRV). Costs, which are determined through specific identification, include acquisition costs and costs incurred for development, improvement and construction of subdivision land.

Real properties for development and sale are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of these properties is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 23).

2.10 Non-current Assets Held for Sale

Non-current assets held for sale include other properties (chattels) acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale.

BDO Unibank Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond BDO Unibank Group's control and there is sufficient evidence that BDO Unibank Group remains committed to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The BDO Unibank Group shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

If BDO Unibank Group has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the BDO Unibank Group shall cease to classify the asset as held for sale.

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in the statement of income (see Note 23).

2.11 Equity Investments

In the Parent Bank's financial statements, investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.21). Associates are all entities over which the BDO Unibank Group and the Parent Bank has significant influence but which are neither subsidiaries nor interest in a joint venture.

Investments in subsidiaries and associates are initially recognized at cost and subsequently accounted for using the equity method (see Note 2.3).

Changes resulting from other comprehensive income of the subsidiary and associate or items recognized directly in the subsidiary's and associate's equity are recognized in other comprehensive income or equity of the Parent Bank, as applicable. However, when the Parent Bank's share of losses of subsidiary or associate equals or exceeds its interest in the subsidiary or associate, including any other unsecured receivables, the Parent Bank do not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary or associate. If the subsidiary or associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Impairment loss is provided when there is objective evidence that the investment in a subsidiary and an associate will not be recovered (see Note 2.21).

Distributions received from the subsidiaries and associates are accounted for as a reduction of the carrying value of the investment.

2.12 Other Resources

Other resources pertain to other assets that are controlled by BDO Unibank Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to BDO Unibank Group and the asset has a cost or value that can be measured reliably. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.21).

2.13 Intangible Assets

Intangible assets include goodwill, trading rights, branch licenses, customer lists, trademark and computer software licenses.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired at the date of acquisition [see Note 2.3(d)]. Goodwill is classified as intangible asset with indefinite useful life and, thus, not subject to amortization but to an annual test for impairment (see Note 2.21). Goodwill is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each primary reporting segment.

Trading rights represent the rights given to securities subsidiaries of BDO Unibank Group engage in stock brokerage to preserve access to the trading facilities and to transact business on PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment loss, if any. BDO Unibank Group has no intention to sell its trading right in the future as it intends to continue to operate its stock brokerage business. The trading right is tested annually for any impairment in realizable value (see Note 2.21).

Branch licenses, on the other hand, represent the rights given to BDO Unibank Group to establish certain number of branches as an incentive in acquiring distressed banks or as provided by the BSP in addition to the current branches of the acquired banks. Branch licenses are assessed as having an indefinite useful life and is tested annually for any impairment (see Note 2.21).

Customer lists consist of information about customers such as their name, contact information, and managed accounts under BDO Unibank Group's trust business. The customer list is classified as intangible asset with indefinite useful life, hence, would be reviewed for impairment by assessing at each reporting date whether there is any indication that the trust business brought about by the customer lists may be impaired (see Note 2.21).

Trademark pertains to the license granted to the Parent Bank for the exclusive right to use the trademark, service mark, name or logo of Diners Card International, Ltd. (DCI) in connection with the Parent Bank's operation of Diners Club card business in the Philippines. The trademark is covered by a trademark license agreement with a term of five years, renewable every five years, subject to certain conditions set by trademark owner. This intangible asset is recognized at an amount equal to the excess of purchase price for the acquisition of Diners credit card portfolio over the acquisition-date fair value of the net assets acquired. It is amortized on a straight-line basis over a finite useful life of five years based on the term of the trademark license agreement, which is deemed to have a finite useful life since renewal is not guaranteed.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on straight-line basis over the expected useful life of five years. Costs associated with maintaining computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.14 Insurance Contracts

Insurance contract liabilities arose from the following types of insurance contract:

- *Life insurance contract*

  Liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method and assumptions subject to the provisions of the Insurance Code (the Code) and guidelines set by the IC. The movement in legal policy reserves at each reporting period, except for movements due to the change in valuation discount rate, is recognized in profit or loss.

- *Insurance contracts with fixed and guaranteed terms*

  Liabilities are determined as the sum of the present value of future benefits and expenses less the present value of future gross premiums discounted at rates prescribed by the IC. Future cash flows are determined using best estimate assumptions with regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

  BDO Unibank Group has different assumptions for different products. However, the reserves are computed to comply with the statutory requirements, wherein discount rates are based on risk-free discount rates and other assumptions such as mortality, disability, lapse, and expenses take into account BDO Unibank Group's experience.

- *Variable unit-linked insurance contracts.*

  BDO Unibank Group, through BDO Life, issues unit-linked insurance contracts. In addition to providing insurance coverage, a unit-linked contract links payments to units of an internal investment fund set up by BDO Unibank Group with the consideration received from the policyholders. Premiums received from the issuance of unit-linked insurance contracts are recognized as premiums revenue. As allowed by PFRS 4, *Insurance Contracts*, BDO Unibank Group chose not to unbundle the investment portion of its unit-linked products.

  The reserve for unit-linked liability is increased by additional deposits and changes in unit prices and is decreased by policy administration fees, mortality and surrender charges and any withdrawals. At each reporting date, this reserve is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds. The assets and liabilities underlying the internal investment funds have been consolidated with the general accounts of BDO Unibank Group.

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

Insurance premiums and insurance benefits and claims on insurance contracts are recognized as follows:

- *Insurance premiums*

  Premiums from life insurance contracts are recognized as revenue when payable by the policyholders. For single premium contracts, revenue is recognized upon the effective date of the policy. For regular premium contracts, revenues are recorded at the date when payments are due.

- *Insurance benefits and claims*

  Life insurance benefits and claims include the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Maturities are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

2.15 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.16 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus reserves pertain to reserve for trust business representing the accumulated amount set aside by BDO Unibank Group and the Parent Bank under existing regulations requiring the Bank to carry to surplus 10% of its net profits accruing from its trust business until the surplus shall amount to 20% of the regulatory capital and, to the appropriation for general loan loss provision as prescribed by BSP. Surplus reserves also consist of reserve for insurance fund and additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 20).

Other reserves pertain to amount recognized from increase in percentage of ownership to any of the subsidiaries of BDO Unibank Group.

Surplus free includes all current and prior period results as disclosed in statement of income and which are available and not restricted for use by BDO Unibank Group, reduced by the amounts of dividends declared, if any.

Net unrealized fair value gains (losses) on FVOCI compose of cumulative mark-to-market valuation of outstanding securities and accumulated impairment on debt securities classified as FVOCI.

Accumulated actuarial gains (losses) results from the remeasurements of post-employment defined benefit plan.

Revaluation increment pertains to gains from the revaluation of land under premises, furniture, fixtures and equipment, which is now treated as part of the deemed cost of the assets (see Note 2.7).

Remeasurement on life insurance reserves pertains arises from the increase or decrease of the reserves brought about by changes in discount rates.

Accumulated translation adjustment pertains to foreign exchange differences arising on translation of the resources and liabilities of foreign branch and subsidiaries that are taken up in other comprehensive income (see Note 2.22).

Accumulated share in other comprehensive income (loss) of subsidiaries and associates pertains to changes resulting from the BDO Unibank Group's and the Parent Bank's share in other comprehensive income (loss) of subsidiaries and associates or items recognized directly in the subsidiaries' and associates' equity.

Non-controlling interests represent the portion of the net resources and profit or loss not attributable to BDO Unibank Group, which are presented separately in BDO Unibank Group's statement of income, statement of comprehensive income and within the equity in BDO Unibank Group's statement of financial position and changes in equity.

2.17 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between BDO Unibank Group and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with BDO Unibank Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of BDO Unibank Group that gives them significant influence over BDO Unibank Group and close members of the family of any such individual; and, (d) BDO Unibank Group's retirement plan (see Note 24.2).

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.18 Other Income and Expense Recognition

In 2017 and prior years, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the BDO Unibank Group; and the expenses and costs incurred and to be incurred can be measured reliably. In 2018, revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Group's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Group also earns service fees and commissions in various banking services, and gains on sale of properties, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Group in accordance with PFRS 15.

For revenues arising from these various banking services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

(a) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. These include the following accounts:

   (i) *Commission and fees* arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

   (ii) *Loan syndication fees* are recognized as revenue when the syndication has been completed and that BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

   (iii) *Arranger fees* arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the

completion of the underlying assumptions.

(iv) *Portfolio and other management advisory and service fees* are recognized based on the applicable service contracts, usually on a time-proportionate basis.

(b) *Trust fees* – Trust fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(c) *Income/loss from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income account.

Collections from accounts, which did not qualify from revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

BDO Unibank Group records its revenue at gross and separately recognizes an expense and liability relative to the fair value of the reward points earned by clients and customers [see Note 3.2(j)] since such points are redeemable primarily from the goods or services provided by a third party participating in the program, for example, SM Group (a related party) and rewards partners of the Parent Bank.

2.19 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events (e.g., legal disputes or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that BDO Unibank Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

The Group offers monetized rewards to active cardholders in relation to its credit card business' rewards program. Provisions for rewards are recognized at a certain rate of cardholders' credit card availments, determined by management based on redeemable amounts.

2.20 Leases

BDO Unibank Group accounts for its leases as follows:

(a) BDO Unibank Group as Lessor

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in profit or loss as part of Rental under Other Operating Income account in the statement of income on a straight-line basis over the lease term.

(b) BDO Unibank Group as Lessee

Leases, which do not transfer to BDO Unibank Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expense as incurred.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
- there is a substantial change to the asset.

The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. The residual value of the leased asset at the end of the lease term is generally applied against the guaranty deposit of the lessee.

2.21 Impairment of Non-financial Assets

BDO Unibank Group's equity investments, goodwill, branch licenses, trading rights, trademark and customer lists recorded as part of Other Resources, premises, furniture, fixtures and equipment, investment properties and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill, branch licenses, customer lists and trading rights are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.22 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

The financial statements of the Foreign Currency Deposit Unit (FCDU) of BDO Unibank Group are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as FVOCI securities (AFS securities in 2017) are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

(b) Foreign Currency Translation

The accounting records of BDO Unibank Group are maintained in Philippine pesos except for foreign branches and subsidiaries, which are maintained in U.S. dollars, Canadian Dollar (CAD), European Union Euro (Euro), Great Britain Pound (GBP), Japanese Yen (JPY), Hong Kong Dollars (HKD) or Singapore Dollar (SGD).

The operating results and financial position of foreign branches and subsidiaries which are measured using the U.S. dollars, CAD, Euro, GBP, JPY, HKD or SGD, respectively, are translated to Philippine pesos (BDO Unibank Group's functional currency) as follows:

(i) Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation due from foreign branch and net investment in foreign subsidiaries is recognized in other comprehensive income as part of Accumulated Translation Adjustment (see Note 2.16). When a foreign operation is sold, the cumulative amount of exchange differences is recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the US dollar, Euro, GBP, JPY, HKD or SGD amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.23 Compensation and Benefits Expense

BDO Unibank Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits, which are recognized as follows (see Note 24):

(a) *Post-employment Defined Benefit*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with BDO Unibank Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. BDO Unibank Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) less the fair value of plan assets at the end of reporting period, together with adjustments for asset ceiling. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interpolated yields of government bonds as calculated by Bloomberg which used BVAL Evaluated Pricing Service to calculate the PHP BVAL Reference Rates. These yields are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability which are published by Philippine Dealing & Exchange Corp. (PDEx).

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest expense on bills payable and other liabilities under Interest Expense account (see Note 22) in the statement of income.

Past-service costs are recognized immediately in profit or loss in the period of plan amendment and curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which BDO Unibank Group pays fixed contributions into an independent entity, such as the Social Security System. BDO Unibank Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by BDO Unibank Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. BDO Unibank Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognized costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of reporting period are discounted to present value.

(d) *Bonus Plans*

BDO Unibank Group recognizes a liability and an expense for bonuses based on the Group's bonus policy. A provision is recognized by BDO Unibank Group where it is contractually obliged to pay the benefits or where there is a past practice that has created a constructive obligation.

(e) *Employee Stock Option Plan*

BDO Unibank Group has an employee stock option plan (ESOP) for its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock options allocated to the qualified officers is based on the performance of the individual officers as determined by management and it requires a vesting period of five years. These are adjusted accordingly for any resignation or disqualification. The vested options may be exercised within three years from vesting date. The cost of ESOP is amortized over five years (vesting period) starting from the approval of the BOD. The annual amortization of stock options is included in Compensation and benefits under the Other Operating Expenses account in the statement of income.

(f) *Unavailed Leaves*

Unavailed leaves (excluding those qualified under the retirement benefit plan), included in Other Liabilities account, are recognized as expense at the amount BDO Unibank Group expects to pay at the end of reporting period. Unavailed leaves of employees qualified under the retirement plan are valued and funded as part of the present value of DBO under (a) in the previous page.

2.24 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates and tax laws have been enacted or substantively enacted at the end of each reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which BDO Unibank Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority (see Note 29.1).

2.25 Earnings Per Share

Basic earnings per share is determined by dividing consolidated net profit by the weighted average number of common shares issued and outstanding during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per share is also computed by dividing consolidated net profit by the weighted average number of common shares issued and outstanding during the period. However, consolidated net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares and stock option plan granted by BDO Unibank Group to the qualified officers (to the extent that shares under the stock option plan shall be issued from the unissued authorized capital stock and not purchased from the market or stock exchange).

Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. The stock option plan is deemed to have been converted into common stock in the year the stock option is granted.

2.26 Trust Activities

BDO Unibank Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Resources and income arising thereon are excluded from these financial statements, as these are neither resources nor income of BDO Unibank Group.

2.27 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about BDO Unibank Group's financial position at the end of reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

BDO Unibank Group and the Parent Bank's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying BDO Unibank Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI (2018)

BDO Unibank Group uses a provision matrix to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

BDO Unibank Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) Evaluation of Business Model Applied in Managing Financial Instruments (2018)

BDO Unibank Group manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

Upon adoption of PFRS 9, BDO Unibank Group developed business models which reflect how it manages its portfolio of financial instruments. BDO Unibank Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by BDO Unibank Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, BDO Unibank Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by BDO Unibank Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to BDO Unibank Group's investment, trading and lending strategies.

(c) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model (2018)

In determining the classification of financial assets under PFRS 9, BDO Unibank Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, BDO Unibank Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, BDO Unibank Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, BDO Unibank Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if BDO Unibank Group can explain the reasons for those sales and why those sales do not reflect a change in BDO Unibank Group's objective for the business model.

(d) Classification of Financial Assets as HTM Investments (2017)

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, BDO Unibank Group evaluates its intention and ability to hold such investments up to maturity. If BDO Unibank Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

In 2016, after the end of the two-year tainting period, BDO Unibank Group and the Parent Bank reclassified AFS securities with a carrying value of P107,362 and P103,014, respectively, to HTM investments (see Note 9.4).

(e) Impairment of AFS Securities (2017)

BDO Unibank Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, BDO Unibank Group evaluates, among other factors, the significant or prolonged decline in the fair value of an investment below its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy or financial distress, BDO Unibank Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quote prices for distressed securities) since current bid prices are no longer available.

Based on the recent evaluation of information and circumstances affecting the BDO Unibank Group and the Parent Bank's AFS securities, management has recognized impairment loss on certain AFS securities in 2017 as disclosed in Note 9.2. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(f) Distinction Between Investment Properties and Owner-occupied Properties

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generates cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

(g) Distinction Between Operating and Finance Leases

BDO Unibank Group has entered into various lease agreements either as a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources and liabilities.

(h) Classification and Fair Value Determination of Acquired Properties

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, chattels as Non-current assets held for sale (presented under Other Resources account) if expected to be recovered through sale rather than use, real properties as Investment Properties if intended to be held for capital appreciation or lease, as Financial Assets if qualified as such in accordance with PFRS 9/PAS 39 or as Other properties (presented under Other Resources account) if held for sale but the depreciable properties (other than building) are not yet disposed within three years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties. The Group's methodology in determining the fair value of acquired properties are further discussed in Note 6.5.

(i) Assessment of Significant Influence on Entities in which BDO Unibank Group Holds Less than 20% Ownership

The management considers that the BDO Unibank Group and the Parent Bank has significant influence on NLEX Corporation (previously Manila North Tollways Corporation) even though it holds less than 20% of the ordinary shares in the latter. In making this judgment, management considered the BDO Unibank Group's and the Parent Bank's voting rights, which is based from its acquired right to nominate for a director in NLEX Corporation as granted in the Amended and Restated Shareholders' Agreement (ARSA).

ARSA provides that investors shall be entitled to nominate one director for as long as it owns at least 10% of the equity of NLEX Corporation, or shall be entitled to nominate two directors for as long as it owns at least 16.5% of the equity of NLEX Corporation.

Failure to make the right judgment will result in either overstatement or understatement of resources, liabilities, income and expenses.

(j) Determination of Timing of Satisfaction of Performance Obligations (2018)

BDO Unibank Group determines that its revenues from services for account management, loan administration and agency, loan syndication, and fees from annual credit card membership and other non-refundable upfront fees shall be recognized over time. In making its judgment, BDO Unibank Group considers the timing of receipt and consumption of benefits provided by BDO Unibank Group to the customers. As the work is performed, BDO Unibank Group becomes entitled to payments. This demonstrates that the customers simultaneously receive and consume the benefits of the BDO Unibank Group's rendering of these retail and corporate banking services as it performs.

In determining the best method of measuring the progress of the BDO Unibank Group's rendering of aforementioned services, the management considers the output method, which uses direct measurements of the value to the customer of the services transferred to date relative to the remaining services promised as basis in recognizing revenues. Such measurements include results of performance completed to date, time elapsed, and appraisals of milestones reached or activities already performed.

(k) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.19 and relevant disclosures are presented in Note 33.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) Estimation of Allowance for ECL (2018)

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.

The carrying value of financial assets at FVOCI, Investments securities at amortized cost and Loans and Other Receivables and, the analysis of the allowance for impairment on such financial assets, are shown in Notes 9.2, 9.3, 10, and 14 respectively.

(b) Estimation of Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables) (2017)

BDO Unibank Group reviews its AFS securities [see also Note 3.1 (e)], HTM investments and Loans and Other Receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 14.

(c) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. The BDO Unibank Group and the Parent Bank uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The carrying values of the BDO Unibank Group and the Parent Bank's financial assets at FVTPL and financial assets at FVOCI (previously as AFS securities) and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 9.1 and 9.2, respectively.

(d) Determination of Fair Value of Derivatives

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions and correlations require management to make estimates.

BDO Unibank Group and the Parent Bank use judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

(e) Estimation of Useful Lives of Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties, including trademark, based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties, including trademark, are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other resources, including trademark, are analyzed in Notes 12 and 13, respectively.

(f) Determination of Assumptions for Management's Estimation of Fair Value of Investment Properties

Investment properties are measured using the cost model. The fair value disclosed in Note 12 to the financial statements as determined by BDO Unibank Group and the Parent Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition (see Note 6.5).

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(g) Determination of Realizable Amount of Deferred Tax Assets

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2018 and 2017 is disclosed in Note 29.1.

(h) Impairment of Non-financial Assets

Except for goodwill and other intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.21. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized in profit or loss are disclosed in Note 14.

(i) Valuation of Post-employment Defined Benefit

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24.2 and include, among others, discount rates, expected rate of return on plan asset and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 24.2.

(j) Recognition of Reward Points

BDO Unibank Group provides rewards points to its banking clients and customers each time they avail of the pre-identified products and services of the Parent Bank and the companies which the Parent Bank has identified as partners in the rewards program. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

BDO Unibank Group sets up a liability to cover the cost of future reward redemptions for points earned to date. The estimated liability is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.

BDO Unibank Group continually evaluates its estimates for rewards based on developments in redemption patterns, cost per point redeemed and other factors. The estimated liability for unredeemed points is impacted over time by enrollment levels, amount of points earned and redeemed, weighted-average cost per point, redemption choices made by the clients and other membership rewards program changes. The calculation is most sensitive to changes in the estimated ultimate redemption rate. This rate is based on the expectation that a large majority of all points earned will eventually be redeemed and the rewards will be redeemed through goods or services supplied by a third party based on BDO Unibank Group's past experience.

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank is presented as part of Accrued expenses under Other Liabilities account in the statements of financial position as disclosed in Note 19.

(k) Valuation of Legal Policy Reserves

Legal policy reserves represent estimates of present value of future benefits and expenses in excess of present value of future gross premiums. These estimates are based on interest rates, mortality/morbidity tables, and valuation method subject to the provisions of the Insurance Code and guidelines set by IC.

The liability for life insurance contracts uses the discount rate as provided by the IC with other assumptions based on best estimate with regard to significant recent experience and appropriate margin for adverse deviation from the expected experience. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability. The main assumptions used relate to mortality, morbidity, lapse, and discount rate.

For life insurance contracts, estimates are made as to the expected number of deaths and lapses for each of the years in which the BDO Unibank Group is exposed to risk. The BDO Unibank Group uses mortality tables and lapse rates subject to the guidelines set by the IC as the basis of these estimates. The estimated number of lapses, deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums.

4. RISK MANAGEMENT

With its culture of managing risk prudently within its capacity and capabilities, the BDO Unibank Group will pursue its strategy and business plans to provide consistent quality service to its customers, to achieve its desired long-term target returns to its shareholders and satisfy or abide by the needs of its other stakeholders, including its depositors and regulators.

The BDO Unibank Group believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Group is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

The BDO Unibank Group's goal is to remain a strong bank that is resilient to possible adverse events. Hence, the Group ensures:

- strong financial position by maintaining capital ratios in excess of regulatory requirements;
- sound management of liquidity; and,
- ability to generate sustainable earnings commensurate with the risks taken.

For credit risk, market risk, and liquidity risk, the Group ensures that these are within Board-approved operating limits. For operational risk (which includes legal, regulatory, compliance risks), and reputational risks, these are invariably managed by the development of both a strong "control culture" and an effective internal control system that constantly monitors and updates operational policies and procedures with respect to the Group's activities and transactions.

Risk management at BDO Unibank Group begins at the highest level of the organization. At the helm of the risk management infrastructure is the BOD who is responsible for establishing and maintaining a sound risk management system. The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks, as well as, its business strategy and risk philosophy.

The BOD has constituted the Risk Management Committee (RMC) as the Board-Level Committee responsible for the development and oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits.

Within BDO Unibank Group's overall risk management system is the Assets and Liabilities Committee (ALCO), which is responsible for managing the Group's statement of financial position, including the Group's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

BDO Unibank Group operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market (foreign exchange, interest rate, and price risks), liquidity, and operational risks. The Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the Group's activities across the different risk areas (i.e., credit, market, liquidity and operational risks) to optimize the risk-reward balance and maximize return on capital. RMG also has the responsibility for recommending to the appropriate body, risk policies across the full range of risks to which the Group is exposed. RMG functionally reports to the RMC.

The evaluation, analysis, and control performed by the Risk Function, in conjunction with the Risk Takers, constitute the risk management process. The risk management process is applied at three levels: the transaction level, the business unit level, and the portfolio level. This framework ensures that risks are properly identified, quantified and analyzed, in the light of its potential effect on the Group's business. The goal of the risk management process is to ensure rigorous adherence to the Group's standards for precision in risk measurement and reporting and to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to repay depositors, to fulfill commitments to lend, or to meet any other liquidity commitments. BDO Unibank Group manages liquidity risk by holding sufficient liquid assets of appropriate quality to meet funding requirements, manage liquidity gaps, regular liquidity stress testing, and establishment of a Liquidity Contingency Plan, to ensure adequate liquidity under both business-as-usual and stress conditions.

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2018 and 2017 in accordance with account classification of the BSP is presented in the succeeding pages. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2018				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Three Years**	**More Than Three Years**	**Total**
Resources:					
Cash and other cash items	P 53,749	P -	P -	P -	P 53,749
Due from BSP and other banks	130,290	1,570	782	276,782	409,424
Loans and other receivables - net	463,437	201,081	349,271	1,058,045	2,071,834
Trading and investment securities	13,825	56,729	98,227	216,416	385,197
Other resources - net*	216	61	-	101,766	102,043
Total Resources	661,517	259,441	448,280	1,653,009	3,022,247
Liabilities and Equity:					
Deposit liabilities	448,970	24,151	18,963	1,927,881	2,419,965
Bills and subordinated notes payable	31,674	21,458	59,258	41,263	153,653
Insurance contract liabilities**	125	(1,078)	984	28,475	28,506
Other liabilities	27,564	2,739	4,712	56,959	91,974
Total Liabilities	508,333	47,270	83,917	2,054,578	2,694,098
Equity	-	-	-	328,149	328,149
Total Liabilities and Equity	508,333	47,270	83,917	2,382,727	3,022,247
On-book gap	153,184	212,171	364,363	(729,718)	-
Cumulative on-book gap	153,184	365,355	729,718	-	-
Contingent assets	178,126	47,437	15,049	6,978	247,590
Contingent liabilities	216,731	49,330	15,131	6,872	288,064
Off-book gap	(38,605)	(1,893)	(82)	106	(40,474)
Net Periodic Gap	114,579	210,278	364,281	(729,612)	40,474
Cumulative Total Gap	P 114,579	P 324,857	P 689,138	(P 40,474)	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*
** *Insurance Contract Liabilities with maturity of one month to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

BDO Unibank Group

	2017				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 45,006	P -	P -	P -	P 45,006
Due from BSP and other banks	398,616	49	-	6,122	404,787
Loans and other receivables - net	408,844	167,513	270,974	944,455	1,791,786
Trading and investment securities	13,356	17,175	99,965	202,431	332,927
Other resources - net*	1	50	236	93,311	93,598
Total Resources	865,823	184,787	371,175	1,246,319	2,668,104
Liabilities and Equity:					
Deposit liabilities	326,951	17,092	31,229	1,745,740	2,121,012
Bills and subordinated notes payable	60,982	3,739	32,589	43,204	140,514
Insurance contract liabilities**	(91)	(943)	(1,001)	28,021	25,986
Other liabilities	25,663	3,421	4,044	49,124	82,252
Total Liabilities	413,505	23,309	66,861	1,866,089	2,369,764
Equity	-	-	-	298,340	298,340
Total Liabilities and Equity	413,505	23,309	66,861	2,164,429	2,668,104
On-book gap	452,318	161,478	304,314	(918,110)	-
Cumulative on-book gap	452,318	613,796	918,110	-	-
Contingent assets	180,924	20,609	28,751	8,947	239,231
Contingent liabilities	240,663	21,653	28,292	8,824	299,432
Off-book gap	(59,739)	(1,044)	459	123	(60,201)
Net Periodic Gap	392,579	160,434	304,773	(917,987)	60,201
Cumulative Total Gap	P 392,579	P 553,013	P 857,786	(P 60,201)	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*
** *Insurance Contract Liabilities with maturity of one month to three years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

Parent Bank

	2018				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Three Years**	**More Than Three Years**	**Total**
Resources:					
Cash and other cash items	P 52,492	P -	P -	P -	P 52,492
Due from BSP and other banks	125,574	-	-	272,223	397,797
Loans and other receivables - net	451,821	185,561	325,786	1,055,985	2,019,153
Trading and investment securities	9,197	51,017	85,021	159,046	304,281
Other resources - net*	-	-	-	118,089	118,089
Total Resources	639,084	236,578	410,807	1,605,343	2,891,812
Liabilities and Equity:					
Deposit liabilities	467,983	20,164	18,261	1,855,894	2,362,302
Bills and subordinated notes payable	13,092	17,756	52,833	44,042	127,723
Other liabilities	23,876	-	-	50,290	74,166
Total Liabilities	504,951	37,920	71,094	1,950,226	2,564,191
Equity	-	-	-	327,621	327,621
Total Liabilities and Equity	504,951	37,920	71,094	2,277,847	2,891,812
On-book gap	134,133	198,658	339,713	(672,504)	-
Cumulative on-book gap	134,133	332,791	672,504	-	-
Contingent assets	172,428	30,373	4,148	1,054	208,003
Contingent liabilities	211,162	32,551	4,418	1,044	249,175
Off-book gap	(38,734)	(2,178)	(270)	10	(41,172)
Net Periodic Gap	95,399	196,480	339,443	(672,494)	41,172
Cumulative Total Gap	P 95,399	P 291,879	P 631,322	(P 41,172)	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

Parent Bank

	2017				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 43,882	P -	P -	P -	P 43,882
Due from BSP and other banks	381,681	-	-	3	381,684
Loans and other receivables - net	384,751	151,588	246,066	948,327	1,730,732
Trading and investment securities	4,164	13,773	88,021	152,256	258,214
Other resources - net*	-	-	-	110,113	110,113
Total Resources	814,478	165,361	334,087	1,210,699	2,524,625
Liabilities and Equity:					
Deposit liabilities	311,235	15,948	29,734	1,688,404	2,045,321
Bills and subordinated notes payable	39,966	2,411	23,031	50,245	115,653
Other liabilities	22,399	749	-	42,842	65,990
Total Liabilities	373,600	19,108	52,765	1,781,491	2,226,964
Equity	-	-	-	297,661	297,661
Total Liabilities and Equity	373,600	19,108	52,765	2,079,152	2,524,625
On-book gap	440,878	146,253	281,322	(868,453)	-
Cumulative on-book gap	440,878	587,131	868,453	-	-
Contingent assets	175,855	17,901	7,009	715	201,480
Contingent liabilities	235,649	19,086	6,917	697	262,349
Off-book gap	(59,794)	(1,185)	92	18	(60,869)
Net Periodic Gap	381,084	145,068	281,414	(868,435)	60,869
Cumulative Total Gap	P 381,084	P 526,152	P 807,566	(P 60,869)	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

4.2 Market Risk

BDO Unibank Group's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities, equity securities and derivatives. BDO Unibank Group manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by BDO Unibank Group's RMC and the BOD.

