

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

1. Date of Report (Date of earliest event reported)
Feb 24, 2023
2. SEC Identification Number
34001
3. BIR Tax Identification No.
000-708-174-000
4. Exact name of issuer as specified in its charter
BDO Unibank, Inc.
5. Province, country or other jurisdiction of incorporation
Metro Manila
6. Industry Classification Code(SEC Use Only)
7. Address of principal office
BDO Corporate Center, 7899 Makati Ave., Makati City
Postal Code
0726
8. Issuer's telephone number, including area code
(632) 8840-7000 / 8702-6000
9. Former name or former address, if changed since last report
--
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	5,264,382,524
Preferred	618,000,000

11. Indicate the item numbers reported herein
Item 9 - Other Events

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



PSE Disclosure Form 4-30 - Material Information/Transactions
References: SRC Rule 17 (SEC Form 17-C) and
Sections 4.1 and 4.4 of the Revised Disclosure Rules

Subject of the Disclosure

Results of Board Meeting

Background/Description of the Disclosure

Please be advised that BDO Unibank, Inc. (BDO), in its board meeting today, 24 February 2023, approved the 2022 Audited Financial Statements of BDO and its Subsidiaries and the corresponding Notes to Financial Statements.

BDO's net income increased to P57.1 billion for the full year 2022 vs. P42.8 billion in 2021. The key highlights of the financial statements are as follows: strong results continue across core businesses; earnings are broad-based and diversified; full-year Return on Equity (ROE) at 13% with 4Q ROE further improving to 15.3%; balance sheet is solid with very comfortable capital position; and asset quality improving with ample provisioning. BDO continues being alert to the challenges posed by supply constraints, higher inflation, tighter external liquidity, rates/FX volatility and geopolitical strains.

In the same meeting, the Board of Directors of BDO approved an increase in the regular quarterly cash dividends on common shares of BDO to 00.75 per share beginning on the 1st Quarter of 2023, payable on March 31, 2023. This will be the new dividend policy of BDO going forward.

Please be informed that BDO Unibank, Inc. (BDO) will be releasing to the press the attached statements entitled "BDO net income reaches P57.1 billion in 2022" and "BDO increases quarterly cash dividends to P0.75 per share."

Other Relevant Information

Please see attachments.

Filed on behalf by:

Name	Elmer Serrano
Designation	Corporate Information Officer



February 24, 2023

THE PHILIPPINE STOCK EXCHANGE, INC.

6/F PSE Tower, 5th Avenue corner 28th Street
Bonifacio Global City, Taguig City

Attention: **Ms. Alexandra D. Tom Wong**
Officer-in-Charge, Disclosure Department

PHILIPPINE DEALING AND EXCHANGE CORP.

29th Floor, BDO Equitable Tower
8751 Paseo de Roxas, Makati City 1226

Attention: **Atty. Marie Rose M. Magallen-Lirio**
Head, Issuer Compliance and Disclosure Department

Ladies and Gentlemen:

Please find attached the 2022 Audited Financial Statements of BDO Unibank, Inc. (BDO Unibank) and its Subsidiaries and the corresponding Notes to Financial Statements, which were approved by the Board of Directors of BDO Unibank at its meeting held today, February 24, 2023.

Thank you.

Very truly yours,

MA. CECILIA S. SANTOS
First Vice President and Alternate
Corporate Information Officer

BDO Unibank, Inc.
BDO Towers Valero
8741 Paseo De Roxas
Salcedo Village
Makati City 1226
Philippines
Swift Code BNORPHMM
Tel +632 8840-7000

bdo.com.ph

We find ways®

COVER SHEET

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SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

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[illegible]

(Business Address: No. Street City/Town/Province)

EDMUNDO L. TAN

(Contact Person)

8840-7000/8702-6000

(Company Telephone Number)

1	2
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Month

3	1
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Day

(Fiscal Year)

SEC 17-C

SEC 17-C

(Form Type)

Any day in April of each year, or if not practicable, on such date as may be fixed by the Board of Directors

Any day in April of each year, or if not practicable, on such date as may be fixed by the Board of Directors

Month Day

(Annual Meeting)

(Secondary License Type, If Applicable)

MSRD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowing

Domestic

Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

LCU

[illegible]

Document ID

Cashier

STAMPS

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Remarks: Please use BLACK ink for scanning purposes.



SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

1. February 24, 2023
Date of Report (Date of earliest event reported)
2. SEC Identification Number 34001 3. BIR Tax Identification No. 000-708-174-000
4. BDO Unibank, Inc.
Exact name of issuer as specified in its charter
5. METRO MANILA 6. (SEC Use Only)
Province, country or other jurisdiction of Industry Classification Code:
incorporation
7. BDO Corporate Center, 7899 Makati Avenue, Makati 0726
City, Philippines
Address of principal office Postal Code
8. (632) 8840-7000/8702-6000
Issuer's telephone number, including area code
9. N.A.
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON	5,264,382,524
PREFERRED	618,000,000

11. Indicate the item numbers reported herein:

Item 9

Attached is the 2022 Audited Financial Statements of BDO Unibank, Inc. (BDO Unibank) and its Subsidiaries and the corresponding Notes to Financial Statements, which were approved by the Board of Directors of BDO Unibank at its meeting held today, February 24, 2023.

BDO Unibank, Inc.
BDO Towers Valero
8741 Paseo De Roxas
Salcedo Village
Makati City 1226
Philippines
Swift Code BNORPHMM
Tel +632 8840-7000


SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BDO Unibank, Inc.
Issuer

Date: February 24, 2023

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EDMUNDO L. TAN
Corporate Secretary



FOR SEC FILING

Financial Statements and
Independent Auditors' Report

BDO Unibank, Inc. and Subsidiaries

December 31, 2022, 2021 and 2020

Report of Independent Auditors

Punongbayan & Araullo

20th Floor, Tower 1

The Enterprise Center

6766 Ayala Avenue

1200 Makati City

Philippines

T +63 2 8988 2288

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2022 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.

The following are the key audit matters identified in our audit of the financial statements of the BDO Unibank Group and the Parent Bank:

(a) 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 in accordance with PFRS 9, *Financial Instruments*. As of December 31, 2022, the BDO Unibank Group and the Parent Bank had loans and other receivables amounting to P2,696,901 million and P2,621,221 million, respectively, net of allowance for impairment of P76,360 million and P74,000 million, respectively. Loans and other receivables are the most significant resources of the BDO Unibank Group and the Parent Bank which account for 66% and 67% of the BDO Unibank Group 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 estimations as to the likelihood of defaults occurring, the associated loss ratios and of default correlations of the related 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 have identified and documented key drivers of credit risk and credit losses for each loan portfolio and, using an analysis of historical data, have estimated relationships between macro-economic variables, credit risk and credit losses.

The significant judgments applied and the subjectivity of estimates used by management have further heightened due to the unprecedented impact of COVID-19 pandemic to the BDO Unibank Group's and the Parent Bank's loans and receivables. Further, BDO Unibank Group and the Parent Bank consider the current and forecasted macroeconomic variables in determining the appropriate overlay and in updating the probability of default and loss given default. Accordingly, the BDO Unibank Group and the Parent Bank have recognized in 2022 impairment losses on loans and other receivables amounting to P16,414 million and P15,665 million, respectively, based on the ECL model used by the BDO Unibank Group and the Parent Bank by considering the current credit status of the loans and receivables and the potential delinquencies brought about by the current economic condition.

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 11 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 relevant general and application 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;
- on a sample basis, evaluating the appropriateness of the credit risk ratings of loans to assess appropriateness of credit risk monitoring;
- assessing the appropriateness of the BDO Unibank Group's and the Parent Bank's design of the ECL impairment model;
- 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 completeness and appropriateness of the 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 include gross domestic product growth, unemployment rates and core inflation 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 based on agreed restructuring agreement, actual payment pattern after the restructuring, valuation of collaterals and estimates of recovery from other sources of collection.

(b) Valuation of Financial Instruments*Description of the Matter*

In general, the fair valuation of the financial instruments of the BDO Unibank Group and the Parent Bank is computed with reference to external sources and readily available market value. 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 some financial instruments with no readily available market value. To the extent practicable, certain financial instruments are measured using models with observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

As of December 31, 2022, the derivative financial assets and derivatives with negative fair values of the BDO Unibank Group that are carried at fair value amounted to P8,613 million and P7,809 million, respectively, while that of the Parent Bank amounted to P3,468 million and P3,636 million, respectively. The debt and equity investments at Level 2 and Level 3 amounted to P6,224 million for the BDO Unibank Group and P482 million for the Parent Bank.

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:

- testing of design and operating effectiveness of relevant controls over the valuation process including the valuation method and assumption used by the BDO Unibank Group and the Parent Bank on the financial instruments, particularly the measurement of derivative financial instruments as assisted by our own Information and Technology specialists.
- evaluating whether fair value prices used were appropriate by testing the inputs against reliable market sources;
- recomputing the fair values based on the inputs and compared with the market values reported by the BDO Unibank Group and the Parent Bank; and,
- reviewing the appropriateness of the method used in fair market valuation.

(c) Carrying Value of Goodwill and Other Intangible Assets with Indefinite Useful Lives*Description of the Matter*

The BDO Unibank Group has goodwill of P4,535 million, with allowance for impairment of P1,514 million, as of December 31, 2022, and the significant portion of which relates to the acquisition of BDO Network Bank, Inc. (BDO Network). Furthermore, the BDO Unibank Group and the Parent Bank have other intangible assets with indefinite useful lives amounting to P3,525 million and P3,522, respectively.

This annual impairment testing of goodwill and other intangible assets with indefinite useful lives for impairment is considered to be a key audit matter because the management's process in assessing the recoverability of the intangible assets is complex. In addition, the assumptions used in determining the cash generating units (CGUs) where the goodwill and other intangible assets with indefinite useful lives are 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 and other intangible assets are included in Notes 2, 3 and 15 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 and other intangible assets with indefinite useful lives 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 and growth rates 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, we recalculated the value-in-use of the CGUs and compared it with the carrying amount. We also reviewed the BDO Unibank Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of goodwill and other intangible assets with indefinite useful lives. Furthermore, our audit of the financial statements of BDO Network as of and for the year ended December 31, 2022 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, 2022, 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, 2022 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, in 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 31 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. The supplementary information for the years ended December 31, 2022 and 2021 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 35 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by BIR and BSP is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is neither 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 Romualdo V. Murcia III.

PUNONGBAYAN & ARAULLO



By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 9566639, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 95626-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-022-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 24, 2023

Supplemental Statement of Independent Auditors

Punongbayan & Araullo

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

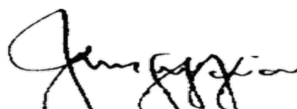
T +63 2 8988 2288

The Board of Directors**BDO Unibank, Inc.**

BDO Corporate Center
7899 Makati Avenue, Makati City

We have audited the financial statements of BDO Unibank, Inc. (the Bank) for the year ended December 31, 2022, on which we have rendered the attached report dated February 24, 2023.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has 10,709 stockholders owning 100 or more shares each of the Bank's capital stock as of December 31, 2022.

PUNONGBAYAN & ARAULLO

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 9566639, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 95626-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-022-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 24, 2023

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group				Parent Bank			
	Notes	2022		2021		2022		2021	
<u>RESOURCES</u>									
CASH AND OTHER CASH ITEMS	8	P	82,944	P	69,105	P	80,666	P	66,440
DUE FROM BANGKO SENTRAL NG PILIPINAS	8		385,779		304,906		382,210		302,660
DUE FROM OTHER BANKS - Net	9		58,766		70,092		51,055		64,349
TRADING AND INVESTMENT SECURITIES - Net	10		722,830		616,261		606,789		497,963
LOANS AND OTHER RECEIVABLES - Net	11		2,696,901		2,450,903		2,621,221		2,399,983
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12, 13		46,471		44,807		42,394		41,586
INVESTMENT PROPERTIES - Net	14		21,158		18,795		13,173		11,263
OTHER RESOURCES - Net	15		59,859		48,880		102,815		81,762
TOTAL RESOURCES		P	4,074,708	P	3,623,749	P	3,900,323	P	3,466,006
<u>LIABILITIES AND EQUITY</u>									
DEPOSIT LIABILITIES	17	P	3,220,883	P	2,820,896	P	3,141,016	P	2,751,715
BILLS PAYABLE	18		198,891		204,431		188,872		196,174
INSURANCE CONTRACT LIABILITIES	20		64,363		65,328		-		-
OTHER LIABILITIES	21		129,114		108,546		110,536		94,656
Total Liabilities			3,613,251		3,199,201		3,440,424		3,042,545
EQUITY	22								
Attributable to:									
Shareholders of the Parent Bank			459,332		422,934		459,899		423,461
Non-controlling Interests			2,125		1,614		-		-
			461,457		424,548		459,899		423,461
TOTAL LIABILITIES AND EQUITY		P	4,074,708	P	3,623,749	P	3,900,323	P	3,466,006

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos Except Per Share Data)

	Notes	BDO Unibank Group			Parent Bank		
		2022	2021	2020	2022	2021	2020
INTEREST INCOME	23	P 169,071	P 144,879	P 157,031	P 158,632	P 136,772	P 149,697
INTEREST EXPENSE	24	19,839	13,533	23,331	18,728	12,906	22,400
NET INTEREST INCOME		149,232	131,346	133,700	139,904	123,866	127,297
IMPAIRMENT LOSSES (RECOVERIES) - Net	16						
Financial Assets	10, 11	16,564	16,942	29,661	15,815	16,745	29,037
Non-financial Assets	14, 15	(203)	93	511	(232)	56	491
Others	21	5	28	68	5	28	68
		16,366	17,063	30,240	15,588	16,829	29,596
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		132,866	114,283	103,460	124,316	107,037	97,701
OTHER OPERATING INCOME	25	71,535	61,354	55,210	50,129	40,635	37,254
OTHER OPERATING EXPENSES	25	131,208	119,875	112,640	104,119	93,613	90,067
PROFIT BEFORE TAX		73,193	55,762	46,030	70,326	54,059	44,888
TAX EXPENSE	31	15,959	12,907	17,776	13,333	11,378	16,282
NET PROFIT		P 57,234	P 42,855	P 28,254	P 56,993	P 42,681	P 28,606
Attributable to:							
Shareholders of the Parent Bank		P 57,054	P 42,791	P 28,246			
Non-controlling Interests		180	64	8			
		P 57,234	P 42,855	P 28,254			
Earnings Per Share:	32						
Basic		P 10.77	P 8.07	P 5.30			
Diluted		P 10.72	P 8.05	P 5.30			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos)

Notes	BDO Unibank Group			Parent Bank		
	2022	2021	2020	2022	2021	2020
NET PROFIT	P 57,234	P 42,855	P 28,254	P 56,993	P 42,681	P 28,606
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	10 (17,959)	(5,394)	4,060	(17,883)	(5,365)	4,067
Transfer of realized losses (gains) on disposed debt investments at FVOCI to statements of income, net of tax	11 (275)	(43)		11 (275)	(52)	
Impairment losses (recoveries) on debt investments at FVOCI	10 67	(87)	37	67	(87)	37
Net gains (losses) on FVOCI securities, net of tax	(17,881)	(5,756)	4,054	(17,805)	(5,727)	4,052
Translation adjustment related to foreign operations	(5)	92	(44)	(10)	100	(60)
	(17,886)	(5,664)	4,010	(17,815)	(5,627)	3,992
Items that will not be reclassified to profit or loss:						
Remeasurement on life insurance reserves	20 9,620	5,686	(6,070)	9,620	5,686	(6,070)
Actuarial gain (losses) on remeasurement of retirement benefit obligation, net of tax	26 (1,097)	(6,022)	756	(1,101)	(6,005)	752
Reversal of revaluation increment	-	55	-	-	55	-
Unrealized gains (losses) on equity investments at FVOCI, net of tax	10 (498)	135	579	(498)	135	579
	8,025	(146)	(4,735)	8,021	(129)	(4,739)
Other Comprehensive Income (Loss), net of tax	(9,861)	(5,810)	(725)	(9,794)	(5,756)	(747)
TOTAL COMPREHENSIVE INCOME	P 47,373	P 37,045	P 27,529	P 47,199	P 36,925	P 27,859
Attributable to:						
Shareholders of the Parent Bank	P 47,265	P 37,028	P 27,505			
Non-controlling Interests	108	17	24			
	P 47,373	P 37,045	P 27,529			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos)

BDO Unibank Group														Accumulated Share in Other Comprehensive Income (Loss) of Associates		Total Attributable to Shareholders of the Parent Bank		Non-controlling Interests		Total Equity	
Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Shares at cost	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									
BALANCE AT JANUARY 1, 2022	P 43,855	P 5,150	P 124,447	P -	P 19,930	P 29	P 249,743	(P 1,630)	(P 16,454)	P 1,010	(P 3,173)	P 43	(P 16)	P 422,934	P 1,614	P 424,548					
Transactions with owners	22	13	-	131	-	-	-	-	-	-	-	-	-	144	-	144					
Issuance of shares during the year	-	-	-	-	(947)	-	-	-	-	-	-	-	-	(947)	-	(947)					
Options transferred during the year	26.3	-	-	-	294	-	-	-	-	-	-	-	-	294	-	294					
Options expensed during the year	-	8,773	1,030	105,368	(1)	-	(115,171)	-	-	-	-	-	(1)	-	(1)	-					
Stock dividends	-	-	-	-	-	-	(10,252)	-	-	-	-	-	-	(10,252)	(2)	(10,254)					
Cash dividends	-	8,786	1,030	105,499	(1)	(653)	(125,423)	-	-	-	-	-	-	(10,762)	(2)	(10,764)					
Total comprehensive income (loss)	-	-	-	-	-	-	57,054	(18,303)	(1,112)	-	9,620	(5)	11	47,265	108	47,373					
Transfer from Surplus Free	22, 28	-	-	-	251	-	(251)	-	-	-	-	-	-	-	-	-					
Trust reserve	22	-	-	-	-	(14)	14	-	-	-	-	-	-	-	-	-					
Reversal of appropriation	22	-	-	-	2,475	-	(2,475)	-	-	-	-	-	-	-	-	-					
Appropriation of excess GLIP over ECL	22	-	-	-	142	-	(142)	-	-	-	-	-	-	-	-	-					
Other reserves	-	-	-	-	2,854	-	(2,854)	-	-	-	-	-	-	-	-	-					
Disposals of equity securities classified as fair value through other comprehensive income (FVOCI)	-	-	-	-	-	-	17	(17)	-	-	-	-	-	-	-	-					
Other adjustments	2.3	-	-	-	-	(105)	-	-	-	-	-	-	-	(105)	405	300					
BALANCE AT DECEMBER 31, 2022	P 52,641	P 6,180	P 229,946	(P 1)	P 22,131	(P 76)	P 178,537	(P 19,950)	(P 17,566)	P 1,010	P 6,447	P 38	(P 5)	P 459,332	P 2,125	P 461,457					
BALANCE AT JANUARY 1, 2021	P 43,842	P 5,150	P 124,327	P -	P 17,964	P 29	P 214,525	P 4,008	(P 10,459)	P 955	(P 8,859)	(P 49)	(P 10)	P 391,423	P 1,598	P 393,021					
Transactions with owners	22	13	-	120	-	-	-	-	-	-	-	-	-	133	-	133					
Issuance of shares during the year	-	-	-	-	44	-	-	-	-	-	-	-	-	44	-	44					
Options transferred during the year	26.3	-	-	-	273	-	-	-	-	-	-	-	-	273	-	273					
Options expensed during the year	-	-	-	-	-	-	(5,602)	-	-	-	-	-	-	(5,602)	(1)	(5,603)					
Cash dividends	-	13	-	120	-	317	(5,602)	-	-	-	-	-	-	(5,152)	(1)	(5,153)					
Total comprehensive income (loss)	-	-	-	-	-	-	42,791	(5,395)	(5,995)	55	5,686	92	(6)	37,028	17	37,045					
Transfer from Surplus Free	22, 28	-	-	-	263	-	(263)	-	-	-	-	-	-	-	-	-					
Trust reserve	22	-	-	-	1,337	-	(1,337)	-	-	-	-	-	-	-	-	-					
Appropriation of excess GLIP over ECL	22	-	-	-	49	-	(49)	-	-	-	-	-	-	-	-	-					
Other reserves	-	-	-	-	1,649	-	(1,649)	-	-	-	-	-	-	-	-	-					
Disposals of equity securities classified as FVOCI	-	-	-	-	-	-	(322)	(43)	-	-	-	-	-	(365)	-	(365)					
BALANCE AT DECEMBER 31, 2021	P 43,855	P 5,150	P 124,447	P -	P 19,930	P 29	P 249,743	(P 1,630)	(P 16,454)	P 1,010	(P 3,173)	P 43	(P 16)	P 422,934	P 1,614	P 424,548					
BALANCE AT JANUARY 1, 2020	P 43,814	P 5,150	P 124,049	P -	P 18,362	P 12	P 192,333	(P 1,741)	(P 11,224)	P 955	(P 2,789)	P 11	-	P 368,932	P 1,655	P 370,587					
Transactions with owners	22	28	-	278	-	-	-	-	-	-	-	-	-	306	-	306					
Issuance of shares during the year	-	-	-	-	(92)	-	-	-	-	-	-	-	-	(92)	-	(92)					
Options transferred during the year	26.3	-	-	-	354	-	-	-	-	-	-	-	-	354	-	354					
Options expensed during the year	-	-	-	-	-	-	(5,600)	-	-	-	-	-	-	(5,600)	-	(5,600)					
Cash dividends	-	28	-	278	-	262	(5,600)	-	-	-	-	-	-	(5,032)	-	(5,032)					
Total comprehensive income (loss)	-	-	-	-	-	-	28,246	4,634	765	-	(6,070)	(60)	(10)	27,505	24	27,529					
Transfer from Surplus Free	22, 28	-	-	-	272	-	(272)	-	-	-	-	-	-	-	-	-					
Trust reserve	22	-	-	-	(209)	-	209	-	-	-	-	-	-	-	-	-					
Reversal of appropriation	22	-	-	-	(830)	-	830	-	-	-	-	-	-	-	-	-					
Appropriation of excess GLIP over ECL	22	-	-	-	107	-	(107)	-	-	-	-	-	-	-	-	-					
Other reserves	-	-	-	-	(660)	-	660	-	-	-	-	-	-	-	-	-					
Disposals of equity securities classified as FVOCI	-	-	-	-	-	-	(1,109)	1,115	-	-	-	-	-	6	-	6					
Other adjustments	30	-	-	-	-	17	(5)	-	-	-	-	-	-	12	(81)	(69)					
Change in ownership interest in subsidiaries	-	-	-	-	-	17	(5)	-	-	-	-	-	-	12	(81)	(69)					
BALANCE AT DECEMBER 31, 2020	P 43,842	P 5,150	P 124,327	P -	P 17,964	P 29	P 214,525	P 4,008	(P 10,459)	P 955	(P 8,859)	(P 49)	(P 10)	P 391,423	P 1,598	P 393,021					

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos)

Parent Bank												
Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury shares at cost	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, 2022	P 43,855	P 5,150	P 124,428	P -	P 18,959	P 249,407	(P 348)	(P 15,675)	P 1,007	P 36	(P 3,358)	P 423,461
Transactions with owners	22											
Issuance of shares during the year	13	-	131	-	-	-	-	-	-	-	-	144
Options transferred during the year	-	-	-	-	(941)	-	-	-	-	-	-	(941)
Options expensed during the year	26.3	-	-	-	289	-	-	-	-	-	-	289
Stock dividends	8,773	1,030	105,368	(1)	-	(115,171)	-	-	-	-	-	(1)
Cash dividends	-	-	-	-	-	(10,252)	-	-	-	-	-	(10,252)
	8,786	1,030	105,499	(1)	(652)	(125,423)	-	-	-	-	-	(10,761)
Total comprehensive income (loss)	-	-	-	-	-	56,993	(11,873)	(1,227)	-	(61)	3,367	47,199
Transfer from Surplus Free												
Trust reserve	22, 28	-	-	-	251	(251)	-	-	-	-	-	-
Appropriation of excess GLIP over ECL	22	-	-	-	2,311	(2,311)	-	-	-	-	-	-
Other reserves	22	-	-	-	132	(132)	-	-	-	-	-	-
	-	-	-	-	2,694	(2,694)	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income (FVOCI)	-	-	-	-	-	17	(7)	-	-	-	(10)	-
BALANCE AT DECEMBER 31, 2022	P 52,641	P 6,180	P 229,927	(P 1)	P 21,001	P 178,300	(P 12,228)	(P 16,902)	P 1,007	(P 25)	(P 1)	P 459,899
BALANCE AT JANUARY 1, 2021	P 43,842	P 5,150	P 124,308	P -	P 17,085	P 214,207	P 2,459	(P 10,012)	P 952	(P 14)	(P 5,023)	P 392,054
Transactions with owners	22											
Issuance of shares during the year	13	-	120	-	-	-	-	-	-	-	-	133
Options transferred during the year	-	-	-	-	65	-	-	-	-	-	-	65
Options expensed during the year	26.3	-	-	-	252	-	-	-	-	-	-	252
Cash dividends	-	-	-	-	-	(5,602)	-	-	-	-	-	(5,602)
	13	-	120	-	317	(5,602)	-	-	-	-	-	(5,152)
Total comprehensive income (loss)	-	-	-	-	-	42,681	(2,785)	(5,663)	55	50	2,587	36,925
Transfer from Surplus Free												
Trust reserve	22, 28	-	-	-	263	(263)	-	-	-	-	-	-
Appropriation of excess GLIP over ECL	22	-	-	-	1,250	(1,250)	-	-	-	-	-	-
Other reserves	22	-	-	-	44	(44)	-	-	-	-	-	-
	-	-	-	-	1,557	(1,557)	-	-	-	-	-	-
Disposals of equity securities classified as FVOCI	-	-	-	-	-	(322)	(22)	-	-	-	(22)	(366)
BALANCE AT DECEMBER 31, 2021	P 43,855	P 5,150	P 124,428	P -	P 18,959	P 249,407	(P 348)	(P 15,675)	P 1,007	P 36	(P 3,358)	P 423,461
BALANCE AT JANUARY 1, 2020	P 43,814	P 5,150	P 124,030	P -	P 17,387	P 191,735	(P 828)	(P 10,744)	P 952	(P 6)	(P 2,280)	P 369,210
Transactions with owners	22											
Issuance of shares during the year	28	-	278	-	-	-	-	-	-	-	-	306
Options transferred during the year	-	-	-	-	(54)	-	-	-	-	-	-	(54)
Options expensed during the year	26.3	-	-	-	316	-	-	-	-	-	-	316
Cash dividends	-	-	-	-	-	(5,600)	-	-	-	-	-	(5,600)
	28	-	278	-	262	(5,600)	-	-	-	-	-	(5,032)
Total comprehensive income (loss)	-	-	-	-	-	28,606	3,139	732	-	(8)	(4,610)	27,859
Transfer from Surplus Free												
Trust reserve	22, 28	-	-	-	223	(223)	-	-	-	-	-	-
Reversal of appropriation of excess GLIP over ECL	22	-	-	-	(827)	827	-	-	-	-	-	-
Other reserves	22	-	-	-	40	(40)	-	-	-	-	-	-
	-	-	-	-	(564)	564	-	-	-	-	-	-
Disposals of equity securities classified as FVOCI	-	-	-	-	-	(1,109)	148	-	-	-	967	6
Other adjustment												
Change in ownership interest in subsidiaries	15, 30	-	-	-	-	11	-	-	-	-	-	11
	-	-	-	-	-	11	-	-	-	-	-	11
BALANCE AT DECEMBER 31, 2020	P 43,842	P 5,150	P 124,308	P -	P 17,085	P 214,207	P 2,459	(P 10,012)	P 952	(P 14)	(P 5,023)	P 392,054

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group			Parent Bank		
		2022	2021	2020	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 73,193	P 55,762	P 46,030	P 70,326	P 54,059	P 44,888
Adjustments for:							
Interest income	23	(169,071)	(144,879)	(157,031)	(158,632)	(136,772)	(149,697)
Interest received		166,954	147,093	153,049	156,703	140,391	146,917
Interest expense	24	19,839	13,533	23,331	18,728	12,906	22,400
Interest paid		(16,862)	(13,039)	(24,211)	(15,992)	(13,050)	(23,677)
Impairment losses	9, 10, 11, 14, 15, 16, 21	16,366	17,063	30,240	15,588	16,829	29,596
Foreign exchange loss (gain) unrealized		(15,457)	(7,614)	5,705	(13,859)	(6,714)	4,492
Depreciation and amortization	12, 14, 15	9,920	9,198	9,190	8,715	8,035	7,935
Share in net profit of subsidiaries and associates	15	(849)	(814)	(470)	(8,710)	(6,350)	(3,839)
Fair value losses (gains)		679	(293)	(68)	198	(221)	67
Gain from the disposal of investment securities at amortized cost	10	(18)	(156)	(3,586)	(18)	(108)	(3,586)
Gain from the disposal of securities at fair value through other comprehensive income (FVOCI)	10	(8)	(278)	(644)	(13)	(191)	(178)
Operating profit before changes in operating resources and liabilities		84,686	75,576	81,535	73,034	68,814	75,318
Decrease (increase) in financial assets at fair value through profit or loss		2,708	(10,287)	(9,976)	(1,431)	39	(1,222)
Increase in loans and other receivables		(233,423)	(145,077)	(59,366)	(203,542)	(135,533)	(70,019)
Increase in investment properties		(3,864)	(4,291)	(194)	(2,599)	(658)	(392)
Decrease (increase) in other resources		(19,653)	(13,928)	(16,213)	74,599	(9,535)	(14,039)
Increase in deposit liabilities		398,047	210,839	126,307	387,387	203,574	110,989
Increase in insurance contract liabilities		8,655	12,604	9,867	-	-	-
Increase in other liabilities		29,034	15,963	5,479	22,838	13,629	9,201
Cash generated from operations		266,190	141,399	137,439	350,286	140,330	109,836
Cash paid for income tax		(13,640)	(13,213)	(15,857)	(11,242)	(12,140)	(14,872)
Net Cash From Operating Activities		252,550	128,186	121,582	339,044	128,190	94,964
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of securities at FVOCI	10	(285,428)	(476,166)	(197,175)	(258,499)	(446,867)	(162,827)
Proceeds from disposals of securities at FVOCI	10	279,524	490,264	158,479	259,560	459,718	129,731
Acquisitions of investment securities at amortized cost	10	(161,048)	(169,502)	(116,777)	(155,379)	(161,191)	(111,208)
Maturities and disposals of investment securities at amortized cost	10	61,931	68,198	89,456	56,431	60,520	87,087
Acquisitions of premises, furniture, fixtures and equipment	12	(3,888)	(3,853)	(3,089)	(2,839)	(3,314)	(2,570)
Proceeds from disposals of premises, furniture, fixtures and equipment	12	285	158	131	168	65	22
Net Cash Used in Investing Activities		(108,624)	(90,901)	(68,975)	(100,558)	(91,069)	(59,765)
CASH FLOWS FROM FINANCING ACTIVITIES							
Payments of bills payable	18	(154,424)	(139,905)	(327,299)	(125,969)	(74,022)	(120,527)
Proceeds from bills payable	18	140,241	127,859	375,207	110,080	60,762	181,674
Dividends paid	22	(10,255)	(5,603)	(5,600)	(10,253)	(5,602)	(5,600)
Payments of lease liabilities	13	(4,192)	(3,238)	(2,940)	(4,032)	(3,100)	(2,828)
Proceeds from issuance of common stock	22	144	133	306	144	133	306
Redemption of subordinated notes payable	19	-	-	(10,000)	-	-	(10,000)
Net Cash From (Used in) Financing Activities		(28,486)	(20,754)	29,674	(30,030)	(21,829)	43,025
NET INCREASE IN CASH AND CASH EQUIVALENTS (Carried Forward)							
		P 115,440	P 16,531	P 82,281	P 208,456	P 15,292	P 78,224

		BDO Unibank Group			Parent Bank		
	Notes	2022	2021	2020	2022	2021	2020
NET INCREASE IN CASH AND CASH EQUIVALENTS <i>(Brought Forward)</i>		P 115,440	P 16,531	P 82,281	P 208,456	P 15,292	P 78,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	8	69,105	74,851	64,140	66,440	72,301	62,726
Due from Bangko Sentral ng Pilipinas (BSP)	8	304,906	308,636	309,040	302,660	305,079	306,938
Due from other banks	9	70,092	65,289	38,956	64,349	63,281	35,820
Investment securities at amortized cost	10	-	164	308	-	164	308
Reverse repurchase agreements	11	17,095	16,729	-	15,800	14,135	-
Interbank loans receivables	11	81,083	57,100	31,277	81,083	57,100	31,277
Foreign currency notes and coins (FCNC)	15	5,597	8,578	5,345	5,597	8,577	5,344
		547,878	531,347	449,066	535,929	520,637	442,413
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	8	82,944	69,105	74,851	80,666	66,440	72,301
Due from BSP	8	385,779	304,906	308,636	382,210	302,660	305,079
Due from other banks	9	58,766	70,092	65,289	51,055	64,349	63,281
Investment securities at amortized cost	10	-	-	164	-	-	164
Reverse repurchase agreements	11	26,305	17,095	16,729	26,091	15,800	14,135
Interbank loans receivables	11	98,942	81,083	57,100	102,293	81,083	57,100
FCNC	15	10,582	5,597	8,578	102,070	5,597	8,577
		P 663,318	P 547,878	P 531,347	P 744,385	P 535,929	P 520,637

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

- The BDO Unibank Group and the Parent Bank foreclosed real and other properties totalling to P16,875 and P16,729, respectively, in 2022, P13,523 and P13,479, respectively, in 2021, and P13,757 and P13,743, respectively, in 2020 in settlement of certain loan accounts (see Note 14).
- The BDO Unibank Group and the Parent Bank recognized additional right-of-use assets amounting to P4,683 and P4,414, respectively, in 2022, P3,216 and P2,951, respectively, in 2021, and P1,775 and P1,628, respectively, in 2020 which are presented as part of Premises, Furnitures, Fixtures and Equipment (see Notes 12 and 13).

Other Information

Certain investment securities at amortized cost, SPURRA, 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 2.6).

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

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

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

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE).

The BDO Unibank Group and the Parent Bank's banking network within and outside the Philippines as of December 31, 2022 and 2021 follows:

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Local branches	1,650	1,542	1,197	1,191
Foreign branches	2	2	2	2
Automated teller machines (ATMs):				
On-site	2,385	2,626	2,385	2,339
Off-site	2,269	1,857	2,269	1,812
Cash accept machines (CAMs)	640	624	640	624
Self-service teller machines	8	9	8	9
Mobile automated teller machines	1	1	1	1

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 1.4%, 1.2% and 1.0% of BDO Unibank Group's total revenues in 2022, 2021 and 2020, respectively, and 2.0% and 2.1% of BDO Unibank Group's total resources as of December 31, 2022 and 2021, respectively. BDO Unibank Group's subsidiaries and associates are shown in Notes 2.3 and 15.2.

The Parent Bank's principal office address is at BDO Corporate Center, 7899 Makati Avenue, Makati City while the temporary business address is at BDO Towers Valero, 8741 Paseo de Roxas Street, Salcedo Village, Makati City effective October 30, 2021 until further notice.

1.2 Impact of Russia - Ukraine Conflict on the BDO Unibank Group's Business

On February 24, 2022, Russia started its invasion of Ukraine which caused far-reaching impact for economies, markets, and businesses. The ongoing military conflict has introduced a wide range of sanctions against Russia, including certain Russian entities and individuals and led to significant casualties, dislocation of population, damage to infrastructure, slowdown of business operations in both countries, disruption of supply chains and commodity flows that impact prices of items such as petroleum products, cereals, iron, and steel.

In principle, it cannot be ruled out that a prolonged conflict between Russia and Ukraine may result in a significant slowdown in the global and Philippine economy and therefore a potential consequential deterioration in the business outlook for the Philippines. However, as of December 31, 2022, the BDO Unibank Group, whose business is primarily in the Philippines, has not been affected in a material way by the Russia-Ukraine conflict, despite its inflationary impact on commodity prices, disruption in supply chains, and volatility in interest rates and foreign exchange rates. The Philippines remains a domestically-focused, import-dependent consumption economy, and despite the higher inflation resulting from the conflict, Philippine Gross Domestic Product (GDP) numbers remained strong and resilient in 2022. The reopening of the economy, the relaxation of mobility restrictions and the resurgence in consumption spending all contributed to this strong GDP performance. This in turn has led to improved loan growth, better margins from the increase in policy rates and net income growth, not just for the BDO Unibank Group, but for the industry in general.

The BDO Unibank Group continues to closely monitor developments in both the global and domestic markets. While the impact of the conflict has not been material so far, the BDO Unibank Group recognizes that a prolonged situation of high inflation and interest rates could eventually affect economic activity, resulting in slower growth and consumption. The BDO Unibank Group believes that its established business franchise and strong financial condition will allow it to weather near-term risks arising from the conflict.

1.3 Continuing Impact of COVID-19 Pandemic on BDO Unibank Group's Business

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved with the reopening of local and international travel and the easing of health and safety protocols and restrictions. Demand and supply of products continued to slowly return to pre-pandemic levels. As a result, the overall continuing impact of the COVID-19 pandemic to the BDO Unibank Group has considerably diminished and the BDO Unibank Group's operations have gone back to pre-pandemic levels.

With the reduced impact of pandemic-related issues in 2022, the BDO Unibank Group saw more normalized operations and increasingly positive results as the economy continued with its recovery. Overall net impact is an increase in net profit of 34% for both BDO Unibank Group and the Parent Bank compared to that of 2021.

Management will continue to monitor any potential risks arising from the pandemic, and will institute measures to mitigate these, as needed. Based on recent developments, management is optimistic that the BDO Unibank Group will continue to post positive results consistent with the country's economic recovery, and will maintain sufficient liquidity to meet current obligations as they fall due. Accordingly, management has not determined any material uncertainty that may cast significant doubt on the BDO Unibank Group's ability to continue as a going concern due to the effects of the pandemic.

1.4 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, 2022 (including the comparative financial statements as of December 31, 2021 and for the years ended December 31, 2021 and 2020) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 24, 2023.

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 in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with 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 and Sustainability Reporting Standards Council (FSRSC), 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.

(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 2.23).

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 operate.

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2022 that are Relevant to BDO Unibank Group and the Parent Bank*

The BDO Unibank Group and the Parent Bank adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

PAS 16 (Amendments)	:	Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	:	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
PFRS 3 (Amendments)	:	Business Combinations - Reference to the Conceptual Framework
Annual Improvements to PFRS (2018-2020 Cycle)		
PFRS 9 (Amendments)	:	Financial Instruments – Fees in the ‘10 per cent’ Test for Derecognition of Liabilities
PFRS 16 (Amendments):		Leases – Lease Incentives

Discussed below and in the succeeding pages are the relevant information about these pronouncements.

- (i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use*. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The application of these amendments had no significant impact on the BDO Unibank Group and the Parent Bank's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.
- (ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the BDO Unibank Group and the Parent Bank's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the BDO Unibank Group and the Parent Bank's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.
- (iii) PFRS 3 (Amendments), *Business Combinations – Reference to the Conceptual Framework*. The amendments are responses to feedback received from the post-implementation review of PFRS 3. The amendments clarify the minimum attributes that the acquired set of activities and assets must have to be considered a business. To meet the definition of a business, the acquired set of activities and assets must have inputs and substantive processes that can collectively significantly contribute to the creation of outputs. The amendments removed the assessment of whether market participants are able to replace missing inputs or processes and continue to produce outputs. The amendments introduced an optional test ('the concentration test') that allows the acquirer to carry out a simple assessment to determine whether the acquired set of activities and assets is not a business. The entity can choose whether to apply the concentration test for each transaction it makes. These amendments have no significant impact to the BDO Unibank Group's financial statements.
- (iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the amendments relevant to the BDO Unibank Group and the Parent Bank's financial statements which do not have significant impact, and which are effective from January 1, 2022, are presented on the succeeding page.

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*. The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

(b) *Effective in 2022 that are not Relevant to the BDO Unibank Group and the Parent Bank*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following Annual Improvements to PFRS 2018-2020 Cycle are not relevant to the BDO Unibank Group and the Parent Bank's financial statement:

- (i) PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*
- (ii) PAS 41, *Agriculture – Taxation in Fair Value Measurements*

(c) *Effective Subsequent to 2022 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the BDO Unibank Group and the Parent Bank's financial statements.

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)
- (iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)
- (iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)
- (v) 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)

- (vi) PFRS 17, *Insurance Contracts* (effective January 1, 2023). The new standard will eventually replace PFRS 4. The Insurance Commission (IC), through its Circular Letter 2020-62 issued on May 18, 2020, has further deferred the implementation of PFRS 17 for life insurance and non-life insurance industries by two years after its effective date as decided by the IASB.

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 15.2, 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 the acquisition consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly as a gain in the statement of income [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-interest 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 2.12).

(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 - net 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 2.22 and 15.2).

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 BDO Unibank Group and the Parent Bank resume 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		
	2022	2021	2020
Rural Bank			
BDO Network Bank, Inc. (BDO Network)	87.37%	84.87%	84.87%
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			
Averon Holdings Corporation (Averon)	99.88%	99.88%	99.88%
BDO Rental, Inc. (BDO Rental)	100%	100%	100%
BDO Finance Corporation (BDO Finance)	100%	100%	100%
Securities Companies			
BDO Securities Corporation (BDO Securities)	99.88%	99.88%	99.88%
Armstrong Securities, Inc. (ASI)	-	80%	80%
Real Estate Companies			
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%
Holding Companies			
Dominion Holdings, Inc. (Dominion Holdings) (formerly BDO Leasing and Finance, Inc.)	88.54%	88.54%	88.54%
BDO Strategic Holdings, Inc. (BDOSHI)	100%	100%	100%
Remittance Companies			
BDO Remit (USA), Inc.	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 (UK) Ltd.	99.88%	96.20%	96.20%
BDO Remit International Holdings B.V. (BDO RIH)*	96.20%	96.20%	96.20%
BDO Remit (Spain) S.A*	96.20%	96.20%	96.20%
CBN Greece S.A*	96.13%	96.13%	96.13%
BDO Remit (Italia) S.p.A	-	-	100%

*Under liquidation

Non-controlling interests represent the interests not held by BDO Unibank Group in BDO Network, BDO Capital, Dominion Holdings, Averon, BDO Securities, ASI, Equimark, BDO Remit (UK), BDO RIH, BDO Remit Spain and CBN Greece in 2021 and 2020. For 2022, BDO Unibank Group's non-controlling interest is the same as 2021 and 2020 except for BDO Remit (UK) (see Note 30.1), BDO Network and ASI.

On August 18, 2022 and October 28, 2022, BDO Unibank subscribed to additional 53,505,727 and 80,258,590 of BDO Network common shares, respectively, at the total subscription price of P4,250, thereby increasing its shareholdings from 84.87% in 2021 to 87.37% in 2022.

On July 28, 2022, ASI was sold to a third party for P52. This deconsolidation resulted in the reversal of its assets, liabilities, capital stock and surplus reserves amounting to P60, P4, P42 and P14, respectively, and the recognition of loss on sale amounting to P15.

On December 1, 2020, the merger of BDO Nomura and BDO Securities was completed, with BDO Securities as the surviving entity (see Note 30.2).

On June 13, 2020, BDO Remit (Italia) S.p.A completed its liquidation and made partial repatriation of funds to BDOSHI. Final capital return was made on July 1, 2021 (see Note 30.4).

(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 2.22). 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 the statement of income.

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 are recognized in accordance with PAS 37, 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 6, 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 Current versus Non-current Classification

The BDO Unibank Group presents assets and liabilities in the statement of financial position based on liquidity, while current or noncurrent classification is presented in Note 4.8. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The BDO Unibank Group classifies all other liabilities as noncurrent. Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

2.6 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 (FVTPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

(a) Classification, Measurement and Reclassification of Financial Assets

The classification and measurement of financial assets are 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 solely payments of principal and interest (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, *Revenue from Contracts with Customers*, 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 assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the BDO Unibank Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(c)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The BDO Unibank Group's financial assets at amortized cost are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, 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, due from BSP and other banks, foreign currency notes and coins (FCNC), reverse repurchase agreements, certain interbank bank loans receivables and investment securities at amortized cost with original maturities of three months or less from placement date.

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

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

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, 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 net unrealized gain or loss (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 reclassified to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous - net under Other Operating Income account in the statements of income, 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 under Other Operating Income account 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 Operating 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) *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 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 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 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 2.6(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 which consist of debt instruments carried at amortized cost and 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 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 recognized 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, insurance contract liabilities 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* are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills 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 (see Note 2.7).
- *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 or credit 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.

2.7 *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.

2.8 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), an 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 changes in equity, net of applicable deferred tax [see Note 2.17(h)].

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

Buildings	10 to 50 years
Furniture, fixtures and equipment	3 to 15 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 charge 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 2.22).

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.

2.9 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 50 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 2.8 and 2.22).

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 statement of income in the year of retirement or disposal.

Transfers from other accounts (such as 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.

2.10 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 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.

2.11 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 and will reclassify it as investment properties for land and building, or other properties for chattel and other assets. For building under investment properties or other properties, this would be subject to depreciation.

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.

2.12 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 2.22). Associates are all entities over which the BDO Unibank Group 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 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 2.22).

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

2.13 Other Resources

Other resources, which include non-current assets held for sale (see Note 2.11), 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 2.22).

2.14 Intangible Assets

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

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired 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 2.22). 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 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 2.22).

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 are tested annually for any impairment (see Note 2.22).

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 2.22).

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. (Diners) 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.

2.15 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 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 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 2.17).

(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) *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.

2.16 Offsetting Financial Instruments

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

2.17 Equity

Equity consists of the following:

- a. Capital stock represents the nominal value of shares that have been issued.
- b. 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.

- c.* Surplus reserves consist of (i) reserve for trust business - represents the accumulated amount set aside by BDO Unibank Group 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; (ii) 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 22); and, (iii) share options outstanding (SOO) - 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.
- d.* Other reserves pertain to the amount recognized from changes in BDO Unibank Group's ownership interest in any of its subsidiaries that do not result in loss of control.
- e.* 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.
- f.* NUGL on FVOCI compose of cumulative mark-to-market valuation of outstanding securities and accumulated impairment on debt securities classified as FVOCI.
- g.* Accumulated actuarial gains (losses) from the remeasurements of post-employment defined benefit plan.
- h.* 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 2.8).
- i.* Remeasurement on life insurance reserves arises from the increase or decrease of the reserves brought about by changes in discount rates (see Note 2.15).
- j.* 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 2.23).
- k.* 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.
- l.* 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.

2.18 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 26.2).

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 Securities and Exchange Commission (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.

2.19 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. 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, except to the extent that they are capitalized.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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 over time as the service is being provided and is based on the various criteria of recognition for each specific income source. 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) *Asset Management Services* – The BDO Unibank Group recognizes trust fees related to asset management services, which include trust and fiduciary services. 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.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

- (a) *Trading and Securities Gains (Losses)* – These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains and losses as a result of the mark-to-market valuation of investment securities classified as FVTPL.
- (b) *Gain or loss from assets sold or exchange* – Income or loss from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in statement of income as part of Other Operating Income account.
- (c) *Recovery on charged-off assets* – Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery. This is included in statement of income as part of Other Operating Income account.

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.

2.20 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 account holders in relation to its credit card and marketing rewards program. Provisions for rewards are recognized at a certain rate of the account holders' availments, determined by management based on redeemable amounts.

2.21 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*

For any new contracts entered into, 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 2.22).

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.

2.22 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.

Except for goodwill, 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.

2.23 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 (USD), 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 USD, 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 are recognized in other comprehensive income as part of Accumulated Translation Adjustment account (see Note 2.17). 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 USD, CAD, 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.

2.24 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:

(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. 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.

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 the required employer's 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 required employer's 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 the employee services are rendered, but do 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 stock plan is 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 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 2.24(a).

2.25 Income Taxes

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

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the 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 31.1).

2.26 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.

2.27 Trust Activities

BDO Unibank Group commonly acts as trustee and in other fiduciary capacities, including agency functions, 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.

2.28 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

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. This is where significant judgment is required.

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).

(b) 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.

(c) *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.

In 2021, the BDO Unibank Group and the Parent Bank initiated the disposal of certain debt securities from its amortized cost portfolio in accordance with its investment policy. However, in 2022, all of the BDO Unibank and Parent Bank's premature disposal from its amortized cost portfolio were all initiated by issuers. Such disposals have qualified under the permitted sale events set forth in BDO Unibank Group and Parent Bank's business model in managing financial assets manual and the requirements of PFRS 9 (see Note 10.3).

(d) *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 the 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 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. The BDO Unibank Group considers each property separately in making its judgment.

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

The 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.

(f) *Determination of Lease Term*

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, the BDO Unibank Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The 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 the 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.

(g) *Classification and Fair Value Determination of Acquired Properties*

The 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 certain years. At initial recognition, the 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 7.5.

(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 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 on its acquired right to nominate 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*

The 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 while all other revenue streams are recognized at point in time. In making its judgment, the BDO Unibank Group considers the timing of receipt and consumption of benefits provided by the BDO Unibank Group to the customers. As the work is performed, the 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 and time elapsed.

(j) *Determination of Branch Licenses Having Indefinite Useful Lives*

The BDO Unibank Group's licenses were regarded as having indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the BDO Unibank Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

(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 2.20 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) *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 4.3.5.

The carrying value of financial assets at FVOCI, Investment 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 10.2, 10.3, 11, and 16, respectively.

(b) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values which are validated and periodically reviewed by management. 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 carrying values of the BDO Unibank Group'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 10.1 and 10.2, respectively.

(c) *Determination of Fair Value of Derivatives*

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques normally using the discounted cash flow model.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed by management. 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. 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.

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

The BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties, including trademark and computer software license, based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The BDO Unibank's goodwill and branch licenses were regarded as having indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the BDO Unibank Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

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 12 while investment properties and other resources, including trademark, goodwill and branch licenses, are analyzed in Notes 14 and 15, respectively.

(e) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The 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.

(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 14 to the financial statements is determined by BDO Unibank Group 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 7.5).

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. A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(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. 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, 2022 and 2021 is disclosed in Note 31.1.

(h) *Impairment of Non-financial Assets*

Except for goodwill and other intangible assets with indefinite useful lives, PAS 36 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 2.22. 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 16.

(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 26.2 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 26.2.

(j) *Recognition of Reward Points*

The BDO Unibank Group provides rewards points to its banking clients and customers based on the month-to-date average daily balance they maintain in their personal current and savings accounts and credit card usages. 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.

The 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.

The 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 or affiliated retail partners based on BDO Unibank Group's past experience.

The carrying value of the rewards points accrued by BDO Unibank Group are presented as part of Accrued expenses under Other Liabilities account in the statement of financial position as disclosed in Note 21.

(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 (see Note 20).

(l) Fair Value Measurement of Share Options

The BDO Unibank Group estimates the fair value of the executive stock option by applying the Black-Scholes Option pricing model, considering the terms and conditions on which the stock option plan was granted. The estimates and assumptions used include, among others, the option's vesting period, applicable risk-free interest rate, expected dividend yield, volatility of the BDO Unibank Group's share price, and fair value of the BDO Unibank Group's common shares. Changes in these factors can affect the fair value of stock options at grant date.

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 adequate capital ratios;
- 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 oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Executive Committee. The Executive Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving risk appetite levels, policies, and risk tolerance limits related to credit portfolio risk, market risk, liquidity risk, interest rate risk, operational risk (including business continuity risk, IT risk, information security and cyber-security risk, data privacy risk, and social media risk), consumer protection risk and environmental and social risk to ensure that current and emerging risk exposures are consistent with BDO Unibank Group’s strategic direction and overall risk appetite.

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.

The BDO Unibank Group operates an enterprise-wide risk management system to address the risks it faces in its banking activities. 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, interest rate, and operational risks, including business continuity risk, IT risk, information security, cyber-security, and data privacy risk, 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.

In 2022, there was no significant change on the policies and process for managing the risk and the methods used to measure the risk of the BDO Unibank Group and the Parent Bank, except for the performance of the comprehensive review of the financial instruments, including loans and investments, to assess vulnerability to the significant increase in credit risk in response to the continuing impact of COVID-19 pandemic, the impact of higher oil prices, Russia-Ukraine War, and rising interest rates, and the updating of the BDO Unibank Group's Treasury system to capture the complex computation of Secured Overnight Financing Rate (SOFR) in relation to the LIBOR phase out and adhering to the protocols set by International Swaps and Derivatives Association (ISDA) on LIBOR Reform (see Note 4.7).

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. The 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 analyses of the maturity groupings of resources, liabilities and off-book items as of December 31, 2022 and 2021 in accordance with account classification of the BSP are 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.

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	2022				
	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 82,944	P -	P -	P -	P 82,944
Due from BSP and other banks	213,571	19,429	116,275	95,270	444,545
Trading and investment securities	17,190	27,519	161,374	516,747	722,830
Loans and other receivables - net	564,041	290,147	528,938	1,313,775	2,696,901
Other resources - net*	<u>12,932</u>	<u>3,855</u>	<u>4</u>	<u>110,697</u>	<u>127,488</u>
Total Resources	<u>890,678</u>	<u>340,950</u>	<u>806,591</u>	<u>2,036,489</u>	<u>4,074,708</u>
Liabilities and Equity:					
Deposit liabilities	915,451	164,764	1,164,877	975,791	3,220,883
Bills payable	61,727	27,388	79,144	30,632	198,891
Insurance contract liabilities**	77	(1,124)	637	64,773	64,363
Other liabilities	<u>64,736</u>	<u>4,157</u>	<u>2,410</u>	<u>57,811</u>	<u>129,114</u>
Total Liabilities	<u>1,041,991</u>	<u>195,185</u>	<u>1,247,068</u>	<u>1,129,007</u>	<u>3,613,251</u>
Equity	-	-	-	461,457	461,457
Total Liabilities and Equity (Balance carried forward)	<u>P 1,041,991</u>	<u>P 195,185</u>	<u>P 1,247,068</u>	<u>P 1,590,464</u>	<u>P 4,074,708</u>

* Other resources include Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources - net.

** Insurance Contract Liabilities with maturity of more than three months to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

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	2022				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Total Liabilities and Equity (Balance brought forward)	P 1,041,991	P 195,185	P 1,247,068	P 1,590,464	P 4,074,708
On-book gap	(151,313)	145,765	(440,477)	446,025	-
Cumulative on-book gap	(151,313)	(5,548)	(446,025)	-	-
Contingent assets	272,616	46,778	18,167	25,477	363,038
Contingent liabilities	344,710	47,875	18,013	25,533	436,131
Off-book gap	(72,094)	(1,097)	154	(56)	(73,093)
Net Periodic Gap	(223,407)	144,668	(440,323)	445,969	73,093
Cumulative Total Gap	(P 223,407)	(P 78,739)	(P 519,062)	(P 73,093)	P -

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	2021				
	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 69,105	P -	P -	P -	P 69,105
Due from BSP and other banks	150,526	22,027	55,300	147,145	374,998
Trading and investment securities	22,687	31,904	140,229	421,441	616,261
Loans and other receivables - net	503,503	252,927	395,115	1,299,358	2,450,903
Other resources - net*	-	118	46	112,318	112,482
Total Resources	745,821	306,976	590,690	1,980,262	3,623,749
Liabilities and Equity:					
Deposit liabilities	563,666	177,738	595,385	1,484,107	2,820,896
Bills payable	24,278	89,567	55,139	35,447	204,431
Insurance contract liabilities**	349	(613)	206	65,386	65,328
Other liabilities	41,159	4,099	4,601	58,687	108,546
Total Liabilities	629,452	270,791	655,331	1,643,627	3,199,201
Equity	-	-	-	424,548	424,548
Total Liabilities and Equity	629,452	270,791	655,331	2,068,175	3,623,749
On-book gap	116,369	36,185	(64,641)	(87,913)	-
Cumulative on-book gap	116,369	152,554	87,913	-	-
Contingent assets	263,000	81,896	20,865	23,227	388,988
Contingent liabilities	325,897	82,924	28,606	23,100	460,527
Off-book gap	(62,897)	(1,028)	(7,741)	127	(71,539)
Net Periodic Gap	53,472	35,157	(72,382)	(87,786)	71,539
Cumulative Total Gap	P 53,472	P 88,629	P 16,247	(P 71,539)	P -

* Other resources include Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources - net.

** Insurance Contract Liabilities with maturity of more than three months to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

Parent Bank

		2022				
		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	80,666	P -	P -	P -	P 80,666
Due from BSP and other banks		204,651	18,101	116,268	94,245	433,265
Trading and investment securities		13,079	22,138	144,385	427,187	606,789
Loans and other receivables – net		565,422	274,410	497,832	1,283,557	2,621,221
Other resources – net*		<u>1,673</u>	<u>3,806</u>	<u>-</u>	<u>152,903</u>	<u>158,382</u>
Total Resources		<u>865,491</u>	<u>318,455</u>	<u>758,485</u>	<u>1,957,892</u>	<u>3,900,323</u>
Liabilities and Equity:						
Deposit liabilities		884,615	163,300	1,163,399	929,702	3,141,016
Bills payable		64,621	17,683	76,110	30,458	188,872
Other liabilities		<u>48,727</u>	<u>2,786</u>	<u>-</u>	<u>59,023</u>	<u>110,536</u>
Total Liabilities		997,963	183,769	1,239,509	1,019,183	3,440,424
Equity		<u>-</u>	<u>-</u>	<u>-</u>	<u>459,899</u>	<u>459,899</u>
Total Liabilities and Equity		<u>997,963</u>	<u>183,769</u>	<u>1,239,509</u>	<u>1,479,082</u>	<u>3,900,323</u>
On-book gap	(	<u>132,472</u>)	<u>134,686</u>	(<u>481,024</u>)	<u>478,810</u>	<u>-</u>
Cumulative on-book gap	(	<u>132,472</u>)	<u>2,214</u>	(<u>478,810</u>)	<u>-</u>	<u>-</u>
Contingent assets		251,178	31,050	2,145	2,074	286,447
Contingent liabilities		<u>323,587</u>	<u>32,353</u>	<u>2,082</u>	<u>2,071</u>	<u>360,093</u>
Off-book gap	(	<u>72,409</u>)	(<u>1,303</u>)	<u>63</u>	<u>3</u>	(<u>73,646</u>)
Net Periodic Gap	(	<u>204,881</u>)	<u>133,383</u>	(<u>480,961</u>)	<u>478,813</u>	<u>73,646</u>
Cumulative Total Gap	(P	<u>204,881</u>)	(P <u>71,498</u>)	(P <u>552,459</u>)	(P <u>73,646</u>)	P <u>-</u>

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

Parent Bank

		2021				
		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	66,440	P -	P -	P -	P 66,440
Due from BSP and other banks		143,601	21,971	55,296	146,141	367,009
Trading and investment securities		8,166	27,987	119,732	342,078	497,963
Loans and other receivables - net		494,423	239,634	371,315	1,294,611	2,399,983
Other resources - net*		<u>-</u>	<u>-</u>	<u>-</u>	<u>134,611</u>	<u>134,611</u>
Total Resources (Balance carried forward)	P	<u>712,630</u>	P <u>289,592</u>	P <u>546,343</u>	P <u>1,917,441</u>	P <u>3,466,006</u>

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

Parent Bank

	2021				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Total Resources (Balance brought forward)	P 712,630	P 289,592	P 546,343	P 1,917,441	P 3,466,006
Liabilities and Equity:					
Deposit liabilities	538,429	175,500	595,264	1,442,522	2,751,715
Bills payable	17,687	89,068	52,305	37,114	196,174
Other liabilities	37,139	2,806	2,543	52,168	94,656
Total Liabilities	593,255	267,374	650,112	1,531,804	3,042,545
Equity	-	-	-	423,461	423,461
Total Liabilities and Equity	593,255	267,374	650,112	1,955,265	3,466,006
On-book gap	119,375	22,218	(103,769)	(37,824)	-
Cumulative on-book gap	119,375	141,593	37,824	-	-
Contingent assets	259,638	63,697	2,998	3,022	329,355
Contingent liabilities	322,537	64,872	10,972	3,021	401,402
Off-book gap	(62,899)	(1,175)	(7,974)	1	(72,047)
Net Periodic Gap	56,476	21,043	(111,743)	(37,823)	72,047
Cumulative Total Gap	P 56,476	P 77,519	(P 34,224)	(P 72,047)	P -

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of resources and liabilities. The MCO measures the maximum funding requirement the BDO Unibank Group may need to support its maturing obligations. To ensure that the BDO Unibank Group maintains a prudent and manageable level of cumulative negative gap, the BDO Unibank Group maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the BDO Unibank Group's overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO Limits is monitored and reported to the BOD and senior management.

In case of breach in the MCO Limit, the RMG elevates the concern to the BOD through the RMC for corrective action by senior management. Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis. More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly ALCO meetings.

Pursuant to applicable BSP regulations, the BDO Unibank Group is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the BDO Unibank Group demand deposit accounts with the BSP. The BSP also requires the BDO Unibank Group to maintain asset cover of 100% for foreign currency-denominated liabilities of its FCDU.

4.1.1 Liquidity Risk Stress

To augment the effectiveness of the BDO Unibank Group's gap analysis, the BDO Unibank Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. Survivability and resilience of the BDO Unibank Group are assessed for a minimum stress period of 30 days for all crisis scenarios enumerated in BSP Circular No. 981, *Guidelines on Liquidity Risk Management*. The results of these liquidity stress simulations are reported monthly to RMC.

4.1.2 Foreign Currency Liquidity Management

The liquidity risk management policies and objectives described in this section also apply to the management of any foreign currency to which the BDO Unibank Group maintains significant exposure. Specifically, the BDO Unibank Group ensures that its measurement, monitoring and control systems account for these exposures as well. The BDO Unibank Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The BDO Unibank Group also assesses its access to foreign exchange markets when setting up its risk limits.

4.2 Market Risk

The 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. The BDO Unibank Group manages its risk by identifying, analyzing and measuring relevant or likely market risks. The Market and Liquidity Risk Management Unit of the Parent Bank 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

The 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.

The 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 25% of qualifying capital or US\$150 million, whichever is lower, on a bank's consolidated net open foreign exchange position. The 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. The 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.

The 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, 2022 and 2021 is presented in the succeeding page.