4.2.1 Foreign Exchange Risk

BDO Unibank Group manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

BDO Unibank Group's net foreign exchange exposure is computed as its foreign currency resources less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the group excess foreign exchange holding of banks in the Philippines. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

BDO Unibank Group's foreign exchange exposure at end-of-day is guided by the limits set forth in BDO Unibank Group's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, BDO Unibank Group reports to the BSP on its compliance with the mandated foreign currency exposure limits. In addition, it also reports to the BSP on the respective foreign currency positions of its subsidiaries.

The breakdown of the financial assets and financial liabilities as to foreign and peso-denominated balances as of December 31, 2018 and 2017 follows:

BDO Unibank Group

	2018			2017		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P 152**	**P 407,729**	**P 407,881**	P 222	P 398,092	P 398,314
Due from other banks	**52,953**	**2,339**	**55,292**	50,499	980	51,479
Trading and investment securities:						
At FVTPL	**4,093**	**16,215**	**20,308**	5,181	9,529	14,710
At FVOCI	**75,464**	**44,925**	**120,389**	-	-	-
At amortized cost	**138,103**	**106,397**	**244,500**	-	-	-
AFS securities	**-**	**-**	**-**	72,443	48,576	121,019
HTM investments	**-**	**-**	**-**	119,011	78,187	197,198
Loans and other receivables	**305,505**	**1,766,329**	**2,071,834**	277,416	1,514,370	1,791,786
Other resources	**5,029**	**2,041**	**7,070**	4,997	558	5,555
	P 581,299	**P 2,345,975**	**P 2,927,274**	P 529,769	P 2,050,292	P 2,580,061
Liabilities:						
Deposit liabilities	**P 416,383**	**P 2,003,582**	**P 2,419,965**	P 395,183	P 1,725,829	P 2,121,012
Bills payable	**117,787**	**25,836**	**143,623**	106,293	24,191	130,484
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Insurance contract liabilities	**7,283**	**21,223**	**28,506**	7,081	18,905	25,986
Other liabilities	**5,439**	**75,635**	**81,074**	6,387	66,978	73,365
	P 546,892	**P 2,136,306**	**P 2,683,198**	P 514,944	P 1,845,933	P 2,360,877

Parent Bank

	2018			2017		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P 36**	**P 401,473**	**P 401,509**	P 50	P 384,428	P 384,478
Due from other banks	**48,729**	**51**	**48,780**	41,031	57	41,088
Trading and investment securities:						
At FVTPL	**2,880**	**1,377**	**4,257**	3,689	571	4,260
At FVOCI	**61,026**	**16,089**	**77,115**	-	-	-
At amortized cost	**130,830**	**92,079**	**222,909**	-	-	-
AFS securities	**-**	**-**	**-**	57,078	13,154	70,232
HTM investments	**-**	**-**	**-**	116,987	66,735	183,722
Loans and other receivables	**307,567**	**1,711,586**	**2,019,153**	275,362	1,455,370	1,730,732
Other resources	**5,001**	**1**	**5,002**	3,969	272	4,241
	P 556,069	**P 2,222,656**	**P 2,778,725**	P 498,166	P 1,920,587	P 2,418,753
Liabilities:						
Deposit liabilities	**P 398,841**	**P 1,963,461**	**P 2,362,302**	P 373,386	P 1,671,935	P 2,045,321
Bills payable	**117,693**	**-**	**117,693**	105,623	-	105,623
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Other liabilities	**4,755**	**59,998**	**64,753**	6,078	52,554	58,632
	P 521,289	**P 2,033,489**	**P 2,554,778**	P 485,087	P 1,734,519	P 2,219,606

4.2.2 Interest Rate Risk

BDO Unibank Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all resources and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2018 and 2017 based on the expected interest realization or recognition are shown in the succeeding pages.

BDO Unibank Group

	2018					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 53,749	P 53,749
Due from BSP and other banks	23,248	-	-	-	386,176	409,424
Loans and other receivables - net	1,025,682	189,261	620,802	236,089	-	2,071,834
Trading and investment securities	11,664	56,431	178,738	118,056	20,308	385,197
Other resources - net*	-	-	-	-	102,043	102,043
Total Resources	1,060,594	245,692	799,540	354,145	562,276	3,022,247
Liabilities and Equity:						
Deposit liabilities	608,569	71,985	75,763	16,766	1,646,882	2,419,965
Bills and subordinated notes payable	48,967	21,429	78,898	3,861	498	153,653
Insurance contract liabilities**	(405)	(1,270)	1,082	19,494	9,605	28,506
Other liabilities	-	1,072	4,742	93	86,067	91,974
Total Liabilities	657,131	93,216	160,485	40,214	1,743,052	2,694,098
Equity	-	-	-	-	328,149	328,149
Total Liabilities and Equity	657,131	93,216	160,485	40,214	2,071,201	3,022,247
On-book gap	403,463	152,476	639,055	313,931	(1,508,925)	-
Cumulative on-book gap	403,463	555,939	1,194,994	1,508,925	-	-
Contingent assets	10,835	1,618	-	-	-	12,453
Contingent liabilities	4,943	1,577	-	-	-	6,520
Off-book gap	5,892	41	-	-	-	5,933
Net Periodic Gap	409,355	152,517	639,055	313,931	(1,508,925)	(5,933)
Cumulative Total Gap	P 409,355	P 561,872	P 1,200,927	P 1,514,858	P 5,933	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*
** *Insurance Contract Liabilities with maturity of one month to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

BDO Unibank Group

	2017					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 45,006	P 45,006
Due from BSP and other banks	24,454	-	-	-	380,333	404,787
Loans and other receivables - net	934,347	168,161	476,642	212,636	-	1,791,786
Trading and investment securities	6,373	17,422	177,254	117,167	14,711	332,927
Other resources - net*	-	-	-	-	93,598	93,598
Total Resources	965,174	185,583	653,896	329,803	533,648	2,668,104
Liabilities and Equity:						
Deposit liabilities	431,836	71,020	90,666	26,796	1,500,694	2,121,012
Bills and subordinated notes payable	74,537	2,874	34,805	27,998	300	140,514
Insurance contract liabilities**	(360)	(1,074)	(21)	21,256	6,185	25,986
Other liabilities	1,272	2,044	4,013	74	74,849	82,252
Total Liabilities	507,285	74,864	129,463	76,124	1,582,028	2,369,764
Equity	-	-	-	-	298,340	298,340
Total Liabilities and Equity	507,285	74,864	129,463	76,124	1,880,368	2,668,104
On-book gap	457,889	110,719	524,433	253,679	(1,346,720)	-
Cumulative on-book gap	457,889	568,608	1,093,041	1,346,720	-	-
Contingent assets	8,134	777	-	-	-	8,911
Contingent liabilities	8,023	749	-	-	-	8,772
Off-book gap	111	28	-	-	-	139
Net Periodic Gap	458,000	110,747	524,433	253,679	(1,346,720)	(139)
Cumulative Total Gap	P 458,000	P 568,747	P 1,093,180	P 1,346,859	P 139	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*
** *Insurance Contract Liabilities with maturity of one month to five years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

Parent Bank

	2018					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 52,492	P 52,492
Due from BSP and other banks	22,000	-	-	-	375,797	397,797
Loans and other receivables - net	1,015,170	166,254	597,213	240,516	-	2,019,153
Trading and investment securities	7,586	51,017	155,786	85,635	4,257	304,281
Other resources - net*	-	-	-	-	118,089	118,089
Total Resources	1,044,756	217,271	752,999	326,151	550,635	2,891,812
Liabilities and Equity:						
Deposit liabilities	583,500	67,010	73,865	20,936	1,616,991	2,362,302
Bills and subordinated notes payable	26,492	17,756	74,931	8,544	-	127,723
Other liabilities	-	-	-	-	74,166	74,166
Total Liabilities	609,992	84,766	148,796	29,480	1,691,157	2,564,191
Equity	-	-	-	-	327,621	327,621
Total Liabilities and Equity	609,992	84,766	148,796	29,480	2,018,778	2,891,812
On-book gap	434,764	132,505	604,203	296,671	(1,468,143)	-
Cumulative on-book gap	434,764	567,269	1,171,472	1,468,143	-	-
Contingent assets	5,784	-	-	-	-	5,784
Contingent liabilities	-	-	-	-	-	-
Off-book gap	5,784	-	-	-	-	5,784
Net Periodic Gap	440,548	132,505	604,203	296,671	(1,468,143)	(5,784)
Cumulative Total Gap	P 440,548	P 573,053	P 1,177,256	P 1,473,927	P 5,784	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

Parent Bank

	2017					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 43,882	P 43,882
Due from BSP and other banks	22,869	-	-	-	358,815	381,684
Loans and other receivables - net	908,641	143,781	452,603	225,707	-	1,730,732
Trading and investment securities	1,506	14,020	155,250	83,178	4,260	258,214
Other resources - net*	-	-	-	-	110,113	110,113
Total Resources	933,016	157,801	607,853	308,885	517,070	2,524,625
Liabilities and Equity:						
Deposit liabilities	395,423	65,866	84,701	30,546	1,468,785	2,045,321
Bills and subordinated notes payable	46,639	1,273	32,471	35,270	-	115,653
Other liabilities	-	749	-	-	65,241	65,990
Total Liabilities	442,062	67,888	117,172	65,816	1,534,026	2,226,964
Equity	-	-	-	-	297,661	297,661
Total Liabilities and Equity	442,062	67,888	117,172	65,816	1,831,687	2,524,625
On-book gap	490,954	89,913	490,681	243,069	(1,314,617)	-
Cumulative on-book gap	490,954	580,867	1,071,548	1,314,617	-	-
Contingent assets	3,779	-	-	-	-	3,779
Contingent liabilities	3,779	-	-	-	-	3,779
Off-book gap	-	-	-	-	-	-
Net Periodic Gap	490,954	89,913	490,681	243,069	(1,314,617)	-
Cumulative Total Gap	P 490,954	P 580,867	P 1,071,548	P 1,314,617	P -	P -

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

The BDO Unibank Group and the Parent Bank's market risk management limits are generally categorized as limits on:

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level, which is a percentage of projected earnings. The BDO Unibank Group and the Parent Bank uses the VaR model to estimate the daily potential loss that the BDO Unibank Group and the Parent Bank can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over limits should only arise in very exceptional circumstances.

- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.

- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk – The RMG computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

VaR is one of the key measures in BDO Unibank Group and Parent Bank's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. The BDO Unibank Group and the Parent Bank uses a 99% confidence level and a 260-day observation period in VaR calculation. The BDO Unibank Group and the Parent Bank's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in the BDO Unibank Group and the Parent Bank's portfolios exceed tolerable levels. Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,

- The VaR measure is dependent upon the BDO Unibank Group and the Parent Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice-versa.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Parent Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Parent Bank's overall position. Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the trading portfolios at December 31 follows:

BDO Unibank Group

	2018		2017	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 27)**	**(P 401)**	(P 11)	(P 217)
Interest rate risk – Peso	**(71)**	**(754)**	(59)	(651)
Interest rate risk – USD	**(4)**	**(125)**	(15)	(489)
	(P 102)	**(P 1,280)**	(P 85)	(P 1,357)

Parent Bank

	2018		2017	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 25)**	**(P 367)**	(P 9)	(P 191)
Interest rate risk – Peso	**(47)**	**(348)**	(19)	(241)
Interest rate risk – USD	**(2)**	**(65)**	(11)	(340)
	(P 74)	**(P 780)**	(P 39)	(P 772)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2018 and 2017 is shown below.

BDO Unibank Group

	2018			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 4,533)**	**P 4,533**	**(P 2,266)**	**P 2,266**
As a percentage of the BDO Unibank Group's net interest income for 2018	**(4.60%)**	**4.60%**	**(2.30%)**	**2.30%**
Earnings-at-risk	**P 5,104**			

	2017			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 4,719)	P 4,719	(P 2,360)	P 2,360
As a percentage of the BDO Unibank Group's net interest income for 2017	(6.00%)	6.00%	(3.00%)	3.00%
Earnings-at-risk	P 8,972			

Parent Bank

	2018			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 4,715)**	**P 4,715**	**(P 2,358)**	**P 2,358**
As a percentage of the Parent Bank's net interest income for 2018	**(5.00%)**	**5.00%**	**(2.50%)**	**2.50%**
Earnings-at-risk	**P 5,715**			

	2017			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 4,966)	P 4,996	(P 2,483)	P 2,483
As a percentage of the Parent Bank's net interest income for 2017	(6.00%)	6.00%	(3.00%)	3.00%
Earnings-at-risk	P 9,528			

4.2.3 Price Risk

The BDO Unibank Group and the Parent Bank is exposed to equity securities price risk because of investments in equity securities held by BDO Unibank Group and Parent Bank classified on the statement of financial position either as financial assets at FVOCI/AFS securities, HFT securities or financial assets at FVTPL. The BDO Unibank Group and the Parent Bank is not exposed to commodity price risk. To manage its price risk arising from investments in listed equity securities, BDO Unibank Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by BDO Unibank Group.

The table below summarizes the impact of equity prices on listed equity securities classified as HFT securities or financial assets at FVTPL and financial assets at FVOCI/AFS securities on BDO Unibank Group and Parent Bank's net profit after tax and equity as of December 31, 2018 and 2017. The results are based on the volatility assumption of the benchmark equity index, which was 2.28% and 2.04% in 2018 and 2017, respectively for securities classified as HFT securities or financial assets at FVTPL and FVOCI/AFS securities with all other variables held constant and all the BDO Unibank Group and the Parent Bank's equity instruments moved according to the historical correlation with the index.

BDO Unibank Group

	Impact on Net Profit After Tax Increase			**Impact on Other Comprehensive Income Increase**		
	2018	2017	2016	**2018**	2017	2016
HFT securities or financial assets at FVTPL	**P 194**	P 93	P 75	**P -**	P -	P -
AFS securities or financial assets at FVOCI	**-**	-	-	**136**	861	414
	P 194	P 93	P 75	**P 136**	P 861	P 414

Parent Bank

	Impact on Net Profit After Tax Increase			**Impact on Other Comprehensive Income Increase**		
	2018	2017	2016	**2018**	2017	2016
AFS securities or financial assets at FVOCI	**P -**	P -	P -	**P 2**	P 55	P 93

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the BDO Unibank Group. RMG undertakes several functions with respect to credit risk management including credit analysis, risk ratings for corporate accounts, and development and performance monitoring of credit risk rating and scoring models for both corporate and consumer loans. It also ensures that BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business.

RMG also subjects the loan portfolio to a regular portfolio quality review, credit portfolio stress testing, and rapid portfolio reviews based on specific and potential events that may affect borrowers in particular geographic locations or industries.

BDO Unibank Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits are secured from the Credit Committee.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral or corporate and personal guarantees.

4.3.1 Exposure to Credit Risk

Loan classification and credit risk rating are an integral part of BDO Unibank Group's management of credit risk. On an annual basis, loans are reviewed, classified as necessary, and rated based on internal and external factors that affect its performance. On a monthly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

BDO Unibank Group's definition of its loan classification and corresponding credit risk ratings are as follows:

- Current/Unclassified : Grades AAA to B
- Watchlisted : Grade B-
- Loans Especially Mentioned : Grade C
- Substandard : Grade D
- Doubtful : Grade E
- Loss : Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(a) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) Watchlisted

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(c) Adversely Classified

(i) Loans Especially Mentioned (LEM)

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to BDO Unibank Group.

(ii) Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

(iii) Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses that those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

(iv) Loss

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value.

This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

In addition to the above, credit portfolio review is another integral part of BDO Unibank Group's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and healthy risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by BDO Unibank Group using internal credit ratings.

4.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, financial assets measured at amortized cost (2018), HTM investments (2017), FVOCI debt investments (2018) and AFS debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts for loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2018 and 2017, there are no purchased or originated credit impaired financial assets in both BDO Unibank Group and Parent Bank financial statements.

The following table shows the exposure to credit risk as of December 31, 2018 and 2017 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

		2018				2017
		Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers - corporate						
Grades AAA to B	: Current	P 1,531,995	P -	P 89	P 1,532,084	P 1,416,795
Grade B-	: Watchlisted	29,445	4,940	22	34,407	260
Grade C	: LEM	-	797	297	1,094	4,383
Grade D	: Substandard	-	4,299	1,749	6,048	5,346
Grade E	: Doubtful	-	-	1,468	1,468	4,270
Grade F	: Loss	-	-	4,764	4,764	3,720
		1,561,440	10,036	8,389	1,579,865	1,434,774
Expected credit loss allowance		(6,630)	(1,972)	(6,243)	(14,845)	(18,600)
Carrying amount		P 1,554,810	P 8,064	P 2,146	P 1,565,020	P 1,416,174
Receivables from customers - consumer						
Grades AAA to B	: Current	P 425,608	P -	P 37	P 425,645	P 299,430
Grade B-	: Watchlisted	146	12	13	171	-
Grade C	: LEM	-	1,446	84	1,530	3,489
Grade D	: Substandard	-	867	766	1,633	7,496
Grade E	: Doubtful	-	-	2,558	2,558	3,209
Grade F	: Loss	-	-	8,660	8,660	6,490
		425,754	2,325	12,118	440,197	320,114
Expected credit loss allowance		(3,794)	(572)	(7,550)	(11,916)	(11,292)
Carrying amount		P 421,960	P 1,753	P 4,568	P 428,281	P 308,822
Other receivables						
Grades AAA to B	: Current	P 77,857	P -	P -	P 77,857	P 65,681
Grade C	: LEM	-	24	77	101	-
Grade D	: Substandard	-	490	288	778	1,220
Grade E	: Doubtful	-	-	609	609	612
Grade F	: Loss	-	-	1,472	1,472	2,442
		77,857	514	2,446	80,817	69,955
Expected credit loss allowance		(235)	(37)	(2,012)	(2,284)	(3,165)
Carrying amount		P 77,622	P 477	P 434	P 78,533	P 66,790

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Debt investment securities at amortized Cost/HTM securities					
Grades AAA to B : Current	**P 244,635**	**P -**	**P -**	**P 244,635**	P 197,198
Grade F : Loss	**-**	**-**	**1,446**	**1,446**	-
	244,635	**-**	**1,446**	**246,081**	197,198
Expected credit loss allowance	**(135)**	**-**	**(1,446)**	**(1,581)**	-
Carrying amount	**P 244,500**	**P -**	**P -**	**P 244,500**	P 197,198
Debt investment securities at FVOCI/ AFS securities					
Grades AAA to B : Current	**P 110,150**	**P -**	**P -**	**P 110,150**	P 103,931
Loan commitments and other contingent accounts					
Grades AAA to B : Current	**P 73,120**	**P -**	**P -**	**P 73,120**	P 70,016
Grade B- : Watchlisted	**447**	**155**	**-**	**602**	-
	73,567	**155**	**-**	**73,722**	70,016
Expected credit loss allowance	**(202)**	**(4)**	**-**	**(206)**	-
Carrying amount	**P 73,365**	**P 151**	**P -**	**P 73,516**	P 70,016

The following table sets out the credit quality of trading debt securities measured at FVTPL (see Note 9.1).

	2018	2017
Grade:		
AAA	**P 2,037**	P 1,692
AA+ to AA	**129**	246
A+ to A-	**341**	522
BBB+ to BBB-	**2,493**	2,793
BB+ to BB-	**14**	-
	P 5,014	P 5,253

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Outstanding derivative exposures to counterparties are generally to investment grade counterparty banks. Derivative transactions with non-bank counterparties are on a fully secured basis.

	Total		Exchange-traded		Over-the-counter: Central counterparties		Over-the-counter: Other bilateral collateralized	
	Notional Amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
2018								
Derivative assets	**P 169,103**	**P 6,230**	**P -**	**P -**	**P 138,743**	**P 2,621**	**P 30,360**	**P 3,609**
Derivative liabilities	**133,144**	**4,497**	**-**	**-**	**105,775**	**1,680**	**27,369**	**2,817**
2017								
Derivative assets	P 157,023	P 5,024	P 604	P 1	P 131,418	P 2,279	P 25,001	P 2,744
Derivative liabilities	157,248	3,750	-	-	133,797	1,798	23,451	1,952

As of December 31, 2018 and 2017, the BDO Unibank Group held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P463,173 and P449,793, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

Parent Bank

		2018				2017
		Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers – corporate						
Grades AAA to B	: Current	P 1,507,824	P -	P 56	P 1,507,880	P 1,391,703
Grade B-	: Watchlisted	28,873	4,907	-	33,780	-
Grade C	: LEM	-	462	264	726	3,974
Grade D	: Substandard	-	4,298	1,542	5,840	5,128
Grade E	: Doubtful	-	-	1,184	1,184	4,096
Grade F	: Loss	-	-	4,450	4,450	3,487
		1,536,697	9,667	7,496	1,553,860	1,408,388
Expected credit loss allowance		(6,506)	(1,968)	(5,893)	(14,367)	(17,960)
Carrying amount		P 1,530,191	P 7,699	P 1,603	P 1,539,493	P 1,390,428
Receivables from customers - consumer						
Grades AAA to B	: Current	P 401,136	P -	P -	P 401,136	P 273,607
Grade B-	: Watchlisted	146	12	13	171	-
Grade C	: LEM	-	1,307	65	1,372	3,419
Grade D	: Substandard	-	438	701	1,139	7,303
Grade E	: Doubtful	-	-	2,131	2,131	2,895
Grade F	: Loss	-	-	6,693	6,693	5,287
		401,282	1,757	9,603	412,642	292,511
Expected credit loss allowance		(3,545)	(429)	(5,805)	(9,779)	(9,867)
Carrying amount		P 397,737	P 1,328	P 3,798	P 402,863	P 282,644
Other receivables						
Grades AAA to B	: Current	P 76,116	P -	P -	P 76,116	P 56,568
Grade D	: Substandard	-	477	283	760	1,209
Grade E	: Doubtful	-	-	601	601	480
Grade F	: Loss	-	-	1,371	1,371	2,343
		76,116	477	2,255	78,848	60,600
Expected credit loss allowance		(83)	(37)	(1,931)	(2,051)	(2,940)
Carrying amount		P 76,033	P 440	P 324	P 76,797	P 57,660
Debt investment securities at amortized Cost/HTM securities						
Grades AAA to B	: Current	P 223,032	P -	P -	P 223,032	P 183,722
Grade F	: Loss	-	-	1,446	1,446	-
		223,032	-	1,446	224,478	183,722
Expected credit loss allowance		(123)	-	(1,446)	(1,569)	-
Carrying amount		P 222,909	P -	P -	P 222,909	P 183,722
Debt investment securities at FVOCI/ AFS securities						
Grades AAA to B	: Current	P 73,741	P -	P -	P 73,741	P 66,465
Loan commitments and other contingent accounts						
Grades AAA to B	: Current	P 73,120	P -	P -	P 73,120	P 70,016
Grade B-	: Watchlisted	447	155	-	602	-
		73,567	155	-	73,722	70,016
Expected credit loss allowance		(202)	(4)	-	(206)	-
Carrying amount		P 73,365	P 151	P -	P 73,516	P 70,016

The following table sets out the credit quality of trading debt securities measured at FVTPL (see Note 9.1).

	2018	2017
Grade:		
AAA	P 1,277	P 493
AA+ to AA	4	2
BB+ to BB-	354	1,486
	P 1,635	P 1,981

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Parent Bank are generally fully collateralized by cash.

	Total		Exchange-traded		Over-the-counter			
					Central counterparties		Other bilateral collateralized	
	Notional Amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
2018								
Derivative assets	**P 138,743**	**P 2,621**	**P -**	**P -**	**P 138,743**	**P 2,621**	**P -**	**P -**
Derivative liabilities	**105,775**	**1,680**	**-**	**-**	**105,775**	**1,680**	**-**	**-**
2017								
Derivative assets	P 131,418	P 2,279	P -	P -	P 131,418	P 2,279	P -	P -
Derivative liabilities	133,797	1,798	-	-	133,797	1,798	-	-

As of December 31, 2018 and 2017, the Parent Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totalling to P450,289 and P425,566, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

4.3.3 Concentrations of Credit Risk

The BDO Unibank Group and the Parent Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below.

BDO Unibank Group

	2018			**2017**		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities**	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities
Concentration by sector:						
Financial and insurance activities	**P 536,426**	**P 292,871**	**P 228,301**	P 504,779	P 195,923	P 212,314
Wholesale and retail trade	**-**	**274,443**	**1,085**	-	237,104	1,336
Real estate activities	**-**	**242,836**	**22,080**	1	227,050	22,426
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**234,238**	**-**	-	175,196	-
Electricity, gas, steam and and air-conditioning supply	**-**	**222,305**	**-**	-	200,952	-
Manufacturing	**-**	**215,108**	**13,940**	-	186,779	12,509
Transportation and storage	**-**	**114,023**	**3,333**	-	112,307	2,719
Arts, entertainment and recreation	**-**	**76,366**	**-**	-	68,853	-
Construction	**-**	**47,797**	**-**	-	36,605	-
Information and communication	**-**	**32,530**	**-**	-	38,707	-
Accommodation and food service activities	**-**	**31,465**	**-**	-	41,662	-
Mining and quarrying	**-**	**23,830**	**-**	-	24,054	-
Agriculture, forestry and fishing	**-**	**13,861**	**-**	-	13,007	-
Water supply, sewerage waste management and remediation activities	**-**	**12,567**	**-**	-	11,813	-
Professional, scientific and technical services	**-**	**10,980**	**-**	-	10,782	-
Administrative and support services	**-**	**9,517**	**-**	-	9,204	-
Human health and social work activities	**-**	**9,092**	**-**	-	16,461	-
Education	**-**	**5,960**	**-**	-	13,614	-
Public administrative and defense; compulsory social security	**-**	**640**	**-**	-	703	-
Activities of extraterritorial and organizations and bodies	**-**	**41**	**-**	-	66	-
Other service activities	**4,994**	**149,592**	**89,562**	641	134,046	58,005
	P 541,420	**P 2,020,062**	**P 358,301**	P 505,421	P 1,754,888	P 309,309
Concentration by location:						
Philippines	**P 448,131**	**P 1,891,447**	**P 279,391**	P 425,617	P 1,631,084	P 241,154
Others	**93,289**	**128,615**	**78,910**	79,804	123,804	68,155
	P 541,420	**P 2,020,062**	**P 358,301**	P 505,421	P 1,754,888	P 309,309

* *Cash and cash equivalents include cash and other cash items, due from BSP and other banks, SPURRA, FCNC, certain interbank loans receivables and HTM securities (see Note 2.5).*

***Receivables from customers are reported net of unearned interests or discounts.*

Parent Bank

	2018			2017		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities**	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities
Concentration by sector:						
Financial and insurance activities	**P 525,857**	**P 290,365**	**P 212,182**	P 477,805	P 191,194	P 181,378
Wholesale and retail traded	**-**	**267,923**	**1,030**	-	231,386	1,281
Real estate activities	**-**	**241,272**	**17,701**	-	223,746	17,910
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**225,550**	**-**	-	168,423	-
Electricity, gas, steam and air-conditioning supply	**-**	**221,533**	**-**	-	200,106	-
Manufacturing	**-**	**211,264**	**12,481**	-	183,382	9,903
Transportation and storage	**-**	**109,997**	**2,571**	-	108,496	2,403
Arts, entertainment and recreation	**-**	**75,000**	**-**	-	66,040	-
Construction	**-**	**42,900**	**-**	-	32,032	-
Information and communication	**-**	**32,072**	**-**	-	38,081	-
Accommodation and food service activities	**-**	**31,298**	**-**	-	41,307	-
Mining and quarrying	**-**	**22,434**	**-**	-	22,344	-
Agriculture, forestry and fishing	**-**	**13,043**	**-**	-	11,342	-
Water supply, sewerage waste management and remediation activities	**-**	**12,317**	**-**	-	11,286	-
Professional, scientific and technical services	**-**	**10,738**	**-**	-	10,517	-
Human health and social work activities	**-**	**8,235**	**-**	-	15,724	-
Administrative and support services	**-**	**8,131**	**-**	-	7,867	-
Education	**-**	**5,411**	**-**	-	5,201	-
Public administrative and defense; compulsory social security	**-**	**629**	**-**	-	639	-
Activities of extraterritorial and organizations bodies	**-**	**38**	**-**	-	66	-
Other service activities	**-**	**136,352**	**50,015**	-	131,720	39,475
	P 525,857	**P 1,966,502**	**P 295,980**	P 477,805	P 1,700,899	P 252,350
Concentration by location						
Philippines	**P 438,835**	**P 1,845,037**	**P 224,717**	P 406,394	P 1,579,763	P 190,008
Others	**87,022**	**121,465**	**71,263**	71,411	121,136	62,342
	P 525,857	**P 1,966,502**	**P 295,980**	P 477,805	P 1,700,899	P 252,350

** Cash and cash equivalents include cash and other cash items, due from BSP and other banks, SPURRA, FCNC, certain interbank loans receivables and HTM investments (see Note 2.5).*

***Receivables from customers are reported as gross of allowance but net of unearned interests or discounts.*

4.3.4 Collateral Held as Security and Other Credit Enhancements

BDO Unibank Group and the Parent Bank hold collateral against credit exposures from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically, e.g., annually for real estate properties, as provided in the Parent Bank's Credit Policy Manual. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity. The BDO Unibank Group and the Parent Bank hold collateral against credit exposures in the form of property, debt securities, equity securities, holdout deposits and others.