BDO Unibank Group

	2022			2021		
	Foreign Currencies	Philippine Pesos	Total	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items						
and due from BSP	P 90	P 468,633	P 468,723	P 107	P 373,904	P 374,011
Due from other banks	55,186	3,580	58,766	68,401	1,691	70,092
Trading and investment securities:						
At FVTPL	7,857	36,855	44,712	6,622	41,312	47,934
At FVOCI	80,243	85,826	166,069	86,804	83,989	170,793
At amortized cost	196,188	315,861	512,049	164,529	233,005	397,534
Loans and other receivables	389,365	2,307,536	2,696,901	331,327	2,119,576	2,450,903
Other resources	11,017	2,777	13,794	6,214	1,246	7,460
	<u>P 739,946</u>	<u>P 3,221,068</u>	<u>P 3,961,014</u>	<u>P 664,004</u>	<u>P 2,854,723</u>	<u>P 3,518,727</u>
Liabilities:						
Deposit liabilities	P 505,050	P 2,715,833	P 3,220,883	P 463,368	P 2,357,528	P 2,820,896
Bills payable	136,277	62,614	198,891	120,920	83,511	204,431
Insurance contract liabilities	7,844	56,519	64,363	8,702	56,626	65,328
Other liabilities	14,089	104,760	118,849	16,951	80,666	97,617
	<u>P 663,260</u>	<u>P 2,939,726</u>	<u>P 3,602,986</u>	<u>P 609,941</u>	<u>P 2,578,331</u>	<u>P 3,188,272</u>

Parent Bank

	2022			2021		
	Foreign Currencies	Philippine Pesos	Total	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items						
and due from BSP	P 6	P 462,870	P 462,876	P 33	P 369,067	P 369,100
Due from other banks	50,611	444	51,055	64,188	161	64,349
Trading and investment securities:						
At FVTPL	3,649	2,234	5,883	2,759	1,857	4,616
At FVOCI	71,632	38,015	109,647	74,197	41,768	115,965
At amortized cost	190,632	300,627	491,259	159,235	218,147	377,382
Loans and other receivables	388,598	2,232,623	2,621,221	330,424	2,069,559	2,399,983
Other resources	10,961	1,213	12,174	5,784	968	6,752
	<u>P 716,089</u>	<u>P 3,038,026</u>	<u>P 3,754,115</u>	<u>P 636,620</u>	<u>P 2,701,527</u>	<u>P 3,338,147</u>
Liabilities:						
Deposit liabilities	P 493,041	P 2,647,975	P 3,141,016	P 450,484	P 2,301,231	P 2,751,715
Bills payable	136,176	52,696	188,872	119,738	76,436	196,174
Other liabilities	12,034	89,853	101,887	15,927	69,452	85,379
	<u>P 641,251</u>	<u>P 2,790,524</u>	<u>P 3,431,775</u>	<u>P 586,149</u>	<u>P 2,447,119</u>	<u>P 3,033,268</u>

4.2.2 Interest Rate Risk

The 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, 2022 and 2021 based on the expected interest realization or recognition are shown below and in the succeeding pages.

BDO Unibank Group

	2022					
	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 82,944	P 82,944
Due from BSP and other banks	130,852	1,294	-	-	312,399	444,545
Trading and investment securities	11,874	26,823	289,426	349,995	44,712	722,830
Loans and other receivables - net	1,320,621	377,502	876,912	121,866	-	2,696,901
Other resources - net*	<u>10,036</u>	<u>3,807</u>	<u>3</u>	<u>-</u>	<u>113,642</u>	<u>127,488</u>
Total Resources	<u>1,473,383</u>	<u>409,426</u>	<u>1,166,341</u>	<u>471,861</u>	<u>553,697</u>	<u>4,074,708</u>
Liabilities and Equity:						
Deposit liabilities	1,107,910	183,996	26,346	6,328	1,896,303	3,220,883
Bills payable	85,036	13,188	91,937	5,576	3,154	198,891
Insurance contract liabilities**	(802)	(2,159)	696	37,066	29,562	64,363
Other liabilities	<u>12,832</u>	<u>76</u>	<u>660</u>	<u>70</u>	<u>115,476</u>	<u>129,114</u>
Total Liabilities	<u>1,204,976</u>	<u>195,101</u>	<u>119,639</u>	<u>49,040</u>	<u>2,044,495</u>	<u>3,613,251</u>
Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>461,457</u>	<u>461,457</u>
Total Liabilities and Equity (Balance carried forward)	<u>P 1,204,976</u>	<u>P 195,101</u>	<u>P 119,639</u>	<u>P 49,040</u>	<u>P 2,505,952</u>	<u>P 4,074,708</u>

* Other resources include Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources - net.

** Insurance Contract Liabilities with maturities of one to three months and more than three months to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

BDO Unibank Group

2022						
	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
Total Liabilities and Equity (Balance brought forward)	<u>P 1,204,976</u>	<u>P 195,101</u>	<u>P 119,639</u>	<u>P 49,040</u>	<u>P 2,505,952</u>	<u>P 4,074,708</u>
On-book gap	<u>268,407</u>	<u>214,325</u>	<u>1,046,702</u>	<u>422,821</u>	<u>(1,952,255)</u>	<u>-</u>
Cumulative on-book gap	<u>268,407</u>	<u>482,732</u>	<u>1,529,434</u>	<u>1,952,255</u>	<u>-</u>	<u>-</u>
Contingent assets	<u>40,387</u>	<u>1,130</u>	<u>2,788</u>	<u>-</u>	<u>-</u>	<u>44,305</u>
Contingent liabilities	<u>30,346</u>	<u>836</u>	<u>13,102</u>	<u>-</u>	<u>-</u>	<u>44,284</u>
Off-book gap	<u>10,041</u>	<u>294</u>	<u>(10,314)</u>	<u>-</u>	<u>-</u>	<u>21</u>
Net Periodic Gap	<u>278,448</u>	<u>214,619</u>	<u>1,036,388</u>	<u>422,821</u>	<u>(1,952,255)</u>	<u>(21)</u>
Cumulative Total Gap	<u>P 278,448</u>	<u>P 493,067</u>	<u>P 1,529,455</u>	<u>P 1,952,276</u>	<u>P 21</u>	<u>P -</u>
2021						
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 69,105	P 69,105
Due from BSP and other banks	41,470	-	-	-	333,528	374,998
Trading and investment securities	8,346	31,238	231,337	297,406	47,934	616,261
Loans and other receivables - net	1,140,250	287,117	904,358	119,178	-	2,450,903
Other resources - net*	-	-	-	-	112,482	112,482
Total Resources	<u>1,190,066</u>	<u>318,355</u>	<u>1,135,695</u>	<u>416,584</u>	<u>563,049</u>	<u>3,623,749</u>
Liabilities and Equity:						
Deposit liabilities	328,737	48,785	48,092	13,868	2,381,414	2,820,896
Bills payable	42,137	89,567	72,727	-	-	204,431
Insurance contract liabilities**	(364)	(1,322)	1,038	39,713	26,263	65,328
Other liabilities	-	33	438	4	108,071	108,546
Total Liabilities	<u>370,510</u>	<u>137,063</u>	<u>122,295</u>	<u>53,585</u>	<u>2,515,748</u>	<u>3,199,201</u>
Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>424,548</u>	<u>424,548</u>
Total Liabilities and Equity (Balance carried forward)	<u>P 370,510</u>	<u>P 137,063</u>	<u>P 122,295</u>	<u>P 53,585</u>	<u>P 2,940,296</u>	<u>P 3,623,749</u>

* Other resources include Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources - net.

** Insurance Contract Liabilities with maturities of one to three months and more than three months to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

BDO Unibank Group

	2021					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Total Liabilities and Equity (Balance brought forward)	P 370,510	P 137,063	P 122,295	P 53,585	P 2,940,296	P 3,623,749
On-book gap	819,556	181,292	1,013,400	362,999	(2,377,247)	-
Cumulative on-book gap	819,556	1,000,848	2,014,248	2,377,247	-	-
Contingent assets	7,583	4,151	-	-	-	11,734
Contingent liabilities	2,523	4,164	-	-	-	6,687
Off-book gap	5,060	(13)	-	-	-	5,047
Net Periodic Gap	824,616	181,279	1,013,400	362,999	(2,377,247)	(5,047)
Cumulative Total Gap	P 824,616	P 1,005,895	P 2,019,295	P 2,382,294	P 5,047	P -

Parent Bank

	2022					
	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 80,666	P 80,666
Due from BSP and other banks	125,084	-	-	-	308,181	433,265
Trading and investment securities	10,657	22,138	255,436	312,675	5,883	606,789
Loans and other receivables - net	1,318,458	368,986	819,563	114,214	-	2,621,221
Other resources - net*	10,036	3,806	-	-	144,540	158,382
Total Resources	1,464,235	394,930	1,074,999	426,889	539,270	3,900,323
Liabilities and Equity:						
Deposit liabilities	1,080,372	181,248	31,093	8,627	1,839,676	3,141,016
Bills payable	79,571	6,633	97,222	5,446	-	188,872
Other liabilities	12,820	-	-	-	97,716	110,536
Total Liabilities	1,172,763	187,881	128,315	14,073	1,937,392	3,440,424
Equity	-	-	-	-	459,899	459,899
Total Liabilities and Equity	1,172,763	187,881	128,315	14,073	2,397,291	3,900,323
On-book gap	291,472	207,049	946,684	412,816	(1,858,021)	-
Cumulative on-book gap	291,472	498,521	1,445,205	1,858,021	-	-
Contingent assets	39,041	1,965	-	-	-	41,006
Contingent liabilities	38,974	1,965	-	-	-	40,939
Off-book gap	67	-	-	-	-	67
Net Periodic Gap	291,539	207,049	946,684	412,816	(1,858,021)	(67)
Cumulative Total Gap	P 291,539	P 498,588	P 1,445,272	P 1,858,088	P 67	P -

* Other resources include Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources - net.

Parent Bank

		2021								
		One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total			
Resources:										
Cash and other cash items	P	-	P	-	P	-	P	66,440	P	66,440
Due from BSP and other banks		40,800	-	-	-	326,209		367,009		
Trading and investment securities		6,023	27,987	202,032	257,306	4,615		497,963		
Loans and other receivables - net		1,133,066	279,191	868,587	119,139	-		2,399,983		
Other resources - net*		-	-	-	-	134,611		134,611		
Total Resources		<u>1,179,889</u>	<u>307,178</u>	<u>1,070,619</u>	<u>376,445</u>	<u>531,875</u>		<u>3,466,006</u>		
Liabilities and Equity:										
Deposit liabilities		312,535	44,502	47,101	18,239	2,329,338		2,751,715		
Bills payable		35,546	89,068	71,560	-	-		196,174		
Other liabilities		-	-	-	-	94,656		94,656		
Total Liabilities		348,081	133,570	118,661	18,239	2,423,994		3,042,545		
Equity		-	-	-	-	423,461		423,461		
Total Liabilities and Equity		<u>348,081</u>	<u>133,570</u>	<u>118,661</u>	<u>18,239</u>	<u>2,847,455</u>		<u>3,466,006</u>		
On-book gap		<u>831,808</u>	<u>173,608</u>	<u>951,958</u>	<u>358,206</u>	(<u>2,315,580</u>)		-		
Cumulative on-book gap		<u>831,808</u>	<u>1,005,416</u>	<u>1,957,374</u>	<u>2,315,580</u>	-		-		
Contingent assets		5,231	2,634	-	-	-		7,865		
Contingent liabilities		<u>131</u>	<u>2,634</u>	-	-	-		<u>2,765</u>		
Off-book gap		<u>5,100</u>	-	-	-	-		<u>5,100</u>		
Net Periodic Gap		<u>836,908</u>	<u>173,608</u>	<u>951,958</u>	<u>358,206</u>	(<u>2,315,580</u>)		(<u>5,100</u>)		
Cumulative Total Gap	P	<u>836,908</u>	<u>P 1,010,516</u>	<u>P 1,962,474</u>	<u>P 2,320,680</u>	<u>P 5,100</u>		<u>P -</u>		

* Other resources include Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources - net.

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:

	<u>2022</u>		<u>2021</u>	
	<u>VaR</u>	<u>Stress VaR</u>	<u>VaR</u>	<u>Stress VaR</u>
<u>BDO Unibank Group</u>				
Foreign currency risk	(P 9)	(P 84)	(P 8)	(P 107)
Interest rate risk – Peso	(91)	(1,469)	(53)	(888)
Interest rate risk – USD	(13)	(194)	(13)	(355)
	<u>(P 113)</u>	<u>(P 1,747)</u>	<u>(P 74)</u>	<u>(P 1,350)</u>
<u>Parent Bank</u>				
Foreign currency risk	(P 7)	(P 72)	(P 4)	(P 56)
Interest rate risk – Peso	(31)	(641)	(15)	(252)
Interest rate risk – USD	(1)	(31)	(2)	(36)
	<u>(P 39)</u>	<u>(P 744)</u>	<u>(P 21)</u>	<u>(P 344)</u>

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

The EAR before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2022 and 2021 is shown below and in the succeeding pages.

BDO Unibank Group

	<u>2022</u>			
	<u>Change in Interest Rates (in basis points)</u>			
	<u>-100</u>	<u>+100</u>	<u>-50</u>	<u>+50</u>
Change on annualized net interest income	<u>(P 5,085)</u>	<u>P 5,085</u>	<u>(P 2,543)</u>	<u>P 2,543</u>
As a percentage of the BDO Unibank Group’s net interest income for 2022	<u>(3.41%)</u>	<u>3.41%</u>	<u>(1.70%)</u>	<u>1.70%</u>
EAR	<u>P 17,284</u>			
As a percentage of the BDO Unibank Group’s net interest income for 2022	<u>11.60%</u>			
Average (1yr) EAR	<u>P 23,455</u>			
Stress EAR	<u>P 30,506</u>			

BDO Unibank Group

	2021			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 8,331)	P 8,331	(P 4,165)	P 4,165
As a percentage of the BDO Unibank Group's net interest income for 2021	(6.34%)	6.34%	(3.17%)	3.17%
EAR	P 24,347			
As a percentage of the BDO Unibank Group's net interest income for 2021		18.54%		
Average (1yr) EAR	P 24,391			
Stress EAR	P 31,984			

Parent Bank

	2022			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 5,572)	P 5,572	(P 2,786)	P 2,786
As a percentage of the Parent Bank's net interest income for 2022	(4.00%)	4.00%	(2.00%)	2.00%
EAR	P 18,854			
As a percentage of the Parent Bank's net interest income for 2022		13.50%		
Average (1yr) EAR	P 23,845			
Stress EAR	P 31,169			

	2021			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 8,404)	P 8,404	(P 4,202)	P 4,202
As a percentage of the Parent Bank's net interest income for 2021	(6.79%)	6.79%	(3.39%)	3.39%
EAR	P 24,735			

Parent Bank

	2021			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
As a percentage of the Parent Bank's net interest income for 2021				<u>19.97%</u>
Average (1yr) EAR		<u>P 24,627</u>		
Stress EAR		<u>P 32,233</u>		

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 the BDO Unibank Group and the Parent Bank classified on the statement of financial position either as financial assets at FVOCI 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, the BDO Unibank Group maintains a diversified portfolio. Diversification of the portfolio is done in accordance with the limits set by the 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, 2022 and 2021. The results are based on the volatility assumption of the benchmark equity index, which was 4.15% and 3.52% in 2022 and 2021, 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			Impact on Other Comprehensive Income		
	Increase			Increase		
	2022	2021	2020	2022	2021	2020
Financial assets at FVTPL	P 1,054	P 806	P 1,554	P -	P -	P -
Financial assets at FVOCI	<u>-</u>	<u>-</u>	<u>-</u>	158	148	350
	<u>P 1,054</u>	<u>P 806</u>	<u>P 1,554</u>	<u>P 158</u>	<u>P 148</u>	<u>P 350</u>

Parent Bank

Financial assets at FVOCI	P -	P -	P -	P 25	P 30	P 291
	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 25</u>	<u>P 30</u>	<u>P 291</u>

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 is secured from the Credit Committee. 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 the 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.

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

- | | | |
|------------------------|---|-----------------|
| • Pass/Current | : | Grades AAA to B |
| • Watchlisted | : | Grade B- |
| • 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) *Pass/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) *Especially Mentioned (EM)*

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

(ii) *Substandard*

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

(iii) *Doubtful*

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

(iv) *Loss*

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets 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, credit portfolio review is another integral part of the 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 the 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, 2022 and 2021, there are no POCI financial assets in both BDO Unibank Group and Parent Bank's financial statements.

The following tables show the exposure to credit risk as of December 31, 2022 and 2021 for each internal risk grade and the related allowance for ECL:

BDO Unibank Group

		2022			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate					
Grades AAA to B	: Pass/Current	P 1,922,405	P -	P -	P 1,922,405
Grade B	: Watchlisted	24	23,020	1,640	24,684
Grade C	: EM	55	47,691	3,028	50,774
Grade D	: Substandard	-	4,391	7,145	11,536
Grade E	: Doubtful	-	-	3,332	3,332
Grade F	: Loss	-	-	2,611	2,611
		1,922,484	75,102	17,756	2,015,342
ECL allowance		(6,950)	(26,614)	(14,025)	(47,589)
Carrying amount		<u>P 1,915,534</u>	<u>P 48,488</u>	<u>P 3,731</u>	<u>P 1,967,753</u>
Receivables from customers - consumer					
Grades AAA to B	: Pass/Current	P 560,560	P -	P 118	P 560,678
Grade B	: Watchlisted	-	57	38	95
Grade C	: EM	-	953	87	1,040
Grade D	: Substandard	-	1,598	4,311	5,909
Grade E	: Doubtful	-	-	3,561	3,561
Grade F	: Loss	-	-	27,186	27,186
		560,560	2,608	35,301	598,469
ECL allowance		(6,614)	(890)	(18,683)	(26,187)
Carrying amount		<u>P 553,946</u>	<u>P 1,718</u>	<u>P 16,618</u>	<u>P 572,282</u>
Other receivables					
Grades AAA to B	: Pass/Current	P 155,344	P 115	P 213	P 155,672
Grade C	: EM	-	3	-	3
Grade D	: Substandard	511	417	339	1,267
Grade E	: Doubtful	-	-	419	419
Grade F	: Loss	-	-	2,089	2,089
		155,855	535	3,060	159,450
ECL allowance		(101)	(78)	(2,405)	(2,584)
Carrying amount		<u>P 155,754</u>	<u>P 457</u>	<u>P 655</u>	<u>P 156,866</u>

BDO Unibank Group

		2022			
		Stage 1	Stage 2	Stage 3	Total
Debt investment securities at					
amortized cost					
Grades AAA to B : Pass/Current	P	512,128	P -	P -	P 512,128
Grade C : EM		-	56	-	56
Grade E : Doubtful		-	-	1,252	1,252
Grade F : Loss		-	-	267	267
		512,128	56	1,519	513,703
ECL allowance	(	106)	(29)	(1,519)	(1,654)
Carrying amount	P	512,022	P 27	P -	P 512,049
Debt investment securities at FVOCI					
Grades AAA to B : Pass/Current	P	161,301	P -	P -	P 161,301
Grade C : EM		-	53	-	53
Carrying amount	P	161,301	P 53	P -	P 161,354
Loan commitments and other					
contingent accounts					
Grades AAA to B : Pass/Current	P	131,273	P -	P -	P 131,273
Grade B- : Watchlisted		-	28	-	28
Grade C : EM		-	9	-	9
		131,273	37	-	131,310
ECL allowance	(	233)	-	-	(233)
Carrying amount	P	131,040	P 37	P -	P 131,077
		2021			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate					
Grades AAA to B : Pass/Current	P	1,733,845	P -	P -	P 1,733,845
Grade B- : Watchlisted		106	30,835	502	31,443
Grade C : EM		5	81,131	2,009	83,145
Grade D : Substandard		-	4,403	7,059	11,462
Grade E : Doubtful		-	-	5,578	5,578
Grade F : Loss		-	-	3,882	3,882
		1,733,956	116,369	19,030	1,869,355
ECL allowance	(	7,513)	(17,205)	(13,237)	(37,955)
Carrying amount	P	1,726,443	P 99,164	P 5,793	P 1,831,400
Receivables from customers - consumer					
Grades AAA to B : Pass/Current	P	473,747	P -	P 160	P 473,907
Grade B- : Watchlisted		9	181	62	252
Grade C : EM		-	1,506	107	1,613
Grade D : Substandard		-	1,356	8,078	9,434
Grade E : Doubtful		-	-	16,658	16,658
Grade F : Loss		-	-	28,974	28,974
		473,756	3,043	54,039	530,838
ECL allowance	(	5,554)	(504)	(21,246)	(27,304)
Carrying amount	P	468,202	P 2,539	P 32,793	P 503,534
Other receivables					
Grades AAA to B : Pass/Current	P	114,790	P 22	P 238	P 115,050
Grade C : EM		-	41	-	41
Grade D : Substandard		503	407	258	1,168
Grade E : Doubtful		16	-	249	265
Grade F : Loss		-	-	1,929	1,929
		115,309	470	2,674	118,453
ECL allowance	(	79)	(77)	(2,328)	(2,484)
Carrying amount	P	115,230	P 393	P 346	P 115,969

BDO Unibank Group

		2021			
		Stage 1	Stage 2	Stage 3	Total
Debt investment securities at amortized cost					
Grades AAA to B : Pass/Current	P	397,595	P -	P -	P 397,595
Grade E : Doubtful		-	-	1,146	1,146
Grade F : Loss		-	-	264	264
		397,595	-	1,410	399,005
ECL allowance	(	61)	-	(1,410)	(1,471)
Carrying amount	P	397,534	P -	P -	P 397,534
Debt investment securities at FVOCI					
Grades AAA to B : Pass/Current	P	165,461	P -	P -	P 165,461
Loan commitments and other contingent accounts					
Grades AAA to B : Pass/Current	P	112,403	P -	P -	P 112,403
Grade B- : Watchlisted		-	461	-	461
Grade C : EM		-	42	-	42
		112,403	503	-	112,906
ECL allowance	(	289)	-	-	(289)
Carrying amount	P	112,114	P 503	P -	P 112,617

The table below sets out the credit quality of trading debt securities of the BDO Unibank Group measured at FVTPL (see Note 10.1).

	2022	2021
Grade:		
AAA	P 7,678	P 4,449
AA+ to AA	151	330
A+ to A-	-	371
BBB+ to BBB-	2,131	4,440
BB+ to BB-	158	516
	P 10,118	P 10,106

The table below shows an analysis of counterparty credit exposures arising from derivative transactions of the BDO Unibank Group. Outstanding derivative exposures to counterparties are generally to investment grade counterparty banks. Derivative transactions with non-bank counterparties are on a fully secured basis.

		Over-the-counter							
		Total		Exchange-traded		Central Counterparties		Other Bilateral Collateralized	
		Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
<u>2022</u>									
Derivative assets	P	172,551	P 8,613	P 1,072	P -	P 139,990	P 3,468	P 31,489	P 5,145
Derivative liabilities		205,608	7,809	2,489	1	169,658	3,634	33,461	4,174
<u>2021</u>									
Derivative assets	P	190,129	P 6,232	P 131	P 1	P 163,556	P 2,468	P 26,442	P 3,763
Derivative liabilities		201,482	5,742	1,792	-	171,809	2,462	27,881	3,280

As of December 31, 2022 and 2021, the BDO Unibank Group held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P527,489 and P444,103, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on external rating agencies.

Parent Bank

		2022			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate					
Grades AAA to B : Pass/Current	P	1,914,938	P -	P -	P 1,914,938
Grade B : Watchlisted	-		23,020	1,640	24,660
Grade C : EM	-		47,691	3,024	50,715
Grade D : Substandard	-		4,391	7,145	11,536
Grade E : Doubtful	-		-	3,332	3,332
Grade F : Loss	-		-	2,609	2,609
		1,914,938	75,102	17,750	2,007,790
ECL allowance	(	6,906)	(26,614)	(14,022)	(47,542)
Carrying amount	P	1,908,032	P 48,488	P 3,728	P 1,960,248
Receivables from customers - consumer					
Grades AAA to B : Pass/Current	P	494,913	P -	P -	P 494,913
Grade B : Watchlisted	-		57	38	95
Grade C : EM	-		906	75	981
Grade D : Substandard	-		1,308	4,272	5,580
Grade E : Doubtful	-		-	3,300	3,300
Grade F : Loss	-		-	24,985	24,985
		494,913	2,271	32,670	529,854
ECL allowance	(	6,050)	(775)	(17,209)	(24,034)
Carrying amount	P	488,863	P 1,496	P 15,461	P 505,820
Other receivables					
Grades AAA to B : Pass/Current	P	153,966	P -	P -	P 153,966
Grade D : Substandard		509	416	336	1,261
Grade E : Doubtful	-		-	366	366
Grade F : Loss	-		-	1,984	1,984
		154,475	416	2,686	157,577
ECL allowance	(	74)	(78)	(2,272)	(2,424)
Carrying amount	P	154,401	P 338	P 414	P 155,153
Debt investment securities at amortized cost					
Grades AAA to B : Pass/Current	P	491,324	P -	P -	P 491,324
Grade C : EM	-		56	-	56
Grade E : Doubtful	-		-	1,252	1,252
Grade F : Loss	-		-	267	267
		491,324	56	1,519	492,899
ECL allowance	(	92)	(29)	(1,519)	(1,640)
Carrying amount	P	491,232	P 27	P -	P 491,259
Debt investment securities at FVOCI					
Grades AAA to B : Pass/Current	P	108,053	P -	P -	P 108,053
Grade C : EM	-		53	-	53
Carrying amount	P	108,053	P 53	P -	P 108,106
Loan commitments and other contingent accounts					
Grades AAA to B : Pass/Current	P	131,273	P -	P -	P 131,273
Grade B : Watchlisted	-		28	-	28
Grade C : EM	-		9	-	9
		131,273	37	-	131,310
ECL allowance	(	233)	-	-	(233)
Carrying amount	P	131,040	P 37	P -	P 131,077

Parent Bank

		2021			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate					
Grades AAA to B : Pass/Current	P	1,728,038	P -	P -	P 1,728,038
Grade B : Watchlisted		-	30,830	502	31,332
Grade C : EM		-	81,131	2,009	83,140
Grade D : Substandard		-	4,403	7,059	11,462
Grade E : Doubtful		-	-	5,578	5,578
Grade F : Loss		-	-	3,878	3,878
		<u>1,728,038</u>	<u>116,364</u>	<u>19,026</u>	<u>1,863,428</u>
ECL allowance		(7,477)	(17,204)	(13,233)	(37,914)
Carrying amount		<u>P 1,720,561</u>	<u>P 99,160</u>	<u>P 5,793</u>	<u>P 1,825,514</u>
Receivables from customers - consumer					
Grades AAA to B : Pass/Current	P	438,721	P -	P -	P 438,721
Grade B : Watchlisted		-	181	62	243
Grade C : EM		-	1,468	47	1,515
Grade D : Substandard		-	1,094	8,013	9,107
Grade E : Doubtful		-	-	11,677	11,677
Grade F : Loss		-	-	26,860	26,860
		<u>438,721</u>	<u>2,743</u>	<u>46,659</u>	<u>488,123</u>
ECL allowance		(5,194)	(414)	(19,752)	(25,360)
Carrying amount		<u>P 433,527</u>	<u>P 2,329</u>	<u>P 26,907</u>	<u>P 462,763</u>
Other receivables					
Grades AAA to B : Pass/Current	P	110,798	P -	P -	P 110,798
Grade D : Substandard		502	406	251	1,159
Grade E : Doubtful		-	-	211	211
Grade F : Loss		-	-	1,856	1,856
		<u>111,300</u>	<u>406</u>	<u>2,318</u>	<u>114,024</u>
ECL allowance		(31)	(77)	(2,210)	(2,318)
Carrying amount		<u>P 111,269</u>	<u>P 329</u>	<u>P 108</u>	<u>P 111,706</u>
Debt investment securities at amortized cost					
Grades AAA to B : Pass/Current	P	377,427	P -	P -	P 377,427
Grade E : Doubtful		-	-	1,146	1,146
Grade F : Loss		-	-	264	264
		<u>377,427</u>	<u>-</u>	<u>1,410</u>	<u>378,837</u>
ECL allowance		(45)	-	(1,410)	(1,455)
Carrying amount		<u>P 377,382</u>	<u>P -</u>	<u>P -</u>	<u>P 377,382</u>
Debt investment securities at FVOCI					
Grades AAA to B : Pass/Current		<u>P 114,095</u>	<u>P -</u>	<u>P -</u>	<u>P 114,095</u>
Loan commitments and other contingent accounts					
Grades AAA to B : Pass/Current	P	112,403	P -	P -	P 112,403
Grade B : Watchlisted		-	461	-	461
Grade C : EM		-	42	-	42
		<u>112,403</u>	<u>503</u>	<u>-</u>	<u>112,906</u>
ECL allowance		(289)	-	-	(289)
Carrying amount		<u>P 112,114</u>	<u>P 503</u>	<u>P -</u>	<u>P 112,617</u>

The table below sets out the credit quality of trading debt securities of the Parent Bank measured at FVTPL (see Note 10.1).

	<u>2022</u>		<u>2021</u>	
Grade:				
AAA	P	2,088	P	1,756
AA+ to AA		5		5
BBB+ to BBB-		216		169
BB+ to BB-		<u>105</u>		<u>216</u>
	<u>P</u>	<u>2,414</u>	<u>P</u>	<u>2,146</u>

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.

	<u>Total</u>		<u>Exchange-traded</u>		<u>Over-the-counter</u>			
					<u>Central Counterparties</u>		<u>Other Bilateral Collateralized</u>	
	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>
<u>2022</u>								
Derivative assets	P 141,062	P 3,468	P 1,072	P -	P 139,990	P 3,468	P -	P -
Derivative liabilities	170,730	3,636	1,072	1	169,658	3,635	-	-
<u>2021</u>								
Derivative assets	P 163,687	P 2,469	P 131	P -	P 163,556	P 2,469	P -	P -
Derivative liabilities	171,940	2,462	131	-	171,809	2,462	-	-

As of December 31, 2022 and 2021, the Parent Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P513,931 and P433,449, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on external rating agencies.

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 page.

BDO Unibank Group

	2022			2021		
	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 664,420	P 402,156	P 547,225	P 547,827	P 397,823	P 438,014
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	-	399,101	-	-	356,129	-
Real estate activities	-	324,074	20,022	-	307,048	21,656
Wholesale and retail trade	-	299,896	3,010	-	282,446	953
Electricity, gas, steam and air-conditioning supply	-	281,036	26,017	-	282,036	23,345
Manufacturing	-	232,488	15,627	-	206,445	14,198
Construction	-	90,712	181	-	68,951	102
Information and communication	-	90,342	7,157	-	42,845	5,962
Transportation and storage	-	87,256	4,089	-	88,043	4,190
Arts, entertainment and recreation	-	83,076	1,025	-	77,010	715
Education	-	71,731	-	-	37,199	-
Water supply, sewerage waste management and remediation activities	-	38,760	321	-	26,912	148
Accommodation and food service activities	-	36,529	-	-	39,937	-
Human health and social work activities	-	31,875	980	-	30,653	901
Agriculture, forestry and fishing	-	15,642	-	-	15,266	-
Mining and quarrying	-	10,578	3,732	-	10,175	1,279
Professional, scientific and technical services	-	9,912	1,059	-	9,642	975
Administrative and support services	-	9,581	1,060	-	7,592	1,262
Public administrative and defense; compulsory social security	-	1,030	5,858	-	693	2,629
Other service activities	34	98,036	55,318	54	113,348	64,475
	<u>P 664,454</u>	<u>P 2,613,811</u>	<u>P 692,681</u>	<u>P 547,881</u>	<u>P 2,400,193</u>	<u>P 580,804</u>
Concentration by location:						
Philippines	P 508,615	P 2,439,453	P 588,929	P 400,581	P 2,261,065	P 486,987
Foreign countries	155,839	174,358	103,752	147,300	139,128	93,817
	<u>P 664,454</u>	<u>P 2,613,811</u>	<u>P 692,681</u>	<u>P 547,881</u>	<u>P 2,400,193</u>	<u>P 580,804</u>

* Cash and cash equivalents include cash and other cash items, due from BSP and other banks, reverse repurchase agreements, FCNC, certain interbank loans receivables and investment securities at amortized cost (see Note 2.6).

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

Parent Bank

	2022			2021		
	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 654,033	P 401,394	P 512,005	P 535,932	P 397,733	P 414,478
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	-	391,623	-	-	347,713	-
Real estate activities	-	325,088	15,631	-	308,053	16,953
Wholesale and retail traded	-	294,838	3,010	-	278,173	953
Electricity, gas, steam and air-conditioning supply	-	280,969	23,554	-	281,990	21,731
Manufacturing	-	231,327	14,923	-	205,679	12,891
Information and communication	-	90,123	4,584	-	42,634	3,802
Construction	-	89,326	181	-	68,108	102
Transportation and storage	-	87,613	3,720	-	88,607	3,630
Arts, entertainment and recreation	-	82,107	1,025	-	76,004	715
Water supply, sewerage waste management and remediation activities	-	38,714	321	-	26,870	148
Accommodation and food service activities	-	36,329	-	-	39,688	-
Human health and social work activities	-	31,616	980	-	30,392	901
Agriculture, forestry and fishing	-	14,876	-	-	14,600	-
Mining and quarrying	-	10,483	3,732	-	10,122	1,279
Education	-	10,151	-	-	4,373	-
Professional, scientific and technical services	-	9,861	1,059	-	9,601	975
Administrative and support services	-	9,375	1,060	-	7,430	1,262
Public administrative and defense; compulsory social security	-	1,030	5,858	-	693	2,629
Other service activities	-	100,801	14,137	-	113,088	15,098
	P 654,033	P 2,537,644	P 605,780	P 535,932	P 2,351,551	P 497,547
Concentration by location						
Philippines	P 502,022	P 2,363,286	P 507,850	P 391,881	P 2,212,423	P 410,296
Foreign countries	152,011	174,358	97,930	144,051	139,128	87,251
	P 654,033	P 2,537,644	P 605,780	P 535,932	P 2,351,551	P 497,547

* Cash and cash equivalents include cash and other cash items, due from BSP and other banks, reverse repurchase agreements, FCNC, certain interbank loans receivables and investment securities at amortized cost (see Note 2.6).

**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

The 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, financial collateral including deposits, debt and equity securities, 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 from due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity.

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

Estimate of the fair value of collateral and other security enhancements held against the following credit exposures as of December 31 follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Receivable from customers – corporate:				
Property	P 816,641	P 643,403	P 813,925	P 632,969
Equity securities	200,243	119,361	199,187	117,459
Hold-out deposits	53,976	31,257	53,342	30,986
Debt securities	10,649	2,298	9,987	1,252
Others	<u>99,530</u>	<u>105,236</u>	<u>99,329</u>	<u>105,024</u>
	<u>1,181,039</u>	<u>901,555</u>	<u>1,175,770</u>	<u>887,690</u>
Receivable from customers – consumer:				
Property	606,259	558,874	589,616	545,335
Debt securities	704	989	675	989
Equity securities	183	146	183	146
Hold-out deposits	7	52	7	52
Others	<u>195,833</u>	<u>212,603</u>	<u>195,833</u>	<u>202,216</u>
	<u>802,986</u>	<u>772,664</u>	<u>786,314</u>	<u>748,738</u>
Other receivables:				
Property	1,914	1,832	1,914	1,668
Others	<u>26,305</u>	<u>17,095</u>	<u>26,091</u>	<u>15,800</u>
	<u>28,219</u>	<u>18,927</u>	<u>28,005</u>	<u>17,468</u>
	<u>P 2,012,244</u>	<u>P 1,693,146</u>	<u>P 1,990,089</u>	<u>P 1,653,896</u>

The BDO Unibank Group and the Parent Bank have recognized certain properties arising from foreclosures in settlement of loan account amounting to P16,875 and P16,729, respectively, in 2022 and P13,523 and P13,479, respectively, in 2021 (see Note 14 and 15.5).

The 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 and Other Receivables

The net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables and the value of identifiable collateral held against those loans and advances as of December 31, 2022 and 2021 are as follows:

	2022		2021	
	Net Carrying Amount	Identifiable Collateral	Net Carrying Amount	Identifiable Collateral
<u>BDO Unibank Group</u>				
Receivable from customers:				
Corporate	P 52,219	P 52,297	P 104,957	P 63,098
Consumer	18,336	64,043	35,332	74,986
Other receivables	1,112	393	739	2,895
<u>Parent Bank</u>				
Receivable from customers:				
Corporate	P 52,216	P 52,297	P 104,953	P 63,083
Consumer	16,957	47,370	29,236	69,602
Other receivables	752	393	437	2,438

For each loan, the value of disclosed collateral (mainly collateral properties) is capped at the nominal amount of the loan that it is held against.

(b) *Debt Investment Securities*

The BDO Unibank Group and the Parent Bank invest in non-collateralized debt securities issued by various government and corporate entities. The maximum exposure to credit risk of debt investment securities is equivalent to their carrying amount as of December 31, 2022 and 2021 as shown below:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Debt securities:				
At amortized cost	P 512,049	P 397,534	P 491,259	P 377,382
At FVOCI	161,354	165,461	108,106	114,095
At FVTPL	<u>10,118</u>	<u>10,106</u>	<u>2,414</u>	<u>2,146</u>
	<u>P 683,521</u>	<u>P 573,101</u>	<u>P 601,779</u>	<u>P 493,623</u>

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 (SICR)*

As outlined in PFRS 9, a '3-stage' impairment model was adopted by the BDO Unibank Group based on changes in credit quality since initial recognition of the financial asset. A financial asset that is not credit-impaired on initial recognition is classified as 'Stage 1', with credit risk continuously monitored by the BDO Unibank Group as its ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months. If an SICR since initial recognition is identified, the classification will be moved to 'Stage 2' but is not yet deemed to be credit-impaired. Such assessment is based on the following criteria in determining whether there has been a significant increase in credit risk: (i) qualitative indicators, such as net losses, intermittent delays in payment or restructuring; and (ii) quantitative test based on movement in risk rating and PD. The borrowers can be moved to Stage 1 upon completion of the seasoning period which shall be 6 months of continuous payment with no incident of past due.

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 an SICR 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).

(i) Credit risk grading

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

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference in the 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 net loss, significant drop in risk ratings and intermittent delays in payments.

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

In 2022 and 2021, the assumptions and estimation technique have been reviewed to consider the continuing impact of the COVID-19 pandemic, impact of higher oil prices, and rising interest rates. In this regard, the BDO Unibank Group and the Parent Bank performed comprehensive review of the financial assets, particularly for loan accounts to assess vulnerability arising from current economic condition, which resulted in the transfer of the classification of some loans from Stage 1 to either Stage 2 or 3. These accounts are continually monitored to determine whether they are subsequently qualified for transfer to either Stage 1 or Stage 2.

(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.

These criteria have been applied to all financial instruments held by the BDO Unibank Group and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining PD, EAD, and LGD throughout the ECL calculations of the BDO Unibank Group.

An instrument is considered to have cured when it no longer meets any of the default criteria for a consecutive period of six months. The cure period sets the tolerance period wherein the borrowers are allowed to update the payments in compliance with the regulatory requirements on transfer between stages.

(c) 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.

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 are used 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.

There were no significant changes in the estimation techniques or significant assumptions made by the BDO Unibank Group in 2022.

(d) Collective Basis of Measurement of ECL

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

- 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.

The groupings are subject to the regular review by the BDO Unibank Group's RMG in order to ensure that credit exposures within a particular group remain appropriately homogenous.

(e) Forward-looking Information (FLI)

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, GDP growth rate, unemployment rate, inflation rate, foreign exchange rates, 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.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different from the projections. The BDO Unibank Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the BDO Unibank Group different product types to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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.

(f) 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 of 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 but 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, deferment of principal payment, changing the timing of interest payments and amending the terms of loan covenants. The proposals for loan restructuring are for approval by the BDO Unibank Group's Executive Committee.

For financial assets modified as part of the BDO Unibank Group's restructuring policy, the estimate of credit loss will reflect the probability to collect interest and principal. 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 an SICR 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 (in accordance with the new terms for six consecutive months or more) 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.

In response to the unprecedented impact of the COVID-19 pandemic, the BDO Unibank Group and the Parent Bank granted to its customers the mandatory reliefs provided by the government through *Bayanihan to Heal as One Act (Bayanihan I)* and *Bayanihan to Recover as One Act (Bayanihan II)*. In addition, it entered into voluntary renegotiations of terms of loans of some other customers with a view of maximizing recovery of the contractual amount of obligation. These relief measures were granted to eligible borrowers to allow them to get back into the habit of paying loans which includes payment relief including extension of contractual terms, principal and interest relief, as well as extension of balloon payment terms.

Financial reliefs provided by the BDO Unibank Group and the Parent Bank and mandated by the government were assessed to be non-substantial modification and has not resulted in material modification loss as the present value of the original cash flows and the present value of the revised cash flows using the original effective interest rate were substantially the same.

The following tables provide a summary of the outstanding principal balance net of allowance for impairment of modified loans provided by the BDO Unibank Group and the Parent Bank as of December 31, 2022 and 2021:

BDO Unibank Group

	<u>2022</u>	<u>2021</u>
Stage 1 (Performing)		
Corporate	P 79,515	P 68,893
Consumer	<u>55,423</u>	<u>121,081</u>
	134,938	189,974
Allowance for impairment	(<u>892</u>)	(<u>1,404</u>)
	<u>P 134,046</u>	<u>P 188,570</u>
Stage 2 (Underperforming)		
Corporate	P 19,596	P 98,434
Consumer	<u>67,691</u>	<u>1,075</u>
	87,287	99,509
Allowance for impairment	(<u>16,350</u>)	(<u>15,798</u>)
	<u>P 70,937</u>	<u>P 83,711</u>
Stage 3 (Non-performing)		
Corporate	P 5,474	P 5,673
Consumer	<u>6,872</u>	<u>7,542</u>
	12,346	13,215
Allowance for impairment	(<u>6,124</u>)	(<u>4,709</u>)
	<u>P 6,222</u>	<u>P 8,506</u>

Parent Bank

	<u>2022</u>	<u>2021</u>
Stage 1 (Performing)		
Corporate	P 79,515	P 68,893
Consumer	<u>55,063</u>	<u>120,081</u>
	134,578	188,974
Allowance for impairment	(<u>840</u>)	(<u>1,367</u>)
	<u>P 133,738</u>	<u>P 187,607</u>
Stage 2 (Underperforming)		
Corporate	P 19,596	P 98,434
Consumer	<u>67,688</u>	<u>1,054</u>
	87,284	99,488
Allowance for impairment	(<u>16,349</u>)	(<u>15,793</u>)
	<u>P 70,935</u>	<u>P 83,695</u>
Stage 3 (Non-performing)		
Corporate	P 5,474	P 5,673
Consumer	<u>6,783</u>	<u>7,006</u>
	12,257	12,679
Allowance for impairment	(<u>6,039</u>)	(<u>4,521</u>)
	<u>P 6,218</u>	<u>P 8,158</u>

(g) *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 the Parent Bank have still, however, enforceable right to receive payment even if the financial assets have been written off except in certain cases.

The BDO Unibank Group and the Parent Bank had written off certain accounts from which it no longer have an enforceable right to receive payment amounting to P793 and P331 respectively, in 2022, and P1,054 and P1,015, respectively, in 2021.

(h) *Credit risk exposure*

The BDO Unibank Group and the Parent Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets as shown below and in the succeeding page.

BDO Unibank Group

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2022</u>				
Loans and discounts:				
Corporate	P 2,015,342	P 1,181,039	P 834,303	P 1,181,039
Consumer	598,469	802,986	-	598,469
Reverse repurchase agreements	26,305	26,305	-	-
Sales contracts receivables	<u>1,421</u>	<u>1,914</u>	<u>-</u>	<u>1,421</u>
	<u>P 2,641,537</u>	<u>P 2,012,244</u>	<u>P 834,303</u>	<u>P 1,780,929</u>
<u>2021</u>				
Loans and discounts:				
Corporate	P 1,869,355	P 901,555	P 967,800	P 901,555
Consumer	530,838	772,664	-	530,838
Reverse repurchase agreements	17,095	17,095	-	-
Sales contracts receivables	<u>1,283</u>	<u>1,832</u>	<u>-</u>	<u>1,283</u>
	<u>P 2,418,571</u>	<u>P 1,693,146</u>	<u>P 967,800</u>	<u>P 1,433,676</u>

Parent Bank

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2022</u>				
Loans and discounts:				
Corporate	P 2,007,790	P 1,175,770	P 832,020	P 1,175,770
Consumer	529,854	786,314	-	529,854
Reverse repurchase agreements	26,091	26,091	-	-
Sales contracts receivables	<u>1,323</u>	<u>1,914</u>	<u>-</u>	<u>1,323</u>
	<u>P 2,565,058</u>	<u>P 1,990,089</u>	<u>P 832,020</u>	<u>P 1,706,946</u>

2021

Loans and discounts:				
Corporate	P 1,863,428	P 887,690	P 975,738	P 887,690
Consumer	488,123	748,738	-	488,123
Reverse Repurchase Agreements	15,800	15,800	-	-
Sales contracts receivables	<u>1,226</u>	<u>1,668</u>	<u>-</u>	<u>1,226</u>
	<u>P 2,368,577</u>	<u>P 1,653,896</u>	<u>P 975,738</u>	<u>P 1,377,039</u>

An analysis of the maximum credit risk exposure relating to Stage 3 financial assets as of December 31, 2022 and 2021 is shown below and in the succeeding page.

BDO Unibank Group

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2022</u>				
Loans and discounts:				
Corporate	P 17,756	P 7,273	P 10,483	P 7,273
Consumer	35,301	53,010	-	35,301
Sales contracts receivables	<u>282</u>	<u>348</u>	<u>-</u>	<u>282</u>
	<u>P 53,339</u>	<u>P 60,631</u>	<u>P 10,483</u>	<u>P 42,856</u>

2021

Loans and discounts:				
Corporate	P 19,030	P 6,455	P 12,575	P 6,455
Consumer	54,039	68,085	-	54,039
Sales contracts receivables	<u>214</u>	<u>304</u>	<u>-</u>	<u>214</u>
	<u>P 73,283</u>	<u>P 74,844</u>	<u>P 12,575</u>	<u>P 60,708</u>

Parent Bank

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2022</u>				
Loans and discounts:				
Corporate	P 17,750	P 7,273	P 10,477	P 7,273
Consumer	32,670	45,337	-	32,670
Sales contracts receivables	<u>282</u>	<u>348</u>	<u>-</u>	<u>282</u>
	<u>P 50,702</u>	<u>P 52,958</u>	<u>P 10,477</u>	<u>P 40,225</u>
<u>2021</u>				
Loans and discounts:				
Corporate	P 19,026	P 6,455	P 12,571	P 6,455
Consumer	46,659	66,296	-	46,659
Sales contracts receivables	<u>212</u>	<u>302</u>	<u>-</u>	<u>212</u>
	<u>P 65,897</u>	<u>P 73,053</u>	<u>P 12,571</u>	<u>P 53,326</u>

The following table sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized cost and debt securities at FVOCI as of December 31:

	<u>Notes</u>	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Cash equivalents	8, 9	<u>P 527,504</u>	<u>P 444,103</u>	<u>P 513,945</u>	<u>P 433,449</u>
Debt securities:					
At FVOCI	10.2	<u>161,354</u>	<u>165,461</u>	<u>108,106</u>	<u>114,095</u>
At amortized cost	10.3	<u>513,703</u>	<u>399,005</u>	<u>492,899</u>	<u>378,837</u>
		<u>P 675,057</u>	<u>P 564,466</u>	<u>P 601,005</u>	<u>P 492,932</u>

Cash equivalents includes loans and amounts due from BSP and from other banks. Debt securities includes government and corporate bonds. These are held by the BSP, financial institutions and other counterparties that are reputable and with low credit risk; hence, ECL is negligible.

(i) *Loss allowance*

In 2022 and 2021, the BDO Unibank Group and the Parent Bank performed recalibration of its existing ECL model to incorporate 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 PD 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

	2022			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 7,513	P 17,205	P 13,237	P 37,955
Transfers to:				
Stage 1	7,025	(7,020)	(5)	-
Stage 2	(25)	31	(6)	-
Stage 3	(3)	(18)	21	-
Net remeasurement of loss allowance	(7,431)	11,833	2,750	7,152
New financial assets originated or purchased	3,075	6,296	4,465	13,836
Derecognition of financial assets	(3,262)	(1,713)	(6,001)	(10,976)
Write-offs	-	-	(1,017)	(1,017)
Foreign exchange	58	-	581	639
Balance at December 31	<u>P 6,950</u>	<u>P 26,614</u>	<u>P 14,025</u>	<u>P 47,589</u>
Receivables from customers – consumer				
Balance at January 1	P 5,554	P 504	P 21,246	P 27,304
Transfers to:				
Stage 1	1,312	(157)	(1,155)	-
Stage 2	(102)	382	(280)	-
Stage 3	(744)	(1,060)	1,804	-
Net remeasurement of loss allowance	(735)	1,153	5,607	6,025
New financial assets originated or purchased	1,836	155	508	2,499
Derecognition of financial assets	(510)	(87)	(1,638)	(2,235)
Write-offs	-	-	(7,426)	(7,426)
Foreign exchange	3	-	17	20
Balance at December 31	<u>P 6,614</u>	<u>P 890</u>	<u>P 18,683</u>	<u>P 26,187</u>
Other receivables				
Balance at January 1	P 79	P 77	P 2,328	P 2,484
Transfers to:				
Stage 1	8	(2)	(6)	-
Stage 2	-	(2)	2	-
Stage 3	(24)	15	9	-
Net remeasurement of loss allowance	65	(17)	(9)	39
New financial assets originated or purchased	39	17	605	661
Derecognition of financial assets	(66)	(10)	(359)	(435)
Write-offs	-	-	(165)	(165)
Balance at December 31	<u>P 101</u>	<u>P 78</u>	<u>P 2,405</u>	<u>P 2,584</u>
Debt investment securities at amortized cost				
Balance at January 1	P 61	P -	P 1,410	P 1,471
Transfers to:				
Stage 2	(1)	1	-	-
Net remeasurement of loss allowance	43	28	-	71
New financial assets originated or purchased	4	-	-	4
Foreign exchange	5	-	109	114
Derecognition of financial assets	(6)	-	-	(6)
Balance at December 31	<u>P 106</u>	<u>P 29</u>	<u>P 1,519</u>	<u>P 1,654</u>

BDO Unibank Group

		2022			
		Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI					
Balance at January 1	P	50	P -	P -	P 50
Net remeasurement of loss allowance		14	60	-	74
New financial assets originated or purchased		5	-	-	5
Derecognition of financial assets	(	12)	-	-	(12)
Balance at December 31	P	57	P 60	P -	P 117
Loan commitments and other contingent accounts					
Balance at January 1	P	289	P -	P -	P 289
Net remeasurement of loss allowance	(	54)	-	-	(54)
New financial assets originated or purchased		43	-	-	43
Derecognition of financial assets	(	51)	-	-	(51)
Foreign exchange		6	-	-	6
Balance at December 31	P	233	P -	P -	P 233
		2021			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate					
Balance at January 1	P	6,254	P 11,699	P 10,056	P 28,009
Transfers to:					
Stage 1		414	(414)	-	-
Stage 2		218	(217)	(1)	-
Stage 3	(	7)	(17)	24	-
Net remeasurement of loss allowance	(	743)	6,206	1,645	7,108
New financial assets originated or purchased		3,529	877	3,960	8,366
Derecognition of financial assets	(	2,227)	(1,151)	(1,352)	(4,730)
Write-offs	-		-	(1,256)	(1,256)
Foreign exchange		75	222	161	458
Balance at December 31	P	7,513	P 17,205	P 13,237	P 37,955
Receivables from customers – consumer					
Balance at January 1	P	7,795	P 997	P 19,619	P 28,411
Transfers to:					
Stage 1		3,290	(630)	(2,660)	-
Stage 2	(	210)	379	(169)	-
Stage 3	(	2,692)	(393)	3,085	-
Net remeasurement of loss allowance	(	3,099)	160	10,152	7,213
New financial assets originated or purchased		1,273	109	1,015	2,397
Derecognition of financial assets	(	805)	(118)	(2,234)	(3,157)
Write-offs	-		-	(7,575)	(7,575)
Foreign exchange		2	-	13	15
Balance at December 31	P	5,554	P 504	P 21,246	P 27,304
Other receivables					
Balance at January 1	P	151	P 18	P 2,262	P 2,431
Transfers to					
Stage 1		13	(1)	(12)	-
Stage 2			1	(1)	-
Stage 3	(	6)	-	6	-
Net remeasurement of loss allowance	(	80)	52	154	126
New financial assets originated or purchased		22	18	527	567
Derecognition of financial assets	(	22)	(11)	(474)	(507)
Write-offs			-	(135)	(135)
Foreign exchange		1	-	1	2
Balance at December 31	P	79	P 77	P 2,328	P 2,484

BDO Unibank Group

		2021			
		Stage 1	Stage 2	Stage 3	Total
Debt investment securities at					
amortized cost					
Balance at January 1	P	248	P -	P 1,342	P 1,590
Net remeasurement of loss allowance	(	180)	-	-	(180)
New financial assets originated					
or purchased		10	-	-	10
Foreign exchange		5	-	68	73
Derecognition of financial assets	(	22)	-	-	(22)
Balance at December 31	P	61	P -	P 1,410	P 1,471
Debt investment securities at FVOCI					
Balance at January 1	P	137	P -	P -	P 137
Net remeasurement of loss allowance	(	75)	-	-	(75)
New financial assets originated					
or purchased		12	-	-	12
Derecognition of financial assets	(	24)	-	-	(24)
Balance at December 31	P	50	P -	P -	P 50
Loan commitments and other					
contingent accounts					
Balance at January 1	P	314	P -	P 3	P 317
Net remeasurement of loss allowance	(	29)	-	-	(29)
New financial assets originated					
or purchased		66	-	-	66
Derecognition of financial assets	(	65)	(3)	-	(68)
Foreign exchange		3	-	-	3
Balance at December 31	P	289	P -	P -	P 289

Parent Bank

		2022			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers –					
corporate					
Balance at January 1	P	7,477	P 17,204	P 13,233	P 37,914
Transfers to:					
Stage 1		7,009	(7,005)	(4)	-
Stage 2	(	25)	31	(6)	-
Stage 3	(	3)	(16)	19	-
Net remeasurement of loss allowance	(	7,413)	11,817	2,750	7,154
New financial assets originated					
or purchased		3,059	6,296	4,465	13,820
Derecognition of financial assets	(	3,256)	(1,713)	(6,001)	(10,970)
Write-offs	-	-	-	(1,015)	(1,015)
Foreign exchange		58	-	581	639
Balance at December 31	P	6,906	P 26,614	P 14,022	P 47,542
Receivables from customers –					
consumer					
Balance at January 1	P	5,194	P 414	P 19,752	P 25,360
Transfers to:					
Stage 1		1,158	(115)	(1,043)	-
Stage 2	(	99)	377	(278)	-
Stage 3	(	675)	(213)	888	-
Net remeasurement of loss allowance	(	551)	279	5,930	5,658
New financial assets originated					
or purchased		1,434	90	396	1,920
Derecognition of financial assets	(	413)	(57)	(1,487)	(1,957)
Write-offs	-	-	-	(6,966)	(6,966)
Foreign exchange		2	-	17	19
Balance at December 31	P	6,050	P 775	P 17,209	P 24,034

Parent Bank

	2022			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Balance at January 1	P 31	P 77	P 2,210	P 2,318
Transfers to:				
Stage 1	8	(2)	(6)	-
Stage 2	-	(2)	2	-
Stage 3	-	(2)	2	-
Net remeasurement of loss allowance	63	-	(40)	23
New financial assets originated or purchased	38	17	601	656
Derecognition of financial assets	(66)	(10)	(339)	(415)
Write-offs	-	-	(158)	(158)
Balance at December 31	<u>P 74</u>	<u>P 78</u>	<u>P 2,272</u>	<u>P 2,424</u>

Debt investment securities at amortized cost

Balance at January 1	P 45	P -	P 1,410	P 1,455
Transfers to:				
Stage 2	(1)	1	-	-
Net remeasurement of loss allowance	44	28	-	72
New financial assets originated or purchased	4	-	-	4
Foreign exchange	4	-	109	113
Derecognition of financial assets	(4)	-	-	(4)
Balance at December 31	<u>P 92</u>	<u>P 29</u>	<u>P 1,519</u>	<u>P 1,640</u>

Debt investment securities at FVOCI

Balance at January 1	P 37	P -	P -	P 37
Net remeasurement of loss allowance	13	60	-	73
New financial assets originated or purchased	2	-	-	2
Derecognition of financial assets	(10)	-	-	(10)
Balance at December 31	<u>P 42</u>	<u>P 60</u>	<u>P -</u>	<u>P 102</u>

Loan commitments and other contingent accounts

Balance at January 1	P 289	P -	P -	P 289
Net remeasurement of loss allowance	(54)	-	-	(54)
New financial assets originated or purchased	43	-	-	43
Derecognition of financial assets	(51)	-	-	(51)
Foreign exchange	6	-	-	6
Balance at December 31	<u>P 233</u>	<u>P -</u>	<u>P -</u>	<u>P 233</u>

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,200	P 11,699	P 10,053	P 27,952
Transfers to:				
Stage 1	398	(398)	-	-
Stage 2	218	(217)	(1)	-
Stage 3	(7)	(15)	22	-
Net remeasurement of loss allowance	(709)	6,187	1,646	7,124
New financial assets originated or purchased	3,515	877	3,959	8,351
Derecognition of financial assets	(2,213)	(1,151)	(1,351)	(4,715)
Write-offs	-	-	(1,256)	(1,256)
Foreign exchange	75	222	161	458
Balance at December 31	<u>P 7,477</u>	<u>P 17,204</u>	<u>P 13,233</u>	<u>P 37,914</u>

Parent Bank

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers –				
consumer				
Balance at January 1	P 7,558	P 671	P 17,808	P 26,037
Transfers to:				
Stage 1	2,832	(409)	(2,423)	-
Stage 2	(206)	370	(164)	-
Stage 3	(2,663)	(349)	3,012	-
Net remeasurement of loss allowance	(2,599)	159	9,508	7,068
New financial assets originated				
or purchased	1,033	58	797	1,888
Derecognition of financial assets	(763)	(86)	(1,832)	(2,681)
Write-offs	-	-	(6,967)	(6,967)
Foreign exchange	2	-	13	15
Balance at December 31	<u>P 5,194</u>	<u>P 414</u>	<u>P 19,752</u>	<u>P 25,360</u>
Other receivables				
Balance at January 1	P 62	P 19	P 2,204	P 2,285
Transfers to:				
Stage 1	13	(1)	(12)	-
Stage 3	(1)	-	1	-
Net remeasurement of loss allowance	(44)	55	89	100
New financial assets originated				
or purchased	21	15	520	556
Derecognition of financial assets	(21)	(11)	(465)	(497)
Write-offs	-	-	(128)	(128)
Foreign exchange	1	-	1	2
Balance at December 31	<u>P 31</u>	<u>P 77</u>	<u>P 2,210</u>	<u>P 2,318</u>
Debt investment securities at				
amortized cost				
Balance at January 1	P 229	P -	P 1,342	P 1,571
Net remeasurement of loss allowance	(175)	-	-	(175)
New financial assets originated				
or purchased	5	-	-	5
Foreign exchange	5	-	68	73
Derecognition of financial assets	(12)	-	-	(12)
Balance at December 31	<u>P 45</u>	<u>P -</u>	<u>P 1,410</u>	<u>P 1,455</u>
Debt investment securities at FVOCI				
Balance at January 1	P 108	P -	P -	P 108
Net remeasurement of loss allowance	(63)	-	-	(63)
New financial assets originated				
or purchased	8	-	-	8
Derecognition of financial assets	(16)	-	-	(16)
Balance at December 31	<u>P 37</u>	<u>P -</u>	<u>P -</u>	<u>P 37</u>
Loan commitments and other				
contingent accounts				
Balance at January 1	P 314	P 3	P -	P 317
Net remeasurement of loss allowance	(29)	-	-	(29)
New financial assets originated				
or purchased	66	-	-	66
Derecognition of financial assets	(65)	(3)	-	(68)
Foreign exchange	3	-	-	3
Balance at December 31	<u>P 289</u>	<u>P -</u>	<u>P -</u>	<u>P 289</u>

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

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Balance at January 1	P 69,553	P 60,895	P 67,373	P 58,270
Net remeasurement of loss allowance	13,307	14,163	12,926	14,025
New financial assets originated or purchased	17,048	11,418	16,445	10,874
Derecognition of financial assets	(13,715)	(8,508)	(13,407)	(7,996)
Write-offs	(8,608)	(8,966)	(8,139)	(8,351)
Foreign exchange	779	551	777	551
Balance at December 31	<u>P 78,364</u>	<u>P 69,553</u>	<u>P 75,975</u>	<u>P 67,373</u>

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

The tables below and in the succeeding pages provide information how the significant changes in the gross carrying amount of financial instruments in 2022 and 2021 contributed to the changes in the allowance for ECL.