Estimate of the fair value of collateral and other security enhancements held against the following credit exposures as of December 31 follows:

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Receivable from customers – corporate				
Property	**P 497,150**	P 446,998	**P 460,617**	P 393,555
Equity securities	**131,529**	162,284	**131,529**	162,284
Hold-out deposits	**141,806**	172,764	**141,806**	172,764
Debt securities	**5,147**	3,532	**5,109**	3,482
Others	**220,603**	238,732	**210,049**	236,008
	996,235	1,024,310	**949,110**	968,093
Receivable from customers – consumer				
Property	**286,512**	238,025	**278,268**	222,692
Equity securities	**171**	100	**171**	100
Hold-out deposits	**3,950**	3,973	**3,881**	3,893
Debt securities	**849**	713	**571**	232
Others	**170,747**	117,433	**159,536**	116,432
	462,229	360,244	**442,427**	343,349
Other receivables:				
Property	**2,139**	1,529	**2,139**	1,529
Debt securities	**-**	18	**-**	18
Others	**72,053**	53,126	**71,805**	52,861
	74,192	54,673	**73,944**	54,408
	P 1,532,656	P 1,439,227	**P 1,465,481**	P 1,365,850

As of December 31, 2018 and 2017, no collateral is held for due from other banks and trading and investment securities.

BDO Unibank Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

(a) Receivable from Customers - Corporate

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 4.3.2). However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

While the Group is focused on corporate customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to corporate customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Group obtains appraisals of collateral to provide input into determining the management credit risk actions.

The net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables to corporate customers amounted to P10,210 and P9,618 as of December 31, 2018 and 2017, respectively, for the Group and P9,302 and P8,046 as of December 31, 2018 and 2017, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P996,235 and P1,024,310 as of December 31, 2018 and 2017, respectively, for the Group and P949,110 and P968,093 as of December 31, 2018 and 2017, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(b) Receivable from Customers - Consumer

The general creditworthiness of an individual customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 4.3.2). However, collateral provides additional security and the Group generally requests that individual borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all individual assets and other liens and guarantees.

While the Group is focused on individual customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to individual customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Group obtains appraisals of collateral to provide input into determining the management credit risk actions.

The net carrying amount of credit-impaired receivables to individual customers amounted to P6,321 and P12,789 as of December 31, 2018 and 2017, respectively, for the Group and P5,126 and P11,701 as of December 31, 2018 and 2017, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P462,229 and P360,244 as of December 31, 2018 and 2017, respectively, for the Group and P442,427 and P343,349 as of December 31, 2018 and 2017, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(c) Other Receivables

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 4.3.2). However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

While the Group is focused on corporate customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to corporate customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Group obtains appraisals of collateral to provide input into determining the management credit risk actions.

The net carrying amount of credit-impaired receivables to corporate customers amounted to P911 and P1,706 as of December 31, 2018 and 2017, respectively, for the Group and P764 and P1,480 as of December 31, 2018 and 2017, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P74,192 and P54,673 as of December 31, 2018 and 2017, respectively, for the Group and P73,944 and P54,408 as of December 31, 2018 and 2017, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(d) Debt Investment Securities

The maximum exposure to credit risk of the investment securities at amortized cost/HTM investments, FVOCI/AFS securities and FVTPL are their carrying amounts of P244,500, P110,150 and P5,014, respectively, as of December 31, 2018, and P197,198, P103,931 and P5,253, respectively, as of December 31, 2017 for the Group. Meanwhile, maximum exposure to credit risk of the investment securities at amortized cost, FVOCI/ AFS securities and FVTPL their carrying amounts of P222,909, P73,741 and P1,635, respectively, as of December 31, 2018, and P183,722, P66,465 and P1,981, respectively, as of December 31, 2017 for the Group.

4.3.5 Amounts Arising from Expected Credit Losses

At each reporting date, BDO Unibank Group assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired (referred to as Stages 2 and 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using PD, LGD and EAD.

(a) Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses the following criteria in determining whether there has been a significant increase in credit risk: (i) quantitative test based on movement in PD; and (ii) qualitative indicators, such as substantial decline in sales, intermittent delays in payment or restructuring;

(i) Credit risk grading

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference PD between an AAA and AA rating grade is lower than the difference in the PD between a B and B- rating grade.

(ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used.

The Group employs statistical models to analyze the data collected and generate the term structure of PD estimates.

(iii) Determining whether credit risk has significantly increased

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant varies across financial assets of the Group.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as substantial decline in sales and intermittent delays in payments. If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

(b) *Definition of Default*

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group; or,
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are qualitative (e.g., breaches of covenant) and, quantitative (overdue or non-payment).

Inputs into the assessment of whether a financial instrument is in default as well as their significance may vary over time to reflect changes in circumstances.

(c) *Forward-looking Information (FLI)*

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The relevant macro-economic variables for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

The significance of the selected macro-economic variables as predictors of default may change over time as historical information is added. As such, the generated macro-economic models are updated at least on an annual basis.

Management has also considered other FLIs not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

(d) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Group's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt; or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Consumer and corporate loans and credit card receivables are subject to restructuring. The Group's Credit Committee regularly reviews reports on restructured activities.

For financial assets modified as part of the Group's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 4.3.2). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(e) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g. PD from external credit rating agencies, Basel LGD) issued to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

(f) Loss Allowance

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under PAS 39.

BDO Unibank Group

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Receivables from customers – corporate					
Balance at January 1	P 6,684	P 455	P 5,209	P 12,348	P 16,638
Transfers to:					
Stage 1	7	(7)	-	-	-
Stage 2	(28)	28	-	-	-
Stage 3	(25)	(2)	27	-	-
Net remeasurement of loss allowance	(676)	1,554	1,174	2,052	(4,800)
New financial assets originated or purchased	3,058	-	-	3,058	7,507
Derecognition of financial assets	(2,396)	(60)	(137)	(2,593)	(242)
Write-offs	-	-	(31)	(31)	(512)
Foreign exchange	6	4	1	11	9
Balance at December 31	P 6,630	P 1,972	P 6,243	P 14,845	P 18,600
Receivables from customers – consumer					
Balance at January 1	P 3,787	P 505	P 6,147	P 10,439	P 9,592
Transfers to:					
Stage 1	416	(148)	(268)	-	-
Stage 2	(64)	94	(30)	-	-
Stage 3	(332)	(167)	499	-	-
Net remeasurement of loss allowance	(877)	468	5,243	4,834	3,824
New financial assets originated or purchased	1,382	-	-	1,382	1,748
Derecognition of financial assets	(521)	(180)	(2,215)	(2,916)	(1,893)
Write-offs	-	-	(1,830)	(1,830)	(2,000)
Foreign exchange	3	-	4	7	-
Others	-	-	-	-	21
Balance at December 31	P 3,794	P 572	P 7,550	P 11,916	P 11,292
Other receivables					
Balance at January 1	P 205	P 32	P 2,928	P 3,165	P 1,927
Transfers to:					
Stage 1	24	(1)	(23)	-	-
Stage 2	-	2	(2)	-	-
Stage 3	(1)	(1)	2	-	-
Net remeasurement of loss allowance	(33)	11	1,081	1,059	897
New financial assets originated or purchased	61	-	-	61	501
Derecognition of financial assets	(17)	(6)	(1,516)	(1,539)	(72)
Write-offs	(4)	-	(459)	(463)	(88)
Foreign exchange	-	-	1	1	-
Balance at December 31	P 235	P 37	P 2,012	P 2,284	P 3,165
Debt investment securities at FVOCI (2018) /AFS securities (2017)					
Balance at January 1	P 69	P -	P -	P 69	P -
Net remeasurement of loss allowance	13	-	-	13	-
New financial assets originated or purchased	6	-	-	6	-
Derecognition of financial assets	(1)	-	-	(1)	-
Balance at December 31	P 87	P -	P -	P 87	P -

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Debt investment securities at amortized cost (2018)/HTM securities (2017)					
Balance at January 1	P 128	P -	P 1,387	P 1,515	P -
Net remeasurement of loss allowance	(15)	-	-	(15)	-
New financial assets originated or purchased	21	-	-	21	-
Foreign exchange	6	-	61	67	-
Derecognition of financial assets	(5)	-	(2)	(7)	-
Balance at December 31	P 135	P -	P 1,446	P 1,581	P -
Loan commitments and other contingent accounts					
Balance at January 1	P 329	P 2	P -	P 331	-
Net remeasurement of loss allowance	(96)	3	-	(93)	-
New financial assets originated or purchased	83	-	-	83	-
Derecognition of financial assets	(114)	(1)	-	(115)	-
Foreign exchange	-	-	-	-	-
Balance at December 31	P 202	P 4	P -	P 206	P -

Parent Bank

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Receivables from customers – corporate					
Balance at January 1	P 6,537	P 433	P 4,865	P 11,835	P 15,995
Transfers to:					
Stage 1	7	(7)	-	-	-
Stage 2	(28)	28	-	-	-
Stage 3	(6)	(2)	8	-	-
Net remeasurement of loss allowance	(662)	1,565	1,158	2,061	(4,800)
New financial assets originated or purchased	3,007	-	-	3,007	7,482
Derecognition of financial assets	(2,355)	(53)	(109)	(2,517)	(214)
Write-offs	-	-	(30)	(30)	(512)
Foreign exchange	6	4	1	11	9
Balance at December 31	P 6,506	P 1,968	P 5,893	P 14,367	P 17,960
Receivables from customers – consumer					
Balance at January 1	P 3,311	P 459	P 5,259	P 9,029	P 8,703
Transfers to:					
Stage 1	199	(130)	(69)	-	-
Stage 2	(60)	71	(11)	-	-
Stage 3	(297)	(138)	435	-	-
Net remeasurement of loss allowance	(504)	327	4,082	3,905	3,176
New financial assets originated or purchased	1,287	-	-	1,287	1,654
Derecognition of financial assets	(394)	(160)	(2,065)	(2,619)	(1,736)
Write-offs	-	-	(1,830)	(1,830)	(1,951)
Foreign exchange	3	-	4	7	-
Others	-	-	-	-	21
Balance at December 31	P 3,545	P 429	P 5,805	P 9,779	P 9,867

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Other receivables					
Balance at January 1	P 54	P 32	P 2,853	P 2,940	P 1,713
Transfers to:					
Stage 1	24	(1)	(23)	-	-
Stage 2	-	2	(2)	-	-
Stage 3	(1)	(1)	2	-	-
Net remeasurement of loss allowance	(37)	11	1,066	1,040	862
New financial assets originated or purchased	60	-	-	60	497
Derecognition of financial assets	(17)	(6)	(1,508)	(1,531)	(72)
Write-offs	-	-	(459)	(459)	(60)
Foreign exchange	-	-	1	1	-
Balance at December 31	P 83	P 37	P 1,931	P 2,051	P 2,940
Debt investment securities at amortized cost/HTM securities (2017)					
Balance at January 1	P 115	P -	P 1,387	P 1,502	P -
Net remeasurement of loss allowance	(11)	-	-	(11)	-
New financial assets originated or purchased	14	-	-	14	-
Foreign exchange	6	-	61	67	-
Derecognition of financial assets	(1)	-	(2)	(3)	-
Balance at December 31	P 123	P -	P 1,446	P 1,569	P -
Debt investment securities at FVOCI/ AFS securities (2017)					
Balance at January 1	P 62	P -	P -	P 62	P -
Net remeasurement of loss allowance	1	-	-	1	-
New financial assets originated or purchased	5	-	-	5	-
Derecognition of financial assets	(1)	-	-	(1)	-
Balance at December 31	P 67	P -	P -	P 67	P -
Loan commitments and other contingent accounts					
Balance at January 1	P 329	P 2	P -	P 331	-
Net remeasurement of loss allowance	(96)	3	-	(93)	-
New financial assets originated or purchased	83	-	-	83	-
Derecognition of financial assets	(114)	(1)	-	(115)	-
Foreign exchange	-	-	-	-	-
Balance at December 31	P 202	P 4	P -	P 206	P -

The following table sets out a reconciliation of changes in the total loss allowance.

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Balance at January 1	**P 27,867**	P 28,157	**P 25,699**	P 26,411
Net remeasurement of loss allowance	**7,850**	(79)	**6,903**	(762)
New financial assets originated or purchased	**4,611**	9,756	**4,456**	9,633
Derecognition of financial assets	**(7,171)**	(2,186)	**(6,786)**	(2,001)
Write-offs	**(2,324)**	(2,600)	**(2,319)**	(2,523)
Foreign exchange	**86**	9	**86**	9
Balance at December 31	**P 30,919**	P 33,057	**P 28,039**	P 30,767

4.3.6 Impaired Financial Assets – Comparative Information Under PAS 39

The BDO Unibank Group and the Parent Bank hold collateral against loans and receivables from customers in the form of mortgage interests over property and other registered securities.

BDO Unibank Group

	2017		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,791,786	P 51,479	P 311,163
Individually Impaired			
Unclassified	P 717	P -	P -
Grade B: Watchlisted	253	-	-
Grade C: LEM	4,351	-	-
Grade D: Substandard	5,345	-	-
Grade E: Doubtful	4,270	-	-
Grade F: Loss	3,680	-	243
Gross amount	18,616	-	243
Allowance for impairment	(7,653)	-	(243)
Carrying amount	10,963	-	-
Collectively Impaired			
Unclassified	1,098	-	-
Grade C: LEM	4,162	-	-
Grade D: Substandard	7,436	-	-
Grade E: Doubtful	3,134	-	-
Grade F: Loss	6,248	-	-
Gross amount	22,078	-	-
Allowance for impairment	(8,927)	-	-
Carrying amount	13,151	-	-
Past Due But Not Impaired			
Unclassified	1,501	-	-
Neither Past Due Nor Impaired			
Unclassified	1,766,171	51,479	311,163
Total Carrying Amount	P 1,791,786	P 51,479	P 311,163

**Trading and Investment Securities do not include equity securities.*

An aging of past due but not impaired accounts of BDO Unibank Group reckoned from the past due date per BSP definition follows:

	Loans and Other Receivables	
	Past due not impaired	Neither past due nor impaired
Up to 30 days	P 362	P 1,746,777
31 to 60 days	115	6,051
61 to 90 days	130	1,803
91 to 180 days	70	11,540
More than 180 days	824	-
	P 1,501	P 1,766,171

Parent Bank

	2017		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,730,732	P 41,088	P 254,204
Individually Impaired			
Unclassified	P -	P -	P -
Grade C: LEM	3,974	-	-
Grade D: Substandard	5,128	-	-
Grade E: Doubtful	4,096	-	-
Grade F: Loss	3,487	-	243
Gross amount	16,685	-	243
Allowance for impairment	(7,295)	-	(243)
Carrying amount	9,390	-	-
Collectively Impaired			
Grade C: LEM	3,419	-	-
Grade D: Substandard	7,303	-	-
Grade E: Doubtful	2,895	-	-
Grade F: Loss	5,287	-	-
Gross amount	18,904	-	-
Allowance for impairment	(7,067)	-	-
Carrying amount	11,837	-	-
Past Due But Not Impaired			
Unclassified	439	-	-
Neither Past Due Nor Impaired			
Unclassified	1,709,066	41,088	254,204
Total Carrying Amount	P 1,730,732	P 41,088	P 254,204

**Trading and Investment Securities do not include equity securities.*

An aging of past due but not impaired accounts of the Parent Bank reckoned from past due date per BSP definition as follows:

	Loans and Other Receivables	
	Past due not impaired	Neither past due nor impaired
Up to 30 days	P 104	P 1,706,565
31 to 60 days	115	2,416
61 to 90 days	24	85
91 to 180 days	70	-
More than 180 days	126	-
	P 439	P 1,709,066

4.4 Operational Risk

Operational risk is the risk of loss due to BDO Unibank Group's:

- failure to comply with defined operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

BDO Unibank Group manages its operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

Framework

True to its commitment to sound management and corporate governance, BDO Unibank Group considers operational risk management as a critical element in the conduct of its business. Under BDO Unibank Group's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of operational risk in BDO Unibank Group.

The RMG provides the common risk language and management tools across BDO Unibank Group as well as monitors the implementation of the ORM framework and policies. The business process owners, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses/operations.

The Group continues to conduct periodic Risk and Control Self-Assessment (RCSA) so that business process owners could document both their operational risks and control mechanisms they have put in place to manage those risks. This ORM tool allows the Group to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

BDO Unibank Group also continues to use Key Risk Indicators (KRI) as alerts for operational risk vulnerabilities. Reporting of top KRIs to the BOD through the RMC is done quarterly.

These ORM tools are continually being reviewed and enhanced to proactively manage operational risks. The Operational Risk Management Solution (ORMS) was implemented to automate the reporting of BDO Unibank Group's RCSAs and KRIs. The bank-wide information asset inventory is regularly reviewed to address operational risks arising from information security concerns. The inventory identified critical applications and sensitive data based on the BDO Unibank Group's classification standards, information risks, as well as, protection measures in place to mitigate these risks. Under the purview of information security is data privacy. The Group's data privacy framework is in accordance with the Republic Act No. 10173, *Data Privacy Act of 2012*.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into BDO Unibank Group's day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

BDO Unibank Group continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan.

5. SEGMENT REPORTING

BDO Unibank Group's main operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of BDO Unibank Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies BDO Unibank Group's five service lines as primary operating segments. In addition, minor operating segments, for which quantitative thresholds have not been met, as described in PFRS 8 are combined in the succeeding page as Others.

(a) ***Commercial banking*** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;

(b) ***Investment banking*** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, financial advisory services, and securities brokerage;

(c) ***Private banking*** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts;

(d) ***Leasing and financing*** – provides direct leases, sale and leaseback arrangements and real estate leases;

(e) ***Insurance*** – engages in insurance brokerage and life insurance business by providing protection, education, savings, retirement and estate planning solutions to individual and corporate clients through life insurance products and services; and,

(f) ***Others*** – includes asset management, realty management, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

These segments are the basis on which BDO Unibank Group reports its segment information. Transactions between the segments are on normal commercial terms and conditions. Inter-segment transactions are eliminated in consolidation.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BDO Unibank Group's cost of capital. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of BDO Unibank Group's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

Segment information (by service lines) as of and for the years ended December 31, 2018, 2017 and 2016 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2018								
Statement of Income								
Total interest income								
External	P 124,190	P 35	P 1,703	P 1,960	P 1,140	P 12	P -	P 129,040
Intersegment	248	9	1	-	30	36	(324)	-
	124,438	44	1,704	1,960	1,170	48	(324)	129,040
Total interest expense								
External	28,840	2	815	1,008	82	1	-	30,748
Intersegment	42	55	2	155	-	70	(324)	-
	28,882	57	817	1,163	82	71	(324)	30,748
Net interest income	95,556	(13)	887	797	1,088	(23)	-	98,292
Other operating income								
Investment banking fees	-	1,081	-	-	-	-	-	1,081
Others	36,702	324	1,004	1,254	11,956	594	(3,241)	48,593
	36,702	1,405	1,004	1,254	11,956	594	(3,241)	49,674
Other operating expenses								
Impairment losses	6,266	2	(2)	1	18	1	-	6,286
Depreciation and amortization	4,747	54	33	881	37	24	-	5,776
Others	79,574	981	1,359	748	10,330	378	(1,112)	92,258
	90,587	1,037	1,390	1,630	10,385	403	(1,112)	104,320
Profit before tax	41,671	355	501	421	2,659	168	(2,129)	43,646
Tax expense	9,363	161	200	90	1,151	42	-	11,007
Net profit	P 32,308	P 194	P 301	P 331	P 1,508	P 126	(P 2,129)	P 32,639
Statement of Financial Position								
Total resources								
Segment assets	P 2,905,520	P 5,745	P 48,802	P 41,382	P 43,167	P 5,486	(P 44,591)	P 3,005,511
Intangible assets	5,223	207	17	15	54	1	2,907	8,424
Deferred tax assets (liabilities) - net	8,319	(181)	29	126	34	(15)	-	8,312
	P 2,919,062	P 5,771	P 48,848	P 41,523	P 43,255	P 5,472	(P 41,684)	P 3,022,247
Total liabilities	P 2,586,747	P 2,075	P 43,711	P 36,180	P 34,746	P 2,375	(P 11,736)	P 2,694,098

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
Other segment information								
Capital expenditures	**P 9,791**	**P 37**	**P 26**	**P 986**	**P 75**	**P 27**	**P -**	**P 10,942**
Investment in associates under equity method	**P 4,846**	**P -**	**P -**	**P 235**	**P -**	**P -**	**P -**	**P 5,081**
Share in the profit of associates	**P 662**	**P -**	**P -**	**(P 31)**	**P -**	**P -**	**P -**	**P 631**
December 31, 2017								
Statement of Income								
Total interest income								
External	P 95,224	P 62	P 1,779	P 1,913	P 806	P 11	P -	P 99,795
Intersegment	232	5	-	1	16	14	(268)	-
	95,456	67	1,779	1,914	822	25	(268)	99,795
Total interest expense								
External	16,686	-	599	690	65	2	-	18,042
Intersegment	23	48	-	154	-	43	(268)	-
	16,709	48	599	844	65	45	(268)	18,042
Net interest income	78,747	19	1,180	1,070	757	(20)	-	81,753
Other operating income								
Investment banking fees	-	1,766	-	-	-	-	-	1,766
Others	34,646	412	855	1,242	12,642	457	(4,814)	45,440
	34,646	2,178	855	1,242	12,642	457	(4,814)	47,206
Other operating expenses								
Impairment losses	6,332	3	2	64	136	-	-	6,537
Depreciation and amortization	4,171	61	29	836	49	26	-	5,172
Others	67,025	897	1,367	693	10,389	349	(1,027)	79,693
	77,528	961	1,398	1,593	10,574	375	(1,027)	91,402
Profit before tax	35,865	1,236	637	719	2,825	62	(3,787)	37,557
Tax expense	8,138	340	223	148	587	16	-	9,452
Net profit	P 27,727	P 896	P 414	P 571	P 2,238	P 46	(P 3,787)	P 28,105
Statement of Financial Position								
Total resources								
Segment assets	P 2,540,028	P 7,153	P 64,439	P 42,676	P 38,454	P 5,486	(P 46,038)	P 2,652,198
Intangible assets	5,374	134	26	29	32	1	2,907	8,503
Deferred tax assets (liabilities) - net	7,441	(182)	31	111	26	(24)	-	7,403
	P 2,552,843	P 7,105	P 64,496	P 42,816	P 38,512	P 5,463	(P 43,131)	P 2,668,104
Total liabilities	P 2,250,781	P 2,690	P 59,147	P 37,374	P 31,391	P 2,292	(P 13,911)	P 2,369,764
Other segment information								
Capital expenditures	P 9,414	P 42	P 18	P 788	P 26	P 386	P -	P 10,674
Investment in associates under equity method	P 4,678	P -	P -	P 267	P -	P -	P -	P 4,945
Share in the profit of associates	P 626	P -	P -	(P 14)	P -	P -	P -	P 612

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2016								
Statement of Income								
Total interest income								
External	P 78,062	P 88	P 1,434	P 1,751	P 691	P 11	P -	P 82,037
Intersegment	127	3	-	1	8	1	(140)	-
	78,189	91	1,434	1,752	699	12	(140)	82,037
Total interest expense								
External	15,278	1	436	627	71	-	-	16,413
Intersegment	14	51	-	38	-	38	(141)	-
	15,292	52	436	665	71	38	(141)	16,413
Net interest income	62,897	39	998	1,087	628	(26)	1	65,624
Other operating income								
Investment banking fees	-	1,215	-	-	-	-	-	1,215
Others	28,643	297	1,181	1,100	10,138	585	(1,546)	40,398
	28,643	1,512	1,181	1,100	10,138	585	(1,546)	41,613
Other operating expenses								
Depreciation and amortization	3,880	56	24	738	65	19	-	4,782
Impairment losses	3,367	158	-	50	240	-	-	3,815
Others	54,409	817	1,254	647	8,269	287	(477)	65,206
	61,656	1,031	1,278	1,435	8,574	306	(477)	73,803
Profit before pre-acquisition	29,884	520	901	752	2,192	253	(1,068)	33,434
Pre-acquisition income	-	-	-	-	-	-	(391)	(391)
Profit before tax	29,884	520	901	752	2,192	253	(1,459)	33,043
Tax expense	5,759	201	219	181	429	8	-	6,797
Net profit	P 24,125	P 319	P 682	P 571	P 1,763	P 245	(P 1,459)	P 26,246
Statement of Financial Position								
Total resources								
Segment assets	P 2,205,184	P 5,794	P 62,258	P 38,802	P 30,087	P 5,270	(P 37,100)	P 2,310,295
Intangible assets	5,212	135	26	43	46	1	2,907	8,370
Deferred tax assets (liability) - net	6,455	(184)	37	41	11	(26)	-	6,334
	P 2,216,851	P 5,745	P 62,321	P 38,886	P 30,144	P 5,245	(P 34,193)	P 2,324,999
Total liabilities	P 1,997,541	P 2,378	P 57,064	P 33,536	P 24,747	P 1,968	(P 9,794)	P 2,107,440
Other segment information								
Capital expenditures	P 5,808	P 22	P 24	P 941	P 95	P 264	P -	P 7,154
Investment in associates under equity method	P 4,169	P -	P -	P 280	P -	P -	P -	P 4,449
Share in the profit of associates	P 501	P -	P -	(P 20)	P -	P -	P -	P 481

Currently, BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and holding Company in Europe and various remittance subsidiaries operating in Asia, Europe, Canada and United States. Geographical segment information is not presented as these foreign operations accounted for only 1.3%, 1.2% and 1.1% of BDO Unibank Group's total revenues in 2018, 2017 and 2016, respectively, and 1.4% of BDO Unibank Group's total resources both as of December 31, 2018 and 2017, respectively (see Note 1.1).

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below and in the succeeding pages.