BDO Unibank Group

	2022			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 1,733,956	P 116,369	P 19,030	P 1,869,355
Transfers to:				
Stage 1	38,178	(38,133)	(45)	-
Stage 2	(2,804)	2,929	(125)	-
Stage 3	(745)	(556)	1,301	-
New financial assets originated or purchased	1,674,386	13,508	6,417	1,694,311
Derecognition of financial assets	(1,520,487)	(19,015)	(7,805)	(1,547,307)
Write-offs	-	-	(1,017)	(1,017)
Balance at December 31	<u>P 1,922,484</u>	<u>P 75,102</u>	<u>P 17,756</u>	<u>P 2,015,342</u>
Receivables from customers – consumer				
Balance at January 1	P 473,756	P 3,043	P 54,039	P 530,838
Transfers to:				
Stage 1	32,222	(26,905)	(5,317)	-
Stage 2	(1,502)	1,927	(425)	-
Stage 3	(8,532)	(1,471)	10,003	-
New financial assets originated or purchased	214,499	26,655	617	241,771
Derecognition of financial assets	(149,883)	(641)	(16,190)	(166,714)
Write-offs	-	-	(7,426)	(7,426)
Balance at December 31	<u>P 560,560</u>	<u>P 2,608</u>	<u>P 35,301</u>	<u>P 598,469</u>

BDO Unibank Group

		2022							
		Stage 1		Stage 2		Stage 3		Total	
Other receivables									
Balance at January 1	P	115,309	P	470	P	2,674	P	118,453	
Transfers to:									
Stage 1		51	(	22)	(	29)		-
Stage 2	(	18)		27	(	9)		-
Stage 3	(	208)	(	12)		220		-
New financial assets originated or purchased		57,801		196		1,124		59,121	
Derecognition of financial assets	(	17,080)	(	124)	(	755)	(	17,959)
Write-offs		-		-		(165)		(165)	
Balance at December 31	<u>P</u>	<u>155,855</u>	<u>P</u>	<u>535</u>	<u>P</u>	<u>3,060</u>	<u>P</u>	<u>159,450</u>	
Debt investment securities at amortized cost									
Balance at January 1	P	397,595	P	-	P	1,410	P	399,005	
Amortization	(	1,621)		-		-	(	1,621)
New financial assets originated or purchased		158,756		-		-		158,756	
Foreign exchange		15,453		-		109		15,562	
Transfers to:									
Stage 2	(	56)		56		-		-
Derecognition of financial assets	(	57,999)		-		-	(	57,999)
Balance at December 31	<u>P</u>	<u>512,128</u>	<u>P</u>	<u>56</u>	<u>P</u>	<u>1,519</u>	<u>P</u>	<u>513,703</u>	
Debt investment securities at FVOCI									
Balance at January 1	P	165,461	P	-	P	-	P	165,461	
Amortization	(	749)		-		-	(	749)
Fair value gain	(	16,659)		-		-	(	16,659)
New financial assets originated or purchased		280,222		-		-		280,222	
Foreign Exchange		7,309		-		-		7,309	
Transfers to:									
Stage 2	(	53)		53		-		-
Derecognition of financial assets	(	274,230)		-		-	(	274,230)
Balance at December 31	<u>P</u>	<u>161,301</u>	<u>P</u>	<u>53</u>	<u>P</u>	<u>-</u>	<u>P</u>	<u>161,354</u>	
Loan commitments and other contingent accounts									
Balance at January 1	P	112,403	P	503	P	-	P	112,906	
New financial assets originated or purchased		106,296		30		-		106,326	
Derecognition of financial assets	(	87,426)	(	496)		-	(	87,922)
Balance at December 31	<u>P</u>	<u>131,273</u>	<u>P</u>	<u>37</u>	<u>P</u>	<u>-</u>	<u>P</u>	<u>131,310</u>	
		2021							
		Stage 1		Stage 2		Stage 3		Total	
Receivables from customers – corporate									
Balance at January 1	P	1,557,696	P	163,212	P	15,030	P	1,735,938	
Transfers to:									
Stage 1		13,931	(	13,930)	(	1)		-
Stage 2	(	1,875)		1,930	(	55)		-
Stage 3	(	471)	(	552)		1,023		-
New financial assets originated or purchased		1,306,861		5,575		5,714		1,318,150	
Derecognition of financial assets	(	1,142,186)	(	39,866)	(	1,425)	(	1,183,477)
Write-offs		-		-		(1,256)		(1,256)	
Balance at December 31	<u>P</u>	<u>1,733,956</u>	<u>P</u>	<u>116,369</u>	<u>P</u>	<u>19,030</u>	<u>P</u>	<u>1,869,355</u>	

BDO Unibank Group

		2021			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers – consumer					
Balance at January 1	P	475,090	P 7,149	P 45,525	P 527,764
Transfers to:					
Stage 1		10,022	(3,144)	(6,878)	-
Stage 2	(	2,097)	2,465	(368)	-
Stage 3	(	22,686)	(2,207)	24,893	-
New financial assets originated or purchased		131,086	293	3,877	135,256
Derecognition of financial assets	(	117,659)	(1,513)	(5,435)	(124,607)
Write-offs		-	-	(7,575)	(7,575)
Balance at December 31	<u>P</u>	<u>473,756</u>	<u>P 3,043</u>	<u>P 54,039</u>	<u>P 530,838</u>
Other receivables					
Balance at January 1	P	94,023	P 451	P 2,656	P 97,130
Transfers to:					
Stage 1		71	(14)	(57)	-
Stage 2	(	10)	13	(3)	-
Stage 3	(	85)	(3)	88	-
New financial assets originated or purchased		25,808	168	1,076	27,052
Derecognition of financial assets	(	4,498)	(145)	(951)	(5,594)
Write-offs		-	-	(135)	(135)
Balance at December 31	<u>P</u>	<u>115,309</u>	<u>P 470</u>	<u>P 2,674</u>	<u>P 118,453</u>
Debt investment securities at amortized cost					
Balance at January 1	P	287,067	P -	P 1,342	P 288,409
Amortization	(	1,202)	-	-	(1,202)
New financial assets originated or purchased		166,073	-	-	166,073
Foreign exchange		9,068	-	68	9,136
Derecognition of financial assets	(	63,411)	-	-	(63,411)
Balance at December 31	<u>P</u>	<u>397,595</u>	<u>P -</u>	<u>P 1,410</u>	<u>P 399,005</u>
Debt investment securities at FVOCI					
Balance at January 1	P	174,559	P -	P -	P 174,559
Amortization	(	483)	-	-	(483)
Fair value gain	(	5,576)	-	-	(5,576)
New financial assets originated or purchased		474,062	-	-	474,062
Foreign Exchange		4,986	-	-	4,986
Derecognition of financial assets	(	482,087)	-	-	(482,087)
Balance at December 31	<u>P</u>	<u>165,461</u>	<u>P -</u>	<u>P -</u>	<u>P 165,461</u>
Loan commitments and other contingent accounts					
Balance at January 1	P	96,509	P 145	P 16	P 96,670
Transfers to:					
Stage 1		48	(48)	-	-
New financial assets originated or purchased		54,277	451	-	54,728
Derecognition of financial assets	(	38,431)	(45)	(16)	(38,492)
Balance at December 31	<u>P</u>	<u>112,403</u>	<u>P 503</u>	<u>P -</u>	<u>P 112,906</u>

Parent Bank

	2022			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 1,728,038	P 116,364	P 19,026	P 1,863,428
Transfers to:				
Stage 1	37,967	(37,922)	(45)	-
Stage 2	(2,804)	2,929	(125)	-
Stage 3	(745)	(549)	1,294	-
New financial assets originated or purchased	1,670,470	13,295	6,417	1,690,182
Derecognition of financial assets	(1,517,988)	(19,015)	(7,802)	(1,544,805)
Write-offs	-	-	(1,015)	(1,015)
Balance at December 31	<u>P 1,914,938</u>	<u>P 75,102</u>	<u>P 17,750</u>	<u>P 2,007,790</u>
Receivables from customers – consumer				
Balance at January 1	P 438,721	P 2,743	P 46,659	P 488,123
Transfers to:				
Stage 1	5,227	(752)	(4,475)	-
Stage 2	(1,458)	1,871	(413)	-
Stage 3	(7,518)	(1,187)	8,705	-
New financial assets originated or purchased	154,030	154	328	154,512
Derecognition of financial assets	(94,089)	(558)	(11,168)	(105,815)
Write-offs	-	-	(6,966)	(6,966)
Balance at December 31	<u>P 494,913</u>	<u>P 2,271</u>	<u>P 32,670</u>	<u>P 529,854</u>
Other receivables				
Balance at January 1	P 111,300	P 406	P 2,318	P 114,024
Transfers to:				
Stage 1	38	(22)	(16)	-
Stage 2	(18)	(1)	19	-
Stage 3	(146)	1	145	-
New financial assets originated or purchased	44,451	156	1,008	45,615
Derecognition of financial assets	(1,150)	(124)	(630)	(1,904)
Write-offs	-	-	(158)	(158)
Balance at December 31	<u>P 154,475</u>	<u>P 416</u>	<u>P 2,686</u>	<u>P 157,577</u>
Debt investment securities at amortized cost				
Balance at January 1	P 377,427	P -	P 1,410	P 378,837
Amortization	(1,598)	-	-	(1,598)
New financial assets originated or purchased	155,205	-	-	155,205
Foreign exchange	14,987	-	109	15,096
Transfers to (from):				
Stage 2	(56)	56	-	-
Derecognition of financial assets	(54,641)	-	-	(54,641)
Balance at December 31	<u>P 491,324</u>	<u>P 56</u>	<u>P 1,519</u>	<u>P 492,899</u>
Debt investment securities at FVOCI				
Balance at January 1	P 114,095	P -	P -	P 114,095
Amortization	(583)	-	-	(583)
Fair value gain	(11,215)	-	-	(11,215)
New financial assets originated or purchased	258,406	-	-	258,406
Foreign exchange	6,239	-	-	6,239
Transfers to (from):				
Stage 2	(53)	53	-	-
Derecognition of financial assets	(258,836)	-	-	(258,836)
Balance at December 31	<u>P 108,053</u>	<u>P 53</u>	<u>P -</u>	<u>P 108,106</u>

Parent Bank

		2022			
		Stage 1	Stage 2	Stage 3	Total
Loan commitments and other contingent accounts					
Balance at January 1	P	112,403	P 503	P -	P 112,906
Transfers to Stage 2		-	-	-	-
New financial assets originated or purchased		106,296	30	-	106,326
Derecognition of financial assets	(	87,426)	(496)	-	(87,922)
Balance at December 31	P	131,273	P 37	P -	P 131,310
		2021			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate					
Balance at January 1	P	1,554,068	P 163,030	P 15,027	P 1,732,125
Transfers to:					
Stage 1		13,707	(13,707)	-	-
Stage 2	(	1,868)	1,922	(54)	-
Stage 3	(	470)	(550)	1,020	-
New financial assets originated or purchased		1,301,391	5,535	5,713	1,312,639
Derecognition of financial assets	(	1,138,790)	(39,866)	(1,424)	(1,180,080)
Write-offs		-	-	(1,256)	(1,256)
Balance at December 31	P	1,728,038	P 116,364	P 19,026	P 1,863,428
Receivables from customers – consumer					
Balance at January 1	P	446,247	P 4,590	P 41,533	P 492,370
Transfers to:					
Stage 1		7,056	(1,318)	(5,738)	-
Stage 2	(	1,887)	2,227	(340)	-
Stage 3	(	21,190)	(1,908)	23,098	-
New financial assets originated or purchased		99,753	145	482	100,380
Derecognition of financial assets	(	91,258)	(993)	(5,409)	(97,660)
Write-offs		-	-	(6,967)	(6,967)
Balance at December 31	P	438,721	P 2,743	P 46,659	P 488,123
Other receivables					
Balance at January 1	P	88,556	P 413	P 2,496	P 91,465
Transfers to:					
Stage 1		71	(14)	(57)	-
Stage 2	(	10)	13	(3)	-
Stage 3	(	73)	(2)	75	-
New financial assets originated or purchased		23,597	135	843	24,575
Derecognition of financial assets	(	841)	(139)	(908)	(1,888)
Write-offs		-	-	(128)	(128)
Balance at December 31	P	111,300	P 406	P 2,318	P 114,024
Debt investment securities at amortized cost					
Balance at January 1	P	267,901	P -	P 1,342	P 269,243
Amortization	(	1,186)	-	-	(1,186)
New financial assets originated or purchased		157,763	-	-	157,763
Foreign exchange		8,746	-	68	8,814
Derecognition of financial assets	(	55,797)	-	-	(55,797)
Balance at December 31	P	377,427	P -	P 1,410	P 378,837

Parent Bank

	2021			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at January 1	P 121,848	P -	P -	P 121,848
Amortization	(334)	-	-	(334)
Fair value gain	(2,861)	-	-	(2,861)
New financial assets originated or purchased	445,300	-	-	445,300
Foreign exchange	4,249	-	-	4,249
Derecognition of financial assets	(454,107)	-	-	(454,107)
Balance at December 31	<u>P 114,095</u>	<u>P -</u>	<u>P -</u>	<u>P 114,095</u>
Loan commitments and other contingent accounts				
Balance at January 1	P 96,509	P 145	P 16	P 96,670
Transfers to Stage 2	48	(48)	-	-
New financial assets originated or purchased	54,277	451	-	54,728
Derecognition of financial assets	(38,431)	(45)	(16)	(38,492)
Balance at December 31	<u>P 112,403</u>	<u>P 503</u>	<u>P -</u>	<u>P 112,906</u>

(k) Sensitivity Analysis on ECL Measurement

Set out below and in the succeeding page are the changes to the BDO Unibank Group's 12-month ECL as of December 31, 2022 and 2021 that would result from reasonably possible changes in these parameters from the actual assumptions used in the BDO Unibank Group's economic variable assumptions.

	Change in MEVs		Impact on ECL	
	Increase	Decrease	Increase in MEV	Decrease in MEV
2022				
Corporate or Commercial Loans:				
GDP growth rate	+1%	-1%	-6.9%	6.9%
Inflation rate	+1%	-1%	3.0%	-3.0%
Credit Card Receivables or Personal Loans:				
GDP growth rate	+1%	-1%	-1.2%	1.2%
Unemployment rate	+1%	-1%	1.8%	-1.8%
Home/Housing Loans:				
GDP growth rate	+1%	-1%	-0.2%	0.2%
Inflation rate	+1%	-1%	1.3%	-1.7%
Auto Loans:				
GDP growth rate	+1%	-1%	-0.02%	0.02%
Unemployment rate	+1%	-1%	1.4%	-1.4%

	Change in MEVs		Impact on ECL	
	Increase	Decrease	Increase in MEV	Decrease in MEV
<u>2021</u>				
Corporate or Commercial Loans:				
GDP growth rate	+1%	-1%	-6.8%	6.8%
Inflation rate	+1%	-1%	2.1%	-2.6%
Credit Card Receivables or Personal Loans:				
GDP growth rate	+1%	-1%	-1.4%	1.4%
Unemployment rate	+1%	-1%	1.1%	-1.1%
Home/Housing Loans:				
GDP growth rate	+1%	-1%	-0.6%	0.6%
Inflation rate	+1%	-1%	0.1%	-0.1%
Auto Loans:				
GDP growth rate	+1%	-1%	-0.5%	0.5%
Unemployment rate	+1%	-1%	3.7%	-3.7%

4.4 Operational Risk

Operational risk is the risk of loss due to the 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.

The 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, the 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 the 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.

The BDO Unibank Group likewise uses Loss Data Collection, Analysis and Reporting that allows the BDO Unibank Group to gather data per Basel loss event category across business lines. The collected data are processed for information and appropriate escalation, root cause analysis, control effectiveness and enables action plans to prevent recurrence.

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, KRIs and operational losses. 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 R.A. 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.

4.5 Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefits payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated, and subsequent development of long-term claims.

(a) *Terms and Conditions*

The BDO Unibank Group principally writes life insurance where the life of the policyholder is insured against death, illness, injury or permanent disability, usually for a predetermined amount. Life insurance contracts offered by the BDO Unibank Group mainly include whole life, term insurance, endowments, VUL products, group life insurance, and accident and health insurance.

- Whole life insurance and term insurance are conventional products where lump sum benefits are payable upon death of the insured.
- Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the fixed term is completed.
- VUL products differ from conventional policies. In VUL products, a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.
- Group life insurance covers a defined group of people insured by the employer under a master policy agreement that is normally issued on a yearly renewable term.
- Accident and health insurance covers payment of hospital and medical expenses when sickness, accidental injury, or accidental death happened to the insured.

(b) *Underwriting risk*

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising from the policyholder's death experience being higher than expected.
- Morbidity risk - risk of loss arising from the policyholder's health experience being higher than expected.
- Expense risk - risk of loss arising from expense experience being higher than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

Underwriting guidelines and limits for insurance and reinsurance contracts are regularly monitored for compliance and updated to reflect current requirements. To further control the underwriting risks, the BDO Unibank Group's Actuarial Department regularly assesses the adequacy of the insurance premiums and technical provisions. The risks of defaults by reinsurers are mitigated as the BDO Unibank Group only deals with accredited reinsurers. Additionally, provisions for known and unknown liabilities arising from the BDO Unibank Group's commitments are calculated using prudent actuarial methods.

The main underwriting strategies of the BDO Unibank Group to control risk are the use of reinsurance, which is discussed below, and the controlled granting of non-medical authority (NMA) to the sales force. The NMA is being given only to members of the sales force who either qualify by virtue of field experience or by passing a certain underwriting and training program. Actual experience is closely monitored and corrective actions are executed whenever necessary.

The BDO Unibank Group utilizes surplus reinsurance programs to manage its mortality risk from large fluctuations in claim experience. A summary of active reinsurance treaties is presented below.

- Individual Business - Surplus treaties covering traditional and VUL products from Individual Line which have retention limits of up to P3 for death benefit and supplementary benefits and 50% of Sum Assured for early stage and late stage critical illness benefit.
- Credit Group Life Business - Surplus treaties covering loan borrowers of Credit Group Life accounts which have retention limits of P6 for death benefit and P6 for supplementary benefits.
- Group Employee Benefit Business - Surplus treaties covering employees of accounts covered under Group Employee which have retention limits of P6 for death benefit and supplementary benefits.

4.6 Anti-Money Laundering Controls

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

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

1. R.A. No. 9160: *The Anti-Money Laundering Act of 2001* (AMLA) as amended by R.A. No 9194 (2003); R.A. 10167 (2012); R.A. 10365 (2013); R.A. No. 10927 (2017) and R.A. No. 11521 (2021); together with applicable Implementing Rules and Regulations (IRR)
2. BSP Circular No. 706 (2011), as amended by BSP Circular No. 950 (2017); and BSP Circular No. 1022 (2018)
3. R.A. 10168: *The Terrorism Financing Prevention and Suppression Act of 2012* and its IRR; R.A. 10697 *Strategic Trade Management Act (2015)* and its IRR; and the R.A. 11479 *Anti-Terrorism Act (2020)*

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

4.7 Impact of LIBOR Reform

The BDO Unibank Group currently has exposure to contracts with reference to LIBOR and extend beyond 2022, including swaps which will transition under the ISDA protocols.

In 2020, the Parent Bank established a steering committee, consisting of key finance, risk, information technology, treasury, legal and compliance personnel and external advisors, to oversee the BDO Unibank Group LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimizing the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at December 31, 2022, changes required to systems, processes and models have been implemented. There have been general communications with counterparties, but specific changes to contracts required by LIBOR reform have not yet been proposed or agreed. The BDO Unibank Group has identified that the areas of most significant risk arising from the replacement of LIBOR are: (i) updating systems and processes which capture LIBOR referenced contracts; (ii) amending affected contracts, or existing fallback/transition clauses not operating as anticipated; and, (iii) reviewing mismatches in timing of derivatives and loans transitioning from LIBOR and the resulting impact on economic risk management.

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

The following table contains details of all of the financial instruments that the BDO Unibank Group and the Parent Bank hold at December 31, 2022 and 2021 for each LIBOR rate that have not yet transitioned to SOFR or an alternative interest rate benchmark as of December 31, 2022 and 2021:

	Carrying value		Notional amount	
	2022	2021	2022	2021
<u>BDO Unibank Group</u>				
USD LIBOR	P 134,799	P 213,650	P 348,187	P 355,523
GBP LIBOR	1,950	2,931	3,124	3,226
EUR LIBOR	1,170	1,230	1,680	460
CHF LIBOR	-	-	61	-
JPY LIBOR	-	134	37	46
	<u>P 137,919</u>	<u>P 217,945</u>	<u>P 353,089</u>	<u>P 359,255</u>
<u>Parent Bank</u>				
USD LIBOR	P 125,116	P 206,548	P 273,651	P 298,000
GBP LIBOR	1,950	2,931	3,124	3,226
EUR LIBOR	1,170	1,230	1,680	460
CHF LIBOR	-	-	61	-
JPY LIBOR	-	134	37	46
	<u>P 128,236</u>	<u>P 210,843</u>	<u>P 278,553</u>	<u>P 301,732</u>

The breakdown of the financial instruments between non-derivative financial assets and liabilities and derivative instruments is as follows:

	<u>Carrying value</u>		<u>Notional amount</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<u>BDO Unibank Group</u>				
Non-derivative financial assets –				
Loans and other receivables	P 111,298	P 150,569	P -	P -
Other assets	3,303	4,666	-	-
Non-derivative financial liabilities –				
Bills payable	6,691	41,534	-	-
Other liabilities	-	9,282	-	-
Derivatives:				
Asset	8,760	6,236	165,327	175,774
Liability	7,867	5,658	187,762	183,481
	<u>P 137,919</u>	<u>P 217,945</u>	<u>P 353,089</u>	<u>P 359,255</u>
	<u>Carrying value</u>		<u>Notional amount</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<u>Parent Bank</u>				
Non-derivative financial assets –				
Loans and other receivables	P 111,298	P 150,569	P -	P -
Other assets	3,303	4,666	-	-
Non-derivative financial liabilities –				
Bills payable	6,691	41,534	-	-
Other liabilities	-	9,282	-	-
Derivatives:				
Asset	3,432	2,443	129,048	147,736
Liability	3,512	2,349	149,505	153,996
	<u>P 128,236</u>	<u>P 210,843</u>	<u>P 278,553</u>	<u>P 301,732</u>

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

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

- **Litigation risk:** If no agreement is reached to implement the interest rate benchmark reform on existing contracts (e.g., arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The BDO Unibank Group is working closely with all counterparties to avoid this from occurring.
- **Operational risk:** The BDO Unibank Group's current treasury management system has undergone updates to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks. The BDO Unibank Group is working closely with its system provider to ensure the relevant updates are made in good time and the BDO Unibank Group has alternative manual procedures in place with relevant controls to address any potential delay.

4.8 Maturity Profile of Resources and Liabilities

The table below presents the resources and liabilities analyzed according to whether these are expected to be recovered or settled in less than 12 months and over 12 months from statement of financial position date:

BDO Unibank Group

	2022			2021		
	Within 12 Months	Beyond 12 Months	Total	Within 12 Months	Beyond 12 Months	Total
Resources						
Cash and other cash items	P 82,944	P -	P 82,944	P 69,105	P -	P 69,105
Due from BSP and other banks	444,545	-	444,545	374,998	-	374,998
Trading and investment securities	91,776	631,054	722,830	95,000	521,261	616,261
Loans and other receivables - net	854,188	1,842,713	2,696,901	756,430	1,694,473	2,450,903
Premises, furniture, fixtures, and equipment - net	-	46,471	46,471	-	44,807	44,807
Investment properties - net	-	21,158	21,158	-	18,795	18,795
Other resources - net	16,787	43,072	59,859	118	48,762	48,880
	<u>P 1,490,240</u>	<u>P 2,584,468</u>	<u>P 4,074,708</u>	<u>P 1,295,651</u>	<u>P 2,328,098</u>	<u>P 3,623,749</u>
Liabilities						
Deposit liabilities	P 3,126,217	P 94,666	P 3,220,883	P 2,732,734	P 88,162	P 2,820,896
Bills payable	80,781	118,110	198,891	112,973	91,458	204,431
Insurance contract liabilities	7,844	56,519	64,363	3,375	61,953	65,328
Other liabilities	106,608	22,506	129,114	88,339	20,207	108,546
	<u>P 3,321,450</u>	<u>P 291,801</u>	<u>P 3,613,251</u>	<u>P 2,937,421</u>	<u>P 261,780</u>	<u>P 3,199,201</u>

Parent Bank

Resources						
Cash and other cash items	P 80,666	P -	P 80,666	P 66,440	P -	P 66,440
Due from BSP and other banks	433,265	-	433,265	367,009	-	367,009
Trading and investment securities	46,608	560,181	606,789	45,460	452,503	497,963
Loans and other receivables - net	839,832	1,781,389	2,621,221	734,057	1,665,926	2,399,983
Premises, furniture, fixtures, and equipment - net	-	42,394	42,394	-	41,586	41,586
Investment properties - net	-	13,173	13,173	-	11,263	11,263
Other resources - net	5,479	97,336	102,815	-	81,762	81,762
	<u>P 1,405,850</u>	<u>P 2,494,473</u>	<u>P 3,900,323</u>	<u>P 1,212,966</u>	<u>P 2,253,040</u>	<u>P 3,466,006</u>
Liabilities						
Deposit liabilities	P 3,050,839	P 90,177	P 3,141,016	P 2,664,655	P 87,060	P 2,751,715
Bills payable	74,225	114,647	188,872	106,016	90,158	196,174
Other liabilities	95,158	15,378	110,536	80,340	14,316	94,656
	<u>P 3,220,222</u>	<u>P 220,202</u>	<u>P 3,440,424</u>	<u>P 2,851,011</u>	<u>P 191,534</u>	<u>P 3,042,545</u>

5. CAPITAL MANAGEMENT

5.1 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 1, 2010 to January 1, 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 CET 1 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.

Under BSP Circular No. 781, universal banks with more than 100 branches are required to comply with the minimum capital requirement of P20 billion. As of December 31, 2022 and 2021, the Parent Bank has complied with the above capitalization requirement.

BSP issued Circular No. 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 No. 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 on 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, 2022 and 2021 as follows:

	BDO		
	<u>Unibank Group</u>	<u>Parent Bank</u>	
<u>December 31, 2022</u>			
Tier 1 Capital			
CET 1	P	437,138	P 437,314
Additional Tier 1		<u>6,180</u>	<u>6,180</u>
		443,318	443,494
Tier 2 Capital		<u>27,501</u>	<u>26,540</u>
Total Regulatory Capital		470,819	470,034
Deductions	(	<u>42,219)</u>	(<u>72,666)</u>
Total Qualifying Capital	P	<u>428,600</u>	P <u>397,368</u>
Total Risk-Weighted Assets	P	<u>2,954,935</u>	P <u>2,846,030</u>
Capital ratios:			
Total qualifying capital expressed as a percentage of total risk weighted assets		14.5%	14.0%
Tier 1 Capital Ratio		13.6%	13.0%
Total CET 1 Ratio		13.4%	12.8%

	BDO				
	<u>Unibank Group</u>			<u>Parent Bank</u>	
<u>December 31, 2021</u>					
Tier 1 Capital					
CET 1	P	403,388	P	404,134	
Additional Tier 1		<u>5,150</u>		<u>5,150</u>	
		408,538		409,284	
Tier 2 Capital		<u>25,209</u>		<u>24,265</u>	
Total Regulatory Capital		433,747		433,549	
Deductions	(	<u>35,097)</u>	(	<u>61,769)</u>	
Total Qualifying Capital	P	<u>398,650</u>	P	<u>371,780</u>	
Total Risk-Weighted Assets	P	<u>2,714,820</u>	P	<u>2,617,747</u>	
Capital ratios:					
Total qualifying capital expressed as a percentage of total risk weighted assets		14.7%		14.2%	
Tier 1 Capital Ratio		13.8%		13.3%	
Total CET 1 Ratio		13.6%		13.1%	

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.

5.2 Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% and shall be complied with at all times.

The Basel III leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure which include on-balance sheet, derivatives and securities financing transactions exposures and off-balance sheet items.

The BDO Unibank Group and the Parent Bank's Basel III leverage ratio as reported to the BSP are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<u>BDO Unibank Group</u>			
<u>Capital Measure</u>	9.8%	10.3%	10.2%
Exposure Measure			
<u>Parent Bank</u>			
<u>Capital Measure</u>	9.4%	9.9%	9.8%
Exposure Measure			

5.3 Liquidity Coverage Ratio and Net Stable Funding Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. Circular No. 905 requires the BDO Unibank Group to maintain available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflows for a 30-day period under stress conditions. The BDO Unibank Group has fully complied with the LCR minimum requirement of 100% coverage effective January 1, 2019.

To strengthen the BDO Unibank Group's short-term liquidity position and as a defense against potential onset of liquidity stress, it maintains adequate stock of unencumbered HQLAs that consists of cash or assets that can be freely converted into cash at little or no loss of value in private markets.

The BDO Unibank Group and the Parent Bank's LCR as of December 31, 2022, 2021, and 2020 are analyzed below.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<u>BDO Unibank Group</u>			
$\frac{\text{Total Stock of High – Quality Liquid Assets}}{\text{Total Net Cash Outflows}}$	140.7%	145.4%	127.1%
<u>Parent Bank</u>			
$\frac{\text{Total Stock of High – Quality Liquid Assets}}{\text{Total Net Cash Outflows}}$	141.2%	145.9%	129.0%

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular No. 1007, *Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the BDO Unibank Group's liquidity profile.

The BDO Unibank Group has fully complied with the NSFR minimum requirement of 100% coverage effective January 1, 2019.

To promote long-term resilience against liquidity risk, the BDO Unibank Group maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

The BDO Unibank Group and the Parent Bank's Basel III NSFR as of December 31, 2022, 2021 and 2020 are summarized below.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<u>BDO Unibank Group</u>			
<u>Available Stable Funding</u>	123.9%	123.5%	122.0%
Required Stable Funding			
<u>Parent Bank</u>			
<u>Available Stable Funding</u>	123.5%	123.1%	122.0%
Required Stable Funding			

6. SEGMENT REPORTING

6.1 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 remittance, holding, and realty management, 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.

6.2 Analysis of Segment Information

In 2022, the service line of Dominion Holdings was changed from Leasing and Financing to Others (See Note 30.3).

Segment information (by service lines) as of and for the years ended December 31, 2022, 2021 and 2020 are as follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
December 31, 2022							
Revenues							
From external customer							
Interest income	P 164,647	P 53	P 1,156	P 629	P 2,587	(P 1)	P 169,071
Interest expense	(19,532)	(2)	(76)	(156)	(76)	3	(19,839)
Net interest income	<u>145,115</u>	<u>51</u>	<u>1,080</u>	<u>473</u>	<u>2,511</u>	<u>2</u>	<u>149,232</u>
Intersegment revenue							
Interest income	182	2	-	-	6	72	262
Interest expense	(121)	(33)	(16)	(18)	(54)	(67)	(309)
Net interest income	<u>61</u>	<u>(31)</u>	<u>(16)</u>	<u>(18)</u>	<u>(48)</u>	<u>5</u>	<u>(47)</u>
Other operating income							
Investment banking fees	-	2,856	-	-	-	-	2,856
Others	<u>54,066</u>	<u>245</u>	<u>1,667</u>	<u>651</u>	<u>21,331</u>	<u>600</u>	<u>78,560</u>
	<u>54,066</u>	<u>3,101</u>	<u>1,667</u>	<u>651</u>	<u>21,331</u>	<u>600</u>	<u>81,416</u>
Total net revenues	<u>199,242</u>	<u>3,121</u>	<u>2,731</u>	<u>1,106</u>	<u>23,794</u>	<u>607</u>	<u>230,601</u>
Expenses							
Other operating expenses							
Depreciation and amortization	9,095	85	85	418	296	82	10,061
Impairment losses	16,321	1	(1)	20	26	3	16,370
Others	<u>101,738</u>	<u>1,039</u>	<u>1,325</u>	<u>341</u>	<u>18,340</u>	<u>346</u>	<u>123,129</u>
	<u>127,154</u>	<u>1,125</u>	<u>1,409</u>	<u>779</u>	<u>18,662</u>	<u>431</u>	<u>149,560</u>
Segment operating income	<u>72,088</u>	<u>1,996</u>	<u>1,322</u>	<u>327</u>	<u>5,132</u>	<u>176</u>	<u>81,041</u>
Tax expense	<u>13,961</u>	<u>592</u>	<u>120</u>	<u>88</u>	<u>1,156</u>	<u>42</u>	<u>15,959</u>
Segment net income	<u>P 58,127</u>	<u>P 1,404</u>	<u>P 1,202</u>	<u>P 239</u>	<u>P 3,976</u>	<u>P 134</u>	<u>P 65,082</u>

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
Statement of Financial Position							
Total resources							
Segment assets	P 3,975,178	P 8,071	P 36,985	P 8,515	P 92,672	P 10,505	P 4,131,926
Deferred tax assets (liabilities) - net	5,466	(173)	15	17	43	(13)	5,355
Intangible assets	<u>6,908</u>	<u>65</u>	<u>170</u>	<u>-</u>	<u>32</u>	<u>-</u>	<u>7,175</u>
	<u>P 3,987,552</u>	<u>P 7,963</u>	<u>P 37,170</u>	<u>P 8,532</u>	<u>P 92,747</u>	<u>P 10,492</u>	<u>P 4,144,456</u>
Total liabilities	<u>P 3,516,144</u>	<u>P 4,112</u>	<u>P 31,151</u>	<u>P 7,154</u>	<u>P 74,067</u>	<u>P 2,205</u>	<u>P 3,634,833</u>
Other segment information							
Capital expenditures	<u>P 6,794</u>	<u>P 31</u>	<u>P 7</u>	<u>P 585</u>	<u>P 1,160</u>	<u>P 36</u>	<u>P 8,613</u>
Investment in associates under equity method	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 5,654</u>	<u>P 5,654</u>
Share in the profit of associates	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 849</u>	<u>P 849</u>
December 31, 2021							
Revenues							
From external customer							
Interest income	P 140,997	P 7	P 1,108	P 632	P 2,133	P 2	P 144,879
Interest expense	(13,166)	(1)	(70)	(229)	(66)	(1)	(13,533)
Net interest income	<u>127,831</u>	<u>6</u>	<u>1,038</u>	<u>403</u>	<u>2,067</u>	<u>1</u>	<u>131,346</u>
Intersegment revenue							
Interest income	119	2	-	-	3	1	125
Interest expense	(16)	(45)	(4)	(28)	(11)	(65)	(169)
Net interest income	<u>103</u>	<u>(43)</u>	<u>(4)</u>	<u>(28)</u>	<u>(8)</u>	<u>(64)</u>	<u>(44)</u>
Other operating income							
Investment banking fees	-	2,268	-	-	-	-	2,268
Others	<u>42,725</u>	<u>277</u>	<u>1,451</u>	<u>809</u>	<u>20,412</u>	<u>543</u>	<u>66,217</u>
	<u>42,725</u>	<u>2,545</u>	<u>1,451</u>	<u>809</u>	<u>20,412</u>	<u>543</u>	<u>68,485</u>
Total net revenues	<u>170,659</u>	<u>2,508</u>	<u>2,485</u>	<u>1,184</u>	<u>22,471</u>	<u>480</u>	<u>199,787</u>
Expenses							
Other operating expenses							
Depreciation and amortization	8,424	85	72	531	137	85	9,334
Impairment losses	17,066	55	(20)	(20)	(18)	-	17,063
Others	<u>90,521</u>	<u>772</u>	<u>1,204</u>	<u>385</u>	<u>19,005</u>	<u>291</u>	<u>112,178</u>
	<u>116,011</u>	<u>912</u>	<u>1,256</u>	<u>896</u>	<u>19,124</u>	<u>376</u>	<u>138,575</u>
Segment operating income	54,648	1,596	1,229	288	3,347	104	61,212
Tax expense	<u>11,584</u>	<u>375</u>	<u>264</u>	<u>43</u>	<u>623</u>	<u>18</u>	<u>12,907</u>
Segment net income	<u>P 43,064</u>	<u>P 1,221</u>	<u>P 965</u>	<u>P 245</u>	<u>P 2,724</u>	<u>P 86</u>	<u>P 48,305</u>
Statement of Financial Position							
Total resources							
Segment assets	P 3,506,708	P 6,736	P 37,937	P 15,208	P 82,976	P 4,320	P 3,653,885
Deferred tax assets (liabilities) - net	6,843	(154)	15	16	53	(5)	6,768
Intangible assets	<u>7,194</u>	<u>76</u>	<u>21</u>	<u>-</u>	<u>44</u>	<u>1</u>	<u>7,336</u>
	<u>P 3,520,745</u>	<u>P 6,658</u>	<u>P 37,973</u>	<u>P 15,224</u>	<u>P 83,073</u>	<u>P 4,316</u>	<u>P 3,667,989</u>
Total liabilities	<u>P 3,091,065</u>	<u>P 2,455</u>	<u>P 31,905</u>	<u>P 8,072</u>	<u>P 71,798</u>	<u>P 2,212</u>	<u>P 3,207,507</u>
Other segment information							
Capital expenditures	<u>P 5,020</u>	<u>P 26</u>	<u>P 23</u>	<u>P 239</u>	<u>P 3,564</u>	<u>P 2</u>	<u>P 8,874</u>
Investment in associates under equity method	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 5,347</u>	<u>P 5,347</u>
Share in the profit of associates	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 814</u>	<u>P 814</u>

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
<u>December 31, 2020</u>							
Revenues							
From external customer							
Interest income	P 152,691	P 18	P 1,196	P 1,237	P 1,883	P 6	P 157,031
Interest expense	(22,536)	(3)	(196)	(502)	(86)	(8)	(23,331)
Net interest income	<u>130,155</u>	<u>15</u>	<u>1,000</u>	<u>735</u>	<u>1,797</u>	<u>(2)</u>	<u>133,700</u>
Intersegment revenues							
Interest income	238	9	-	2	13	1	263
Interest expense	(35)	(73)	(6)	(95)	(8)	(80)	(297)
Net interest income	<u>203</u>	<u>(64)</u>	<u>(6)</u>	<u>(93)</u>	<u>5</u>	<u>(79)</u>	<u>(34)</u>
Other operating income							
Investment banking fees	-	1,410	-	-	-	-	1,410
Others	<u>38,683</u>	<u>285</u>	<u>1,552</u>	<u>1,478</u>	<u>16,440</u>	<u>551</u>	<u>58,989</u>
	<u>38,683</u>	<u>1,695</u>	<u>1,552</u>	<u>1,478</u>	<u>16,440</u>	<u>551</u>	<u>60,399</u>
Total net revenues	<u>169,041</u>	<u>1,646</u>	<u>2,546</u>	<u>2,120</u>	<u>18,242</u>	<u>470</u>	<u>194,065</u>
Expenses							
Other operating expenses							
Depreciation and amortization	8,289	105	71	677	101	91	9,334
Impairment losses	29,714	19	9	444	54	-	30,240
Others	<u>85,849</u>	<u>817</u>	<u>1,168</u>	<u>549</u>	<u>16,059</u>	<u>290</u>	<u>104,732</u>
	<u>123,852</u>	<u>941</u>	<u>1,248</u>	<u>1,670</u>	<u>16,214</u>	<u>381</u>	<u>144,306</u>
Segment operating income	45,189	705	1,298	450	2,028	89	49,759
Tax expense	<u>16,462</u>	<u>262</u>	<u>291</u>	<u>171</u>	<u>571</u>	<u>19</u>	<u>17,776</u>
Segment net income	<u>P 28,727</u>	<u>P 443</u>	<u>P 1,007</u>	<u>P 279</u>	<u>P 1,457</u>	<u>P 70</u>	<u>P 31,983</u>
Statement of Financial Position							
Total resources							
Segment assets	P 3,262,339	P 6,522	P 41,408	P 16,223	P 70,354	P 4,388	P 3,401,234
Deferred tax assets (liabilities) - net	8,023	(166)	8	6	42	(2)	7,911
Intangible assets	<u>5,677</u>	<u>114</u>	<u>17</u>	<u>2</u>	<u>47</u>	<u>-</u>	<u>5,857</u>
	<u>P 3,276,039</u>	<u>P 6,470</u>	<u>P 41,433</u>	<u>P 16,231</u>	<u>P 70,443</u>	<u>P 4,386</u>	<u>P 3,415,002</u>
Total liabilities	<u>P 2,877,836</u>	<u>P 2,579</u>	<u>P 35,288</u>	<u>P 9,268</u>	<u>P 64,499</u>	<u>P 2,191</u>	<u>P 2,991,661</u>
Other segment information							
Capital expenditures	<u>P 4,019</u>	<u>P 12</u>	<u>P 10</u>	<u>P 314</u>	<u>P 24</u>	<u>P 4</u>	<u>P 4,383</u>
Investment in associates under equity method	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 5,015</u>	<u>P 5,015</u>
Share in the profit of associates	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 470</u>	<u>P 470</u>

6.3 Reconciliation

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenue			
Total segment net revenues	P 230,601	P 199,787	P 194,065
Elimination of intersegment revenues	(9,834)	(7,087)	(5,155)
Net revenues as reported in profit or loss	<u>P 220,767</u>	<u>P 192,700</u>	<u>P 188,910</u>
Profit or loss			
Total segment net income	P 65,082	P 48,305	P 31,983
Elimination of intersegment profit	(7,848)	(5,450)	(3,729)
Net profit as reported in profit or loss	<u>P 57,234</u>	<u>P 42,855</u>	<u>P 28,254</u>

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Resources			
Total segment resources	P 4,144,456	P 3,667,989	P 3,415,002
Elimination of intersegment assets	(<u>69,748</u>)	(<u>44,240</u>)	(<u>40,102</u>)
Total resources	<u>P 4,074,708</u>	<u>P 3,623,749</u>	<u>P 3,374,900</u>
Liabilities			
Total segment liabilities	P 3,634,833	P 3,207,507	P 2,991,661
Elimination of intersegment liabilities	(<u>21,582</u>)	(<u>8,306</u>)	(<u>9,782</u>)
Total liabilities	<u>P 3,613,251</u>	<u>P 3,199,201</u>	<u>P 2,981,879</u>

7. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

7.1 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

2022								
Classes								
At Amortized		At Fair		Carrying	Fair			
Cost		Value		Amount	Value			
Financial assets								
At amortized cost:								
Cash and other cash items	P	82,944	P	-	P	82,944	P	82,944
Due from BSP		385,779		-		385,779		385,783
Due from other banks		58,766		-		58,766		58,781
Loans and other receivables		2,696,901		-		2,696,901		2,736,010
Other resources		13,794		-		13,794		13,794
Investment securities		512,049		-		512,049		473,270
At FVTPL		-		44,712		44,712		44,712
At FVOCI		-		166,069		166,069		166,069
	P	3,750,233	P	210,781	P	3,961,014	P	3,961,363
Financial liabilities								
At amortized cost:								
Deposit liabilities	P	3,220,883	P	-	P	3,220,883	P	3,263,048
Bills payable		198,891		-		198,891		191,713
Insurance contract liabilities		64,363		-		64,363		64,363
Other liabilities		111,040		-		111,040		111,040
At fair value –								
Other liabilities		-		7,809		7,809		7,809
	P	3,595,177	P	7,809	P	3,602,986	P	3,637,973

BDO Unibank Group

		2021			
		Classes			
		At Amortized	At Fair	Carrying	Fair
		Cost	Value	Amount	Value
Financial assets					
At amortized cost:					
Cash and other cash items	P	69,105	P -	P 69,105	P 69,105
Due from BSP		304,906	-	304,906	304,907
Due from other banks		70,092	-	70,092	70,092
Loans and other receivables		2,450,903	-	2,450,903	2,460,214
Other resources		7,460	-	7,460	7,460
Investment securities		397,534	-	397,534	399,761
At FVTPL		-	47,934	47,934	47,934
At FVOCI		-	170,793	170,793	170,793
		<u>P 3,300,000</u>	<u>P 218,727</u>	<u>P 3,518,727</u>	<u>P 3,530,266</u>
Financial liabilities					
At amortized cost:					
Deposit liabilities	P	2,820,896	P -	P 2,820,896	P 2,861,596
Bills payable		204,431	-	204,431	206,988
Insurance contract liabilities		65,328	-	65,328	65,328
Other liabilities		91,875	-	91,875	91,875
At fair value -					
Other liabilities		-	5,742	5,742	5,742
		<u>P 3,182,530</u>	<u>P 5,742</u>	<u>P 3,188,272</u>	<u>P 3,231,529</u>

Parent Bank

		2022			
		Classes			
		At Amortized	At Fair	Carrying	Fair
		Cost	Value	Amount	Value
Financial assets					
At amortized cost:					
Cash and other cash items	P	80,666	P -	P 80,666	P 80,666
Due from BSP		382,210	-	382,210	382,214
Due from other banks		51,055	-	51,055	51,069
Loans and other receivables		2,621,221	-	2,621,221	2,661,224
Other resources		12,174	-	12,174	12,174
Investment securities		491,259	-	491,259	453,246
At FVTPL		-	5,883	5,883	5,883
At FVOCI		-	109,647	109,647	109,647
		<u>P 3,638,585</u>	<u>P 115,530</u>	<u>P 3,754,115</u>	<u>P 3,756,123</u>

Parent Bank

		2022			
		Classes			
		At Amortized	At Fair	Carrying	Fair
		Cost	Value	Amount	Value
Financial liabilities					
At amortized cost:					
Deposit liabilities	P	3,141,016	P -	P 3,141,016	P 3,171,809
Bills payable		188,872	-	188,872	184,359
Other liabilities		98,251	-	98,251	98,251
At fair value –					
Other liabilities		-	3,636	3,636	3,636
		<u>P 3,428,139</u>	<u>P 3,636</u>	<u>P 3,431,775</u>	<u>P 3,458,055</u>
		2021			
		Classes			
		At Amortized	At Fair	Carrying	Fair
		Cost	Value	Amount	Value
Financial assets					
At amortized cost:					
Cash and other cash items	P	66,440	P -	P 66,440	P 66,440
Due from BSP		302,660	-	302,660	302,661
Due from other banks		64,349	-	64,349	64,349
Loans and other receivables		2,399,983	-	2,399,983	2,412,229
Other resources		6,752	-	6,752	6,752
Investment securities		377,382	-	377,382	379,266
At FVTPL		-	4,616	4,616	4,616
At FVOCI		-	115,965	115,965	115,965
		<u>P 3,217,566</u>	<u>P 120,581</u>	<u>P 3,338,147</u>	<u>P 3,352,278</u>
Financial liabilities					
At amortized cost:					
Deposit liabilities	P	2,751,715	P -	P 2,751,715	P 2,787,683
Bills payable		196,174	-	196,174	198,756
Other liabilities		82,917	-	82,917	82,917
At fair value –					
Other liabilities		-	2,462	2,462	2,462
		<u>P 3,030,806</u>	<u>P 2,462</u>	<u>P 3,033,268</u>	<u>P 3,071,818</u>

7.2 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.

7.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2022 and 2021 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

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2022</u>					
Resources:					
Financial assets at FVTPL:	10.1				
Equity securities - quoted		P 25,197	P 784	P -	P 25,981
Government debt securities		7,135	-	-	7,135
Corporate debt securities		457	2,526	-	2,983
Derivative financial assets		-	8,613	-	8,613
		<u>32,789</u>	<u>11,923</u>	<u>-</u>	<u>44,712</u>
Financial assets at FVOCI:	10.2				
Government debt securities		109,782	-	-	109,782
Corporate debt securities		51,572	-	-	51,572
Equity securities - quoted		4,184	378	-	4,562
Equity securities - not quoted		-	114	39	153
		<u>165,538</u>	<u>492</u>	<u>39</u>	<u>166,069</u>
		<u>P 198,327</u>	<u>P 12,415</u>	<u>P 39</u>	<u>P 210,781</u>
Liabilities –					
Derivatives with negative fair values	21	P 101	P 7,708	P -	P 7,809
<u>December 31, 2021</u>					
Resources:					
Financial assets at FVTPL:	10.1				
Equity securities - quoted		P 28,752	P 2,844	P -	P 31,596
Government debt securities		5,427	-	-	5,427
Corporate debt securities		1,086	3,593	-	4,679
Derivative financial assets		-	6,232	-	6,232
		<u>35,265</u>	<u>12,669</u>	<u>-</u>	<u>47,934</u>
Financial assets at FVOCI:	10.2				
Government debt securities		110,182	-	-	110,182
Corporate debt securities		55,279	-	-	55,279
Equity securities - quoted		4,722	288	-	5,010
Equity securities - not quoted		-	-	322	322
		<u>170,183</u>	<u>288</u>	<u>322</u>	<u>170,793</u>
		<u>P 205,448</u>	<u>P 12,957</u>	<u>P 322</u>	<u>P 218,727</u>
Liabilities –					
Derivatives with negative fair values	21	P 91	P 5,651	P -	P 5,742

Parent Bank

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2022</u>					
Resources:					
Financial assets at FVTPL:	10.1				
Government debt securities		P 2,207	P -	P -	P 2,207
Derivative financial assets		-	3,468	-	3,468
Corporate debt securities		207	-	-	207
Equity securities - quoted		<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
		<u>2,415</u>	<u>3,468</u>	<u>-</u>	<u>5,883</u>
Financial assets at FVOCI:	10.2				
Government debt securities		66,465	-	-	66,465
Corporate debt securities		41,641	-	-	41,641
Equity securities - quoted		1,059	369	-	1,428
Equity securities - not quoted		<u>-</u>	<u>113</u>	<u>-</u>	<u>113</u>
		<u>109,165</u>	<u>482</u>	<u>-</u>	<u>109,647</u>
		<u>P 111,580</u>	<u>P 3,950</u>	<u>P -</u>	<u>P 115,530</u>
Liabilities –					
Derivatives with negative fair values	21	<u>P 101</u>	<u>P 3,535</u>	<u>P -</u>	<u>P 3,636</u>
<u>December 31, 2021</u>					
Resources:					
Financial assets at FVTPL:	10.1				
Government debt securities		P 1,919	P -	P -	P 1,919
Derivative financial assets		-	2,469	-	2,469
Corporate debt securities		227	-	-	227
Equity securities - quoted		<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
		<u>2,147</u>	<u>2,469</u>	<u>-</u>	<u>4,616</u>
Financial assets at FVOCI:	10.2				
Government debt securities		71,798	-	-	71,798
Corporate debt securities		42,297	-	-	42,297
Equity securities - quoted		1,306	282	-	1,588
Equity securities - not quoted		<u>-</u>	<u>-</u>	<u>282</u>	<u>282</u>
		<u>115,401</u>	<u>282</u>	<u>282</u>	<u>115,965</u>
		<u>P 117,548</u>	<u>P 2,751</u>	<u>P 282</u>	<u>P 120,581</u>
Liabilities –					
Derivatives with negative fair values	21	<u>P 91</u>	<u>P 2,371</u>	<u>P -</u>	<u>P 2,462</u>

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

Discussed 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)].

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

The tables below and in the succeeding pages summarize the fair value hierarchy of the BDO Unibank Group and the 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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2022</u>				
Resources:				
Cash and other cash items	P 82,944	P -	P -	P 82,944
Due from BSP	385,783	-	-	385,783
Due from other banks	58,781	-	-	58,781
Investment securities at amortized cost	470,887	-	2,383	473,270
Loans and other receivables	388	-	2,735,622	2,736,010
Other resources	<u>12,273</u>	<u>-</u>	<u>1,521</u>	<u>13,794</u>
	<u>P 1,011,056</u>	<u>P -</u>	<u>P 2,739,526</u>	<u>P 3,750,582</u>
Liabilities:				
Deposit liabilities	P -	P -	P 3,263,048	P 3,263,048
Bills payable	-	133,311	58,402	191,713
Insurance contract liabilities	-	-	64,363	64,363
Other liabilities	<u>-</u>	<u>-</u>	<u>111,040</u>	<u>111,040</u>
	<u>P -</u>	<u>P 133,311</u>	<u>P 3,496,853</u>	<u>P 3,630,164</u>
<u>December 31, 2021</u>				
Resources:				
Cash and other cash items	P 69,105	P -	P -	P 69,105
Due from BSP	304,907	-	-	304,907
Due from other banks	70,092	-	-	70,092
Investment securities at amortized cost	399,761	-	-	399,761
Loans and other receivable	271	-	2,459,943	2,460,214
Other resources	<u>6,180</u>	<u>-</u>	<u>1,280</u>	<u>7,460</u>
	<u>P 850,316</u>	<u>P -</u>	<u>P 2,461,223</u>	<u>P 3,311,539</u>
Liabilities:				
Deposit liabilities	P -	P -	P 2,861,596	P 2,861,596
Bills payable	-	152,235	54,753	206,988
Insurance contract liabilities	-	-	65,328	65,328
Other liabilities	<u>-</u>	<u>-</u>	<u>91,875</u>	<u>91,875</u>
	<u>P -</u>	<u>P 152,235</u>	<u>P 3,073,552</u>	<u>P 3,225,787</u>

Parent Bank

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2022</u>				
Resources:				
Cash and other cash items	P 80,666	P -	P -	P 80,666
Due from BSP	382,214	-	-	382,214
Due from other banks	51,069	-	-	51,069
Investment securities at amortized cost	453,246	-	-	453,246
Loans and other receivables	-	-	2,661,224	2,661,224
Other resources	<u>10,961</u>	<u>-</u>	<u>1,213</u>	<u>12,174</u>
	<u>P 978,156</u>	<u>P -</u>	<u>P 2,662,437</u>	<u>P 3,640,593</u>
Liabilities:				
Deposit liabilities	P -	P -	P 3,171,809	P 3,171,809
Bills payable	-	133,311	51,048	184,359
Other liabilities	<u>-</u>	<u>-</u>	<u>98,251</u>	<u>98,251</u>
	<u>P -</u>	<u>P 133,311</u>	<u>P 3,321,108</u>	<u>P 3,454,419</u>
<u>December 31, 2021</u>				
Resources:				
Cash and other cash items	P 66,440	P -	P -	P 66,440
Due from BSP	302,661	-	-	302,661
Due from other banks	64,349	-	-	64,349
Investment securities at amortized cost	379,266	-	-	379,266
Loans and other receivables	-	-	2,412,229	2,412,229
Other resources	<u>5,784</u>	<u>-</u>	<u>968</u>	<u>6,752</u>
	<u>P 818,500</u>	<u>P -</u>	<u>P 2,413,197</u>	<u>P 3,231,697</u>
Liabilities:				
Deposit liabilities	P -	P -	P 2,787,683	P 2,787,683
Bills payable	-	152,235	46,521	198,756
Other liabilities	<u>-</u>	<u>-</u>	<u>82,917</u>	<u>82,917</u>
	<u>P -</u>	<u>P 152,235</u>	<u>P 2,917,121</u>	<u>P 3,069,356</u>

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

(a) *Cash and Other Cash Items*

Cash consists primarily of funds in the form of Philippine currency notes and coins in the BDO Unibank Group and the Parent Bank's vault and those in the possession of tellers, including automated teller machines (see Note 8).

Other cash items includes cash items other than currency and coins on hand (see Note 15) such as checks drawn on the other banks or other branches that were received after the BDO Unibank Group and the Parent Bank's clearing cut-off time until the close of the regular banking hours. Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

(b) *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. 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.

(c) *Investment Securities at Amortized Cost*

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

(d) *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.

(e) *Deposits and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits 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.

(f) *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.

7.5 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, 2022 and 2021 are shown below.

BDO Unibank Group

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2022</u>				
Investment properties				
Land	P -	P -	P 29,677	P 29,677
Building and improvements	-	-	14,720	14,720
Non-current assets held for sale	-	-	3,251	3,251
	<u>P -</u>	<u>P -</u>	<u>P 47,648</u>	<u>P 47,648</u>

December 31, 2021

Investment properties				
Land	P -	P -	P 27,349	P 27,349
Building and improvements	-	-	12,786	12,786
Non-current assets held for sale	-	-	1,825	1,825
	<u>P -</u>	<u>P -</u>	<u>P 41,960</u>	<u>P 41,960</u>

Parent Bank

December 31, 2022

Investment properties				
Land	P -	P -	P 22,735	P 22,735
Building and improvements	-	-	13,798	13,798
Non-current assets held for sale	-	-	3,251	3,251
	<u>P -</u>	<u>P -</u>	<u>P 39,784</u>	<u>P 39,784</u>

December 31, 2021

Investment properties				
Land	P -	P -	P 20,819	P 20,819
Building and improvements	-	-	11,917	11,917
Non-current assets held for sale	-	-	1,824	1,824
	<u>P -</u>	<u>P -</u>	<u>P 34,560</u>	<u>P 34,560</u>

The fair value of the investment properties of the BDO Unibank Group and the Parent Bank as of December 31, 2022 and 2021 (see Note 14) 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 in the previous page is their current use. The fair value discussed in the previous page as determined by the appraisers were used by the BDO Unibank Group and the Parent Bank in determining the fair value of investment properties and non-current assets held for sale.

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

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square foot; hence, the higher the price the higher the fair value. On the other hand, if fair value of the land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, fair value is included in Level 2. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property, minor adjustments on the price is made to consider peculiarities of the property with that of the benchmark property.

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

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

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

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

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Further, there were no transfers into or out of Level 3 fair value hierarchy in 2022 and 2021.

7.6 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, 2022 and 2021 are subject to offsetting, enforceable master netting arrangements and similar agreements.

BDO Unibank Group

		<u>Financial Assets</u>		<u>Financial Liabilities Available for Set-off</u>		<u>Collateral Received</u>		<u>Net Amount</u>
<u>December 31, 2022</u>								
Financial assets at FVOCI	P	5,535	P	4,799	P	-	P	736
Investment securities at amortized cost		17,038		10,380		-		6,658
Financial assets at FVTPL:								
Currency swaps		856		819		-		37
Interest rate swaps		70		69		-		1
Loans and receivables –								
Receivables from customers		<u>23,795</u>		<u>-</u>		<u>20,886</u>		<u>2,909</u>
	P	<u>47,294</u>	P	<u>16,067</u>	P	<u>20,886</u>	P	<u>10,341</u>

December 31, 2021

Financial assets at FVTPL:								
Currency swaps	P	617	P	572	P	-	P	45
Interest rate swaps		64		59		-		5
Loans and receivables –								
Receivables from customers		<u>29,497</u>		<u>-</u>		<u>26,216</u>		<u>3,281</u>
	P	<u>30,178</u>	P	<u>631</u>	P	<u>26,216</u>	P	<u>3,331</u>

Parent Bank

December 31, 2022

Financial assets at FVOCI	P	2,508	P	2,298	P	-	P	210
Investment securities at amortized cost		13,683		10,380		-		3,303
Financial assets at FVTPL:								
Currency swaps		111		110		-		1
Interest rate swaps		67		66		-		1
Loans and receivables –								
Receivables from customers		<u>20,363</u>		<u>-</u>		<u>20,363</u>		<u>-</u>
	P	<u>36,732</u>	P	<u>12,854</u>	P	<u>20,363</u>	P	<u>3,515</u>

Parent Bank

	<u>Financial Assets</u>	<u>Financial Liabilities Available for Set-off</u>	<u>Collateral Received</u>	<u>Net Amount</u>
<u>December 31, 2021</u>				
Financial assets at FVTPL:				
Currency swaps	P 5	P 5	P -	P -
Interest rate swaps	54	53	-	1
Loans and receivables –				
Receivables from customers	<u>26,045</u>	<u>-</u>	<u>26,045</u>	<u>-</u>
	<u>P 26,104</u>	<u>P 58</u>	<u>P 26,045</u>	<u>P 1</u>

The currency forwards and interest rate swaps relate 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

	<u>Financial Liabilities</u>	<u>Financial Assets Available for Set-off</u>	<u>Collateral Given</u>	<u>Net Amount</u>
<u>December 31, 2022</u>				
Deposit liabilities	P 38,295	P 20,886	P -	P 17,409
Bills payable	15,179	-	15,179	-
Derivatives with negative fair values:				
Currency swaps	1,070	819	-	251
Interest rate swaps	<u>79</u>	<u>69</u>	<u>-</u>	<u>10</u>
	<u>P 54,623</u>	<u>P 21,774</u>	<u>P 15,179</u>	<u>P 17,670</u>
<u>December 31, 2021</u>				
Deposit liabilities	P 32,393	P 26,216	P -	P 6,177
Bills payable	1,088	-	1,088	-
Derivatives with negative fair values:				
Currency swaps	629	572	-	57
Interest rate swaps	<u>72</u>	<u>59</u>	<u>-</u>	<u>13</u>
	<u>P 34,182</u>	<u>P 26,847</u>	<u>P 1,088</u>	<u>P 6,247</u>

Parent Bank

	<u>Financial Liabilities</u>	<u>Financial Assets Available for Set-off</u>	<u>Collateral Given</u>	<u>Net Amount</u>
<u>December 31, 2022</u>				
Deposit liabilities	P 37,772	P 20,363	P -	P 17,409
Bills payable	12,679	-	12,679	-
Derivatives with negative fair values:				
Currency swaps	361	110	-	251
Interest rate swaps	<u>75</u>	<u>66</u>	<u>-</u>	<u>9</u>
	<u>P 50,887</u>	<u>P 20,539</u>	<u>P 12,679</u>	<u>P 17,669</u>
<u>December 31, 2021</u>				
Deposit liabilities	P 32,222	P 26,045	P -	P 6,177
Derivatives with negative fair values:				
Currency swaps	62	5	-	57
Interest rate swaps	<u>66</u>	<u>53</u>	<u>-</u>	<u>13</u>
	<u>P 32,350</u>	<u>P 26,103</u>	<u>P -</u>	<u>P 6,247</u>

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

8. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Cash and other cash items	<u>P 82,944</u>	<u>P 69,105</u>	<u>P 80,666</u>	<u>P 66,440</u>
Due from BSP:				
Mandatory reserves	308,817	271,953	306,448	269,707
Other than mandatory reserves	<u>76,962</u>	<u>32,953</u>	<u>75,762</u>	<u>32,953</u>
	<u>385,779</u>	<u>304,906</u>	<u>382,210</u>	<u>302,660</u>
	<u>P 468,723</u>	<u>P 374,011</u>	<u>P 462,876</u>	<u>P 369,100</u>

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims (see Note 17).

The Parent Bank opened a Special Savings Account (SSA) with the BSP to comply with InstaPay facility requirement. As of December 31, 2022 and 2021, the balance of this account amounted to P706 and P770, respectively, and is presented as part of Due from BSP.

In 2022, the Parent Bank opened a Demand Deposit Account 3 with the BSP for PESONet transactions. As of December 31, 2022, the balance of this account amounted to P14,431 and is presented as part of Due from BSP.

Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate as follows:

<u>2022</u>	<u>2021</u>	<u>2020</u>
1.50% – 6.45%	1.50% – 1.96%	1.50% – 4.13%

The total interest income earned amounted to P2,558, P1,487 and P1,892 in 2022, 2021 and 2020, respectively, in BDO Unibank Group's statements of income, and P2,533, P1,483 and P1,886 in 2022, 2021 and 2020, respectively, in the Parent Bank's statements of income (see Note 23).