BDO Unibank Group

	2018							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial assets								
At amortized cost:								
Cash and other cash items	P	53,749	P	-	P	53,749	P	53,749
Due from BSP		354,132		-		354,132		354,132
Due from other banks		55,292		-		55,292		55,292
Loans and other receivables		2,071,834		-		2,071,834		2,056,012
Other resources		7,070		-		7,070		7,070
Financial assets at FVTPL		-		20,308		20,308		20,308
Financial assets at FVOCI		-		120,389		120,389		120,389
Investment securities at amortized cost		244,500		-		244,500		234,973
	P	2,786,577	P	140,697	P	2,927,274	P	2,901,925
Financial liabilities								
At amortized cost:								
Deposit liabilities	P	2,419,965	P	-	P	2,419,965	P	2,462,134
Bills payable		143,623		-		143,623		138,501
Subordinated notes payable		10,030		-		10,030		9,757
Insurance contract liabilities		28,506		-		28,506		28,506
Other liabilities		76,577		-		76,577		76,577
At fair value –								
Other liabilities		-		4,497		4,497		4,497
	P	2,678,701	P	4,497	P	2,683,198	P	2,719,972

BDO Unibank Group

	2017			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 45,006	P -	P 45,006	P 45,006
Due from BSP	353,308	-	353,308	353,308
Due from other banks	51,479	-	51,479	51,479
Loans and other receivables	1,791,786	-	1,791,786	1,806,119
Other resources	5,555	-	5,555	5,955
Financial assets at FVTPL	-	14,710	14,710	14,710
AFS securities*	-	119,387	119,387	119,387
HTM investments	197,198	-	197,198	197,211
	P 2,444,332	P 134,097	P 2,578,429	P 2,593,175
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,121,012	P -	P 2,121,012	P 2,135,373
Bills payable	130,484	-	130,484	129,802
Subordinated notes payable	10,030	-	10,030	9,996
Insurance contract liabilities	25,986	-	25,986	25,986
Other liabilities	69,615	-	69,615	69,615
At fair value –				
Other liabilities	-	3,750	3,750	3,750
	P 2,357,127	P 3,750	P 2,360,877	P 2,374,522

** Unquoted AFS securities (amounting to P1,632 for BDO Unibank Group and P183 for the Parent Bank in 2017) have no available fair value data, hence, are excluded for the purpose of this disclosure.*

Parent Bank

	2018			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
At amortized cost:				
Cash and other cash items	**P 52,492**	**P -**	**P 52,492**	**P 52,492**
Due from BSP	**349,017**	**-**	**349,017**	**349,017**
Due from other banks	**48,780**	**-**	**48,780**	**48,780**
Loans and other receivables	**2,019,153**	**-**	**2,019,153**	**2,004,881**
Other resources	**5,002**	**-**	**5,002**	**5,002**
Financial assets at FVTPL	**-**	**4,257**	**4,257**	**4,257**
Financial assets at FVOCI	**-**	**77,115**	**77,115**	**77,115**
Investment securities at amortized cost	**222,909**	**-**	**222,909**	**215,659**
	P 2,697,353	**P 81,372**	**P 2,778,725**	**P 2,757,203**

	2018			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities				
At amortized cost:				
Deposit liabilities	**P 2,362,302**	**P -**	**P 2,362,302**	**P 2,399,846**
Bills payable	**117,693**	**-**	**117,693**	**115,373**
Subordinated notes payable	**10,030**	**-**	**10,030**	**9,757**
Other liabilities	**63,073**	**-**	**63,073**	**63,073**
At fair value –				
Other liabilities	**-**	**1,680**	**1,680**	**1,680**
	P 2,553,098	**P 1,680**	**P 2,554,778**	**P 2,589,729**

Parent Bank

	2017			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 43,882	P -	P 43,882	P 43,882
Due from BSP	340,596	-	340,596	340,596
Due from other banks	41,088	-	41,088	41,088
Loans and other receivables	1,730,732	-	1,730,732	1,746,202
Other resources	4,241	-	4,241	4,641
Financial assets at FVTPL	-	4,260	4,260	4,260
AFS securities*	-	70,049	70,049	70,049
HTM investments	183,722	-	183,722	183,918
	P 2,344,261	P 74,309	P 2,418,570	P 2,434,636
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,045,321	P -	P 2,045,321	P 2,055,400
Bills payable	105,623	-	105,623	105,141
Subordinated notes payable	10,030	-	10,030	9,996
Other liabilities	56,834	-	56,834	56,834
At fair value –				
Other liabilities	-	1,798	1,798	1,798
	P 2,217,808	P 1,798	P 2,219,606	P 2,229,169

** Unquoted AFS securities (amounting to P1,632 for BDO Unibank Group and P183 for the Parent Bank in 2017) have no available fair value data, hence, are excluded for the purpose of this disclosure.*

6.2 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement,* the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When BDO Unibank Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2018 and 2017 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted debt and equity securities classified as AFS securities amounting to P1,632 and P183 as of December 31, 2017 (nil for 2018) in BDO Unibank Group and Parent Bank's financial statements, respectively, are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2018					
Resources:					
Financial assets at FVTPL:	9.1				
Equity securities – quoted		P 9,049	P 15	P -	P 9,064
Derivative financial assets		-	6,230	-	6,230
Government bonds		2,347	-	-	2,347
Corporate debt securities		204	2,463	-	2,667
		11,600	8,708	-	20,308
Financial assets at FVOCI:	9.2				
Government debt securities		60,165	-	-	60,165
Corporate debt securities		49,985	-	-	49,985
Equity securities – quoted		8,563	237	-	8,800
Equity securities – not quoted		-	-	1,439	1,439
		118,713	237	1,439	120,389
		P 130,313	P 8,945	P 1,439	P 140,697
Liabilities –					
Derivatives with negative fair values	19	P 79	P 4,418	P -	P 4,497

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2017					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 5,024	P -	P 5,024
Equity securities – quoted		4,433	-	-	4,433
Government bonds		3,139	-	-	3,139
Corporate debt securities		469	1,645	-	2,114
		8,041	6,669	-	14,710
AFS securities – net:	9.2				
Government debt securities		55,529	-	-	55,529
Corporate debt securities		48,159	-	-	48,159
Equity securities – quoted		15,543	156	-	15,699
		119,231	156	-	119,387
		P 127,272	P 6,825	P -	P 134,097
Liabilities –					
Derivatives with negative fair values	19	P 38	P 3,712	P -	P 3,750

Parent Bank

	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2018					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P -**	**P 2,621**	**P -**	**P 2,621**
Government bonds		**1,616**	**-**	**-**	**1,616**
Corporate debt securities		**19**	**-**	**-**	**19**
Equity securities – quoted		**1**	**-**	**-**	**1**
		1,636	**2,621**	**-**	**4,257**
Financial assets at FVOCI:	9.2				
Government debt securities		**36,865**	**-**	**-**	**36,865**
Corporate debt securities		**36,876**	**-**	**-**	**36,876**
Equity securities – quoted		**2,974**	**233**	**-**	**3,207**
Equity securities – not quoted		**-**	**-**	**167**	**167**
		76,715	**233**	**167**	**77,115**
		P 78,351	**P 2,854**	**P 167**	**P 81,372**
Liabilities:					
Derivatives with negative fair values	19	**P 79**	**P 1,601**	**P -**	**P 1,680**

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2017					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 2,279	P -	P 2,279
Government bonds		1,976	-	-	1,976
Corporate debt securities		5	-	-	5
		1,981	2,279	-	4,260
AFS securities – net:	9.2				
Government debt securities		31,938	-	-	31,938
Corporate debt securities		34,285	-	-	34,285
Equity securities – quoted		3,673	153	-	3,826
		69,896	153	-	70,049
		P 71,877	P 2,432	P -	P 74,309
Liabilities:					
Derivatives with negative fair values	19	P 38	P 1,760	P -	P 1,798

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

Discussed below and in the succeeding page is the information about how fair values of the BDO Unibank Group and the Parent Bank's classes of financial assets are determined.

(a) Equity securities

(i) Quoted equity securities classified as financial assets at FVTPL or financial assets at FVOCI/AFS securities have fair values that were determined based on their closing prices on the PSE. These instruments are included in Level 1.

Financial assets at FVTPL included in Level 2 pertain to investments in Unit Investment Trust Funds (UITFs). The fair value of these financial assets were derived using the net asset value per unit (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period), as published by banks and the Investment Company Association of the Philippines.

Golf club shares classified as financial assets at FVOCI/AFS securities are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

(ii) For unquoted equity securities classified as financial assets at FVOCI/AFS securities, the fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values. These instruments are included in Level 3.

(b) Debt securities

The fair value of the debt securities of BDO Unibank Group and the Parent Bank, which are categorized within Level 1 and Level 2, is discussed below.

(i) In 2018, fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables. In 2017, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals, the simple average of all firm bids per benchmark tenor or interpolated yields. This is consistent with BSP Circular No. 813, *Amendment on Market Valuation of Government Securities,* issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(ii) For other quoted debt securities, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(c) Derivatives

The fair values of ROP warrants which are categorized within Level 1, is determined to be the current mid-price based on the last trading transaction as defined by third-party market makers. The fair value of other derivative financial instruments, which are categorized within Level 2, is determined through valuation techniques using the net present value computation [see Note 3.2(c)].

6.4 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below and in the succeeding page summarizes the fair value hierarchy of BDO Unibank Group and Parent Bank's financial assets and financial liabilities, which are measured at amortized cost in the statements of financial position but for which fair value is disclosed.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Resources:				
Cash and other cash items	P 53,749	P -	P -	P 53,749
Due from BSP	354,132	-	-	354,132
Due from other banks	55,292	-	-	55,292
Loans and other receivable	-	-	2,056,012	2,056,012
Investment securities at amortized cost	233,974	-	999	234,973
Other resources	6,742	-	328	7,070
	P 703,889	P -	P 2,057,339	P 2,761,228
Liabilities:				
Deposit liabilities	P 2,358,509	P 103,625	P -	P 2,462,134
Bills payable	-	115,680	22,821	138,501
Insurance contract liabilities	-	-	28,506	28,506
Subordinated notes payable	-	9,757	-	9,757
Other liabilities	-	-	76,577	76,577
	P 2,358,509	P 229,062	P 127,904	P 2,715,475

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Resources:				
Cash and other cash items	P 45,006	P -	P -	P 45,006
Due from BSP	353,308	-	-	353,308
Due from other banks	51,479	-	-	51,479
Loans and other receivable	-	-	1,806,119	1,806,119
HTM investments	197,211	-	-	197,211
Other resources	4,961	-	994	5,955
	P 651,965	P -	P 1,807,113	P 2,459,078
Liabilities:				
Deposit liabilities	P 2,014,201	P 121,172	P -	P 2,135,373
Bills payable	-	129,802	-	129,802
Insurance contract liabilities	-	-	25,986	25,986
Subordinated notes payable	-	9,996	-	9,996
Other liabilities	-	-	69,615	69,615
	P 2,014,201	P 260,970	P 95,601	P 2,370,772

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Resources:				
Cash and other cash items	**P 52,492**	**P -**	**P -**	**P 52,492**
Due from BSP	**349,017**	**-**	**-**	**349,017**
Due from other banks	**48,780**	**-**	**-**	**48,780**
Investment securities at amortized cost	**215,659**	**-**	**-**	**215,659**
Loans and other receivables	**-**	**-**	**2,004,881**	**2,004,881**
Other resources	**5,002**	**-**	**-**	**5,002**
	P 670,950	**P -**	**P 2,004,881**	**P 2,675,831**
Liabilities:				
Deposit liabilities	**P 2,309,333**	**P 90,513**	**P -**	**P 2,399,846**
Bills payable	**-**	**115,373**	**-**	**115,373**
Subordinated notes payable	**-**	**9,757**	**-**	**9,757**
Other liabilities	**-**	**-**	**63,073**	**63,073**
	P 2,309,333	**P 215,643**	**P 63,073**	**P 2,588,049**
December 31, 2017				
Resources:				
Cash and other cash items	P 43,882	P -	P -	P 43,882
Due from BSP	340,596	-	-	340,596
Due from other banks	41,088	-	-	41,088
HTM investments	183,918	-	-	183,918
Loans and other receivables	-	-	1,746,202	1,746,202
Other resources	3,970	-	671	4,641
	P 613,454	P -	P 1,746,873	P 2,360,327
Liabilities:				
Deposit liabilities	P 1,944,020	P 111,380	P -	P 2,055,400
Bills payable	-	105,141	-	105,141
Subordinated notes payable	-	9,996	-	9,996
Other liabilities	-	-	56,834	56,834
	P 1,944,020	P 226,517	P 56,834	P 2,227,371

For financial assets and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial assets and financial liabilities presented in the statements of financial position at their amortized cost:

(a) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by BDO Unibank Group to the BSP for clearing and reserve requirements. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) *Investment Securities at Amortized Cost (2018)/HTM investments (2017)*

The fair value of investment securities at amortized cost/ HTM investments (2017) are determined by direct reference to published price quoted in an active market for traded debt and equity securities.

BDO Unibank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(c) *Loans and Other Receivables*

Loans and other receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(d) *Deposits and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of Senior Notes presented as part of Bills Payable account in the statements of financial position is computed based on the average of ask and bid prices as appearing on Bloomberg. For Bills Payable categorized within Level 3, BDO Unibank Group and the Parent Bank classify financial instruments that have no quoted prices or observable market data where reference of fair value can be derived; hence, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(e) *Other Resources and Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

6.5 Fair Value Measurement for Non-financial Assets

Details of BDO Unibank Group and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2018 and 2017 are shown below.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Investment properties				
Land	**P -**	**P -**	**P 22,585**	**P 22,585**
Building and improvements	**-**	**-**	**16,096**	**16,096**
Non-current assets held for sale	**-**	**-**	**722**	**722**
	P -	**P -**	**P 39,403**	**P 39,403**
December 31, 2017				
Investment properties				
Land	P -	P -	P 17,544	P 17,544
Building and improvements	-	-	13,917	13,917
Non-current assets held for sale	-	-	672	672
	P -	P -	P 32,133	P 32,133

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Investment properties				
Land	**P -**	**P -**	**P 17,644**	**P 17,644**
Building and improvements	**-**	**-**	**12,318**	**12,318**
Non-current assets held for sale	**-**	**-**	**711**	**711**
	P -	**P -**	**P 30,673**	**P 30,673**
December 31, 2017				
Investment properties				
Land	P -	P -	P 15,774	P 15,774
Building and improvements	-	-	11,492	11,492
Non-current assets held for sale	-	-	661	661
	P -	P -	P 27,927	P 27,927

The fair value of the investment properties of the BDO Unibank Group and the Parent Bank as of December 31, 2018 and 2017 (see Note 12) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of the BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers were used by the BDO Unibank Group and the Parent Bank in determining the fair value of discounted cash flows of the Investment Properties.

The fair value of these investment properties and assets held for sale were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning and accessibility.

(b) *Fair Value Measurement for Buildings and Improvements*

The Level 3 fair value of the buildings and improvements was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

(c) *Fair Value Measurement for Assets Held for Sale*

The fair value of assets held for sale are determined based on the recent experience in the valuation of similar properties. The fair value, determined under Level 3 measurement, was derived using the market data approach that reflects that recent transaction prices for similar properties, adjusted for differences in property age and condition.

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Further, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.

6.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2018 and 2017 are subject to offsetting, enforceable master netting arrangements and similar agreements:

BDO Unibank Group

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2018				
Financial assets at FVOCI	**P 1,232**	**P 196**	**P -**	**P 1,036**
Financial assets at FVTPL:				
Currency swaps	**322**	**296**	**-**	**26**
Interest rate swaps	**130**	**65**	**-**	**65**
Loans and receivables –				
Receivables from customers	**51,202**	**30**	**50,835**	**337**
	P 52,886	**P 587**	**P 50,835**	**P 1,464**
December 31, 2017				
AFS securities	P 1,912	P 857	P -	P 1,055
HTM investments	1,075	907	-	168
Financial assets at FVTPL:				
Currency swaps	310	282	-	28
Interest rate swaps	90	35	-	55
Loans and receivables –				
Receivables from customers	65,327	558	63,950	819
	P 68,714	P 2,639	P 63,950	P 2,125

Parent Bank

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2018				
Financial assets at FVTPL:				
Interest rate swaps	**P 65**	**P -**	**P -**	**P 65**
Loans and receivables –				
Receivables from customers	**50,779**	**-**	**50,779**	**-**
	P 50,844	**P -**	**P 50,779**	**P 65**
December 31, 2017				
HTM investments	P 1,075	P 907	P -	P 168
Financial assets at FVTPL:				
Interest rate swaps	55	-	-	55
Loans and receivables –				
Receivables from customers	63,864	-	63,864	-
	P 64,994	P 907	P 63,864	P 223

The currency forwards and interest rate swaps relates to accrued interest receivable and accrued interest payable subject to enforceable master netting arrangements but were not set-off and presented at net in the statements of financial position.

The following financial liabilities with net amounts presented in the statements of financial position of BDO Unibank Group and the Parent Bank are subject to offsetting, enforceable master netting arrangements and similar agreements:

BDO Unibank Group

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2018				
Deposit liabilities	**P 274,740**	**P 50,835**	**P -**	**P 223,905**
Bills payable	**226**	**-**	**226**	**-**
Derivatives with negative fair values:				
Currency swaps	**2,028**	**296**	**1,732**	**-**
Interest rate swaps	**158**	**65**	**-**	**93**
	P 277,152	**P 51,196**	**P 1,958**	**P 223,998**

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2017				
Deposit liabilities	P 165,234	P 63,950	P -	P 101,284
Bills payable	2,322	-	2,322	-
Derivatives with negative fair values:				
Currency swaps	1,267	282	985	-
Interest rate swaps	95	35	-	60
	P 168,918	P 64,267	P 3,307	P 101,344

Parent Bank

	Financial Liabilities	**Financial Assets Available for Set-off**	**Collateral Given**	**Net Amount**
December 31, 2018				
Deposit liabilities	**P 274,683**	**P 50,778**	**P -**	**P 223,905**
Bills payable	**-**	**-**	**-**	**-**
Derivatives with negative fair values –				
Interest rate swaps	**90**	**-**	**-**	**90**
	P 274,773	**P 50,778**	**P -**	**P 223,995**
December 31, 2017				
Deposit liabilities	P 165,147	P 63,864	P -	P 101,283
Bills payable	907	-	907	-
Derivatives with negative fair values:				
Interest rate swaps	51	-	-	51
	P 166,105	P 63,864	P 907	P 101,334

For the financial assets and financial liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the BDO Unibank Group and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Cash and other cash items	**P 53,749**	P 45,006	**P 52,492**	P 43,882
Due from BSP:				
Mandatory reserves	**347,260**	333,302	**342,145**	324,794
Other than mandatory reserves	**6,872**	20,006	**6,872**	15,802
	354,132	353,308	**349,017**	340,596
	P 407,881	P 398,314	**P 401,509**	P 384,478

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims (see Note 15). Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate ranging from 2.5% to 5.3% in 2018, from 2.5% to 3.5% in 2017 and annual interest rate of 2.5% in 2016. Total interest income earned amounted to P899, P1,441 and P564 in 2018, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P785, P1,165 and P474 in 2018, 2017 and 2016, respectively, in the Parent Bank's financial statements (see Note 21).

Cash and other cash items and balances with the BSP are included in cash and cash equivalents for statements of cash flows purposes.

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Foreign banks	**P 51,537**	P 48,740	**P 48,117**	P 39,969
Local banks	**3,755**	2,739	**663**	1,119
	P 55,292	P 51,479	**P 48,780**	P 41,088

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
U.S. dollars	**P 37,669**	P 38,049	**P 34,924**	P 29,620
Philippine pesos	**2,339**	980	**51**	57
Other foreign currencies	**15,284**	12,450	**13,805**	11,411
	P 55,292	P 51,479	**P 48,780**	P 41,088

Annual interest rates on these deposits range from 0.00% to 2.45% in 2018, from 0.00% to 3.00% in 2017, and from 0.01% to 2.38% in 2016 in BDO Unibank Group's financial statements, and from 0.00% to 2.45% in 2018, from 0.00% to 1.35% in 2017, and from 0.01% to 1.05% in 2016 in the Parent Bank's financial statements. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to P834, P301, and P132 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements, and P661, P234, and P91 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements (see Note 21).

Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2018**	2017	**2018**	2017
Financial assets at FVTPL	9.1	**P 20,308**	P 14,710	**P 4,257**	P 4,260
Financial assets at FVOCI	9.2	**120,389**	-	**77,115**	-
Investment securities at amortized cost – net	9.3	**244,500**	-	**222,909**	-
AFS securities – net	9.2	**-**	121,019	**-**	70,232
HTM investments	9.3	**-**	197,198	**-**	183,722
		P 385,197	P 332,927	**P 304,281**	P 258,214

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Derivative financial assets	**P 6,230**	P 5,024	**P 2,621**	P 2,279
Government bonds	**2,347**	3,139	**1,616**	1,976
Corporate debt securities	**2,667**	2,114	**19**	5
	11,244	10,277	**4,256**	4,260
Equity securities – quoted	**9,064**	4,433	**1**	-
	P 20,308	P 14,710	**P 4,257**	P 4,260

All financial assets at FVTPL are held for trading. For government bonds and corporate debt securities, the amounts presented have been determined either directly or indirectly by reference to published prices quoted in an active market. On the other hand, the fair value of certain derivative financial assets is determined through valuation technique using net present value of future cash flows method.

The following table shows net income (loss) contributed by financial assets at FVTPL to the BDO Unibank Group and the Parent Bank.

	Notes	BDO Unibank Group 2018	2017	2016
Interest income	21	**P 72**	P 162	P 201
Trading gain (loss) – net	23	**(1,863)**	202	(536)
Dividend income	23	**87**	3	3
Foreign exchange gain	23	**137**	147	52
Total other income (loss)		**(1,639)**	352	(481)
Total other expenses		**10**	1	1
Net income (loss)		**(P 1,577)**	P 513	(P 281)

	Notes	Parent Bank 2018	2017	2016
Interest income	21	**P 51**	P 116	P 142
Trading loss – net	23	**(126)**	(51)	(901)
Net income (loss)		**(P 75)**	P 65	(P 759)

The BDO Unibank Group's government bonds and other debt securities earn interest at annual rates ranging from 2.75% to 10.63%, from 0.00% to 10.63% and from 0.09% to 10.63% in 2018, 2017 and 2016, respectively, while the Parent Bank's government bonds and other debt securities earn interest at annual rates ranging from 2.75% to 10.63% in 2018, from 0.38% to 10.63% in 2017 and 2016, respectively.

Foreign currency-denominated securities amounted to P4,093 and P5,181 as of December 31, 2018 and 2017, respectively, in BDO Unibank Group's financial statements and P2,880 and P3,689 as of December 31, 2018 and 2017, respectively, in the Parent Bank's financial statements.

Derivative instruments used by BDO Unibank Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Foreign currency and interest rate forwards/futures represent commitments to purchase/sell or contractual obligations to receive or pay a new amount based on changes in currency rates or interest rates on a future date at a specified price. Foreign currency and interest rate swaps are commitments to exchange one set of cash flows for another.

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and financial liabilities are shown below [see Notes 19 and 25(d)(i)(4)].

BDO Unibank Group

	2018			**2017**		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 220,114**	**P 1,884**	**P 1,020**	P 234,561	P 1,868	P 1,433
Cross currency swaps	**35,255**	**4,037**	**3,083**	31,123	2,987	2,144
Interest rate swaps	**38,403**	**309**	**315**	32,962	169	135
Republic of the Philippines (ROP) warrants	**8,475**	**-**	**79**	15,021	-	38
Others	**-**	**-**	**-**	604	-	-
	P 302,247	**P 6,230**	**P 4,497**	P 314,271	P 5,024	P 3,750

Parent Bank

	2018			**2017**		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 213,708**	**P 1,769**	**P 1,020**	P 229,429	P 1,741	P 1,433
Cross currency swaps	**10,379**	**787**	**491**	8,239	483	276
Interest rate swaps	**11,956**	**65**	**90**	12,526	55	51
ROP warrants	**8,475**	**-**	**79**	15,021	-	38
	P 244,518	**P 2,621**	**P 1,680**	P 265,215	P 2,279	P 1,798

9.2 Financial Assets at FVOCI (2018)/AFS Securities (2017)

The details of the carrying amounts of these financial assets are as follows:

	Note	**BDO Unibank Group**		**Parent Bank**	
		2018	2017	**2018**	2017
Government debt securities		**P 60,165**	P 55,529	**P 36,865**	P 31,937
Corporate debt securities:					
Quoted		**49,985**	48,159	**36,876**	34,285
Not quoted		**-**	243	**-**	243
Equity securities:					
Quoted		**8,800**	18,291	**3,207**	5,858
Not quoted		**1,439**	2,127	**167**	559
		120,389	124,349	**77,115**	72,882
Allowance for impairment	14	**-**	(3,330)	**-**	(2,650)
		P 120,389	P 121,019	**P 77,115**	P 70,232

As to currency, this account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Foreign currencies	**P 75,464**	P 72,443	**P 61,026**	P 57,078
Philippine peso	**44,925**	48,576	**16,089**	13,154
	P 120,389	P 121,019	**P 77,115**	P 70,232

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 1.8% to 12.1% in 2018, from 0.0% to 12.1% in 2017 and from 2.0% to 12.1% in 2016 for BDO Unibank Group's financial statements while from 2.4% to 10.6% in 2018, from 2.1% to 10.6% in 2017, and from 2.0% to 10.6% in 2016 in the Parent Bank's financial statements (see Note 21).

Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies. For unquoted preferred shares, the fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values. Further, unlisted common share which are classified as financial assets at FVOCI/AFS securities, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

The fair values of government debt, equity and other debt securities have been determined directly by reference to published prices generated in an active market (see Note 6.3).

The reconciliation of the carrying amounts of financial assets at FVOCI (2018)/AFS securities (2017) is as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year				
As previously stated	**P -**	P 108,132	**P -**	P 62,637
Effect of adoption of PFRS 9 [see Note 2.2(a)(i)(iv)]				
Reclassifications from:				
AFS securities	**106,704**	-	**70,188**	-
HTM investments	**4,082**	-	**-**	-
FVTPL	**13**	-	**-**	-
As restated	**110,799**	108,132	**70,188**	62,637
Additions	**40,130**	59,161	**17,629**	26,052
Disposals	**(28,550)**	(46,167)	**(11,305)**	(18,999)
Unrealized fair value gains (losses)	**(6,194)**	622	**(2,421)**	255
Foreign currency revaluation	**4,215**	(575)	**3,024**	290
Deferred tax liability	**(11)**	-	**-**	-
Impairment loss – net	**-**	(154)	**-**	(3)
Balance at end of year	**P 120,389**	P 121,019	**P 77,115**	P 70,232

Government securities of BDO Unibank Group and the Parent Bank with an aggregate principal amount of P1,232 and nil, respectively, as of December 31, 2018 and P1,912 and nil, respectively, as of December 31, 2017 were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 31).

In 2018, impairment losses recognized for FVOCI debt securities presented in NUGL amounted to P18 and P5 for BDO Unibank Group and the Parent Bank, respectively. Total accumulated impairment losses presented in NUGL amounted to P87 and P67 for the BDO Unibank Group and the Parent Bank, respectively, as of December 31, 2018 (see Note 4.3.5). No similar amounts were recognized in 2017 and 2016 since the Group and the Parent Bank applied the transitional relief allowed by the new standard (see Note 2.2).

In 2017, BDO Unibank Group has determined that there is an objective evidence that certain equity securities have shown significant or prolonged decline. Accordingly, BDO Unibank Group and Parent Bank recognized impairment loss amounting to P139 and nil, respectively. This is presented as part of Impairment Loss in the statements of income and under items that are reclassified subsequently to profit or loss in the statements of comprehensive income (see Note 14).

9.3 Investment Securities at Amortized Cost (2018)/HTM Investments (2017)

This account consists of:

		BDO Unibank Group		Parent Bank	
		2018	2017	**2018**	2017
Government debt securities		**P 199,004**	P 166,282	**P 182,861**	P 153,362
Other debt securities:					
Quoted		**44,240**	30,360	**40,369**	30,360
Not quoted		**2,837**	556	**1,248**	-
		246,081	197,198	**224,478**	183,722
Allowance for impairment	14	**(1,581)**	-	**(1,569)**	-
		P 244,500	P 197,198	**P 222,909**	P 183,722

As to currency, this account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Foreign currencies	**P 138,103**	P 119,011	**P 130,830**	P 116,987
Philippine peso	**106,397**	78,187	**92,079**	66,735
	P 244,500	P 197,198	**P 222,909**	P 183,722

The reconciliation of the carrying amounts of investment securities at amortized cost in 2018 and HTM investments in 2017 is as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year				
As previously stated	**P -**	P 146,886	**P -**	P 140,951
Effect of adoption of PFRS 9 [see Note 2.2(a)(i)(iv)]				
Reclassifications from:				
HTM investments	**193,316**	-	**183,913**	-
AFS securities	**7,056**	-	**-**	-
Loans and other receivables	**3,486**	-	**7**	-
FVTPL	**34**	-	**-**	-
Allowance for impairment	**(128)**	-	**(115)**	-
As restated	**203,764**	146,886	**183,805**	140,951
Additions	**87,158**	83,061	**60,406**	74,111
Maturities	**(52,687)**	(33,169)	**(27,459)**	(31,745)
Foreign currency gains – net	**6,264**	420	**6,157**	405
Impairment gain	**1**	-	**-**	-
Balance at end of year	**P 244,500**	P 197,198	**P 222,909**	P 183,722

Annual coupon interest rates on government and other debt securities range from 1.40% to 15.00% in 2018 and from 0.00% to 10.63% in 2017 for BDO Unibank Group's financial statements while from 2.38% to 15.00% in 2018 and from 0.00% to 10.63% in 2017 for the Parent Bank's financial statements (see Note 21).

Government securities with an aggregate principal amount of nil for both BDO Unibank Group and the Parent Bank as of December 31, 2018 were pledged as collateral for bills payable under repurchase agreements (see Notes 16 and 31).

As mentioned in Note 26, certain government debt securities are deposited with the BSP.