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

9. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	Note	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Foreign banks		P 53,513	P 66,185	P 49,995	P 63,193
Local banks		<u>5,268</u>	<u>3,907</u>	<u>1,074</u>	<u>1,156</u>
		58,781	70,092	51,069	64,349
Allowance for impairment	16	(<u>15</u>)	-	(<u>14</u>)	-
		<u>P 58,766</u>	<u>P 70,092</u>	<u>P 51,055</u>	<u>P 64,349</u>

The breakdown of this account as to currency follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
U.S. dollars	P 45,474	P 57,669	P 41,778	P 54,480
Other foreign currencies	9,712	10,732	8,833	9,708
Philippine pesos	<u>3,580</u>	<u>1,691</u>	<u>444</u>	<u>161</u>
	<u>P 58,766</u>	<u>P 70,092</u>	<u>P 51,055</u>	<u>P 64,349</u>

Annual interest rates on these deposits range from:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
BDO Unibank Group	0.00% – 5.50%	0.00% – 1.50%	0.00% – 3.38%
Parent Bank	0.00% – 4.40%	0.00% – 1.00%	0.00% – 1.00%

There are deposits such as current accounts, which do not earn interest. The total interest income earned amounted to P808, P67, and P266 in 2022, 2021, and 2020, respectively, in the BDO Unibank Group's statements of income, and P674, P50, and P234, in 2022, 2021, and 2020, respectively, in the Parent Bank's statements of income (see Note 23). Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

10. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

	Note	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Financial assets at FVTPL	10.1	P 44,712	P 47,934	P 5,883	P 4,616
Financial assets at FVOCI	10.2	166,069	170,793	109,647	115,965
Investment securities at amortized cost - net	10.3	<u>512,049</u>	<u>397,534</u>	<u>491,259</u>	<u>377,382</u>
		<u>P 722,830</u>	<u>P 616,261</u>	<u>P 606,789</u>	<u>P 497,963</u>

10.1 Financial Assets at FVTPL

This account is composed of the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Derivative financial assets	P 8,613	P 6,232	P 3,468	P 2,469
Government debt securities	7,135	5,427	2,207	1,919
Corporate debt securities	<u>2,983</u>	<u>4,679</u>	<u>207</u>	<u>227</u>
	18,731	16,338	5,882	4,615
Equity securities - quoted	<u>25,981</u>	<u>31,596</u>	<u>1</u>	<u>1</u>
	<u>P 44,712</u>	<u>P 47,934</u>	<u>P 5,883</u>	<u>P 4,616</u>

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		
		2022	2021	2020
Interest income	23	P 103	P 92	P 122
Trading gain (loss) - net	25	(728)	(214)	1,261
Dividend income	25	66	118	71
Foreign exchange gain (loss)	25	(357)	71	(214)
Total other income (loss)		(1,019)	(25)	1,118
Total other expenses		1	1	2
Net income/(loss)		(P 917)	P 66	P 1,238

	Notes	Parent Bank		
		2022	2021	2020
Interest income	23	P 69	P 59	P 84
Trading gain (loss) - net	25	(333)	(648)	1,422
Net income (loss)		(P 264)	(P 589)	P 1,506

Effective interest rates of debt securities at FVTPL for both BDO Unibank Group and the Parent Bank range from:

	2022	2021	2020
BDO Unibank Group			
Government debt securities	1.37% – 10.63%	0.88% – 10.62%	0.63% – 10.63%
Corporate debt securities	0.09% – 8.51%	0.09% – 8.51%	0.09% – 8.51%
Parent Bank			
Government debt securities	1.38% – 9.50%	0.88% – 9.50%	0.63% – 10.63%
Corporate debt securities	2.13% – 8.51%	2.50% – 8.51%	3.00% – 8.51%

Foreign currency-denominated securities amounted to P7,857 and P6,622 as of December 31, 2022 and 2021, respectively, in the BDO Unibank Group's statements of financial position, and P3,649 and P2,759 as of December 31, 2022 and 2021, respectively, in the Parent Bank's statements of financial position.

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 or 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. Income derived from these derivative instruments are part of trading gains/(losses) (see Note 25).

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 21 and 27(d)(i)(4)].

	2022			2021		
	Notional	Fair Values		Notional	Fair Values	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
BDO Unibank Group						
Currency forwards/futures	P 287,952	P 2,913	P 3,026	P 313,246	P 2,091	P 2,118
Cross currency swaps	70,995	5,630	4,602	54,243	4,041	3,440
Interest rate swaps	9,320	70	81	13,986	99	93
Interest rate future sold trading	1,417	-	-	1,661	1	-
ROP warrants	8,475	-	100	8,475	-	91
	<u>P 378,159</u>	<u>P 8,613</u>	<u>P 7,809</u>	<u>P 391,611</u>	<u>P 6,232</u>	<u>P 5,742</u>
Parent Bank						
Currency forwards/futures	P 285,316	P 2,896	P 3,008	P 309,373	P 2,086	P 2,045
Cross currency swaps	9,781	505	453	8,792	329	259
Interest rate swaps	8,220	67	75	8,986	54	66
ROP warrants	8,475	-	100	8,475	-	92
	<u>P 311,792</u>	<u>P 3,468</u>	<u>P 3,636</u>	<u>P 335,626</u>	<u>P 2,469</u>	<u>P 2,462</u>

Certain financial assets at FVTPL are subject to offsetting against the related derivatives with negative fair values. This indicates an enforceable master netting arrangements and similar agreements with an intention to settle on a net basis (see Note 7.6).

10.2 Financial Assets at FVOCI

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

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Government debt securities	P 109,782	P 110,182	P 66,465	P 71,798
Corporate debt securities	51,572	55,279	41,641	42,297
Equity securities:				
Quoted	4,562	5,010	1,428	1,588
Not quoted	153	322	113	282
	<u>P 166,069</u>	<u>P 170,793</u>	<u>P 109,647</u>	<u>P 115,965</u>

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

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Foreign currencies	P 80,243	P 86,804	P 71,632	P 74,197
Philippine peso	85,826	83,989	38,015	41,768
	<u>P 166,069</u>	<u>P 170,793</u>	<u>P 109,647</u>	<u>P 115,965</u>

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Within one year	P 17,722	P 17,781	P 13,164	P 13,743
One to five years	60,848	64,349	43,368	46,361
Beyond five years	87,499	88,663	53,115	55,861
	<u>P 166,069</u>	<u>P 170,793</u>	<u>P 109,647</u>	<u>P 115,965</u>

Effective interest rates of financial assets at FVOCI range from:

	2022	2021	2020
BDO Unibank Group			
Government debt securities	0.53% – 5.75%	0.06% – 5.69%	0.06% – 6.77%
Corporate debt securities	1.87% – 8.76%	0.42% – 7.38%	0.82% – 8.29%
Parent Bank			
Government debt securities	0.54% – 5.75%	0.54% – 5.69%	1.50% – 6.77%
Corporate debt securities	1.87% – 8.76%	1.66% – 7.38%	2.14% – 8.29%

The fair values of government debt, quoted equity securities and corporate debt securities have been determined directly by reference to published prices generated in an active market (see Note 7.3).

The reconciliation of the carrying amounts of financial assets at FVOCI is as follows:

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Balance at beginning of year	P 170,793	P 184,881	P 115,965	P 126,922
Additions	285,428	476,166	258,499	446,867
Disposals	(279,483)	(489,677)	(259,519)	(459,326)
Unrealized fair value losses	(18,457)	(5,259)	(11,945)	(2,524)
Foreign currency revaluation	7,821	4,963	6,675	4,199
Realized fair value losses on FVOCI	(33)	(309)	(28)	(201)
Reclassification	-	28	-	28
Balance at end of year	<u>P 166,069</u>	<u>P 170,793</u>	<u>P 109,647</u>	<u>P 115,965</u>

The reconciliation of unrealized fair value losses on financial assets at FVOCI reported under equity is shown below.

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Balance at beginning of year	(P 1,630)	P 4,008	(P 348)	P 2,459
Changes on unrealized fair value gains (losses) during the year:				
Fair value losses during the year	(18,381)	(5,230)	(11,945)	(2,524)
Expected credit losses on FVOCI securities	67	(88)	65	(71)
Deferred tax assets (liabilities)	21	(11)	22	(11)
Adjustment	6	-	6	-
	(19,917)	(1,321)	(12,200)	(147)
Realized fair value gains on securities disposed during the year - net	(33)	(309)	(28)	(201)
Balance at end of year	(P 19,950)	(P 1,630)	(P 12,228)	(P 348)
Net unrealized fair value gains (losses), net of tax:				
Attributable to:				
Shareholder of the Parent Bank	(P 18,381)	(P 5,230)		
Non-controlling interest	(76)	(29)		
	(P 18,457)	(P 5,259)		

The Parent Bank disposed of FVOCI securities under equity amounting to P6 and P3,222 in 2022 and 2021, respectively, while the BDO Unibank Group disposed a total of FVOCI equity securities amounting to P181 and P5,454 in 2022 and 2021, respectively.

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.

The BDO Unibank Group and the Parent Bank recognized gain on disposal of FVOCI securities amounting to P8 and P13, respectively, in 2022, P278 and P191, respectively, in 2021, and P644 and P178, respectively in 2020.

Impairment losses (recoveries) recognized for FVOCI debt securities presented in NUGL for BDO Unibank Group and the Parent Bank amounted to P67 and P65, respectively, in 2022, (P88) and (P71), respectively, in 2021 and P37 and P36, respectively, in 2020. The total accumulated impairment losses presented in NUGL for the BDO Unibank Group and the Parent Bank amounted to P117 and P102, respectively, as of December 31, 2022, and P50 and P37, respectively, as of December 31, 2021 (see Note 4.3.5).

10.3 Investment Securities at Amortized Cost

This account consists of:

	Note	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Government debt securities		P 442,970	P 334,935	P 427,074	P 320,925
Corporate debt securities:					
Quoted		66,832	59,255	64,306	56,523
Not quoted		3,901	4,815	1,519	1,389
		513,703	399,005	492,899	378,837
Allowance for impairment	16	(1,654)	(1,471)	(1,640)	(1,455)
		P 512,049	P 397,534	P 491,259	P 377,382

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

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Foreign currencies	P 196,188	P 164,529	P 190,632	P 159,235
Philippine peso	315,861	233,005	300,627	218,147
	P 512,049	P 397,534	P 491,259	P 377,382

The maturity profile of this account is presented below.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Less than one year	P 29,342	P 29,285	P 27,561	P 27,101
One to five years	227,742	166,980	211,611	155,595
Beyond five years	254,965	201,269	252,087	194,686
	P 512,049	P 397,534	P 491,259	P 377,382

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

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 397,534	P 286,819	P 377,382	P 267,672
Additions	161,048	169,502	155,379	161,191
Maturities and disposals	(61,913)	(68,042)	(56,413)	(60,412)
Foreign currency gains - net	15,449	9,063	14,983	8,741
Impairment loss	(69)	192	(72)	190
Balance at end of year	P 512,049	P 397,534	P 491,259	P 377,382

Effective interest rates of investment securities at amortized cost for both BDO Unibank Group and Parent Bank range from:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
BDO Unibank Group			
Government debt securities	0.18% – 8.64%	0.05% – 7.60%	0.20% – 7.60%
Corporate debt securities	1.27% – 7.82%	1.29% – 8.41%	0.39% – 8.41%
Parent Bank			
Government debt securities	0.18% – 7.56%	0.05% – 7.60%	0.20% – 7.60%
Corporate debt securities	1.82% – 7.82%	1.82% – 7.82%	0.39% – 7.82%

In 2022, the BDO Unibank Group and the Parent Bank disposed of debt securities from its amortized cost portfolio amounting to P1,801 and P749, respectively, resulting in a trading net gain amounting to P13 and P13, respectively. These disposals were all initiated by the issuers. In 2021, the BDO Unibank Group and the Parent Bank disposed of debt securities from its amortized cost portfolio amounting to P1,565 and P285, respectively, resulting in a trading net gain amounting to P78 and P30, respectively. These disposals were initiated by the Parent Bank because of the deteriorating profile of the securities sold. Management has assessed that such disposals of investment securities in 2022 and 2021 are consistent with the BDO Unibank Group and the Parent Bank's investment at amortized cost business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the BDO Unibank Group's business model in managing financial assets manual and the requirements of PFRS 9. The disposal of investment securities was approved by the Investments Committee in compliance with the documentation requirements of the BSP.

As mentioned in Note 28, certain government debt securities are deposited with the BSP.

11. LOANS AND OTHER RECEIVABLES

This account consists of the following:

Notes	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Receivables from customers:				
Loans and discounts	27 P 2,391,044	P 2,205,151	P 2,314,453	P 2,156,282
Credit card receivables	127,922	106,789	127,922	106,789
Customers' liabilities under letters of credit and trust receipts	85,295	80,217	85,295	80,217
Bills purchased	10,895	8,360	10,885	8,358
	<u>2,615,156</u>	<u>2,400,517</u>	<u>2,538,555</u>	<u>2,351,646</u>
Unearned interests or discounts	(1,345)	(324)	(911)	(95)
Allowance for impairment	16 (73,776)	(65,259)	(71,576)	(63,274)
	<u>(75,121)</u>	<u>(65,583)</u>	<u>(72,487)</u>	<u>(63,369)</u>
	<u>2,540,035</u>	<u>2,334,934</u>	<u>2,466,068</u>	<u>2,288,277</u>
Other receivables:				
Interbank loans receivables	115,694	90,721	119,045	90,721
Reverse repurchase agreements	26,305	17,095	26,091	15,800
Accounts receivable	27 14,738	8,315	11,118	6,277
Sales contract receivables	1,421	1,283	1,323	1,226
Others	<u>1,292</u>	<u>1,039</u>	<u>-</u>	<u>-</u>
	<u>159,450</u>	<u>118,453</u>	<u>157,577</u>	<u>114,024</u>
Allowance for impairment	16 (2,584)	(2,484)	(2,424)	(2,318)
	<u>156,866</u>	<u>115,969</u>	<u>155,153</u>	<u>111,706</u>
	<u>P 2,696,901</u>	<u>P 2,450,903</u>	<u>P 2,621,221</u>	<u>P 2,399,983</u>

The maturity profile of receivable from customers (net of unearned interest or discounts) based on the remaining term is presented below.

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Less than one year	P 760,822	P 715,409	P 754,313	P 708,816
One to five years	1,010,599	830,392	955,786	795,591
Beyond five years	<u>842,390</u>	<u>854,392</u>	<u>827,545</u>	<u>847,144</u>
	<u>P 2,613,811</u>	<u>P 2,400,193</u>	<u>P 2,537,644</u>	<u>P 2,351,551</u>

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	
	2022	2021	2022	2021
Variable interest rates	P 1,993,259	P 1,885,493	P 1,986,204	P 1,873,116
Fixed interest rates	<u>620,552</u>	<u>514,700</u>	<u>551,440</u>	<u>478,435</u>
	<u>P 2,613,811</u>	<u>P 2,400,193</u>	<u>P 2,537,644</u>	<u>P 2,351,551</u>

Annual interest rates ranges from:

	2022	2021	2020
Loans and discounts	0.00% – 60.96%	0.00% – 60.96%	0.00% – 43.68%
Other receivables	0.00% – 19.00%	0.03% – 19.00%	0.04% – 19.00%

The total interest income earned amounted to:

		BDO Unibank Group		
	<u>Note</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Loans and discounts		P 138,080	P 123,545	P 137,590
Other receivables		<u>2,680</u>	<u>1,003</u>	<u>1,146</u>
	23	<u>P 140,760</u>	<u>P 124,548</u>	<u>P 138,736</u>
		Parent Bank		
	<u>Note</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Loans and discounts		P 131,465	P 118,667	P 133,261
Other receivables		<u>2,571</u>	<u>899</u>	<u>1,068</u>
	23	<u>P 134,036</u>	<u>P 119,566</u>	<u>P 134,329</u>

Interest income recognized on impaired loans and receivables amounted to P6,398, P6,046 and P4,557 in 2022, 2021 and 2020, respectively, for the BDO Unibank Group, and P6,395, P6,025 and P4,353 in 2022, 2021 and 2020, respectively, for the Parent Bank.

Certain receivables from customers of the BDO Unibank Group and the Parent Bank amounting to P23,795 and P20,363, respectively, in 2022 and P29,497 and P26,045, respectively, in 2021, are subject to offsetting with the corresponding collaterals received as a means of security amounting to P20,886 and P20,363, respectively, in 2022, and P26,216 and P26,045, respectively, for 2021, indicating a legally enforceable right to offset the recognized amounts with an intention to settle on a net basis (see Note 7.6).

Impairment losses recognized for loans and receivables for BDO Unibank Group and the Parent Bank amounted to P16,414 and P15,665, respectively, in 2022, P17,222 and P17,006, respectively, in 2021, and P29,519 and P28,905, respectively, in 2020 (see Note 16).

12. 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 2022 and 2021 are shown below and in the succeeding page.

BDO Unibank Group

		<u>Land</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Buildings</u>	<u>Leasehold Rights and Improvement</u>	<u>Construction in Progress</u>	<u>Right-of- Use Assets</u>	<u>Total</u>
December 31, 2022								
Cost	P	8,430	P 29,066	P 25,345	P 8,660	P 1,266	P 19,561	P 92,328
Accumulated depreciation and amortization		-	(19,682)	(10,047)	(7,295)	-	(8,189)	(45,213)
Allowance for impairment (see Note 16)	(	340)	-	304)	-	-	-	644)
Net Carrying Amount		<u>P 8,090</u>	<u>P 9,384</u>	<u>P 14,994</u>	<u>P 1,365</u>	<u>P 1,266</u>	<u>P 11,372</u>	<u>P 46,471</u>
December 31, 2021								
Cost	P	8,409	P 27,867	P 24,044	P 8,373	P 1,316	P 16,704	P 86,713
Accumulated depreciation and amortization		-	(18,527)	(9,384)	(6,902)	-	(6,446)	(41,259)
Allowance for impairment (see Note 16)	(	343)	-	304)	-	-	-	647)
Net Carrying Amount		<u>P 8,066</u>	<u>P 9,340</u>	<u>P 14,356</u>	<u>P 1,471</u>	<u>P 1,316</u>	<u>P 10,258</u>	<u>P 44,807</u>
January 1, 2021								
Cost	P	8,405	P 27,194	P 22,792	P 7,823	P 977	P 14,420	P 81,611
Accumulated depreciation and amortization		-	(17,532)	(8,343)	(6,299)	-	(4,460)	(36,634)
Allowance for impairment (see Note 16)	(	271)	-	376)	-	-	-	647)
Net Carrying Amount		<u>P 8,134</u>	<u>P 9,662</u>	<u>P 14,073</u>	<u>P 1,524</u>	<u>P 977</u>	<u>P 9,960</u>	<u>P 44,330</u>

Parent Bank

		<u>Land</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Buildings</u>	<u>Leasehold Rights and Improvement</u>	<u>Construction in Progress</u>	<u>Right-of- Use Assets</u>	<u>Total</u>
December 31, 2022								
Cost	P	7,693	P 24,804	P 23,466	P 7,674	P 1,250	P 18,911	P 83,798
Accumulated depreciation and amortization		-	(16,859)	(9,409)	(6,678)	-	(7,962)	(40,908)
Allowance for impairment (see Note 16)	(	197)	-	299)	-	-	-	496)
Net Carrying Amount		<u>P 7,496</u>	<u>P 7,945</u>	<u>P 13,758</u>	<u>P 996</u>	<u>P 1,250</u>	<u>P 10,949</u>	<u>P 42,394</u>
December 31, 2021								
Cost	P	7,669	P 23,434	P 22,734	P 7,497	P 1,314	P 16,252	P 78,900
Accumulated depreciation and amortization		-	(15,468)	(8,781)	(6,273)	-	(6,296)	(36,818)
Allowance for impairment (see Note 16)	(	197)	-	299)	-	-	-	496)
Net Carrying Amount		<u>P 7,472</u>	<u>P 7,966</u>	<u>P 13,654</u>	<u>P 1,224</u>	<u>P 1,314</u>	<u>P 9,956</u>	<u>P 41,586</u>
January 1, 2021								
Cost	P	7,665	P 22,151	P 21,517	P 7,060	P 970	P 14,142	P 73,505
Accumulated depreciation and amortization		-	(14,303)	(7,807)	(5,740)	-	(4,327)	(32,177)
Allowance for impairment (see Note 16)	(	125)	-	371)	-	-	-	496)
Net Carrying Amount		<u>P 7,540</u>	<u>P 7,848</u>	<u>P 13,339</u>	<u>P 1,320</u>	<u>P 970</u>	<u>P 9,815</u>	<u>P 40,832</u>

A reconciliation of the carrying amounts at the beginning and end of 2022 and 2021 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, 2022, net of accumulated depreciation, amortization and impairment	P 8,066	P 9,340	P 14,356	P 1,471	P 1,316	P 10,258	P 44,807
Additions	24	2,635	280	463	486	4,683	8,571
Disposals	(3)	(237)	-	(19)	-	(54)	(313)
Reclassifications	-	236	1,024	100	(519)	-	841
Allowance for impairment Adjustments	3	-	-	-	-	-	3
Reversal	-	-	(12)	-	(17)	(115)	(115)
Foreign exchange revaluation	-	1	8	3	-	3	15
Depreciation and amortization charges for the year	-	(2,591)	(662)	(653)	-	(3,403)	(7,309)
Balance at December 31, 2022, net of accumulated depreciation, amortization and impairment	<u>P 8,090</u>	<u>P 9,384</u>	<u>P 14,994</u>	<u>P 1,365</u>	<u>P 1,266</u>	<u>P 11,372</u>	<u>P 46,471</u>
Balance at January 1, 2021, net of accumulated depreciation, amortization and impairment	P 8,134	P 9,662	P 14,073	P 1,524	P 977	P 9,960	P 44,330
Additions	21	2,084	664	568	516	3,216	7,069
Disposals	-	(101)	(47)	(13)	-	-	(161)
Reclassifications	(72)	218	721	73	(172)	-	768
Adjustments	-	-	-	(1)	-	(406)	(407)
Reversal	(17)	-	-	(2)	(5)	-	(24)
Foreign exchange revaluation	-	1	5	1	-	4	11
Depreciation and amortization charges for the year	-	(2,524)	(1,060)	(672)	-	(2,516)	(6,779)
Balance at December 31, 2021, net of accumulated depreciation, amortization and impairment	<u>P 8,066</u>	<u>P 9,340</u>	<u>P 14,356</u>	<u>P 1,471</u>	<u>P 1,316</u>	<u>P 10,258</u>	<u>P 44,807</u>

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvement	Construction in Progress	Right-of- Use Assets	Total
Balance at January 1, 2022, net of accumulated depreciation, amortization and impairment	P 7,472	P 7,966	P 13,654	P 1,224	P 1,314	P 9,956	P 41,586
Additions	24	1,876	239	230	470	4,414	7,253
Disposals	-	(120)	-	(19)	-	(53)	(192)
Reclassifications	-	236	505	100	(517)	-	324
Adjustment	-	-	-	-	-	(100)	(100)
Reversal	-	-	(12)	-	(17)	-	(29)
Foreign exchange revaluation	-	1	-	2	-	4	7
Depreciation and amortization charges for the year	-	(2,014)	(628)	(541)	-	(3,272)	(6,455)
Balance at December 31, 2022, net of accumulated depreciation, amortization and impairment	<u>P 7,496</u>	<u>P 7,945</u>	<u>P 13,758</u>	<u>P 996</u>	<u>P 1,250</u>	<u>P 10,949</u>	<u>P 42,394</u>
Balance at January 1, 2021, net of accumulated depreciation, amortization and impairment	P 7,540	P 7,848	P 13,339	P 1,320	P 970	P 9,815	P 40,832
Additions	21	1,722	630	425	516	2,951	6,265
Disposals	-	(7)	(46)	(13)	-	-	(66)
Reclassifications	(72)	218	717	72	(167)	-	768
Adjustment	-	-	-	-	-	(407)	(407)
Reversal	(17)	-	-	-	(5)	-	(22)
Foreign exchange revaluation	-	-	-	1	-	5	6
Depreciation and amortization charges for the year	-	(1,815)	(986)	(581)	-	(2,408)	(5,790)
Balance at December 31, 2021, net of accumulated depreciation, amortization and impairment	<u>P 7,472</u>	<u>P 7,966</u>	<u>P 13,654</u>	<u>P 1,224</u>	<u>P 1,314</u>	<u>P 9,956</u>	<u>P 41,586</u>

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50.00% of a bank's unimpaired capital. As of December 31, 2022 and 2021, 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, 2022 and 2021 are still being used in operations with acquisition costs amounting to P9,557 and P8,298, respectively, in the BDO Unibank Group's financial statements and P8,016 and P7,532, respectively, in the Parent Bank's financial statements.

13. 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 12) and a Lease liability under Other Liabilities (see Note 21) on the statements 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 as of December 31, 2022 and 2021.

	Number of Right-of-use Asset Leased		Range of Remaining Term		Average Remaining Lease Term	
	2022	2021	2022	2021	2022	2021
<u>BDO Unibank Group</u>						
Land	57	58	0 mos. – 27 yrs.	4 mos. – 28 yrs.	12 yrs.	12 yrs.
Building	1,631	1,568	1 mo. – 15 yrs.	1 mo. – 16 yrs.	3.7 yrs.	2.2 yrs.
<u>Parent Bank</u>						
Land	57	58	2 mos. – 27 yrs.	4 mos. – 28 yrs.	12 yrs.	12 yrs.
Building	1,325	1,281	1 mo. – 15.1 yrs.	1 mo. – 16 yrs.	4 yrs.	4 yrs.

13.1 Right-of-Use Assets

The carrying amounts of BDO Unibank Group and the Parent Bank's right-of-use assets as at December 31, 2022 and 2021 and the movements during the period are shown below (see Note 12).

BDO Unibank Group

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2022	P 434	P 9,824	P 10,258
Additions	72	4,611	4,683
Disposal	-	(54)	(54)
Adjustment	-	(115)	(115)
Foreign exchange revaluation	-	3	3
Depreciation and amortization	(60)	(3,343)	(3,403)
Balance at December 31, 2022	<u>P 446</u>	<u>P 10,926</u>	<u>P 11,372</u>
Balance at January 1, 2021	P 416	P 9,544	P 9,960
Additions	44	3,172	3,216
Reclassification	38	(38)	-
Adjustment	(6)	(400)	(406)
Foreign exchange revaluation	-	4	4
Depreciation and amortization	(58)	(2,458)	(2,516)
Balance at December 31, 2021	<u>P 434</u>	<u>P 9,824</u>	<u>P 10,258</u>

Parent Bank

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2022	P 459	P 9,497	P 9,956
Additions	72	4,342	4,414
Disposal	-	(53)	(53)
Adjustment	-	(100)	(100)
Foreign exchange revaluation	-	4	4
Depreciation and amortization	(60)	(3,212)	(3,272)
Balance at December 31, 2022	<u>P 471</u>	<u>P 10,478</u>	<u>P 10,949</u>
Balance at January 1, 2021	P 444	P 9,371	P 9,815
Additions	44	2,907	2,951
Reclassification	38	(38)	-
Adjustment	(7)	(400)	(407)
Foreign exchange revaluation	-	5	5
Depreciation and amortization	(60)	(2,348)	(2,408)
Balance at December 31, 2021	<u>P 459</u>	<u>P 9,497</u>	<u>P 9,956</u>

13.2 Lease Liabilities

Lease liabilities amounting to P13,344 and P12,087 as at December 31, 2022 and 2021, respectively, for the BDO Unibank Group and P12,927 and P11,800, as at December 31, 2022 and 2021, respectively, for the Parent Bank are presented in the statements of financial position as part of Other Liabilities (see Note 21).

The use of extension and termination options gives the BDO Unibank Group and the Parent Bank added flexibility in the event that 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, 2022, 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, 2022, 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 analyses of lease liabilities at December 31, 2022 and 2021 for the BDO Unibank Group and the Parent Bank are as follows:

December 31, 2022

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 3,928	P 3,266	P 2,775	P 2,111	P 1,311	P 2,206	P 585	P 16,182
Finance charges	(784)	(601)	(449)	(290)	(188)	(386)	(140)	(2,838)
Net present value	<u>P 3,144</u>	<u>P 2,665</u>	<u>P 2,326</u>	<u>P 1,821</u>	<u>P 1,123</u>	<u>P 1,820</u>	<u>P 445</u>	<u>P 13,344</u>

Parent Bank

Lease payments	P 3,793	P 3,127	P 2,658	P 2,034	P 1,283	P 2,208	P 626	P 15,729
Finance charges	(763)	(587)	(427)	(287)	(188)	(395)	(155)	(2,802)
Net present value	<u>P 3,030</u>	<u>P 2,540</u>	<u>P 2,231</u>	<u>P 1,747</u>	<u>P 1,095</u>	<u>P 1,813</u>	<u>P 471</u>	<u>P 12,927</u>

December 31, 2021

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 3,495	P 2,826	P 2,306	P 1,803	P 1,370	P 2,256	P 517	P 14,573
Finance charges	(675)	(517)	(391)	(275)	(184)	(317)	(127)	(2,486)
Net present value	<u>P 2,820</u>	<u>P 2,309</u>	<u>P 1,915</u>	<u>P 1,528</u>	<u>P 1,186</u>	<u>P 1,939</u>	<u>P 390</u>	<u>P 12,087</u>

Parent Bank

Lease payments	P 3,386	P 2,727	P 2,227	P 1,779	P 1,355	P 2,263	P 561	P 14,298
Finance charges	(667)	(513)	(385)	(276)	(186)	(327)	(144)	(2,498)
Net present value	<u>P 2,719</u>	<u>P 2,214</u>	<u>P 1,842</u>	<u>P 1,503</u>	<u>P 1,169</u>	<u>P 1,936</u>	<u>P 417</u>	<u>P 11,800</u>

The BDO Unibank Group and the Parent Bank sublease its leased properties. The total income earned from the subleasing activities amounted to nil in 2022, 2021 and 2020 for the BDO Unibank Group and P6, P2 and P2 in 2022, 2021 and 2020, respectively, for the Parent Bank.

The total cash outflow in respect to leases amounted to P4,192, P3,238 and P2,940 in 2022, 2021 and 2020, respectively, for the BDO Unibank Group and P4,032, P3,100 and P2,828 in 2022, 2021 and 2020, respectively, for the Parent Bank. Interest expense in relation to lease liabilities amounted to P927, P817 and P690 in 2022, 2021 and 2020, respectively, for the BDO Unibank Group and P905, P807 and P675 in 2022, 2021 and 2020, respectively, for the Parent Bank which are, presented as part of Interest expense on lease liabilities under Interest Expense account in the statements of income (see Notes 21 and 24).

13.3 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 P4 and P350 in 2022, P8 and P336 in 2021 and P4 and P269 in 2020 for the BDO Unibank Group, respectively, and nil and P348 in 2022, nil and P328 in 2021, and nil and P262 in 2020 for the Parent Bank, respectively. Moreover, expenses relating to variable lease payments amounted to P171, P114 and P171 for the BDO Unibank Group, and P171, P114 and P171 for the Parent Bank in 2022, 2021 and 2020, respectively. These are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 25).

14. 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 P590 and P83 in 2022, P431 and P86 in 2021, and P366 and P83 in 2020 in the BDO Unibank Group and the Parent Bank's financial statements, respectively, and are presented as part of Rental under Other Operating Income account (see Note 25). Direct expenses incurred from these properties such as taxes and licenses amounted to P61 and P3 in 2022, P34 and P3 in 2021, and P23 and P2 in 2020 in the BDO Unibank Group and the 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 25).

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2022 and 2021 are shown below and in the succeeding page.