9.4 Reclassification of Investment Securities

In 2016, after the end of the two-year tainting period, provision of PAS 39 [see Note 3.1(d)], BDO Unibank Group and the Parent Bank reclassified certain government securities from AFS securities to HTM investments. The carrying value of the securities reclassified to HTM investments from AFS securities of BDO Unibank Group and the Parent Bank amounted to P86,027 and P81,766, respectively, as of December 31, 2017, with related unamortized fair value losses of BDO Unibank Group and the Parent Bank amounted to P1,746 and P1,690, respectively. As part of the BDO Unibank Group and the Parent Bank transition to PFRS 9, the HTM investments were further reclassified to measurement categories according to the business model for managing these financial assets. As a result, these HTM investments that were previously subjected to tainting provisions were reclassified as Investment securities at amortized cost which should be remeasured at amortized cost, taking into consideration their related unamortized fair value losses. However, as it is no longer practical to determine the effective interest rate and other related information during the dates these securities were purchased due to voluminous transactions and lapse of time, the appropriate amortized cost of these securities could no longer be determined. Accordingly, as allowed under the transition provision of PFRS 9, the fair value of the financial assets at the date of initial application was considered as the new gross carrying amount, hence, the remaining unamortized fair value losses were charged to the opening balance of Surplus Free amount as at January 1, 2018 (see Note 2.2).

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Receivables from customers:					
Loans and discounts	25	**P 1,847,364**	P 1,631,280	**P 1,792,227**	P 1,575,990
Customers' liabilities under letters of credit and trust receipts		**79,476**	53,246	**79,476**	53,246
Credit card receivables		**78,738**	61,621	**78,738**	61,621
Bills purchased		**16,641**	10,156	**16,632**	10,144
		2,022,219	1,756,303	**1,967,073**	1,701,001
Unearned interests or discounts		**(2,157)**	(1,415)	**(571)**	(102)
Allowance for impairment	14	**(26,761)**	(29,892)	**(24,146)**	(27,827)
		(28,918)	(31,307)	**(24,717)**	(27,929)
		1,993,301	1,724,996	**1,942,356**	1,673,072
Other receivables:					
Interbank loans receivables		**49,264**	37,733	**49,264**	37,733
SPURRA		**22,009**	18,260	**22,009**	14,872
Accounts receivable	25	**7,698**	7,038	**6,550**	5,459
Unquoted debt securities classified as loans (UDSCL)		**-**	5,267	-	1,332
Sales contract receivables		**1,150**	1,327	**1,025**	1,204
Others		**696**	330	**-**	-
		80,817	69,955	**78,848**	60,600
Allowance for impairment	14	**(2,284)**	(3,165)	**(2,051)**	(2,940)
		78,533	66,790	**76,797**	57,660
		P 2,071,834	P 1,791,786	**P 2,019,153**	P 1,730,732

Non-performing loans (NPL) included in the total loan portfolio of BDO Unibank Group and the Parent Bank as of December 31, 2018 and 2017 are presented below as net of specific allowance for impairment in compliance with BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans.*

	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
NPL	**P 19,977**	P 19,648	**P 17,108**	P 17,044
Allowance for impairment	**(13,408)**	(11,540)	**(11,346)**	(10,352)
	P 6,569	P 8,108	**P 5,762**	P 6,692

Per MORB, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The credit concentration of receivables from customers (net of unearned interests or discounts) as to industry follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Financial and insurance activities	**P 292,871**	P 195,923	**P 290,365**	P 191,194
Wholesale and retail trade	**274,443**	237,104	**267,923**	231,386
Real estate activities	**242,836**	227,050	**241,272**	223,746
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**234,238**	175,196	**225,550**	168,423
Electricity, gas, steam and air-conditioning supply	**222,305**	200,952	**221,533**	200,106
Manufacturing	**215,108**	186,779	**211,264**	183,382
Transportation and storage	**114,023**	112,307	**109,997**	108,496
Arts, entertainment and recreation	**76,366**	68,853	**75,000**	66,040
Construction	**47,797**	36,605	**42,900**	32,032
Information and communication	**32,530**	38,707	**32,072**	38,081
Accommodation and food service activities	**31,465**	41,662	**31,298**	41,307
Mining and quarrying	**23,830**	24,054	**22,434**	22,344
Agriculture, forestry and fishing	**13,861**	13,007	**13,043**	11,342
Water supply, sewerage, waste management and remediation activities	**12,567**	11,813	**12,317**	11,286
Professional, scientific and technical services	**10,980**	10,782	**10,738**	10,517
Administrative and support services	**9,517**	9,204	**8,131**	7,867
Human health and social work activities	**9,092**	16,461	**8,235**	15,724
Education	**5,960**	13,614	**5,411**	5,201
Public administrative and defense; compulsory social security	**640**	703	**629**	639
Activities of extraterritorial organizations and bodies	**41**	66	**38**	66
Other service activities	**149,592**	134,046	**136,352**	131,720
	P 2,020,062	P 1,754,888	**P 1,966,502**	P 1,700,899

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to secured and unsecured follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Secured:				
Real estate mortgage	**P 292,723**	P 260,645	**P 288,276**	P 255,029
Chattel mortgage	**113,812**	97,013	**90,928**	76,144
Other securities	**119,541**	137,233	**118,422**	136,063
	526,076	494,891	**497,626**	467,236
Unsecured	**1,493,986**	1,259,997	**1,468,876**	1,233,663
	P 2,020,062	P 1,754,888	**P 1,966,502**	P 1,700,899

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to type of interest rate follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Variable interest rates	**P 1,596,046**	P 1,366,610	**P 1,569,277**	P 1,335,078
Fixed interest rates	**424,016**	388,278	**397,225**	365,821
	P 2,020,062	P 1,754,888	**P 1,966,502**	P 1,700,899

Loans and receivables bear annual interest rates of 0.0% (e.g. non-performing loans and zero percent credit card installment program) to 4.1% per month in 2018, 0.0% to 4.1% per month in 2017 and 0.0% to 4.0% per month in 2016 (see Note 21).

The BDO Unibank Group's and the Parent Bank's receivables from customers amounting to P269 and nil, respectively, as of December 31, 2018 and P1,046 and nil, respectively, as of December 31, 2017 are pledged as collaterals to secure borrowings under rediscounting privileges (see Notes 16 and 31).

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2018						
Cost	**P 6,199**	**P 25,976**	**P 20,017**	**P 7,086**	**P 985**	**P 60,263**
Accumulated depreciation and amortization	**-**	**(15,267)**	**(5,939)**	**(4,882)**	**-**	**(26,088)**
Allowance for impairment (see Note 14)	**(140)**	**-**	**(375)**	**-**	**-**	**(515)**
Net carrying amount	**P 6,059**	**P 10,709**	**P 13,703**	**P 2,204**	**P 985**	**P 33,660**
December 31, 2017						
Cost	P 6,155	P 24,452	P 16,744	P 6,201	P 711	P 54,263
Accumulated depreciation and amortization	-	(14,837)	(5,368)	(4,197)	-	(24,402)
Allowance for impairment (see Note 14)	(140)	-	(375)	-	-	(515)
Net carrying amount	P 6,015	P 9,615	P 11,001	P 2,004	P 711	P 29,346
January 1, 2017						
Cost	P 6,118	P 21,051	P 15,739	P 5,512	P 289	P 48,709
Accumulated depreciation and amortization	-	(12,947)	(4,749)	(3,589)	-	(21,285)
Allowance for impairment (see Note 14)	(137)	-	(375)	-	-	(512)
Net carrying amount	P 5,981	P 8,104	P 10,615	P 1,923	P 289	P 26,912

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2018						
Cost	**P 5,458**	**P 19,723**	**P 18,829**	**P 6,504**	**P 984**	**P 51,498**
Accumulated depreciation and amortization	**-**	**(11,714)**	**(5,546)**	**(4,470)**	**-**	**(21,730)**
Allowance for impairment (see Note 14)	**(125)**	**-**	**(371)**	**-**	**-**	**(496)**
Net carrying amount	**P 5,333**	**P 8,009**	**P 12,912**	**P 2,034**	**P 984**	**P 29,272**
December 31, 2017						
Cost	P 5,414	P 18,395	P 15,588	P 5,659	P 711	P 45,767
Accumulated depreciation and amortization	-	(11,461)	(5,043)	(3,850)	-	(20,354)
Allowance for impairment (see Note 14)	(125)	-	(371)	-	-	(496)
Net carrying amount	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P 24,917
January 1, 2017						
Cost	P 5,378	P 15,448	P 14,752	P 5,037	P 265	P 40,880
Accumulated depreciation and amortization	-	(10,158)	(4,494)	(3,304)	-	(17,956)
Allowance for impairment (see Note 14)	(123)	-	(371)	-	-	(494)
Net carrying amount	P 5,255	P 5,290	P 9,887	P 1,733	P 265	P 22,430

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017 of premises, furniture, fixtures and equipment is shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
Balance at January 1, 2018, net of accumulated depreciation, amortization and impairment	**P 6,015**	**P 9,615**	**P 11,001**	**P 2,004**	**P 711**	**P 29,346**
Additions	**69**	**3,833**	**3,082**	**615**	**536**	**8,135**
Disposals	**-**	**(160)**	**-**	**(9)**	**(71)**	**(240)**
Reclassifications	**(25)**	**28**	**191**	**361**	**(191)**	**364**
Revaluation	**-**	**-**	**6**	**4**	**-**	**10**
Depreciation and amortization charges for the year	**-**	**(2,607)**	**(577)**	**(771)**	**-**	**(3,955)**
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	**P 6,059**	**P 10,709**	**P 13,703**	**P 2,204**	**P 985**	**P 33,660**
Balance at January 1, 2017, net of accumulated depreciation, amortization and impairment	P 5,981	P 8,104	P 10,615	P 1,923	P 289	P 26,912
Additions	-	4,336	659	508	655	6,158
Disposals	-	(110)	-	(7)	-	(117)
Reclassifications	34	9	302	270	(233)	382
Depreciation and amortization charges for the year	-	(2,724)	(575)	(690)	-	(3,989)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	P 6,015	P 9,615	P 11,001	P 2,004	P 711	P 29,346

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
Balance at January 1, 2018, net of accumulated depreciation, amortization and impairment	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P 24,917
Additions	69	2,686	3,056	573	536	6,920
Disposals	-	(48)	-	(7)	(71)	(126)
Reclassifications	(25)	30	191	364	(192)	368
Revaluation	-	-	-	1	-	1
Depreciation and amortization charges for the year	-	(1,593)	(509)	(706)	-	(2,808)
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	P 5,333	P 8,009	P 12,912	P 2,034	P 984	P 29,272
Balance at January 1, 2017, net of accumulated depreciation, amortization and impairment	P 5,255	P 5,290	P 9,887	P 1,733	P 265	P 22,430
Additions	-	3,375	526	444	644	4,989
Disposals	-	(14)	-	(6)	-	(20)
Reclassifications	34	20	266	261	(198)	383
Depreciation and amortization charges for the year	-	(1,737)	(505)	(623)	-	(2,865)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P 24,917

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2018 and 2017, BDO Unibank Group and the Parent Bank has complied with this requirement.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2018 and 2017 are still being used in operations with acquisition costs amounting to P7,619 and P6,846, respectively, in the BDO Unibank Group's financial statements and P6,885 and P6,696, respectively, in the Parent Bank's financial statements.

12. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P381 and P87 in 2018, P290 and P71 in 2017, P247 and P70 in 2016 in BDO Unibank Group and Parent Bank's financial statements, respectively, and are presented as part of Rental under Other Operating Income account (see Note 23). Direct expenses incurred from these properties such as taxes and licenses amounted to P5 and P2 in 2018, P19 and P2 in 2017, and P55 and P2 in 2016 in BDO Unibank Group's and Parent Bank's financial statements, respectively, and are presented as part of Taxes and licenses under Other Operating Expenses account in the Unibank Group and Parent Bank's financial statements, respectively (see Note 23).

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2018 and 2017 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Buildings	Total
December 31, 2018			
Cost	**P 11,094**	**P 14,768**	**P 25,862**
Accumulated depreciation	**-**	**(4,190)**	**(4,190)**
Allowance for impairment (see Note 14)	**(1,783)**	**(104)**	**(1,887)**
Net carrying amount	**P 9,311**	**P 10,474**	**P 19,785**
December 31, 2017			
Cost	P 9,429	P 13,471	P 22,900
Accumulated depreciation	-	(3,217)	(3,217)
Allowance for impairment (see Note 14)	(1,539)	(104)	(1,643)
Net carrying amount	P 7,890	P 10,150	P 18,040
January 1, 2017			
Cost	P 9,923	P 10,227	P 20,150
Accumulated depreciation	-	(2,893)	(2,893)
Allowance for impairment (see Note 14)	(1,962)	(107)	(2,069)
Net carrying amount	P 7,961	P 7,227	P 15,188

Parent Bank

	Land	Buildings	Total
December 31, 2018			
Cost	**P 8,693**	**P 12,182**	**P 20,875**
Accumulated depreciation	**-**	**(3,913)**	**(3,913)**
Allowance for impairment (see Note 14)	**(1,479)**	**(57)**	**(1,536)**
Net carrying amount	**P 7,214**	**P 8,212**	**P 15,426**
December 31, 2017			
Cost	P 8,129	P 10,874	P 19,003
Accumulated depreciation	-	(2,943)	(2,943)
Allowance for impairment (see Note 14)	(1,504)	(60)	(1,564)
Net carrying amount	P 6,625	P 7,871	P 14,496

Parent Bank

	Land		Buildings		Total
January 1, 2017					
Cost	P	8,533	P	7,855	P 16,388
Accumulated depreciation		-	(	2,630)	(2,630)
Allowance for impairment (see Note 14)	(	1,911)	(	63)	(1,974)
Net carrying amount	P	6,622	P	5,162	P 11,784

A reconciliation of the carrying amounts, at the beginning and end of 2018 and 2017, of investment properties is shown below and in the succeeding page.

BDO Unibank Group

	Land	**Buildings**	**Total**
Balance at January 1, 2018, net of accumulated depreciation and impairment	**P 7,890**	**P 10,150**	**P 18,040**
Additions	**916**	**1,891**	**2,807**
Reclassifications	**898**	**3**	**901**
Disposals	**(400)**	**(281)**	**(681)**
Revaluation	**7**	**(21)**	**(14**
Depreciation for the year	**-**	**(1,268)**	**(1,268)**
Balance at December 31, 2018, net of accumulated depreciation and impairment	**P 9,311**	**P 10,474**	**P 19,785**
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 7,961	P 7,227	P 15,188
Additions	623	3,893	4,516
Disposals	(676)	(268)	(944)
Reclassifications	(18)	(82)	(100)
Depreciation for the year	-	(620)	(620)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P 7,890	P 10,150	P 18,040

Parent Bank

	Land	Buildings	Total
Balance at January 1, 2018, net of accumulated depreciation and impairment	**P 6,625**	**P 7,871**	**P 14,496**
Additions	**915**	**1,851**	**2,766**
Disposals	**(386)**	**(280)**	**(666)**
Reclassifications	**53**	**-**	**53**
Revaluation	**7**	**-**	**7**
Depreciation for the year	**-**	**(1,230)**	**(1,230)**
Balance at December 31, 2018, net of accumulated depreciation and impairment	**P 7,214**	**P 8,212**	**P 15,426**
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 6,622	P 5,162	P 11,784
Additions	621	3,623	4,244
Disposals	(583)	(268)	(851)
Reclassifications	(35)	(65)	(100)
Depreciation for the year	-	(581)	(581)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P 6,625	P 7,871	P 14,496

The fair value of investment properties as of December 31, 2018 and 2017, determined using observable recent prices of the reference properties and replacement cost approach, amounted to P38,681 and P31,461, respectively, for BDO Unibank Group's financial statements and P29,962 and P27,266, respectively, for the Parent Bank's financial statements. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.5.

The recoverable amount of impaired investment properties as of December 31, 2018 and 2017 was based on value in use computed through discounted cash flows method at an effective rate of 2.63% and 1.39% in 2018 and 2017, respectively.

BDO Unibank Group has no contractual obligations to purchase, construct or develop investment properties, or to repair, neither maintain or enhance the same nor are there any restrictions on the future use or realizability of the investment properties.

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, financial assets at FVOCI (previously AFS investments), other resource or non-current assets held for sale. As of December 31, 2018 and 2017, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Investment properties	**P 11,581**	P 10,357	**P 11,389**	P 10,182
Financial assets at FVOCI	**687**	-	**687**	-
Non-current assets held for sale	**764**	700	**758**	684
AFS securities	**-**	918	**-**	918
	P 13,032	P 11,975	**P 12,834**	P 11,784

13. OTHER RESOURCES

The components of this account are shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2018**	2017	**2018**	2017
Deferred tax assets – net	29.1	**P 8,312**	P 7,403	**P 7,608**	P 6,927
Deferred charges		**7,926**	6,260	**7,925**	6,259
Credit card acquiring		**6,182**	7,857	**6,182**	7,857
Equity investments	13.1	**5,081**	4,945	**36,919**	36,611
Foreign currency notes and coins on hand		**4,828**	3,695	**4,828**	3,694
Goodwill	13.3, 28.1, 28.6	**4,435**	4,435	**1,391**	1,391
Branch licenses	13.4	**3,020**	3,020	**3,020**	3,020
Margin deposits		**2,279**	1,265	**173**	276
Computer software – net		**1,953**	1,817	**1,776**	1,713
Prepaid documentary stamps		**956**	358	**923**	326
Non-current assets held for sale	13.5	**764**	700	**758**	684
Customer lists – net	13.7	**487**	487	**487**	487
Real properties for development and sale		**382**	1,631	**-**	-
Returned checks and other cash items		**361**	165	**360**	162
Trademark – net	13.6, 28.2	**91**	124	**91**	124
Dividend receivable		**54**	76	**-**	-
Deposits under escrow	13.2	**-**	672	**-**	672
Others	13.7, 18	**3,808**	3,964	**3,034**	2,636
		50,919	48,874	**75,475**	72,839
Allowance for impairment	14	**(2,321)**	(2,662)	**(2,084)**	(2,139)
		P 48,598	P 46,212	**P 73,391**	P 70,700

13.1 Equity Investments

Equity investments consist of the following:

	Held	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Acquisition costs:					
Philippine subsidiaries					
ONB	99.86%	**P -**	P -	**P 8,700**	P 7,696
BDOSHI	100%	**-**	-	**5,684**	5,684
BDO Life**	97%	**-**	-	**3,403**	3,403
BDO Private	100%	**-**	-	**2,579**	2,579
BDO Leasing	87.43%	**-**	-	**1,878**	1,878
BDO Capital	99.88%	**-**	-	**1,878**	1,878
BDO Nomura	51%	**-**	-	**243**	39
PCI Realty Corporation	100%	**-**	-	**34**	34
BDOI	100%	**-**	-	**11**	11
Equimark	60%	**-**	-	**4**	4
		-	-	**24,414**	23,206
Foreign subsidiaries					
BDORO	100%	**-**	-	**169**	169
BDO Remit (Japan) Ltd.	100%	**-**	-	**92**	92
BDO Remit (Canada) Ltd.	100%	**-**	-	**50**	42
Express Padala (Hongkong), Ltd.	100%	**-**	-	**28**	28
BDO Remit (USA), Inc.	100%	**-**	-	**26**	26
PCIB Europe S.p.A.	100%	**-**	-	**-**	1
		-	-	**365**	358
Associates					
SM Keppel Land, Inc. (SM Keppel)	50%	**1,658**	1,658	**1,658**	1,658
NLEX Corporation	12.40%	**1,405**	1,405	**1,405**	1,405
MMPC Auto-Financial Services Corporation (MAFSC)	34.97%	**300**	300	**-**	-
Northpine Land Incorporated	20%	**232**	232	**232**	232
Taal Land, Inc.	33.33%	**170**	170	**170**	170
Others	*	**5**	5	**5**	5
		3,770	3,770	**3,470**	3,470
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**1,182**	674	**9,397**	8,050
Equity in net profit		**631**	612	**2,740**	4,312
Equity in other comprehensive income (loss)		**(17)**	(3)	**(92)**	1,702
Dividends		**(485)**	(224)	**(3,458)**	(1,876)
Reclassifications***		**-**	116	**-**	(2,687)
Change in percentage ownership in subsidiaries		**-**	-	**83**	(77)
BDO Life step-up acquisition**		**-**	-	**-**	-
Balance at end of year		**1,311**	1,175	**8,670**	9,424
Deposit for future stock subscription on BDO Nomura****		**-**	-	-	153
Net investments in associates/subsidiaries		**5,081**	4,945	**36,919**	36,611
Allowance for impairment		**(155)**	(155)	**(155)**	(155)
		P 4,926	P 4,790	**P 36,764**	P 36,456

* *This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*
** *BDO Life is an associate of BDO Unibank Group and the Parent Bank in 2015. It became a subsidiary when the Parent Bank acquired full ownership in 2016 (see Note 28.3).*
*** *This relates to the reclassification of previously recognized impairment losses to accumulated equity in total comprehensive income.*
**** *This pertains to additional capital infusion of the Parent Bank on BDO Nomura (see Note 28.4).*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2018 and 2017, except for BDO Leasing, which is at 88.54% respectively in BDO Unibank Group (see Note 2.3) and 87.43% in the Parent Bank, and as discussed above, in both years.

The fair value of BDO Leasing amounts to P4,193 and P7,314 in 2018 and 2017, respectively, which had been determined directly by reference to published prices quoted in an active market. The fair value of the remaining equity investments is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

BDO Unibank Group's subsidiaries as of December 31, 2018 are all incorporated in the Philippines, except for the following:

Foreign Subsidiaries	Country of Incorporation
Express Padala (Hongkong), Ltd.	Hong Kong
BDO Remit (USA), Inc.	United States of America
BDORO	United Kingdom
BDO Remit International Holdings B.V**	Netherlands
BDO Remit UK, Ltd. **	United Kingdom
BDO Remit (Ireland) Designated Activity Company**	Ireland
CBN Remittance Centre S.A. **	Spain
CBN Greece S.A. **	Greece
BDO Remit (Italia) S.p.A*	Italy
BDO Remit (Japan) Ltd.	Japan
BDO Remit (Canada) Ltd.	Canada
BDO Remit Limited*	Hongkong
BDO Remit (Macau) Ltd.*	Macau

**Wholly-owned subsidiaries of BDOSHI.*
***Subsidiaries of BDO Capital*

On May 30, 2012, BDORO was registered with the Registrar of Companies for England and Wales (UK) as a private limited company with registered office at the 5th floor, 6 St. Andrew Street, London. BDORO will provide commercial banking services in UK and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. In 2012, BDORO applied for a banking license in the UK, but the approval is still pending as of December 31, 2018. In 2012, the Parent Bank has an outstanding investment in BDORO amounting to P133 (absolute amount) representing the minimal capitalization of 2 GBP as an initial contribution to incorporate BDORO. Starting in 2013, the Parent Bank's outstanding investment in BDORO increased to P169.

In May 2013, BDO Capital obtained control over CBN Grupo through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established. In October 2016, BDO Capital acquired additional shares in CBN Grupo, which increased its ownership interest to 96.32%. Additional goodwill acquired amounted to P32 (see Note 28.1).

On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon, a company engaged primarily in the leasing business.

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.995% of the total issued and outstanding capital of BDO Savings (formerly Citibank Savings, Inc.), a thrift bank registered in the Philippines resulting to recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively (see Note 13.4).

On January 30, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Japan) Ltd., in Tokyo, Japan, to operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on October 10, 2013 and was incorporated on August 6, 2014. In April 2016, BDO Remit (Japan) Ltd. started its operations. The Parent Bank paid P62 and P30 as capital contribution in 2016 and 2015, respectively.

On March 23, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Canada) Ltd., in Vancouver, Canada. BDO Remit (Canada) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on November 28, 2013 and was incorporated on June 23, 2014. In 2015, the Parent Bank paid CND500,000 for the subscribed shares. On October 29, 2016, the Parent Bank's BOD approved an increase in the capitalization of BDO Remit (Canada) Ltd. by an amount of CND600,000, which was later approved by the BSP on December 23, 2016. On February 22, 2017, the Parent Bank paid CND600,000 for the subscribed shares.

On January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.81%.

On January 23, 2018 and December 27, 2018, the Parent Bank subscribed to an additional 124,275 and 14,276 shares, respectively, from ONB's total issued and outstanding capital stock thereby increasing its shareholdings in ONB to 99.86%

BDO Unibank Group includes one subsidiary, BDO Leasing, with significant NCI:

	Proportion of Ownership Interest and Voting Rights Held by NCI		Profit Allocated to NCI		Accumulated NCI	
Name	**2018**	2017	**2018**	2017	**2018**	2017
BDO Leasing	**11.46%**	11.46 %	**P 38**	P 65	**P 612**	P 624

The registered office and principal place of business of BDO Leasing is located at 39th Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

Dividends amounting to P25 and P50 were paid to the NCI in 2018 and 2017, respectively (see Note 20.4).

Summarized consolidated financial information of BDO Leasing, before intragroup eliminations, follows:

	2018	2017
Statements of financial position:		
Total resources	**P 41,549**	P 42,842
Total liabilities	**36,206**	37,400
Equity attributable to owners of the parent	**4,731**	4,818
Non-controlling interest	**612**	624
Statements of comprehensive income:		
Total interest income	**1,960**	1,914
Total other operating income	**1,254**	1,242
Profit attributable to owners of the parent	**293**	506
Profit attributable to NCI	**38**	65
Profit	**331**	571
Total comprehensive income attributable to owners of the parent	**31**	465
Total comprehensive income attributable to NCI	**4**	60
Total comprehensive income	**P 35**	P 525

	2018	2017
Statements of cash flows:		
Net cash from (used in) operating activities	**P 1,401**	(P 889)
Net cash used in investing activities	**133**	(1,710)
Net cash from (used in) financing activities	**(1,717)**	2,686
Net cash inflow (outflow)	**(P 183)**	P 87

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2018, 2017 and 2016:

	NLEX Corporation	SM Keppel	Others	Total
December 31, 2018 (Unaudited)				
Assets	**P 43,003**	**P 9,475**	**P 3,526**	**P 56,004**
Liabilities	**29,210**	**7,299**	**1,474**	**37,983**
Equity	**13,793**	**2,176**	**2,052**	**18,021**
Revenues	**12,161**	**269**	**1,257**	**13,687**
Net profit (loss)	**5,208**	**(155)**	**163**	**5,216**
December 31, 2017 (Audited)				
Assets	P 40,146	P 9,270	P 2,506	P 51,922
Liabilities	29,490	6,941	564	36,995
Equity	10,656	2,329	1,942	14,927
Revenues	11,880	191	1,099	13,170
Net profit	4,644	32	153	4,829

		NLEX Corporation		SM Keppel		Others		Total
December 31, 2016 (Audited)								
Assets	P	35,289	P	5,406	P	2,472	P	43,167
Liabilities		25,677		3,109		626		29,412
Equity		9,612		2,297		1,846		13,755
Revenues		10,769		156		697		11,622
Net profit		4,087		23		98		4,208

13.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by the Parent Bank in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by the Parent Bank with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement. On August 26, 2016, the Parent Bank received an amount of P4,650 for the partial termination of escrow. As of December 31, 2017, BDO Unibank Group provided an allowance for impairment amounting to P400. Thereafter, on June 18, 2018, the Parent Bank received an amount of P1,243 for the full termination of escrow. As of December 31, 2018, the difference between the amount received and the balance of the amount in escrow is presented as part of Miscellaneous Liability under Others of Other Liabilities account, pending the resolution of the Motion for Reconsideration filed by the counterparty (see Note 19).

13.3 Goodwill

Goodwill represents the excess of the cost of acquisition of the Parent Bank over the fair value of the net assets acquired at the date of acquisition and relates mainly to business synergy for economics of scale and scope. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines (UOBP), American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc., Rural Bank of San Enrique, Inc., BDO RIH, BDO Savings and ONB, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015 and 2016, respectively (see Note 28).

The Parent Bank recognized impairment loss of nil, P2 and P4 in 2018, 2017, and 2016, respectively, to write-down the value of the goodwill to their recoverable amount (see Note 14). The Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. There is no impairment loss recognized on the goodwill at the BDO Unibank Group's financial statements, except those related to the Parent Bank.

13.4 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Bank to establish certain number of branches as an incentive in acquiring The Real Bank (A Thrift Bank), Inc. [TRB] and BDO Savings in addition to the current branches of the acquired banks (see Note 13.1). In 2018, allowance on impairment loss was recognized on branch licenses at the BDO Unibank Group's financial statements amounting to P80 for possible unutilized branch licenses upon the expiry of the term in 2019 given by the BSP to the Parent Bank in establishing certain number of branches.

13.5 Non-current Assets Held for Sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group and the Parent Bank intends to sell within one year from the date of classification as held for sale. No impairment loss was recognized in 2016 to 2018 in both BDO Unibank Group and Parent Bank's financial statements.

13.6 Trademark

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio (see Note 28.2) both amounted to P33 in 2018 and 2017 and P8 in 2016. This is recorded under Miscellaneous under Other Operating Expenses account in the statements of income (see Note 23).

13.7 Others

Amortization expense on computer software licenses amounted to P516, P528 and P436 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P480, P477 and P372 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 23).

Depreciation expense on certain assets amounting to P4, P2 and P10 in 2018, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P4, P2 and P9 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 23).

In 2016, the Parent Bank recognized impairment loss amounting to P15 (nil in 2017 and 2018), respectively, to write-down the value of customer list to its recoverable amount. The impairment provision was recognized through direct write-off of the cost of the asset. The customer list was recognized as a result of the Parent Bank's acquisition of a trust business in 2014 (see Note 28.7).

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

		BDO Unibank Group		Parent Bank	
	Notes	**2018**	2017	**2018**	2017
Balance at beginning of year:					
Investment securities at amortized cost (AC)	9.3	**P -**	P -	**P -**	P -
Debt securities at FVOCI	9.2	**-**	-	**-**	-
AFS securities	9.2	**3,330**	4,318	**2,650**	3,788
Loans and other receivables	10	**33,057**	28,087	**30,767**	26,314
Bank premises	11	**515**	512	**496**	494
Investment properties	12	**1,643**	2,069	**1,564**	1,974
Other resources	13	**2,662**	2,566	**2,139**	4,845
Balance before adoption of PFRS 9		**41,207**	37,552	**37,616**	37,415
Effect of adoption of PFRS 9		**(9,409)**	-	**(9,100)**	-
Balance as restated		**31,798**	37,552	**28,516**	37,415
Impairment losses - net		**6,243**	6,537	**5,670**	5,809
Write-offs		**(2,325)**	(3,013)	**(2,320)**	(2,927)
Reversals		**(379)**	(3)	**-**	(8)
Foreign currency revaluation		**244**	13	**243**	14
Reclassification		**(226)**	-	**(226)**	-
Adjustments		**(6)**	121	**(1)**	(2,687)
		P 35,349	P 41,207	**P 31,882**	P 37,616
Balance at end of year:					
Investment securities at AC	9.3	**P 1,581**	P -	**P 1,569**	P -
AFS securities	9.2	**-**	3,330	**-**	2,650
Loans and other receivables	10	**29,045**	33,057	**26,197**	30,767
Bank premises	11	**515**	515	**496**	496
Investment properties	12	**1,887**	1,643	**1,536**	1,564
Other resources	13	**2,321**	2,662	**2,084**	2,139
		P 35,349	P 41,207	**P 31,882**	P 37,616

In 2018, BDO Unibank Group and the Parent Bank provide impairment loss on debt securities measured as FVOCI amounting to P18 and P5, respectively. The impairment losses on debt securities classified as FVOCI are recognized as part of items that are or will be reclassified subsequently to profit or loss in the statement of comprehensive income (see Note 9.2). Moreover, in 2018, BDO Unibank Group and the Parent Bank provide impairment loss on loan commitments and other contingent accounts amounting to P25 which is recognized as Provision – Others under Other Liabilities in the statement of financial position (see Note 19).

Total impairment losses on certain financial assets amounted to P6,141, P6,531, and P3,789 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P5,569, P5,807 and P3,029 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements.

Total impairment losses (recoveries) on non-financial assets amounted to P102, P6, and P26 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P101, P2, and (P26) in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements.

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Demand	**P 179,944**	P 134,931	**P 151,492**	P 91,592
Savings	**1,505,680**	1,409,256	**1,490,664**	1,396,404
Time	**734,341**	576,825	**720,146**	557,325
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

This account is composed of the following (by counterparties):

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Due to other banks:				
Demand	**P 2,282**	P 1,395	**P 2,271**	P 1,395
Savings	**7,647**	7,469	**7,636**	7,465
Time	**2,159**	4,281	**2,154**	3,973
	12,088	13,145	**12,061**	12,833
Due to customers:				
Demand	**177,662**	133,536	**149,221**	90,197
Savings	**1,498,033**	1,401,787	**1,483,028**	1,388,939
Time	**732,182**	572,544	**717,992**	553,352
	2,407,877	2,107,867	**2,350,241**	2,032,488
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

The breakdown of deposit liabilities as to currency is as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Philippine pesos	**P 2,003,582**	P 1,725,829	**P 1,963,461**	P 1,671,935
Foreign currencies	**416,383**	395,183	**398,841**	373,386
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Less than one year	**P 2,279,536**	P 1,976,582	**P 2,223,549**	P 1,906,842
One to five years	**45,420**	48,379	**43,744**	42,428
Beyond five years	**95,009**	96,051	**95,009**	96,051
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

The BDO Unibank Group's and Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates ranging from 0.0% to 6.8% in 2018, and 0.0% to 5.3% 2017 and 2016. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 22).

The BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Deposits (LTNCD) as of December 31, 2018 and 2017 as follows:

BSP Approval	Effective Rate	Outstanding Balance 2018	Outstanding Balance 2017	Issue Date	Maturity Date
June 23, 2017	4.375%	**P 8,200**	P -	May 7, 2018	November 7, 2023
June 23, 2017	3.625%	**11,800**	11,800	August 18, 2017	February 18, 2023
July 10, 2014	3.75%	**7,500**	7,500	April 6, 2015	October 6, 2020
October 25, 2013	3.125%	**5,000**	5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.50%	**5,000**	5,000	September 12, 2013	September 12, 2020
May 3, 2012	5.25%	**5,000**	5,000	October 15, 2012	October 15, 2019
January 31, 2013	3.80%	**-**	5,000	March 25, 2013	September 25, 2018
		P 42,500	P 39,300		

The net proceeds from the issuance of LTNCD are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

Effective June 1, 2018, Philippine Peso deposit liabilities, LTNCD under Circular No. 824 and LTNCD under Circular No. 304 of BDO Unibank Group are subject to a reserve requirement of 18%, 7% and 4%, respectively, in compliance with the BSP Circular No.1004 issued on May 24, 2018 (see Note 7).

16. BILLS PAYABLE

This account is composed of the following borrowings from:

	Note	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Senior notes	16.1	**P 59,437**	P 50,093	**P 59,437**	P 50,093
Foreign banks		**55,406**	48,499	**55,312**	48,430
Local banks		**22,443**	15,658	**-**	1,500
Deposit substitutes		**-**	907	**-**	907
Others		**6,337**	15,327	**2,944**	4,693
		P 143,623	P 130,484	**P 117,693**	P 105,623

The breakdown of this account as to currency follows:

	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Foreign currencies	**P 117,787**	P 106,293	**P 117,693**	P 105,623
Philippine pesos	**25,836**	24,191	**-**	-
	P 143,623	P 130,484	**P 117,693**	P 105,623

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
One to three months	**P 33,898**	P 63,243	**P 13,697**	P 40,386
More than three months to one year	**11,683**	4,271	**7,854**	2,491
More than one to three years	**54,882**	13,213	**53,005**	13,056
More than three years	**43,160**	49,757	**43,137**	49,690
	P 143,623	P 130,484	**P 117,693**	P 105,623

Bills payable bear annual interest rates of 1.00% to 7.20% in 2018, 0.60% to 3.50% in 2017, and 1.00% to 6.30% in 2016 (see Note 22). Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9.2, 10 and 31).

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 22):

	2018	2017	2016
BDO Unibank Group			
Senior notes	**P 1,778**	P 823	P 902
Foreign banks	**1,566**	814	533
Local banks	**698**	339	223
Deposit substitutes	**-**	91	11
Others	**374**	503	605
	P 4,416	P 2,570	P 2,274
Parent Bank			
Senior notes	**P 1,778**	P 823	P 902
Foreign banks	**1,564**	814	533
Local banks	**2**	3	-
Deposit substitutes	**-**	91	11
Others	**59**	146	196
	P 3,403	P 1,877	P 1,642

16.1 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance 2018	Outstanding Balance 2017
February 20, 2018	February 20, 2025	4.16%	US$ 150	**P 7,945**	P -
September 6, 2017	March 6, 2023	2.95%	700	**35,646**	35,047
October 24, 2016	October 24, 2021	2.63%	300	**15,846**	15,046
				P 59,437	P 50,093

The issuance of senior notes in 2018, 2017 and 2016 is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds.

16.2 Reconciliation of Liabilities Arising from Financing Activities

Presented below and the succeeding page is the reconciliation of liabilities arising from financing activities both in 2018 and 2017, which includes both cash and non-cash changes.

BDO Unibank Group

	Foreign Banks	Senior Notes	Local Banks	Deposit Substitutes	Others	Total
Balance as of January 1, 2018	**P 48,499**	**P 50,093**	**P 15,658**	**P 907**	**P 15,327**	**P 130,484**
Cash flows from financing activities						
Additional borrowings	**109,470**	**7,694**	**121,358**	**907**	**58,046**	**297,475**
Repayment of borrowings	**(105,101)**	**(1,308)**	**(114,677)**	**(1,812)**	**(67,027)**	**(289,925)**
Non-cash financing activities						
Interest amortization	**261**	**73**	**72**	**(2)**	**(9)**	**395**
Revaluation	**2,277**	**2,885**	**32**	**-**	**-**	**5,194**
Balance as of December 31, 2018	**P 55,406**	**P 59,437**	**P 22,443**	**P -**	**P 6,337**	**P 143,623**
Balance as of January 1, 2017	P 36,545	P 30,150	P 10,334	P 602	P 22,925	P 100,556
Cash flows from financing activities						
Additional borrowings	105,134	35,599	74,139	30,328	97,628	342,828
Repayment of borrowings	(93,479)	(15,586)	(68,790)	(30,159)	(105,228)	(313,242)
Non-cash financing activities						
Interest amortization	500	(70)	25	136	(11)	580
Revaluation	(201)	-	(50)	-	13	(238)
Balance as of December 31, 2017	P 48,499	P 50,093	P 15,658	P 907	P 15,327	P 130,484

Parent Bank

	Foreign Banks	Senior Notes	Local Banks	Deposit Substitutes	Others	Total
Balance as of January 1, 2018	**P 48,430**	**P 50,093**	**P 1,500**	**P 907**	**P 4,693**	**P 105,623**
Cash flows from financing activities						
Additional borrowings	**105,207**	**7,694**	**-**	**907**	**2,936**	**116,744**
Repayment of borrowings	**(100,872)**	**(1,308)**	**(1,498)**	**(1,812)**	**(4,676)**	**(110,166)**
Non-cash financing activities						
Interest amortization	**261**	**73**	**(2)**	**(2)**	**(9)**	**321**
Revaluation	**2,286**	**2,885**	**-**	**-**	**-**	**5,171**
Balance as of December 31, 2018	**P 55,312**	**P 59,437**	**P -**	**P -**	**P 2,944**	**P 117,693**
Balance as of January 1, 2017	P 36,522	P 30,150	P -	P 602	P 8,526	P 75,800
Cash flows from financing activities						
Additional borrowings	103,130	35,599	2,381	30,328	1,137	172,575
Repayment of borrowings	(91,521)	(15,586)	(833)	(30,159)	(4,972)	(143,071)
Non-cash financing activities						
Interest amortization	500	(70)	2	136	(11)	557
Revaluation	(201)	-	(50)	-	13	(238)
Balance as of December 31, 2017	P 48,430	P 50,093	P 1,500	P 907	P 4,693	P 105,623

17. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (Notes) represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation (PDIC), or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The Notes were used further to expand the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

The issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014. The Notes has a principal amount of P10,000 and will mature on March 10, 2025. As of December 31, 2018 and 2017, the outstanding balance of the Notes including accrued interest amounted to P10,030.

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to P519 in 2018, 2017 and 2016 both in BDO Unibank Group and Parent Bank statements of income (see Note 22).

18. INSURANCE CONTRACT LIABILITIES

This account consists of:

		2018		2017
Legal policy reserves	**P**	**26,514**	P	24,602
Policy and contract claims payable		**1,524**		1,051
Policyholders' dividends		**468**		333
	P	**28,506**	P	25,986

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities				Reinsurer's Share of Liabilities				Net			
		2018		2017		**2018**		2017		**2018**		2017
Aggregate reserves for:												
Ordinary life policies	**P**	**17,718**	P	18,753	**P**	**-**	P	-	**P**	**17,718**	P	18,753
Variable unit-linked (VUL) contracts		**8,535**		5,649		**-**		-		**8,535**		5,649
Group life insurance polices		**248**		192		**44**		27		**204**		165
Accident and health policies		**13**		8		**-**		-		**13**		8
Policy and contract claims		**1,524**		1,051		**44**		36		**1,480**		1,015
Policyholders' dividends		**468**		333		**-**		-		**468**		333
	P	**28,506**	P	25,986	**P**	**88**	P	63	**P**	**28,418**	P	25,923

The movements in legal policy reserves are as follows:

	Legal Policy Reserves				Reinsurer's Share of Liabilities				Net			
		2018		2017		**2018**		2017		**2018**		2017
Balance at the beginning of the year	**P**	**24,602**	P	19,531	**P**	**27**	P	12	**P**	**24,575**	P	19,519
Premiums received		**11,968**		6,139		**99**		27		**11,869**		6,112
Liability released for payments of death, maturity and surrender benefits and claims	**(**	**7,033)**	(	1,439)	**(**	**82)**	(	12)	**(**	**6,951)**	(	1,427)
Accretion of investment income or change in unit prices		**286**		254		**-**		-		**286**		254
Changes in valuation of interest Rate	**(**	**3,656)**		-		**-**		-	**(**	**3,656)**		-
Changes in mortality assumptions		**-**		90		**-**		-				90
Foreign exchange adjustments		**347**		27		**-**		-		**347**		27
Balance at end of year	**P**	**26,514**	P	24,602	**P**	**44**	P	27	**P**	**26,470**	P	24,575

Reinsurers' share of liabilities is recorded as part of Others under Other Resources in the BDO Unibank Group's statements of financial position (see Note 13).

The movement in Legal policy reserves for the years ended December 31, 2018 and 2017 is recognized as part of Policy reserves, insurance benefits and claims under Other Operating Expenses in the BDO Unibank Group's statements of income (see Note 23).

19. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Accounts payable		**P 20,688**	P 17,914	**P 18,572**	P 15,379
Manager's checks		**14,447**	14,160	**14,379**	14,016
Accrued expenses		**11,151**	9,895	**10,181**	9,037
Bills purchased – contra		**10,774**	9,984	**10,774**	9,984
Lease deposits		**6,760**	6,106	**115**	109
Retirement benefit obligation	24.2	**4,537**	2,779	**4,379**	2,542
Derivatives with negative fair values	9.1, 25(d)	**4,497**	3,750	**1,680**	1,798
Premium on deposit fund		**3,605**	3,078	**-**	-
Outstanding acceptances payable		**3,591**	4,059	**3,591**	4,059
Withholding taxes payable		**1,342**	1,825	**1,204**	1,679
Due to principal		**451**	394	**-**	-
Capitalized interest and other charges		**411**	408	**362**	358
Due to BSP and Treasurer of the Philippines		**100**	103	**96**	99
Others	13.2, 14	**9,620**	7,797	**8,833**	6,930
		P 91,974	P 82,252	**P 74,166**	P 65,990

Accounts payable includes the amount pertaining to BDO Unibank Group's ESOP which is equivalent to the cumulative amount of amortized awarded share options and the amounts paid by the eligible senior officers who exercised their options (see Notes 20.6 and 24.3).

The liability for unredeemed reward points amounting to P3,377 and P3,015 as of December 31, 2018 and 2017, respectively, presented as part of Accrued expenses above represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.19).

Others include margin deposits, life insurance deposits, cash letters of credit and other miscellaneous liabilities.

Interest expense on certain liabilities amounting to P101, P85 and P84 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P19, P12 and P9 in 2018, 2017, and 2016, respectively, in Parent Bank's financial statements are presented as part of Interest expense on bills payable and other liabilities under Interest Expense account in the statements of income (see Note 22).

Impairment losses recognized for off-books account as a result of the adoption of PFRS 9 amounted to P206 for both the Group and the Parent Bank in 2018. This amount is recorded as Provision - Others under Other Liabilities account in the statement of financial position (see Note 14). No accrual of impairment losses for off-books accounts were recognized in 2017 and 2016 since the Group and the Parent Bank applied the restatement using the transitional relief allowed by the new standard (see Note 2.2).

20. EQUITY

20.1 Capital Management and Regulatory Capital

On January 15, 2009, the BSP issued Circular No. 639 articulating the need for banks to adopt and document an Internal Capital Adequacy Assessment Process (ICAAP). All universal and commercial banks are expected to perform a thorough assessment of all their material risks and maintain adequate capital to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which covered only credit, market and operational risks. On December 29, 2009, the BSP issued Circular No. 677 effectively extending the implementation of ICAAP from January 2010 to January 2011.

In October 2009, BDO Unibank Group presented its ICAAP and submitted the initial draft of its ICAAP document to the BSP. Based on comments from the BSP, BDO Unibank Group subsequently revised its ICAAP document and secured approval from its BOD on January 8, 2011. Annually as required, BDO Unibank Group submits its updated ICAAP to the BSP.

The ICAAP document articulates BDO Unibank Group's capital planning strategy and discusses governance, risk assessment, capital assessment and planning, capital adequacy monitoring and reporting, as well as internal control reviews.

The lead regulator of the banking industry, the BSP, sets and monitors capital requirements for BDO Unibank Group. In implementing current capital requirements, the BSP requires BDO Unibank Group to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which requires BDO Unibank Group to maintain:

(a) Common Equity Tier 1 (CET 1) of at least 6.0% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET 1 Capital.

The regulatory capital is analyzed as CET 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

BDO Unibank Group's policy is to maintain a strong capital base to promote investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and BDO Unibank Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

At the end of each reporting period, BDO Unibank Group and the Parent Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

Under BSP Circular 781, universal banks with more than 100 branches are required to comply with the minimum capital requirement of P20 billion. As of December 31, 2018 and 2017, the Parent Bank has complied with the above capitalization requirement.

On October 29, 2014, the BSP issued Circular 856 on the guidelines on the framework for dealing with domestic systemically important banks (DSIB) that is consistent with the Basel principles. Banks, which are identified as DSIB shall be required to have a higher loss absorbency (HLA). The HLA requirement is aimed at ensuring that DSIBs, have a higher share of their statements of financial position funded by instruments, which increase their resilience as a going concern. The HLA requirement is to be met with CET 1 capital.

Banks identified by the BSP as DSIB will be asked to put up additional CET 1 capital ranging from 1.50% to 3.50%, to be implemented on a staggered basis from January 1, 2017 until January 1, 2019.

BDO Unibank Group's and the Parent Bank's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of December 31, 2018 and 2017 follows:

	BDO Unibank Group	Parent Bank
December 31, 2018		
Tier 1 Capital		
CET 1	**P 309,694**	**P 310,281**
Additional Tier 1	**5,150**	**5,150**
	314,844	**315,431**
Tier 2 Capital	**31,799**	**30,925**
Total Regulatory Capital	**346,643**	**346,356**
Deductions	**(32,872)**	**(56,908)**
Total Qualifying Capital	**P 313,771**	**P 289,448**
Total Risk-Weighted Assets	**P 2,279,864**	**P 2,171,899**
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	**13.8%**	**13.3%**
Tier 1 Capital Ratio	**12.4%**	**11.9%**
Total CET 1 Ratio	**12.1%**	**11.7%**

	BDO Unibank Group	Parent Bank
December 31, 2017		
Tier 1 Capital		
CET 1	P 291,215	P 291,507
Additional Tier 1	5,150	5,150
	296,365	296,657
Tier 2 Capital	27,551	26,767
Total Regulatory Capital	323,916	323,424
Deductions	(29,573)	(57,905)
Total Qualifying Capital	P 294,343	P 265,519
Total Risk-Weighted Assets	P 2,032,004	P 1,919,673
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.5%	13.8%
Tier 1 Capital Ratio	13.1%	12.4%
Total CET 1 Ratio	12.9%	12.2%

20.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2018	2017	**2018**	2017
Preferred shares – P10 par value				
Authorized				
Balance at beginning of year	**2,000,000,000**	2,000,000,000	**P 20,000**	P 20,000
Reclassification to common shares (see Note 20.2.1)	**(1,000,000,000)**	-	**(10,000)**	-
Balance at end of year	**1,000,000,000**	2,000,000,000	**P 10,000**	P 20,000
Issued, fully paid and outstanding	**515,000,000**	515,000,000	**P 5,150**	P 5,150
Common shares – P10 par value				
Authorized				
Balance at beginning of year	**4,500,000,000**	4,500,000,000	**P 45,000**	P 45,000
Reclassification from preferred shares (see Note 20.2.1)	**1,000,000,000**	-	**10,000**	-
Balance at end of year	**5,500,000,000**	4,500,000,000	**P 55,000**	P 45,000
Issued, fully paid and outstanding				
Balance at beginning of year	**4,368,974,554**	3,649,967,648	**P 43,690**	P 36,500
Issued during the year	**5,073,510**	719,006,906	**50**	7,190
Balance at end of year	**4,374,048,064**	4,368,974,554	**P 43,740**	P 43,690

20.2.1 Preferred Shares

The following are the features of the BDO Unibank Group and the Parent Bank's preferred shares:

(a) Perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A shares;

(b) Convertible to common shares at the option of the holder after five years from the issue date or at the option of BDO Unibank Group at any time after issue date; and,

(c) Dividend rate is 6.5% per annum of the par value.

On January 7, 2017, the Parent Bank's BOD authorized the conversion of 1,000,000,000 unissued shares of the Parent Bank, consisting of 500,000,000 unissued Series A Preferred Shares and 500,000,000 unissued ordinary Preferred Shares, each with a par value of P10 per share, into 1,000,000,000 common shares with par value of P10 per share. This will provide BDO with the flexibility to issue common shares should the need arise in the future. The BSP approved the transaction on December 22, 2017 and endorsed it to the SEC. The SEC approved the conversion of the unissued preferred shares into common shares, and the corresponding amendment of the Parent Bank's articles of incorporation to reflect said conversion on March 9, 2018.

20.2.2 Common Shares

The Parent Bank's application for listing of its common shares was approved by the PSE on April 24, 2002. The application is for the initial listing of up to 952,708,650 common shares, with par value of P10 per share, at an offer price range of P17.80 to P23.80 per share. The proceeds from the sale of BDO Unibank's listed shares amounted to about P2,200.

On September 24, 2016, the Parent Bank's BOD authorized the Parent Bank to raise P60,000 in additional core capital through a stock rights offer. The BSP and the PSE approved the transaction on November 23, 2016 and December 14, 2016, respectively. On January 3, 2017, the Parent Bank fixed the final terms for the stock rights offer which entitled eligible shareholders to subscribe to one common share for every 5.095 common shares held as of January 5, 2017 record date at an offer price of P83.75 per rights share. The offer period ran from January 16, 2017 to January 24, 2017. Following the close of the offer period, the Parent Bank successfully completed its stock rights offer and 716,402,886 common shares were issued and subsequently listed on the PSE on January 31, 2017. The issuance resulted in recognition of Additional Paid-in Capital amounting to P52,662, net of related transaction costs totalling to P172. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

The history of shares issuances from the initial public offering (IPO) and subsequently, private placements exempt from registration pursuant to Section 10.1 of the Securities Regulation Code and other issuances, is as follows:

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
Private placement	Sybase Equity Investments Corp.	July 20, 2015	64,499,890
Stock options	Various employees	June 6, 2016 to December 31, 2016	4,592,430
Stock options	Various employees	January 3, 2017 to December 27, 2017	2,604,020
Stock rights	Various	January 31, 2017	716,402,886
Stock rights	Various	January 31, 2018	5,073,510
			4,374,048,064

As of December 31, 2018 and 2017, there are 12,583 and 12,649, respectively, holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P130.80 and P164.00 per share as of December 28, 2018 and December 29, 2017, respectively, (the last trading day in 2018 and 2017).

20.3 BDO American Depositary Receipt Program

On April 18, 2013, the Parent Bank launched its Sponsored Level 1 American Depositary Receipt (ADR) Program by which negotiable securities representing underlying BDO common shares can be traded in the U.S. over-the-counter (OTC) market. This provides flexibility for U.S. investors to trade BDO common shares in their time zone and settle their transactions locally. It is meant to tap the pool of U.S. ADR investors, enhance visibility and global presence and diversify and broaden the Parent Bank's shareholder base. ADRs are quoted and traded in U.S. dollars, and cash dividends received on the underlying shares are paid to investors also in U.S. dollars. The ADR ratio for BDO's sponsored Level 1 ADR Program is 1:10, with each ADR representing ten underlying BDO common shares.

The sponsored Level 1 ADR Program does not necessitate the issuance of new shares as ADRs are traded on the U.S. OTC/secondary market using existing shares, in contrast to the sponsored Level II ADR or sponsored Level III ADR where shares are fully listed on a recognized U.S. exchange (e.g., NYSE, NASDAQ). As such, a Level 1 ADR is not a capital raising transaction, to differentiate it from Level III ADR, which allows the issuer to raise capital through a public offering of ADRs in the U.S.

The sponsored Level 1 ADR is exempt, under U.S. SEC Rule 12g3-2(b), from SEC registration, disclosure requirements and reporting obligations, including Sarbanes-Oxley and U.S. generally accepted accounting principles.

Given its sponsored Level 1 ADR Program, the Bank appointed Deutsche Bank (DB) as the exclusive depositary of ADRs for a period of five years. As depositary bank, DB is responsible for the issuance and cancellation, as well as the registration of the ADRs; custody of the underlying BDO common shares and maintenance of the register of holders; the distribution of dividends; and execution of corporate actions and services to the Issuer (i.e., BDO)/Investor/Broker.

As of December 31, 2018 and 2017, 581,041 and 351,492 ADRs valued at US$14,711,958 and US$11,170,416 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$25.32/share and US$31.78/share respectively).

20.4 Surplus Free

On December 8, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of December 21, 2018 and paid on December 28, 2018.

On November 21, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P70.00 per share or a total of P700. The dividends were declared to stockholders as of November 30, 2018 and paid on December 5, 2018, of which, total dividends paid to non-controlling interest amounted to P0.8.

On August 31, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of September 14, 2018 and paid on September 28, 2018.

On May 26, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of June 13, 2018 and paid on June 29, 2018.

On March 2, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P80.00 per share or a total of P800. The dividends were declared to stockholders of record as of February 28, 2018 and paid on March 23, 2018, of which, total dividends paid to non-controlling interest amounted to P1.

On February 24, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of March 13, 2018 and paid on March 28, 2018.

On February 21, 2018, the BOD of BDO Leasing approved the declaration of cash dividends at P0.10 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P216. The dividends were declared to stockholders of record as of March 9, 2018 and paid on March 27, 2018, of which, total dividends paid to non-controlling interest amounted to P25.

On January 27, 2018, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.50% per annum for a total dividend amount of P339. The dividends were paid on March 2, 2018.

On December 2, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of December 19, 2017 and paid on December 29, 2017.

On August 26, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of September 13, 2017 and paid on September 29, 2017.

On May 26, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,310. The dividends were declared to stockholders of record as of June 15, 2017 and paid on June 30, 2017.

On February 24, 2017, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,310. The dividends were declared to stockholders of record as of March 14, 2017 and paid on March 31, 2017.

On February 22, 2017, the BOD of BDO Leasing approved the declaration of cash dividends at P0.20 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P433. The dividends were declared to stockholders of record as of March 10, 2017 and paid on March 29, 2017, of which, total dividends paid to non-controlling interest amounted to P50.

On January 27, 2017, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P340. The dividends were paid on February 17, 2017.

On December 3, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,095. The dividends were declared to stockholders of record as of December 19, 2016 and paid on December 29, 2016.

On August 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,094. The dividends were declared to stockholders of record as of September 15, 2016 and paid on September 26, 2016.

On February 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share in respect of the 2015 earnings. On May 28, 2016, the Parent Bank's BOD declared another cash dividend of P0.30 per share. Total dividends are P0.60 per share or P2,188. The dividends were paid on March 28, 2016 and June 27, 2016, respectively.

On February 24, 2016, the BOD of BDO Leasing, a subsidiary of the Parent Bank approved the declaration of cash dividends at P0.20 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P432. The dividends were declared to stockholders of record as of March 11, 2016 and paid on March 30, 2016, of which, total dividends paid to non-controlling interest amounted to P50.

On January 30, 2016, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P339. The dividends were paid on February 16, 2016.

20.5 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to nil, P96 and P28 in 2018, 2017 and 2016, respectively, representing insurance fund on losses due to fire, robbery and other cash losses. This was approved by the Parent Bank's President. In 2017, ONB appropriated its Surplus Free amounting to P25 (nil in 2018) representing insurance fund on losses due to fire, robbery and other cash losses, which was approved by its Chairman.

On April 19, 2018, the BOD of BDO Insurance approved the reversal of the previously approved appropriation for branches/satellite office expansion amounting to P7.

On February 12, 2018, the BOD of BDO Securities approved the reversal of the previously approved appropriation for proprietary trading amounting to P200.

Also, included in the 2018 surplus reserve are the appropriations made by BDO Securities and BDOSHI totaling P9 and P1, respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers*.

In compliance with BSP regulations, 10% of BDO Unibank Group's and the Parent Bank's profit from trust business amounting to P251, P256 and P240 in 2018, 2017 and 2016 respectively, and P181, P190 and P182 in 2018, 2017 and 2016 respectively, is appropriated to surplus reserves (see Note 26).

On January 1, 2018, as a result of the adoption of PFRS 9, the BDO Unibank Group and the Parent Bank recognized appropriations to surplus reserves representing the excess over the computed ECL allowance for general loan loss portfolio amounting to P9,520 and P9,356, respectively [see Note 2.1(b)], which was charged against the opening balance of Surplus Free. In 2018, BDO Unibank Group and the Parent Bank appropriated its Surplus Free for impairment of general loan loss portfolio amounting to P1,860 and P1,824, respectively. The accumulated amount of appropriation to surplus reserves for general loan portfolio as of December 31, 2018 amounted to P11,380 and P11,180 for BDO Unibank Group and the Parent Bank, respectively. This appropriation was prescribed by BSP and was recognized as part of Surplus Reserves account.

20.6 ESOP

For options that were vested in 2018 and 2017, BDO Unibank Group issued new common shares of 5,073,510 and 2,604,020, respectively from its authorized capital stock (see Note 19).

Set out below are summaries of number of options vested under the plan:

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Balance at beginning of year	**5,177,283**	3,557,111	**3,727,213**	2,981,499
Vested during the year	**9,455,129**	9,720,328	**8,189,694**	7,850,278
Exercised during the year	**(7,371,716)**	(8,100,156)	**(6,377,918)**	(7,104,564)
Balance at end of year	**7,260,696**	5,177,283	**5,538,989**	3,727,213

21. INTEREST INCOME

Interest income consists of the following:

		BDO Unibank Group		
	Notes	**2018**	2017	2016
Loans and other receivables	10, 25	**P 115,384**	P 88,178	P 73,171
Trading and investment securities:				
At amortized cost	9.3	**7,812**	-	-
At FVOCI	9.2	**3,982**	-	-
At FVTPL	9.1	**72**	162	201
AFS securities	9.2	**-**	3,468	3,618
HTM investments	9.3	**-**	6,061	4,323
Due from BSP and other banks	7, 8	**1,733**	1,742	696
Others		**57**	184	28
		P 129,040	P 99,795	P 82,037

		Parent Bank		
	Notes	**2018**	2017	2016
Loans and other receivables	10, 25	**P 111,685**	P 84,431	P 69,570
Trading and investment securities at:				
At amortized cost	9.3	**6,995**	-	-
At FVOCI	9.2	**2,391**	-	-
At FVTPL	9.1	**51**	116	142
AFS securities	9.2	**-**	2,032	2,237
HTM investments	9.3	**-**	5,634	4,115
Due from BSP and other banks	7, 8	**1,446**	1,399	565
Others		**47**	174	18
		P 122,615	P 93,786	P 76,647

22. INTEREST EXPENSE

Interest expense is composed of the following:

		BDO Unibank Group		
	Notes	**2018**	2017	2016
Deposit liabilities	15, 25	**P 25,595**	P 14,919	P 13,623
Bills payable and other liabilities	9.2, 16, 17, 19, 24.2	**5,153**	3,123	2,790
		P 30,748	P 18,042	P 16,413

		Parent Bank		
	Notes	**2018**	2017	2016
Deposit liabilities	15, 25	**P 24,671**	P 14,076	P 12,898
Bills payable and other liabilities	16, 17 19, 24.2	**4,049**	2,358	2,091
		P 28,720	P 16,434	P 14,989

23. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

		BDO Unibank Group		
	Notes	**2018**	2017	2016
Service charges, fees and commissions	25	**P 27,372**	P 25,701	P 19,074
Insurance premiums		**11,799**	9,871	8,051
Foreign exchange gains	9.1	**3,789**	3,412	2,978
Trust fees	26	**3,314**	3,246	3,123
Rental	12	**1,653**	1,588	1,475
Trading gains (loss) – net	9.1, 9.2	**(1,619)**	450	1,860
Income from assets sold or exchanged	12	**1,057**	798	809
Dividends	9.1	**630**	551	440
Miscellaneous – net	13, 28	**1,679**	1,589	3,803
		P 49,674	P 47,206	P 41,613

	Notes	Parent Bank 2018	2017	2016
Service charges, fees and commissions	25	**P 24,372**	P 21,755	P 15,510
Foreign exchange gains		**3,412**	3,072	2,703
Share in net income of subsidiaries and associates	13.1	**2,740**	4,312	3,657
Trust fees	26	**2,593**	2,647	2,491
Income from assets sold or exchanged	12	**943**	751	767
Rental	12	**583**	534	494
Dividends		**188**	184	132
Trading gains – net	9.1, 9.2	**130**	(405)	1,061
Miscellaneous – net	13, 28	**862**	783	679
		P 35,823	P 33,633	P 27,494

Other operating expenses consist of the following:

	Notes	BDO Unibank Group 2018	2017	2016
Compensation and benefits	24.1	**P 30,449**	P 27,405	P 24,698
Fees and commissions		**13,807**	12,095	6,640
Taxes and licenses	12	**11,639**	8,270	7,224
Occupancy	13.7, 25, 33.2	**9,509**	8,412	7,661
Policy reserves, insurance benefits and claims	18	**7,494**	7,463	5,742
Insurance		**4,805**	4,144	3,802
Advertising		**4,301**	3,431	2,711
Security, clerical, messengerial and janitorial		**3,723**	3,276	2,914
Representation and entertainment		**2,313**	1,861	1,594
Repairs and maintenance		**1,463**	1,316	1,123
Travelling		**1,369**	1,308	1,204
Power, light and water		**1,214**	1,058	959
Supplies		**1,062**	943	691
Telecommunication		**667**	557	488
Information technology		**647**	538	443
Litigation on assets acquired		**542**	473	408
Amortization of computer software	13.7	**516**	528	436
Freight		**331**	307	302
Miscellaneous	13.6	**2,183**	1,480	948
		P 98,034	P 84,865	P 69,988

	Notes	Parent Bank 2018	2017	2016
Compensation and benefits	24.1	**P 26,538**	P 23,909	P 21,508
Fees and commissions		**13,190**	11,372	5,747
Taxes and licenses	12	**10,476**	7,222	6,227
Occupancy	13.7, 25, 33.2	**8,129**	7,046	6,459
Insurance		**4,661**	3,911	3,593
Advertising		**4,208**	3,319	2,600
Security, clerical, messengerial and janitorial		**3,484**	3,054	2,728
Representation and entertainment		**2,063**	1,623	1,401
Repairs and maintenance		**1,351**	1,218	1,052
Travelling		**1,128**	1,089	1,003
Power, light and water		**1,112**	953	862
Supplies		**971**	827	567
Information technology		**615**	510	408
Telecommunication		**573**	465	384
Litigation on assets acquired		**527**	431	378
Amortization of computer software	13.7	**480**	477	372
Freight		**312**	285	282
Miscellaneous	13.6	**1,976**	1,218	808
		P 81,794	P 68,929	P 56,379

24. COMPENSATION AND BENEFITS

24.1 Compensation and Benefits

Expenses recognized for compensation and benefits (see Note 23) are presented below.

	Notes	BDO Unibank Group 2018	2017	2016
Salaries and wages		**P 18,550**	P 16,732	P 15,009
Bonuses		**5,870**	5,255	4,608
Retirement – defined benefit plan	24.2	**1,558**	1,432	1,296
Social security costs		**716**	629	583
Employee stock option plan	24.3	**649**	518	836
Other benefits		**3,106**	2,839	2,366
	23	**P 30,449**	P 27,405	P 24,698

	Notes	Parent Bank 2018	2017	2016
Salaries and wages		**P 16,001**	P 14,432	P 12,811
Bonuses		**5,253**	4,696	4,193
Retirement – defined benefit plan	24.2	**1,340**	1,248	1,134
Social security costs		**603**	539	500
Employee stock option plan	24.3	**582**	464	739
Other benefits		**2,759**	2,530	2,131
	23	**P 26,538**	P 23,909	P 21,508

24.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

BDO Unibank Group and the Parent Bank maintains a fully funded, multi-employer and tax-qualified noncontributory retirement plan that is being administered by the Parent Bank's trust and investment group as trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provided for an early retirement at age of 50 with a minimum of 10 years of credited service and late retirement up to age 65, both subject to the approval of Parent Bank's BOD. Normal retirement benefit is an amount equivalent to a percentage ranging from 50% to 200% of plan salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2018 and 2017.

The amounts of Retirement benefit obligation recognized under Other Liabilities accounts (see Note 19) in the statements of financial position are determined as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Present value of the DBO	**P 28,599**	P 25,347	**P 26,331**	P 23,171
Fair value of plan assets	**(24,070)**	(22,575)	**(21,952)**	(20,629)
Deficiency of plan assets	**4,529**	2,772	**4,379**	2,542
Effect of asset ceiling	**8**	7	**-**	-
	P 4,537	P 2,779	**P 4,379**	P 2,542

The movements in the present value of the DBO are as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 25,347**	P 21,072	**P 23,171**	P 19,253
Current service cost	**1,535**	1,432	**1,340**	1,248
Interest expense	**1,445**	1,159	**1,321**	1,059
Benefits paid by the plan	**(1,405)**	(1,252)	**(1,247)**	(1,208)
Past service cost	**23**	-	**-**	-
Remeasurements:				
Actuarial losses (gains) arising from changes in:				
- experience adjustments	**5,645**	13,860	**5,156**	13,272
- demographic assumptions	**(1,951)**	(9,699)	**(2,195)**	(9,237)
- financial assumption	**(2,040)**	(1,225)	**(1,215)**	(1,216)
Balance at end of year	**P 28,599**	P 25,347	**P 26,331**	P 23,171

The movements in the fair value of plan assets are presented below.

	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Balance at beginning of year	**P 22,575**	P 21,850	**P 20,629**	P 20,093
Contributions paid into the plan	**2,899**	1,533	**2,542**	1,355
Interest income	**1,329**	1,210	**1,213**	1,109
Benefits paid by the plan	**(1,405)**	(1,252)	**(1,247)**	(1,208)
Remeasurement loss - return on plan assets (excluding amounts included in net interest)	**(1,328)**	(766)	**(1,185)**	(720)
Balance at end of year	**P 24,070**	P 22,575	**P 21,952**	P 20,629

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Placements in debt instruments:				
Government bonds	**P 2,552**	P 7,374	**P 2,182**	P 6,711
Corporate bonds	**12,970**	4,629	**12,100**	4,268
UITFs	**5,088**	4,835	**4,715**	4,534
Cash and cash equivalents	**1,002**	2,483	**933**	2,321
Loans and other receivables	**1,425**	982	**1,339**	928
Equity instruments	**777**	807	**433**	485
Other properties	**256**	1,465	**250**	1,382
	P 24,070	P 22,575	**P 21,952**	P 20,629

Actual returns on plan assets were nil and P27 in 2018 and P444 and P389 in 2017 in the BDO Unibank Group and the Parent Bank's financial statements, respectively.

Certain plan assets include BDO Unibank Group's own financial instruments [see Note 25(c)].

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for UITFs which are at Level 2, loans and other receivables and other properties, which are at Level 3.

The components of amounts recognized in profit or loss and in other comprehensive income of the BDO Unibank Group and the Parent Bank in respect of the defined benefit plan as follows:

	BDO Unibank Group		
	2018	2017	2016
Recognized in profit or loss:			
Current service costs	**P 1,534**	P 1,432	P 1,296
Past service costs	**23**	-	-
Interest expense (income)	**117**	(51)	(87)
	P 1,674	P 1,381	P 1,209
Recognized in other comprehensive income, net of tax (see Note 29.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 3,951**	P 9,702	P 472
- demographic assumptions	**(1,365)**	(6,790)	16
- financial assumptions	**(1,428)**	(857)	134
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**930**	536	48
- changes in the effect of the asset ceiling	**-**	(41)	(22)
Share in actuarial gains of associates	**-**	-	(3)
	P 2,088	P 2,550	P 645

	Parent Bank		
	2018	2017	2016
Recognized in profit or loss:			
Current service costs	**P 1,340**	P 1,248	P 1,134
Interest expense	**108**	(50)	(79)
	P 1,448	P 1,198	P 1,055
Recognized in other comprehensive income, net of tax (see Note 29.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 3,609**	P 9,290	P 377
- demographic assumptions	**(1,537)**	(6,466)	-
- financial assumptions	**(850)**	(851)	106
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**830**	504	53
- changes in the effect of the asset ceiling	**-**	(32)	(20)
	2,052	2,445	516
Share in actuarial losses (gains) of subsidiaries and associates	**36**	(92)	129
	P 2,088	P 2,353	P 645

Current service costs are presented as part of Compensation and benefits under Other Operating Expenses account (see Note 23) while interest income are netted against Interest Expense account (see Note 22) in the statements of income of BDO Unibank Group and the Parent Bank.

Amounts recognized in other comprehensive income were included within the items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income.

In determining the amounts of post-employment benefit obligation, the following significant actuarial assumptions were used:

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Discount rates	**7.52%**	5.70%	**7.53%**	5.70%
Expected rate of salary increases	**2.00 - 11.00%**	2.00 - 11.00%	**7.00 - 8.00%**	6.00 - 8.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 25 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes BDO Unibank Group and the Parent Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan is composed of investment in cash and cash equivalents, UITF, debt and equity instruments, and loans and receivables. Due to the long-term nature of plan obligation, a level of continuing debt securities is an appropriate element of the BDO Unibank Group's long-term strategy to manage the plans effectively.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit asset as of December 31, 2018 and 2017:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
BDO Unibank Group			
December 31, 2018			
Discount rate	**+/-1%**	**(P 845)**	**P 924**
Salary increase rate	**+/-1%**	**910**	**(849)**
December 31, 2017			
Discount rate	+/-1%	(P 1,190)	P 1,337
Salary increase rate	+/-1%	1,082	(985)
Parent Bank			
December 31, 2018			
Discount rate	**+/-1%**	**(P 639)**	**P 675**
Salary increase rate	**+/-1%**	**666**	**(643)**
December 31, 2017			
Discount rate	+/-1%	(P 982)	P 1,087
Salary increase rate	+/-1%	864	(798)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, BDO Unibank Group through its Compensation Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds or UITFs) with maturities that match the benefit payments as they fall due and in the appropriate currency. BDO Unibank Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2018 and 2017 consists of debt instruments and UITFs, although the BDO Unibank Group and the Parent Bank also invest in cash and cash equivalents and properties. The debt instruments include government bonds and corporate bonds.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2018, the plan of the BDO Unibank Group and the Parent Bank is underfunded by P4,538 and P4,379, respectively, based on the latest actuarial valuation report. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The BDO Unibank Group and the Parent Bank expects to pay P6,376 and P6,119 respectively, as contributions to retirement benefit plans in 2019.

The expected maturity of undiscounted expected benefits payments of BDO Unibank Group and the Parent Bank from the plan for the next ten years is presented as follows:

	BDO Unibank Group	Parent Bank
Between one to five years	P 32,986	P 31,574
Between six to ten years	4,322	2,842
	P 37,308	**P 34,416**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 2.5 to 17.6 years for the BDO Unibank Group and 2.5 years for the Parent Bank.

24.3 ESOP

BDO Unibank Group's ESOP expense includes the amounts recognized by the Parent Bank and its subsidiaries over the vesting period. In 2018 and 2017, vested shares totaled 9,455,129 and 9,720,328, respectively for BDO Unibank Group, and 8,189,694 and 7,850,278 shares, respectively for Parent Bank.

The ESOP expense, included as part of Compensation and benefits under Other Operating Expenses in the BDO Unibank Group's statements of income, amounted to P649, P518 and P836 in 2018, 2017, and 2016, respectively, and in the Parent Bank's statements of income, amounted to P582, P464 and P739, respectively (see Note 24.1).

25. RELATED PARTY TRANSACTIONS

The Parent Bank created a Related Party Transaction Committee composed of independent directors and non-executive directors, with independent directors comprising majority of the members as required by the BSP. The said Committee exercises oversight role to ensure bank compliance with BSP regulations on related party transactions.

The summary of BDO Unibank Group's significant transactions with its related parties as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction 2018	Amounts of Transaction 2017	Amounts of Transaction 2016	Outstanding Balance 2018	Outstanding Balance 2017
DOSRI Loans	25(a)					
Stockholders		**P 35,813**	P 78,597	P 16,529	**P 51,131**	P 51,916
Related Parties Under Common Ownership		**476**	3,314	42,812	**1,032**	2,066
Officers and Employees		**1,601**	1,504	1,296	**2,019**	1,860
Deposit Liabilities	25(b)					
Stockholders		**638,830**	554,530	386,266	**46,873**	52,886
Related Parties Under Common Ownership		**12,638**	80,630	403,677	**3,765**	3,790
Officers and Employees		**620**	349	36	**21**	93
Other Transactions with Associates	25(d)					
Loans and Advances		**1,800**	-	-	**6,936**	5,920
Interest Income		**370**	254	88	**342**	52
Related Parties Under Common Ownership						
Rent Expense	25(d)	**1,157**	1,031	915	**92**	109
Key Management Personnel	25(d)					
Compensation		**1,574**	1,413	1,501	**-**	-
Retirement Plan	25(c)	**(135)**	64	109	**5,188**	5,058

The summary of the Parent Bank's significant transactions with its related parties as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

		Amounts of Transaction			Outstanding Balance	
Related Party Category	Note	**2018**	2017	2016	**2018**	2017
DOSRI Loans	25(a)					
Stockholders		**P 35,813**	P 78,597	P 16,529	**P 51,131**	P 51,916
Related Parties Under Common Ownership		**476**	3,314	42,812	**1,032**	2,064
Officers and Employees		**1,600**	1,500	1,289	**2,014**	1,853
Deposit Liabilities	25(b)					
Stockholders		**638,830**	554,530	386,266	**46,873**	52,886
Related Parties Under Common Ownership		**12,405**	80,630	403,677	**3,703**	3,790
Officers and Employees		**621**	349	36	**21**	93
Other Transactions with Subsidiaries	25(d)					
Loans and Advances		**69,388**	69,613	42,035	**5,887**	8,539
Derivative Assets		-	100	742	**-**	1
Derivative Liabilities		**538**	1,276	600	**5**	25
Deposit Liabilities		**423**	697	699	**4,821**	4,398
Interest Income		**247**	232	128	**46**	9
Rent Income		**120**	115	96	**-**	-
Service Fees		**637**	539	222	**-**	-
Interest Expense		**41**	23	13	**5**	1
Rent Expense		**14**	9	9	**-**	-
Related Parties Under Common Ownership						
Rent Expense	25(d)	**1,009**	912	820	**92**	109
Key Management Personnel	25(d)					
Compensation		**1,060**	985	976	**-**	-
Retirement Plan	25(c)	**(135)**	64	109	**5,187**	5,055

In the ordinary course of business, the BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below and in the succeeding pages.

(a) Loans to Related Parties

Under existing policies of BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.5% to 6.5% per annum in 2018, 2.0% to 3.5% per annum in 2017 and 2016, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2018 and 2017, the BDO Unibank Group and the Parent Bank is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Total DOSRI loans	**P 54,182**	P 55,842	**P 54,177**	P 55,833
Unsecured DOSRI loans	**1,726**	1,573	**1,726**	1,572
Past due DOSRI loans	**7**	1	**7**	1
Non-performing DOSRI loans	**15**	-	**15**	-
% of DOSRI loans to total loan portfolio	**2.68%**	3.18%	**2.75%**	3.28%
% of unsecured DOSRI loans to total DOSRI loans	**3.19%**	2.82%	**3.19%**	2.82%
% of past due DOSRI loans to total DOSRI loans	**0.01%**	0.00%	**0.01%**	0.00%
% of non-performing DOSRI loans to total DOSRI loans	**0.03%**	0.00%	**0.03%**	0.00%

DOSRI loans of BDO Unibank Group and the Parent Bank bear annual interest rates of 0.00% to 9.00% in 2018 and 0.00% to 10.60% 2017 and 0.00% to 12.00% in 2016 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

Total DOSRI loans of BDO Unibank Group and the Parent Bank include loans to officers under the Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within one month to 20 years.

Total loan releases and collections in 2018 amounted to P37,890 and P39,548 for BDO Unibank Group and P37,889 and P39,544 for the Parent Bank, respectively. Total loan releases and collections in 2017 amounted to P83,415 and P50,813 for BDO Unibank Group and P83,411 and P50,805 for the Parent Bank, respectively. Total loan releases and collections in 2016, on the other hand, amounted to P60,637 and P67,087 for BDO Unibank Group and P60,630 and P66,961 for the Parent Bank, respectively.

(b) Deposits from Related Parties

Total deposits made by the related parties amounted to P652,088, P635,509 and P789,979 in 2018, 2017 and 2016 for BDO Unibank Group, and P651,856, P635,509 and P789,979 in 2018, 2017 and 2016 for the Parent Bank, respectively, and bearing interest rates range of 0.00% to 5.50% in 2018, 0.00% to 4.32% in 2017 and 0.00% to 5.30% in 2016. The related interest expense from deposits amounted to P1,873 and P2,181 and P2,391 in 2018, 2017, and 2016, respectively (see Note 22).

(c) *Transactions with Retirement Plan*

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

	Amounts of Transaction			Outstanding Balance	
Related Party Category	**2018**	2017	2016	**2018**	2017
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 18**	P 27
BDO Leasing	**-**	-	-	**-**	1
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**20**	26
BDO Leasing	**-**	-	-	**1**	2
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**5,149**	5,002
Trading gain					
BDO Unibank, Inc.	**(159)**	59	105	**-**	-
Interest expense					
BDO Unibank, Inc.	**24**	5	4	**-**	-

BDO Unibank Group's retirement fund has transactions directly and indirectly with Parent Bank as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

	Amounts of Transaction			Outstanding Balance	
Related Party Category	**2018**	2017	2016	**2018**	2017
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 18**	P 27
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**20**	26
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**5,149**	5,002
Trading gain					
BDO Unibank, Inc.	**(159)**	59	105	**-**	-
Interest expense					
BDO Unibank, Inc.	**24**	5	4	**-**	-

Details of the contributions of BDO Unibank Group and Parent Bank, and benefits paid out by the plan to the employees are presented in Note 24.

(d) *Other Transactions with Related Parties*

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown in the section that follows. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Transactions with and between subsidiaries have been eliminated in the BDO Unibank Group's financial statements. Significant transactions with subsidiaries are as follows:

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. Total advances granted and collected amounted to P79 and P85, P85 and P29 and P344 and P478, in 2018, 2017 and 2016, respectively. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables in the Parent Bank's statements of financial position amounted to P79 and P85 as of December 31, 2018 and 2017, respectively (see Note 10).

The Parent Bank also grants both secured and unsecured interest-bearing loans to subsidiaries with outstanding balance of P5,808 and P8,454 as of December 31, 2018 and 2017, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 10). Total loans granted amounted to P69,309, P69,528 and P41,691 while total loans collected amounted to P71,955, P67,005 and P42,578 for 2018, 2017 and 2016, respectively. These loans are payable in cash with a term between one month to five years. Interest income recognized on these is presented as part of Interest Income in the Parent Bank's statements of income (see Note 21). Interest rate on these loans ranges from 2.5% to 6.5%, 2.0% to 3.5% and 2.0% to 3.5% per annum in 2018, 2017, and 2016, respectively.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank. Total service fees are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). There are no outstanding balance arising from these transactions as of December 31, 2018 and 2017. Total service fees amounted to P637, P539 and P222 in 2018, 2017 and 2016, respectively.

BDO Life, a former associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life pays the Parent Bank management fees in cash equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. Total service fees is presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). Outstanding balances arising from this as of December 31, 2018 and 2017 is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

Certain subsidiaries lease office space from the Parent Bank. Total rent collected from the subsidiaries is included as part of Miscellaneous under Other Operating Income in the Parent Bank's statements of income (see Note 23). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2018 and 2017. Total rent income amounted to P120, P115 and P96 in 2018, 2017 and 2016, respectively.

BDO Capital, BDO Securities and BDOI, have reimbursed the Parent Bank in cash on the actual costs and expenditures in relation to its services amounting to nil, P67 and P90 in 2018, 2017, and 2016, respectively. There are no outstanding receivable from subsidiaries as of December 31, 2018 and 2017.

(3) Expenses of the Parent Bank

The Parent Bank leases space from BDOSHI for its branch operations. Total rent paid is included as part of Occupancy account under Other Operating Expenses account in the Parent Bank statements of income (see Note 23). The lease term is between 10 to 20 years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2018 and 2017. Total rent expense amounted to P14, P9 and P9 in 2018, 2017 and 2016, respectively.

(4) Derivatives

In 2018 and 2017, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards, interest rate swap and cross currency swaps. As of December 31, 2018 and 2017, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account (see Note 9.1) and Derivatives with negative fair values under Other Liabilities account in the statements of financial position (see Note 19).

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank bear interest rates of 0.00% to 6.75% in 2018, 0.00% to 2.50% in 2017 and 0.00% to 2.60% in 2016. These related interest expense from these deposits are included as part of Interest Expense account on deposit liabilities in the statements of financial position (see Note 22).

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2018 and 2017, there is an outstanding secured and unsecured interest-bearing loans and advances to associates amounting to P6,936 and P5,920 for the BDO Unibank Group and P6,750 and P5,200 for the Parent Bank, respectively, and are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable in cash between two months to twelve years. Total collections on loans and advances amounted to P536, P8 and P488 in 2018, 2017 and 2016, respectively.

Annual interest rate on these loans ranges from 6.37% to 7.70% for 2018 and 3.0% to 7.7% for the years 2017 and 2016. The related interest income is presented as part of Interest Income on loans and other receivables in the BDO Unibank Group's statements of income (see Note 21). As of December 31, 2018, 2017 and 2016, there were no impairment losses recognized on these loans and advances.

(iii) Transaction of the Parent Bank with related parties under common ownership is shown below.

The Parent Bank leases space from related parties for its branch operations. For the years ended December 31, 2018, 2017 and 2016, total rent paid to related parties amounted to P1,009, P912 and P820, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 23). The terms of the lease are from two to five years and is payable in cash. Outstanding balances arising from this transaction amounted to P92 and P109 as of December 31, 2018 and 2017, respectively and is included as part of Accounts payable under Other Liabilities (see Note 19).

(iv) Key Management Personnel Compensation

The compensation and benefits given to BDO Unibank Group and the Parent Bank's key management are as follows (see Note 24.1):

	BDO Unibank Group		
	2018	2017	2016
Salaries and other benefits	**P 1,374**	P 1,267	P 1,348
Retirement expense	**200**	146	153
	P 1,574	P 1,413	P 1,501

	Parent Bank		
	2018	2017	2016
Salaries and other benefits	**P 931**	P 886	P 878
Retirement expense	**129**	99	98
	P 1,060	P 985	P 976

26. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group and the Parent Bank's statements of financial position since these are not resources of the BDO Unibank Group (see Note 33.3).

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Investments	**P 1,150,783**	P 1,036,651	**P 841,019**	P 743,955
Others	**10,934**	9,507	**8,665**	7,806
	P 1,161,717	P 1,046,158	**P 849,684**	P 751,761

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities which are shown as part of Investment securities at amortized cost (see Note 9.3) with a total face value of P13,136 as of December 31, 2018 and HTM investments (see Note 9.3) with a total face value of P11,008 as of December 31, 2017, in BDO Unibank Group and, P8,628 and P7,830 as of December 31, 2018 and 2017, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2018 and 2017, the additional reserve for trust functions amounted to P251 and P256, respectively, for BDO Unibank Group and P181 and P190, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 20.5).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P3,314, P3,246 and P3,123 for the years ended December 31, 2018, 2017 and 2016, respectively, in BDO Unibank Group statements of income and P2,593, P2,647, and P2,491 for the years ended December 31, 2018, 2017 and 2016, respectively, in the Parent Bank statements of income (see Note 23).

27. UNIT-LINKED FUNDS

VUL life insurance contracts of BDO Life are life insurance policies wherein a portion of the premiums received are invested in VUL funds, which are composed mainly of investments in equity and debt securities. The withdrawal or surrender amount of a VUL policy can be computed by multiplying the total units held by the policyholder by the fund's Net Asset Value (NAV) per unit, which changes daily depending on the fund's performance.

In 2013, BDO Life obtained the approval from IC to issue VUL products, where payments to policyholders are linked to internal investment funds set up by BDO Life. The VUL funds are mainly managed by the Trust and Investment Group of the Parent Bank.

As of December 31, 2018 and 2017, BDO Life has 12 VUL funds. The details of the investment funds, which comprise the assets backing the unit-linked liabilities, are presented in the table below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the BDO Unibank Group's financial statements.

		2018		2017
Assets:				
Cash and cash equivalents	**P**	**73**	P	62
Financial assets at FVTPL		**8,514**		5,658
Other receivables		**13**		7
	P	**8,600**	P	5,727
Liabilities and Equity:				
Other liabilities	**P**	**45**	P	32
Net assets attributable to unitholders		**8,555**		5,695
	P	**8,600**	P	5,727

28. MERGERS AND ACQUISITIONS

28.1 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo for €3. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued the shares to BDO Capital, making BDO Capital the owner of approximately 96% of the outstanding capital stock of CBN Grupo (see Note 13.1). CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered, thereafter, with The Netherlands Chamber of Commerce on October 24, 2016. The total goodwill recognized in 2016 amounted to P32 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

28.2 Acquisition of Credit Card Portfolio

On June 14, 2016, the Parent Bank signed an agreement with SB Cards to be the exclusive issuer and acquirer of Diners Club credit cards in the Philippines. The acquisition includes SB Cards' existing Diners Club portfolio and its cardholder base. The agreement took effect on September 30, 2016.

The Parent Bank recognized the acquisition-date fair value of the existing credit card receivables and liabilities assumed and compared the net assets acquired with the cash consideration given up resulting in the recognition of Trademark for the excess relating to the use of Diners Club trade name by the Parent Bank for a period of five years. Presented below is the analysis of the transaction.

Credit card receivables	P	586
Liabilities	(	18)
Net asset acquired		568
Cash consideration	(	733)
Trademark (see Note 13.6)	P	165

28.3 Acquisition of BDO Life

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of BDO Life, a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by GPHCI. As of December 31, 2015, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of BDO Life.

On June 30, 2016, BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. Although the acquisition was consummated in 2016, the consideration was agreed by the parties in 2014. During 2015, BDO Life's net asset substantially increased as a result of the improvement in the latter's insurance operations. Accordingly, the fair value of the net assets exceeded the amount of consideration received by the Group resulting in the recognition of a gain on fair valuation of previously-held interest and gain on bargain purchase (negative goodwill) amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214. This is recorded as part of Miscellaneous under Other Operating Income account in the 2016 financial statements of BDO Unibank Group (see Note 23).

BDO Unibank Group is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market. By assuming full control of BDO Life Assurance's operations, BDO Unibank Group will be able to adapt more readily to the demands of its target markets.

On the date of acquisition, the equity share in BDO Life was re-measured at fair value, as follows:

Fair value	P 2,549
Book value	(1,921)
Gain on fair valuation of previously-held interest	P 628

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	851
Trading and investment securities		25,882
Loans and other receivables		563
Bank premises, furniture, fixtures and equipment		54
Other resources		104
Total resources		27,454
Insurance contract liabilities		17,910
Other liabilities		3,173
Total liabilities		21,083
Net assets acquired		6,371
Fair value of the investment for the previously held interest in BDO Life	(	2,549)
Consideration transferred (for the 60% ownership interest)	(	2,236)
Gain on bargain purchase	P	1,586

Pre-acquisition income arising from the step-up acquisition amounted to P391. Subsequently, GPHCI was renamed to BDO Life Holdings (see Notes 2.3 and 13.1).

On November 24, 2016, the BOD of BDO Life Holdings and BDO Life, at their respective meetings, approved the merger of the two companies, with BDO Life as the surviving entity, and the Plan of Merger. The same were likewise approved by the respective stockholders of the companies on December 3, 2016. The merger was approved by the SEC on September 4, 2017 and was implemented on the same date.

Under the Articles of Merger, the capital stock owned by the Parent Bank and BDO Capital in BDO Life Holdings shall be exchanged for shares in the capital stock of BDO Life on the basis of the net asset value of BDO Life Holdings. BDO Life issued a total of 15,931,324 shares with a par value of P100 per share to the shareholders of BDO Life Holdings in exchange for the net asset of BDO Life Holdings, composed of 15,150,505 shares reacquired by BDO Life as a consequence of the merger, since it was previously wholly-owned by BDO Life Holdings, and 780,819 shares from the unissued authorized capital stock of BDO Life. The shareholdings of the Parent Bank and BDO Capital after the merger is 97.0% and 3.0%, respectively.

28.4 Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in an Investment Agreement (the Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share. Such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 new common shares of PCIB Securities at P370.34 per share, resulting to new percentage of ownership of the Parent Bank to 51.0% and Nomura having 49.0% over PCIB Securities. Subsequently, PCIB Securities was renamed as BDO Nomura.

On July 20, 2017, BDO Nomura's BOD and stockholders approved the increase in its authorized capital stock from P100, divided into 1,000,000 shares with P100 par value per share to P1,000, divided into 10,000,000 shares with P100 par value per share. In relation to the increase in authorized capital stock, BDO Nomura received a cash infusion from the Parent Bank and Nomura Asia Investment (Singapore) Pte. Ltd. amounting to P153 and P147, respectively, for future subscription of additional shares of stock of BDO Nomura with a total par value of P300. The deposit for future stock subscription were recorded as part of Equity investments under Other Resources account in the Parent Bank's 2017 statement of financial position (see Note 13.1). On February 5, 2018, the application for the increase in authorized capital stock of BDO Nomura was approved by the SEC. Accordingly, such deposit was applied against subscription of additional shares of stock of BDO Nomura in 2018.

On November 27, 2018 additional cash infusion was received from the Parent Bank and Nomura Asia Investment (Singapore) Pte. Ltd amounting to P51 and P49, respectively with a total par value of P100.

28.5 Joint Venture Investment Agreement with Mitsubishi Motors Philippines Corp. (MMPC), Sojitz Corporation (SJC) and JACCS Co. Ltd. (JACCS)

On January 28, 2016, BDO Leasing entered into a joint venture investment agreement with MMPC, SJC and JACCS to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles in the Philippines. The joint venture, incorporated and named MAFSC, is seen harnessing the complementary strengths of the partners of the joint venture to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and a growing population. Upon the incorporation of MAFSC on May 31, 2016, BDO Leasing contributed P300 for 3,000,000 common shares, thereby owning 40% of the company while MMPC, SJC and JACCS jointly hold the remaining 60% stake (see Note 13.1).

28.6 Acquisition of One Network Bank, Inc. (A Rural Bank)

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of Additional Paid-in Capital amounting to P6,028, net of related transaction costs amounting to P3. Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%. The total goodwill recognized in 2015 amounting to P2,903 is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

As of December 31, 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. These additional purchases of ONB common shares by the Parent Bank increased its total shareholdings in ONB to 99.76%. Total additional goodwill recognized in 2016 amounted to P4.

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	3,294
Trading and investment securities		2,457
Loans and other receivables		20,532
Bank premises, furniture, fixtures and equipment		1,510
Other resources		403
Total resources		28,196
Deposit liabilities		20,920
Other liabilities		3,478
Total liabilities		24,398
Net asset position		3,798
Non-controlling share in equity	(	14)
Cost of investment	(	6,687)
Goodwill (see Note 13.3)	P	2,903

On December 3, 2016, the Parent Bank's BOD authorized a P1,000 capital infusion into ONB to allow the subsidiary to provide for its ongoing expansion plans and to comply with BSP regulations. The BSP approved the additional equity investment into ONB on August 10, 2017. On September 13, 2017, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.79%.

On September 30, 2017, the Parent Bank's BOD authorized an additional P1,000 capital infusion into ONB to support its MSME initiatives and give it additional leeway in its expansion plans. The BSP approved the additional equity investments into ONB on December 13, 2017. Moreover, on January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.81%. On January 23, 2018 and December 27, 2018, the Parent Bank subscribed to an additional 124,275 and 14,276 shares, respectively, from ONB's total issued and outstanding capital stock thereby increasing its shareholdings in ONB to 99.86%

On October 1, 2018, the Parent Bank has entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire a 15% ownership interest in ONB. The transaction is subject to closing conditions, including requisite regulatory approvals.

28.7 Acquisition of Trust Business

In 2014, the Parent Bank entered into a definitive agreement for the acquisition of the trust business of Deutsche Bank AG's Manila branch (Deutsche) comprising of trust, other fiduciary and investment management activities amounting to P35,751 and presented as part of contingent accounts under Trust department accounts (see Note 33.3). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources account in the statements of financial position (see Note 13.7).

29. TAXES

29.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	BDO Unibank Group		
	2018	2017	2016
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 9,305**	P 8,031	P 5,528
Minimum corporate income tax (MCIT) at 2%	**23**	14	16
Final taxes at 20%, 15%, 10% and 7.5%	**1,685**	1,371	1,220
	11,013	9,416	6,764
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(6)**	36	33
	P 11,007	P 9,452	P 6,797

	BDO Unibank Group		
	2018	2017	2016
Reported in other comprehensive income:			
Actuarial losses	**(P 859)**	(P 1,125)	(P 267)
Fair value of financial assets at FVOCI	**(44)**	-	-
Fair value of AFS securities	**-**	20	(21)
	(P 903)	(P 1,105)	(P 288)

	Parent Bank		
	2018	2017	2016
Reported in profit or loss:			
Current tax expense:			
RCIT at 30%	**P 8,080**	P 7,045	P 4,651
Final taxes at 20%, 15%, 10% and 7.5%	**1,234**	978	870
	9,314	8,023	5,521
Deferred tax expense relating to origination and reversal of temporary differences	**198**	218	192
	P 9,512	P 8,241	P 5,713
Reported in other comprehensive income:			
Actuarial losses	**(P 879)**	(P 1,048)	(P 221)

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	BDO Unibank Group		
	2018	2017	2016
Tax on pretax profit at 30%	**P 13,094**	P 11,267	P 9,870
Adjustment for income subjected to lower income tax rates	**(617)**	(379)	(349)
Tax effects of:			
Income exempt from tax	**(3,494)**	(2,552)	(2,868)
Non-deductible expenses	**2,278**	2,545	1,734
Deductible temporary differences not recognized	**(659)**	(908)	(1,022)
Net operating loss carryover (NOLCO) not recognized	**127**	17	20
Application of previously unrecognized MCIT	**-**	(4)	-
Utilization of previously unrecognized NOLCO	**-**	-	(30)
Others	**278**	(534)	(558)
Tax expense reported in profit or loss	**P 11,007**	P 9,452	P 6,797

	Parent Bank		
	2018	2017	2016
Tax on pretax profit at 30%	**P 12,667**	P 10,874	P 8,931
Adjustment for income subjected to lower income tax rates	**(621)**	(484)	(399)
Tax effects of:			
Income exempt from tax	**(3,882)**	(3,492)	(3,216)
Non-deductible expenses	**1,998**	2,259	1,460
Deductible temporary differences not recognized	**(650)**	(916)	(1,021)
Others	**-**	-	(42)
Tax expense reported in profit or loss	**P 9,512**	P 8,241	P 5,713

Components of the net deferred tax assets (see Note 13) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Deferred tax assets:				
Allowance for impairment	**P 6,560**	P 6,386	**P 5,858**	P 5,858
Unamortized past service costs	**1,219**	1,116	**1,182**	1,070
Retirement obligation	**863**	495	**901**	351
Lease income differential	**146**	128	**146**	129
NOLCO	**-**	3	**-**	-
Others	**217**	1	**-**	-
	9,005	8,129	**8,087**	7,408
Deferred tax liabilities:				
Revaluation increment	**432**	432	**431**	431
Changes in fair values of financial assets at FVOCI (2018)/ AFS securities (2017)	**36**	80	**-**	-
Capitalized interest	**48**	50	**48**	50
Lease income differential	**2**	10	**-**	-
Others	**175**	154	**-**	-
	693	726	**479**	481
Net deferred tax assets	**P 8,312**	P 7,403	**P 7,608**	P 6,927

Movements in net deferred tax assets for the years ended December 31 follow:

BDO Unibank Group

	Statements of Income		
	2018	2017	2016
Unamortized past service costs	**(P 103)**	P 222	P 154
Allowance for impairment	**(175)**	(115)	(117)
Lease income differential	**(25)**	(51)	(46)
Retirement asset (obligation)	**332**	23	87
Capitalized interest	**(3)**	(3)	(3)
NOLCO	**-**	(2)	17
Others	**(32)**	(38)	(59)
Deferred tax expense (income)	**(P 6)**	P 36	P 33

Parent Bank

	Statements of Income		
	2018	2017	2016
Unamortized past service costs	**(P 110)**	P 183	P 155
Retirement asset (obligation)	**328**	46	89
Lease income differential	**(17)**	(8)	(14)
Capitalized interest	**(3)**	(3)	(3)
Allowance for impairment	**-**	-	(35)
Deferred tax expense	**P 198**	P 218	P 192

	Statements of Comprehensive Income					
	BDO Unibank Group			Parent Bank		
	2018	2017	2016	**2018**	2017	2016
Movements in actuarial losses	**(P 859)**	(P 1,125)	(P 267)	**(P 879)**	(P 1,048)	(P 221)
Movements in fair value of financial assets at FVOCI	**(44)**	-	-	**-**	-	-
Movements in fair value of AFS securities	**-**	20	(21)	**-**	-	-
Movements in revaluation Increment	**-**	-	-	**-**	-	-
Deferred tax income	**(P 903)**	(P 1,105)	(P 288)	**(P 879)**	(P 1,048)	(P 221)

BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods follows for BDO Unibank Group (nil for the Parent Bank):

Year	NOLCO	MCIT	Valid Until
2018	P 269	P 9	2021
2017	57	13	2020
2016	69	11	2019
	P 395	P 33	

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2018 and 2017 are as follows:

	BDO Unibank Group			
	2018		2017	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 13,247**	**P 3,974**	P 22,088	P 6,626
NOLCO	**299**	**90**	128	38
MCIT	**31**	**31**	36	36
Others	**1,206**	**362**	1,238	371
	P 14,783	**P 4,457**	P 23,490	P 7,071

	Parent Bank			
	2018		2017	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 12,357**	**P 3,707**	P 20,778	P 6,233
Others	**1,214**	**364**	1,341	402
	P 13,571	**P 4,071**	P 22,119	P 6,635

BDO Unibank Group and the Parent Bank continues claiming itemized deduction for income tax purposes.

29.2 Gross Receipts Tax

On January 29, 2004, RA No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

29.3 Documentary Stamp Tax

Documentary stamp tax (DST) (at varying rates) are imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On December 19, 2017, RA No. 10963 known as train law was passed amending the rates of DST, the significant provisions of which are summarized as follows:

(a) On every issue of debt instruments, there shall be collected a DST of one peso and fifty centavos on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of one peso and 50 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

(c) On all bills of exchange or drafts, there shall be collected a DST of 60 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;

- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;

- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the affectivity of RA No. 9243;

- Fixed income and other securities traded in the secondary market or through an exchange;

- Derivatives including repurchase agreements and reverse repurchase agreements;

- Bank deposit accounts without a fixed term or maturity; and,

- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

29.4 Supplementary Information Required by the Bureau of Internal Revenue (BIR)

The BIR issued Revenue Regulations (RR) No. 15-2010 on November 25, 2010, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under Securities Regulation Code Rule 68, as amended.

The Parent Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

30. EARNINGS PER SHARE

Basic earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2018	2017	2016
Net profit attributable to shareholders of the Parent Bank	**P 32,708**	P 28,070	P 26,234
Dividends on preferred shares	**(339)**	(340)	(339)
Net profit available to common shares	**32,369**	27,730	25,895
Divided by the weighted average number of outstanding common shares (in millions)	**4,372**	4,322	3,805
Basic earnings per share	**P 7.40**	P 6.42	P 6.81

Diluted earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2018	2017	2016
Net profit attributable to shareholders of the Parent Bank	**P 32,369***	P 27,730*	P 25,895*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**4,372**	4,322	3,805
Potential common shares from assumed conversion of preferred shares	*****	*	*
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**4,372**	4,322	3,805
Diluted earnings per share	**P 7.40**	P 6.42	P 6.81

* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

** *Potential common shares from assumed conversion of stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

Basic earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2018	2017	2016
Net profit	**P 32,712**	P 28,006	P 24,057
Dividends on preferred shares	**(339)**	(340)	(339)
Net profit available to common shares	**32,373**	27,666	23,718
Divided by the weighted average number of outstanding common shares (in millions)	**4,372**	4,322	3,805
Basic earnings per share	**P 7.40**	P 6.40	P 6.23

Diluted earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2018	2017	2016
Net profit	**P 32,373***	P 27,666*	P 23,718*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**4,372**	4,322	3,805
Potential common shares from assumed conversion of convertible preferred shares	*****	*	*
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**4,372**	4,322	3,805
Diluted earnings per share	**P 7.40**	P 6.40	P 6.23

* *Net profit of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

** *Potential common shares from assumed conversion of stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

(a) The following are some measures of BDO Unibank Group and Parent Bank's financial performance:

	2018	2017	2016
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**10.6%**	10.2%	12.5%
Return on average resources:			
Net profit / Average total resources	**1.1%**	1.1%	1.2%
Net interest margin:			
Net interest income / Average interest earning resources	**3.6%**	3.5%	3.2%
Return on common equity:			
Net profit / Average common equity	**10.7%**	10.2%	12.7%
Liquidity ratio:			
Total liquid resources / Total resources	**30.4%**	31.6%	33.5%
Debt to equity:			
Total liabilities / Total equity	**821.0%**	794.3%	968.7%
Resources to equity:			
Total resources / Total equity	**921.0%**	894.3%	1,068.7%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**241.9%**	308.2%	301.3%
Profit margin:			
Net profit / Revenues	**18.3%**	19.1%	21.2%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**13.8%**	14.5%	12.4%

* *Computed using balances prepared under PFRS*

	2018	2017	2016
Parent Bank			
Return on average equity:			
Net profit / Average total capital accounts	**10.6%**	10.2%	11.5%
Return on average resources:			
Net profit / Average total resources	**1.2%**	1.2%	1.2%
Net interest margin:			
Net interest income / Average interest earning resources	**3.7%**	3.5%	3.2%
Return on common equity:			
Net profit / Average common equity	**10.7%**	10.2%	11.7%
Liquidity ratio:			
Total liquid resources / Total resources	**28.6%**	29.2%	31.5%
Debt to equity:			
Total liabilities / Total equity	**782.7%**	748.2%	915.8%
Resources to equity:			
Total resources / Total equity	**882.7%**	848.2%	1,015.8%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**247.0%**	320.6%	298.6%
Profit margin:			
Net profit / Revenues	**20.6%**	22.0%	23.1%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**13.3%**	13.8%	11.4%

* *Computed using balances prepared under PFRS*

(b) Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Aggregate amount of secured liabilities	**P 226**	P 2,322	**P -**	P 907
Aggregate amount of resources pledged as security	**P 1,501**	P 4,033	**P -**	P 1,075

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

32.1 Dividends

On January 26, 2019, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.5% per annum of the par value for a total dividend of P339. The dividends will be paid within 60 days from dividend declaration date.

32.2 Purchase of Loans and Deposits of Rural Bank of Pandi by ONB

On February 4, 2019, ONB, entered into an asset sale and purchase agreement with Rural Bank of Pandi, Inc. (RBPI) to purchase RBPI's gross loan receivables and assume its recorded deposit liabilities worth approximately P781 and P918, respectively. The transaction is seen to provide ONB with a stronger presence in Bulacan and fast track its expansion in Central Luzon.

The agreement is still subject to closing conditions and regulatory approvals.

32.3 Issuance of Peso-Denominated Bonds

On February 11, 2019, the Parent Bank issued P35,000 fixed rate bonds. The bonds have a tenor of 1.5 years and bear a coupon rate of 6.42%. Interest will be paid quarterly, calculated on a 30/360 count basis. This represents the initial issuance from P100 billion peso bond program approved by the BOD in August 2018. The issue aims to further diversify the Bank's funding sources and support business expansion.

33. COMMITMENTS AND CONTINGENCIES

33.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2018, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

33.1.1 PEACe bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers. Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly 10 years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT. On October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the Bureau of Treasury (BTr) and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling. On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds. On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On August 16, 2016, the Supreme Court ordered the BTr to immediately release and pay the bondholders the amount of P4,966, representing the 20% FWT on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

On October 19, 2016, the Respondents filed Motions where they respectfully prayed that the Honorable Court grant them leave to file the Motion for Partial Reconsideration and admit the Motion for Partial Reconsideration. The Respondents also prayed that the Resolution dated August 16, 2016 be partially reconsidered and for judgment to be rendered stating that (1) jurisdiction to hear actions assailing the validity of the exercise of quasi-legislative powers of the Commissioner of Internal Revenue pertains to the regular courts after review by the Secretary of Finance; and, (2) the 6% interest on the withheld amount of P4,966 be deleted or in the alternative, and only when respondents are held liable for interest, computation thereof shall be reckoned from the date of finality of the Decision dated January 13, 2015 at the prevailing market rate of comparable short term government debt securities at the time of payment.

On November 22, 2016, the Supreme Court denied, for lack of merit, the Respondents Motion for Leave to File Motion for Partial Reconsideration, as well as the Motion to Admit Motion for Partial Reconsideration, considering that a second motion for reconsideration is a prohibited pleading. The Supreme Court stated that no further pleadings or motions will be entertained and ordered the entry of judgment.

On April 11, 2017, the Parent Bank entered into a Settlement Agreement with the Republic of the Philippines, (acting through the BTr) to settle all claims and put closure to the PEACe Bonds case. Under the terms of the Settlement Agreement:

- The BTr paid the 20% final withholding tax withheld on the PEACe bonds amounting to P690, plus interest of 4% per annum from October 19, 2011 to April 10, 2017 amounting to P151; and,

- The payment was made in the form of 3-Year Retail Treasury Bonds, with interest of 4.25 % per annum.

The 3-Year Retail Treasury Bonds settlement was recognized by the Parent Bank as part of financial assets at FVTPL (see Note 9.1). The interest was recognized as part of Others under Interest Income account (see Note 21) in the 2017 statement of income.

33.1.2 Applicability of RR 4-2011

On March 15, 2011, the BIR issued RR No. 4-2011 regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

RR No. 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

On April 6, 2015, 19 banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court of Makati. The Parent Bank and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR No. 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR No. 4-2011 and that the scope of RR No. 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR No. 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR No. 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR No. 4-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 25, 2018, the RTC declared RR 4-2011 as null and void. The writs of preliminary injunction issued by the RTC on April 25, 2015 and February 28, 2018 were also made permanent, thereby enjoining Department of Finance (DOF) and BIR from implementing RR 4-2011 and prohibiting them from issuing a preliminary assessment notice or final assessment notice, or deciding any administrative matter pending before it, according to or in relation to said regulation.

On July 10, 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari ("Motion for Extension"). The Supreme Court granted the Motion for Extension.

On August 9, 2018, Petitioners filed a Petition for Review on Certiorari dated August 1, 2018 ("Petition") to assail the RTC decision based on the following grounds: (i) the RTC had no jurisdiction over petitions assailing the constitutionality and validity of tax laws, rules and regulation, and other administrative issuance of the BIR. Allegedly, it is the Court of Tax Appeals that has exclusive jurisdiction to determine the constitutionality or validity of Tax Laws, Rules and Regulations issued by the Commissioner of Internal Revenue; and (ii) RR 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

The case remains pending as of December 31, 2018.

33.1.3 First e-Bank

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting Philippine Deposit Insurance Corporation ("PDIC") to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with the Parent Bank wherein consideration of the assumption by the Parent Bank of FeB's liabilities in the maximum amount of P10,000, PDIC will provide the Parent Bank P10,000 of financial assistance and PDIC will receive FeB's assets to recover said financial assistance.

About P5,000 of the financial assistance was released to the Parent Bank and the remaining P5,000 was deposited in escrow with BDO Trust and Investments Group ("BDO-TIG") in accordance with the escrow agreement dated October 23, 2002 entered into by the Parent Bank, PDIC, and BDO-TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets the Parent Bank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon.

Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against the Parent Bank, which case was raffled to RTC Makati City Branch 60. On October 14, 2016, the Parent Bank filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

In a judgement dated May 31, 2018, RTC Makati dismissed the complaint, granted the Parent Bank's counterclaim and ordered BDO-TIG to immediately release the remaining escrow amount, plus interests, to the Parent Bank. PDIC filed Motion for Reconsideration and the Parent Bank and BDO-TIG filed their respective comment/opposition thereto. PDIC's Motion for Reconsideration was submitted for resolution.

33.1.4 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2018, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

33.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the statements of income, amounted to P3,597, P3,220 and P2,846 in 2018, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P3,385, P3,012 and P2,670 in 2018, 2017 and 2016, respectively, in the Parent Bank's financial statements (see Note 23).

As of December 31, 2018 and 2017, the estimated minimum future annual rentals of BDO Unibank Group and Parent Bank follow:

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Within one year	**P 1,931**	P 2,089	**P 1,682**	P 1,864
More than one year but not more than five years	**15,569**	12,282	**14,800**	11,512
More than five years	**6,102**	4,714	**5,927**	4,575
	P 23,602	P 19,085	**P 22,409**	P 17,951

33.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2018 and 2017, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies. The summary of BDO Unibank Group's commitments and contingent accounts is shown below.

		BDO Unibank Group		**Parent Bank**	
	Notes	**2018**	2017	**2018**	2017
Trust department accounts	26	**P 1,161,717**	P 1,046,158	**P 849,684**	P 751,761
Committed credit lines	4.3.1	**349,732**	303,425	**349,732**	303,353
Forward exchange sold		**132,422**	128,650	**118,276**	116,021
Forward exchange bought		**122,948**	137,034	**105,811**	121,647
Unused commercial letters of credit	4.3.1	**48,950**	47,553	**48,950**	47,536
Interest rate swap receivable		**19,201**	16,481	**5,978**	6,263
Interest rate swap payable		**19,201**	16,481	**5,978**	6,263
Spot exchange sold		**10,818**	14,054	**10,290**	13,740
Bills for collection		**10,716**	5,125	**10,716**	5,125
ROP warrants		**8,475**	15,021	**8,475**	15,021
Spot exchange bought		**7,273**	6,546	**6,745**	6,232
Export letters of credit confirmed		**6,180**	2,351	**6,180**	2,351
Other contingent accounts		**3,038**	2,643	**3,038**	2,038
Late deposits/payments received		**2,674**	1,436	**2,654**	1,426
Outstanding guarantees issued		**1,715**	20,221	**1,715**	20,209

ISSUER

BDO Unibank, Inc.

Principal Office

BDO Corporate Center
7899 Makati Avenue
Makati City 0726
Philippines

Hong Kong Branch

25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Singapore Branch

20 Cecil St, #02-06 PLUS,
Singapore 049705

TRUSTEE

The Bank of New York Mellon,
London Branch
One Canada Square
London E14 5AL
United Kingdom

PRINCIPAL PAYING AGENT

The Bank of New York Mellon,
London Branch
One Canada Square
London E14 5AL
United Kingdom

REGISTRAR

The Bank of New York Mellon
SA/NV, Luxembourg Branch
Vertigo Building – Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg

LEGAL ADVISERS

To the Issuer as to Philippine law

Martinez Vergara Gonzalez & Serrano

The Orient Square
F. Ortigas, Jr. Road Ortigas Center
1600 Pasig City, Metro Manila Philippines

To the Lead Arranger and the Dealers
as to Philippine law

Angara Abello Concepcion Regala & Cruz Law Offices

22nd Floor, ACCRALAW Tower 2nd Avenue corner 30th
Street, Crescent Park West Bonifacio Global City,
0399 Taguig City, Philippines

To the Lead Arranger
and the Dealers
as to English law

Milbank LLP
30/F, Alexandra House
18 Chater Road,
Central, Hong Kong

AUDITORS OF THE ISSUER

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

LEAD ARRANGER

Standard Chartered Bank
One Basinghall Avenue
London EC2V 5DD
United Kingdom

DEALERS

Australia and New Zealand Banking Group Limited
10 Collyer Quay
#21-00 Ocean Financial Centre
Singapore 049315

Citigroup Global Markets Limited
Citigroup Centre Canada Square
Canary Wharf London E14 5LB
United Kingdom

Daiwa Capital Markets Singapore Limited
7 Straits View
Marina One East Tower
#16-05/06
Singapore 018936

Deutsche Bank AG, Singapore Branch
One Raffles Quay
#17-00 South Tower
Singapore 048583

Goldman Sachs (Asia) L.L.C.
68/F Cheung Kong Centre
2 Queen's Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
Level 17 HSBC Main Building
1 Queen's Road Central
Hong Kong

ING Bank N.V., Singapore Branch
1 Wallich Street
Guoco Tower #12-01
Singapore 078881

J.P. Morgan Securities plc
25 Bank Street Canary Wharf
London, E14 5JP
United Kingdom

Mizuho Securities Asia Limited
14-15/F K11 Atelier
18 Salisbury Road
Tsim Sha Tsui
Kowloon, Hong Kong

MUFG Securities EMEA plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ
United Kingdom

Nomura International plc
1 Angel Lane
London EC4R 3AB
United Kingdom

Standard Chartered Bank
One Basinghall Avenue
London EC2V 5DD
United Kingdom

UBS AG Singapore Branch
One Raffles Quay
#50-01 North Tower
Singapore 048583

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BDO Unibank, Inc.

Medium Term Note Programme

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13 March 2020

Standard Chartered Bank