BDO Unibank Group

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
December 31, 2022			
Cost	P 10,457	P 18,393	P 28,850
Accumulated depreciation	-	(6,185)	(6,185)
Allowance for impairment (see Note 16)	(1,442)	(65)	(1,507)
Net carrying amount	<u>P 9,015</u>	<u>P 12,143</u>	<u>P 21,158</u>
December 31, 2021			
Cost	P 9,288	P 16,648	P 25,936
Accumulated depreciation	-	(5,412)	(5,412)
Allowance for impairment (see Note 16)	(1,658)	(71)	(1,729)
Net carrying amount	<u>P 7,630</u>	<u>P 11,165</u>	<u>P 18,795</u>

BDO Unibank Group

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
January 1, 2021			
Cost			
Accumulated depreciation	P 9,176	P 13,310	P 22,486
Allowance for impairment	-	(4,773)	(4,773)
(see Note 16)	(1,773)	(89)	(1,862)
Net carrying amount	<u>P 7,403</u>	<u>P 8,448</u>	<u>P 15,851</u>

Parent Bank

December 31, 2022

Cost	P 8,199	P 11,530	P 19,729
Accumulated depreciation	-	(5,370)	(5,370)
Allowance for impairment	(1,162)	(24)	(1,186)
(see Note 16)			
Net carrying amount	<u>P 7,037</u>	<u>P 6,136</u>	<u>P 13,173</u>

December 31, 2021

Cost	P 7,029	P 10,473	P 17,502
Accumulated depreciation	-	(4,829)	(4,829)
Allowance for impairment	(1,378)	(32)	(1,410)
(see Note 16)			
Net carrying amount	<u>P 5,651</u>	<u>P 5,612</u>	<u>P 11,263</u>

January 1, 2021

Cost	P 6,916	P 10,775	P 17,691
Accumulated depreciation	-	(4,320)	(4,320)
Allowance for impairment	(1,493)	(43)	(1,536)
(see Note 16)			
Net carrying amount	<u>P 5,423</u>	<u>P 6,412</u>	<u>P 11,835</u>

A reconciliation of the carrying amounts, at the beginning and end of 2022 and 2021, of investment properties is shown below and in the succeeding page.

BDO Unibank Group

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2022, net of accumulated depreciation and impairment	P 7,630	P 11,165	P 18,795
Additions	1,681	3,044	4,725
Reclassifications	216	(509)	(293)
Disposals	(512)	(349)	(861)
Foreign exchange revaluation	-	(39)	(39)
Impairment loss	-	(2)	(2)
Depreciation for the year	<u>-</u>	<u>(1,167)</u>	<u>(1,167)</u>
Balance at December 31, 2022, net of accumulated depreciation and impairment	<u>P 9,015</u>	<u>P 12,143</u>	<u>P 21,158</u>
Balance at January 1, 2021, net of accumulated depreciation and impairment	P 7,403	P 8,448	P 15,851
Additions	606	4,415	5,021
Reclassifications	126	(466)	(340)
Disposals	(511)	(309)	(820)
Foreign exchange revaluation	6	84	90
Depreciation for the year	<u>-</u>	<u>(1,007)</u>	<u>(1,007)</u>
Balance at December 31, 2021, net of accumulated depreciation and impairment	<u>P 7,630</u>	<u>P 11,165</u>	<u>P 18,795</u>

Parent Bank

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2022, net of accumulated depreciation and impairment	P 5,651	P 5,612	P 11,263
Additions	1,681	1,778	3,459
Disposals	(511)	(349)	(860)
Reclassifications	216	8	224
Depreciation for the year	<u>-</u>	<u>(913)</u>	<u>(913)</u>
Balance at December 31, 2022, net of accumulated depreciation and impairment	<u>P 7,037</u>	<u>P 6,136</u>	<u>P 13,173</u>
Balance at January 1, 2021, net of accumulated depreciation and impairment	P 5,423	P 6,412	P 11,835
Additions	606	865	1,471
Disposals	(510)	(309)	(819)
Reclassifications	126	(472)	(346)
Foreign exchange revaluation	6	-	6
Depreciation for the year	<u>-</u>	<u>(884)</u>	<u>(884)</u>
Balance at December 31, 2021, net of accumulated depreciation and impairment	<u>P 5,651</u>	<u>P 5,612</u>	<u>P 11,263</u>

The fair value of investment properties as of December 31, 2022 and 2021, determined using observable recent prices of the reference properties adjusted for difference and replacement cost approach, amounted to P44,397 and P40,135, respectively, for the BDO Unibank Group's financial statements and P36,533 and P32,736, 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 7.5.

The recoverable amount of impaired investment properties as of December 31, 2022 and 2021 was based on value in use computed through discounted cash flows method at an effective rate of 1.42% and 0.69% in 2022 and 2021, 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, 2022 and 2021, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Investment properties	P 12,929	P 11,070	P 12,783	P 11,028
Financial assets at FVOCI	484	499	484	499
Non-current assets held for sale	3,462	1,954	3,462	1,952
	<u>P 16,875</u>	<u>P 13,523</u>	<u>P 16,729</u>	<u>P 13,479</u>

15. OTHER RESOURCES

The components of this account are shown below.

	Notes	BDO Unibank Group		Parent Bank	
		2022	2021	2022	2021
Foreign currency notes and coins on hand		P 10,582	P 5,597	P 10,582	P 5,597
Deferred charges	15.1	6,544	7,852	6,544	7,852
Equity investments	15.2	5,654	5,347	56,268	43,839
Deferred tax assets – net	31.1	5,355	6,768	5,028	6,262
Goodwill	15.3	4,535	4,535	1,391	1,391
Computer software – net	15.6	3,536	3,696	3,260	3,535
Credit card acquiring		3,490	1,226	3,490	1,226
Non-current assets held for sale	15.5	3,462	1,954	3,462	1,952
Branch licenses	15.4	3,020	3,020	3,020	3,020
Margin deposits		1,688	581	378	187
Prepaid documentary stamps		798	454	737	414
Customer lists - net	15.6	487	487	487	487
Retirement assets	26.2	215	-	-	-
Real properties for development and sale		174	260	-	-
Others	15.6, 20	13,050	10,024	10,586	8,602
		62,590	51,801	105,233	84,364
Allowance for impairment	16	(2,731)	(2,921)	(2,418)	(2,602)
		<u>P 59,859</u>	<u>P 48,880</u>	<u>P 102,815</u>	<u>P 81,762</u>

15.1 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 11). 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 17). This also includes originating costs related to Fixed Rate Bonds, Bills Payable and Senior Notes (see Note 18).

15.2 Equity Investments

Equity investments consist of the following:

		<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>Held</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<u>Philippine subsidiaries</u>					
BDO Network	87.37%	P -	P -	P 12,416	P 8,166
BDOSHI	100%	-	-	5,684	5,684
BDO Life	97%	-	-	3,403	3,403
BDO Private	100%	-	-	2,579	2,579
Dominion Holdings	87.43%	-	-	1,878	1,878
BDO Capital	99.88%	-	-	1,878	1,878
BDOI	100%	-	-	11	11
Equimark	60%	-	-	4	4
		<u>-</u>	<u>-</u>	<u>27,853</u>	<u>23,603</u>
<u>Foreign subsidiaries</u>					
BDORO	100%	-	-	169	169
BDO Remit (Japan) Ltd.	100%	-	-	92	92
BDO Remit (Canada) Ltd.	100%	-	-	50	50
BDO Remit (USA), Inc.	100%	-	-	26	26
		<u>-</u>	<u>-</u>	<u>337</u>	<u>337</u>
<u>Associates</u>					
SM Keppel Land, Inc. (SM Keppel)	50%	1,658	1,658	1,658	1,658
NLEX Corporation	11.70%	1,405	1,405	1,405	1,405
NorthPine Land, Inc.	20%	232	232	232	232
Taal Land, Inc.	33.33%	170	170	170	170
BDO Securities	1.69%	-	-	35	35
		<u>3,465</u>	<u>3,465</u>	<u>3,500</u>	<u>3,500</u>
<u>Accumulated equity in total comprehensive income:</u>					
Balance at beginning of year		1,882	1,550	16,399	10,280
Equity in net profit		849	814	8,710	6,350
Equity in other comprehensive income (loss)		11	(6)	3,367	2,587
Dividends		(553)	(476)	(3,898)	(2,818)
Balance at end of year		<u>2,189</u>	<u>1,882</u>	<u>24,578</u>	<u>16,399</u>
<u>Net investments in associates/subsidiaries</u>					
		5,654	5,347	56,268	43,839
<u>Allowance for impairment</u>					
		(153)	(153)	(153)	(153)
		<u>P 5,501</u>	<u>P 5,194</u>	<u>P 56,115</u>	<u>P 43,686</u>

Equity in other comprehensive income or loss consists of the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Accumulated actuarial gains (losses)	P 11	(P 9)	P 126	(P 342)
Remeasurement on life insurance reserves	-	-	9,620	5,686
Accumulated translation adjustment	-	-	51	50
Net unrealized fair value gains (losses) on FVOCI	-	3	(6,430)	(2,807)
Equity in other comprehensive income (loss)	<u>P 11</u>	<u>(P 6)</u>	<u>P 3,367</u>	<u>P 2,587</u>

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2022 and 2021, except for BDO Life, Dominion Holdings and BDO Securities. For BDO Life and Dominion Holdings, the interest held is at 100% and 88.54% for BDO Unibank Group, respectively (see Note 2.3) in both years and 97.00% and 87.43%, for the Parent Bank, respectively in both years. For BDO Securities, the interest held is at 99.88%, for BDO Unibank Group (see Note 2.3), in both years and 1.69% and 2.65% for Parent Bank, in 2022 and 2021, respectively.

In 2020, the trading of the shares of Dominion Holdings were suspended indefinitely. Using the last traded price on January 24, 2020, the fair value amounted to P6,050. For the remaining equity investments, the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique using the net present value of future cash flows.

BDO Unibank Group's subsidiaries as of December 31, 2022 are all incorporated in the Philippines, except for the following:

<u>Foreign Subsidiaries</u>	<u>Country of Incorporation</u>
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 (Spain), S.A**	Spain
CBN Greece S.A. **	Greece
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. As of December 31, 2022 and 2021, the Parent Bank's outstanding investment in BDORO amounted to P169.

BDO Remit (Canada) Ltd., a wholly-owned remittance subsidiary in Vancouver, Canada operates as a remittance business and function as a marketing office of the Parent Bank. As of December 31, 2022 and 2021, the Parent Bank's outstanding investment in BDO Remit (Canada) Ltd. Amounted to P50.

In May 2013, BDO Capital obtained control over BDO Remit International Holdings, B.V. (formerly CBN Grupo International Holdings B.V.) 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 30.1).

On December 5, 2020, the BOD of the Parent Bank approved the write-off of the investment in PCI Realty Corporation.

On June 30, 2021, the BOD of BDONB approved the conversion of the bank from a rural bank to a savings bank. This was ratified by the BDONB shareholders on August 13, 2021 and approved by the BSP on January 20, 2022.

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

<u>Name</u>	<u>Proportion of Ownership Interest and Voting Rights Held by NCI</u>		<u>Profit Allocated to NCI</u>		<u>Accumulated NCI</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Dominion Holdings	11.46%	11.46%	P 9	P 5	P 698	P 689
BDO Network	12.63%	15.13%	169	58	1,454	941

The registered office and principal place of business of Dominion Holdings 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 BDONB Center, Km. 9, Sasa, Davao City.

Dividends paid to NCI amounted to P2 and nil in 2022 and 2021, respectively (see Note 22.3).

The summarized financial information of Dominion Holdings and BDO Network, before intragroup eliminations, follows:

	<u>Dominion Holdings</u>	
	<u>2022</u>	<u>2021</u>
<i>Statements of financial position:</i>		
Total current resources	P 6,110	P 6,020
Total current liabilities	16	8
Equity attributable to owners of the parent	5,396	5,323
Non-controlling interest	698	689
<i>Statements of comprehensive income:</i>		
Total interest income	63	-
Total other operating income	64	57
Profit attributable to owners of the parent	73	39
Profit attributable to NCI	9	5
Profit	82	44
Total comprehensive income attributable to owners of the parent	73	39
Total comprehensive income attributable to NCI	9	5
Total comprehensive income	P 82	P 44
<i>Statements of cash flows:</i>		
Net cash from (used in) operating activities	P 40	(P 31)
Net cash from (used in) investing activities	5,928	(70)
Net cash inflow (outflow)	P 5,968	(P 101)

	BDO Network	
	2022	2021
<i>Statements of financial position:</i>		
Total current resources	P 13,711	P 10,091
Total non-current resources	73,519	44,648
Total current liabilities	70,422	47,743
Total non-current liabilities	5,298	776
Equity attributable to owners of the parent	10,056	5,278
Non-controlling interest	1,454	941
<i>Statements of comprehensive income:</i>		
Total interest income	6,198	4,343
Total other operating income	3,937	2,090
Profit attributable to owners of the parent	965	325
Profit attributable to NCI	169	58
Profit	1,134	383
Total comprehensive income attributable to owners of the parent	632	59
Total comprehensive income attributable to NCI	108	11
Total comprehensive income	P 740	P 70
<i>Statements of cash flows:</i>		
Net cash from (used in) operating activities	(P 7,450)	P 7,924
Net cash used in investing activities	(1,077)	(5,685)
Net cash from (used in) financing activities	11,039	(125)
Net cash inflow	P 2,512	P 2,114

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2022, 2021 and 2020:

	NLEX Corporation	SM Keppel*	Others	Total
<u>December 31, 2022</u>				
<u>(Unaudited)</u>				
Assets	P 77,318	P 11,346	P 91,451	P 180,115
Current	8,489	2,057	13,331	23,877
Non-current	68,829	9,289	78,120	156,238
Liabilities	50,919	9,383	60,530	120,832
Current	8,876	989	10,079	19,944
Non-current	42,043	8,394	50,451	100,888
Equity	26,399	1,963	30,921	59,283
Revenues	16,675	1,227	18,095	35,997
Net profit	7,223	236	7,389	14,848

* As adjusted to conform to the cost model used in the measurement of Investment Properties of BDO Unibank Group.

		<u>NLEX</u>		<u>SM</u>		<u>Others</u>		<u>Total</u>
		<u>Corporation</u>		<u>Keppel*</u>				
<u>December 31, 2021</u>								
<u>(Audited)</u>								
Assets	P	68,073	P	11,892	P	3,064	P	83,029
Current		5,095		2,315		3,057		10,467
Non-current		62,978		9,577		7		72,562
Liabilities		46,197		10,089		436		56,722
Current		7,866		1,264		436		9,566
Non-current		38,331		8,825		-		47,156
Equity		21,876		1,803		2,628		26,307
Revenues		17,919		805		708		19,432
Net profit		5,919		81		193		6,193
<u>December 31, 2020</u>								
<u>(Audited)</u>								
Assets	P	62,786	P	11,978	P	3,149	P	77,913
Current		4,020		2,170		2,944		9,134
Non-current		58,766		9,808		205		68,779
Liabilities		42,672		10,276		718		53,666
Current		13,016		1,623		699		15,338
Non-current		29,656		8,653		19		38,328
Equity		20,114		1,702		2,431		24,247
Revenues		18,107		601		843		19,551
Net profit (loss)		3,604	(	331)		118		3,391

* As adjusted to conform to the cost model used in the measurement of Investment Properties of BDO Unibank Group.

15.3 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, Inc. (BDO Savings), BDO Network and Rural Bank of Pandi, Inc. (RBPI), which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015, 2016 and 2019, respectively (see Note 30).

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

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Cost	<u>P 4,535</u>	<u>P 4,535</u>	<u>P 1,391</u>	<u>P 1,391</u>
Allowance for impairment				
Balance at beginning of year	<u>1,514</u>	<u>1,478</u>	<u>1,391</u>	<u>1,391</u>
Impairment	<u>-</u>	<u>36</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>1,514</u>	<u>1,514</u>	<u>1,391</u>	<u>1,391</u>
Carrying amount of goodwill	<u>P 3,021</u>	<u>P 3,021</u>	<u>P -</u>	<u>P -</u>

In 2022 and 2021, there was 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 pertains to the goodwill from acquisition of BDO Network amounting to P2,907.

The BDO Unibank Group recognized impairment loss on goodwill amounting nil, P36 and P18 in 2022, 2021 and 2020, respectively. The Parent Bank did not recognize any impairment loss in 2022, 2021 and 2020.

The BDO Unibank Group and the Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit from 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 used to determine any impairment on the goodwill from acquisition of BDO Network was based on value-in-use computed through discounting the five-year cash flow projection to be realized by the acquired entity, which do not include restructuring activities that the BDO Unibank Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested.

The calculation of value-in-use is most sensitive to the following assumptions:

- a. *Discount rate.* Discount rates reflect the current market assessment of the risks and are estimated based on the weighted average cost of capital. The rates are further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. The discount rates applied to cash flow projections in 2022 and 2021 are 5.36% and 3.15%, respectively.
- b. *Total income growth rate.* The growth rates used to extrapolate cash flow projections range from 11.45% to 16.75% in 2022 and 14.08% to 16.53% in 2021. Total income forecasts to calculate the cash flow projections are the management's best estimates after considering factors affecting growth target projection on salary loans and micro, small and medium enterprises loans offered by BDO Network.

Management assessed that no reasonably possible change in discount rates and growth rates would cause the carrying value of goodwill in 2022 and 2021 to materially exceed its recoverable amount.

15.4 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. and BDO Savings in addition to the current branches of the acquired banks. The Parent Bank performs annual impairment testing of branch licenses.

The recoverable amount used to determine any impairment on the branch licenses was based on value-in-use computed through discounting the five-year cash flow projection, which does not include restructuring activities that the BDO Unibank Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested.

The calculation of value-in-use is most sensitive to the following assumptions:

- a. *Discount rate.* Discount rates reflect the current market assessment of the risks and are estimated based on the weighted average cost of capital. The rates are further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. The discount rates applied to cash flow projections in 2022 and 2021 are 5.87% and 5.07%, respectively.
- b. *Compound annual growth rate.* The growth rates used to extrapolate cash flow projections are 7.77% in 2022 and 8.25% in 2021. The growth rates are based on the total assets of the Parent Bank for the last five years.

Management assessed that no reasonably possible change in discount rates and growth rates would cause the carrying value of branch licenses in 2022 and 2021 to materially exceed its recoverable amount.

In 2022 and 2021, with regard to the assessment of value-in-use of the cash-generating unit, there were no allowance on impairment loss on branch licenses recognized in the BDO Unibank Group and Parent Bank's financial statements.

15.5 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 2020 to 2022 in both the BDO Unibank Group and Parent Bank's financial statements.

15.6 Others

Trademark arising from acquisition of Diners Club International credit card portfolio is fully amortized as of 2022 and 2021. The amortization expense on trademark amounted to nil, P25 and P33 in 2022, 2021 and 2020, respectively. This is presented as part of Miscellaneous under Other Operating Expenses account in the statements of income (see Note 25).

Other intangible assets with indefinite useful lives comprise of branch licenses, customer lists, equity securities with Philippine Clearing House Committee and LGU Guaranty Corporation, and trading rights amounting to P3,020, P487, P15, and P3, respectively, both for 2022 and 2021 in the BDO Unibank Group's financial statements and P3,020, P487, P15 and nil, respectively, in the Parent Bank's financial statements.

Amortization expense on computer software licenses amounted to P1,356, P1,342 and P734 in 2022, 2021 and 2020, respectively, in the BDO Unibank Group's financial statements and P1,259, P1,291 and P696 in 2022, 2021 and 2020, 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 25).

Depreciation and amortization expense on certain assets amounting to P88, P45 and P21 in 2022, 2021 and 2020, 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 25).

No impairment loss was recognized by the Parent Bank from 2020 to 2022 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.

In 2022 and 2021, the BDO Unibank Group and the Parent Bank set aside an additional ESOP fund for the purchase of secondary shares amounting to P751 and nil, respectively.

16. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	BDO Unibank Group		Parent Bank	
		2022	2021	2022	2021
Balance at beginning of year:					
Investment securities at amortized cost	10.3	P 1,471	P 1,590	P 1,455	P 1,571
Loans and other receivables	11	67,743	58,851	65,592	56,274
Bank premises	12	647	647	496	496
Investment properties	14	1,729	1,862	1,410	1,536
Other resources	15	<u>2,921</u>	<u>2,826</u>	<u>2,602</u>	<u>2,522</u>
		74,511	65,776	71,555	62,399
Impairment losses (recoveries)					
Due from other banks	9	14	-	13	-
Investment securities at amortized cost	10.3	69	(192)	72	(190)
Loans and other receivables	11	16,414	17,222	15,665	17,006
Investment properties	14	2	-	-	-
Other resources	15	<u>(205)</u>	<u>93</u>	<u>(232)</u>	<u>56</u>
		16,294	17,123	15,518	16,872
Write-offs and other adjustments					
Write-offs		(8,610)	(8,970)	(8,142)	(8,353)
Foreign currency revaluation		774	549	772	551
Reclassification		50	86	50	86
Adjustments		(108)	(52)	1	-
Reversals		<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
		(7,894)	(8,388)	(7,319)	(7,716)
Balance at end of year:					
Due from other banks	9	15	-	14	-
Investment securities at amortized cost	10.3	1,654	1,471	1,640	1,455
Loans and other receivables	11	76,360	67,743	74,000	65,592
Bank premises	12	644	647	496	496
Investment properties	14	1,507	1,729	1,186	1,410
Other resources	15	<u>2,731</u>	<u>2,921</u>	<u>2,418</u>	<u>2,602</u>
		P 82,911	P 74,511	P 79,754	P 71,555

The BDO Unibank Group and the Parent Bank provided impairment loss (recovery) on debt securities measured as FVOCI amounting to P67 and P65, respectively, in 2022, (P88) and (P71), respectively, in 2021 and P37 and P36, respectively, in 2020. 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 10.2).

The BDO Unibank Group and the Parent Bank also provided impairment loss on loan commitments and other contingent accounts amounting to P5, P28 and P68 in 2022, 2021 and 2020, respectively, which is recognized as Provision – Others under Other Liabilities in the statements of financial position (see Note 21).

The total impairment losses on certain financial assets amounted to P16,497, P17,030 and P29,624 in 2022, 2021 and 2020, respectively, in the BDO Unibank Group's statements of income and P15,750, P16,816 and P29,001 in 2022, 2021 and 2020, respectively, in the Parent Bank's statements of income.

The total impairment losses (recoveries) on non-financial assets amounted to (P203), P93 and P511 in 2022, 2021 and 2020, respectively, in the BDO Unibank Group's statements of income and (P232), P56, and P491 in 2022, 2021 and 2020, respectively, in the Parent Bank's statements of income.

17. DEPOSIT LIABILITIES

The breakdown of this account follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Demand	P 459,511	P 404,568	P 438,838	P 381,824
Savings	2,077,360	2,000,245	2,044,595	1,972,851
Time	684,012	416,083	657,583	397,040
	<u>P3,220,883</u>	<u>P 2,820,896</u>	<u>P 3,141,016</u>	<u>P 2,751,715</u>

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

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Due to other banks:				
Demand	P 4,595	P 2,639	P 4,582	P 2,630
Savings	4,332	4,672	4,332	4,672
Time	12,432	5,710	7,516	5,530
	<u>21,359</u>	<u>13,021</u>	<u>16,430</u>	<u>12,832</u>
Due to customers:				
Demand	454,916	401,929	434,256	379,194
Savings	2,073,028	1,995,573	2,040,263	1,968,179
Time	671,580	410,373	650,067	391,510
	<u>3,199,524</u>	<u>2,807,875</u>	<u>3,124,586</u>	<u>2,738,883</u>
	<u>P3,220,883</u>	<u>P 2,820,896</u>	<u>P 3,141,016</u>	<u>P 2,751,715</u>

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

	BDO Unibank Group		Parent Bank	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Philippine pesos	P 2,715,833	P 2,357,528	P 2,647,975	P 2,301,231
Foreign currencies	<u>505,050</u>	<u>463,368</u>	<u>493,041</u>	<u>450,484</u>
	<u>P3,220,883</u>	<u>P 2,820,896</u>	<u>P 3,141,016</u>	<u>P 2,751,715</u>

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Less than one year	P 3,126,217	P 2,732,734	P 3,050,839	P 2,664,655
One to five years	33,537	25,667	30,091	25,374
Beyond five years	<u>61,129</u>	<u>62,495</u>	<u>60,086</u>	<u>61,686</u>
	<u>P3,220,883</u>	<u>P 2,820,896</u>	<u>P 3,141,016</u>	<u>P 2,751,715</u>

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 2022, 2021 and 2020. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 24).

The BDO Unibank Group's time deposit liabilities include the Parent Bank's LTNCD as of December 31, 2022 and 2021 as follows:

<u>BSP Approval</u>	<u>Effective Rate</u>	<u>Outstanding Balance</u>		<u>Issue Date</u>	<u>Maturity Date</u>
		<u>2022</u>	<u>2021</u>		
August 15, 2019	4.000%	P 6,500	P 6,500	September 27, 2019	March 27, 2025
May 11, 2018	5.375%	7,320	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%	<u>11,800</u>	<u>11,800</u>	August 18, 2017	February 18, 2023
		<u>P 33,820</u>	<u>P 33,820</u>		

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.

In compliance with the BSP Circular No. 1082 issued on March 31, 2020, the Philippine Peso deposit liabilities of the BDO Unibank Group, under the said circular, are subject to reserve requirement of 12% effective April 3, 2020. Moreover, the Philippine LTNCD under BSP Circular No. 1041 issued on May 29, 2019 of the BDO Unibank Group are likewise subject to reserve requirement of 4% effective May 31, 2019.

18. **BILLS PAYABLE**

This account is composed of the following borrowings from:

	Note	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Senior notes	18.1	P 84,355	P 73,053	P 84,355	P 73,053
Fixed rate bonds	18.2	52,696	76,436	52,696	76,436
Foreign banks		39,243	46,881	39,142	45,792
Deposit substitutes		12,679	893	12,679	893
Local banks		8,890	2,640	-	-
Others		1,028	4,528	-	-
		<u>P 198,891</u>	<u>P 204,431</u>	<u>P 188,872</u>	<u>P 196,174</u>

The breakdown of this account as to currency follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Foreign currencies	P 136,277	P 120,920	P 136,176	P 119,738
Philippine pesos	62,614	83,511	52,696	76,436
	<u>P 198,891</u>	<u>P 204,431</u>	<u>P 188,872</u>	<u>P 196,174</u>

The maturity profile of this account is presented below.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
One to three months	P 58,936	P 24,640	P 57,495	P 18,906
More than three months to one year	21,845	88,333	16,730	87,110
More than one to three years	79,384	53,551	75,921	52,251
More than three years	38,726	37,907	38,726	37,907
	<u>P 198,891</u>	<u>P 204,431</u>	<u>P 188,872</u>	<u>P 196,174</u>

Bills payable bear annual interest rates of 0.45% to 6.50% in 2022, 0.30% to 4.50% in 2021 and 0.52% to 6.25% in 2020 (see Note 24).

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 24):

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<u>BDO Unibank Group</u>			
Fixed rate peso bonds	P 2,742	P 2,893	P 3,540
Senior notes	2,260	2,257	2,012
Foreign banks	826	356	791
Deposit substitutes	138	1	-
Local banks	118	189	470
Others	65	43	34
	<u>P 6,149</u>	<u>P 5,739</u>	<u>P 6,847</u>
<u>Parent Bank</u>			
Fixed rate peso bonds	P 2,742	P 2,893	P 3,540
Senior notes	2,260	2,257	2,012
Foreign banks	824	349	790
Deposit substitute	138	-	-
Others	-	1	-
	<u>P 5,964</u>	<u>P 5,500</u>	<u>P 6,342</u>

18.1 Senior Notes

The Parent Bank issued US dollar denominated senior notes as follows:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Coupon Interest</u>	<u>Principal Amount</u>	<u>Outstanding Balance</u>	
				<u>2022</u>	<u>2021</u>
May 16, 2022	May 16, 2029	3.71%	100	P 5,557	P -
July 13, 2020	January 13, 2026	2.13%	600	33,528	30,591
February 20, 2018	February 20, 2025	4.16%	150	8,475	7,741
September 6, 2017	March 6, 2023	2.95%	654	36,795	34,721
				<u>P 84,355</u>	<u>P 73,053</u>

On May 16, 2022, the Parent Bank issued its maiden blue bond amounting to US\$100 million through an investment from the International Finance Corporation (IFC). The bond, with an interest rate of 3.71% and a tenor of seven years, expanded financing for projects that help prevent marine pollution and preserve clean water resources. The issuance marked a milestone for BDO Unibank Group for being the first private sector issuance for a blue bond in Southeast Asia.

The issuance of senior notes in 2020 is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and refinance outstanding bonds.

18.2 Issuance of Fixed Rate Peso Bonds

On August 31, 2018, the BOD approved the establishment of a P100 billion Peso Bond Program. On February 1, 2020, the BOD approved an increase of P300 billion to the Parent Bank's Peso Bond Program.

On January 28, 2022, the Parent Bank issued P52,700 million of Peso-denominated fixed rate Association of Southeast Asian Nations (ASEAN) Sustainability Bonds. The bonds carry an interest rate of 2.9% per annum and will mature on January 28, 2024.

The Parent Bank's issuances of fixed rate peso bonds as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance	
				2022	2021
January 28, 2022	January 28, 2024	2.90%	52,700	P 52,696	P -
February 3, 2020	August 3, 2022	4.41%	40,100	-	40,256
July 3, 2020	April 3, 2022	3.13%	36,000	-	36,180
				<u>P 52,696</u>	<u>P 76,436</u>

18.3 Reconciliation of Liabilities Arising from Financing Activities

Presented below and in the succeeding page is the reconciliation of liabilities arising from financing activities both in 2022 and 2021, which includes both cash and non-cash changes.

BDO Unibank Group

	Foreign Banks	Senior Notes	Fixed Rate Peso Bonds	Local Banks	Deposit Substitute	BSP	Others	Total
Balance as of January 1, 2022	P 46,881	P 73,053	P 76,436	P 2,640	P 893	P -	P 4,528	P 204,431
Cash flows from financing activities								
Additional borrowings	40,215	5,219	52,292	16,349	13,133	20	13,013	140,241
Repayment of borrowings	(49,099)	(1,205)	(76,436)	(10,126)	(1,026)	(20)	(16,512)	(154,424)
Non-cash financing activities								
Interest amortization	133	142	404	70	106	-	(1)	854
Revaluation	1,113	7,146	-	(43)	(422)	-	-	7,782
Balance as of December 31, 2022	P 39,243	P 84,355	P 52,696	P 8,890	P 12,679	P -	P 1,028	P 198,891
Balance as of January 1, 2021	P 43,652	P 83,138	P 76,156	P 6,798	P -	P -	P -	P 209,744
Cash flows from financing activities								
Additional borrowings	63,472	-	-	51,916	941	910	10,620	127,859
Repayment of borrowings	(61,475)	(15,300)	-	(56,063)	(48)	(910)	(6,109)	(139,905)
Non-cash financing activities								
Interest amortization	(3)	61	280	(17)	-	-	17	338
Revaluation	1,235	5,154	-	6	-	-	-	6,395
Balance as of December 31, 2021	P 46,881	P 73,053	P 76,436	P 2,640	P 893	P -	P 4,528	P 204,431
Balance as of January 1, 2020	P 54,916	P 57,298	P 35,141	P 13,427	P -	P -	P 6,742	P 167,524
Cash flows from financing activities								
Additional borrowings	78,583	29,898	75,516	188,431	-	210	2,569	375,207
Repayment of borrowings	(87,643)	-	(35,141)	(194,994)	-	(210)	(9,311)	(327,299)
Non-cash financing activities								
Interest amortization	(55)	(27)	640	(32)	-	-	-	526
Revaluation	(2,149)	(4,031)	-	(34)	-	-	-	(6,214)
Balance as of December 31, 2020	P 43,652	P 83,138	P 76,156	P 6,798	P -	P -	P -	P 209,744

Parent Bank

Balance as of January 1, 2022	P 45,792	P 73,053	P 76,436	P -	P 893	P -	P -	P 196,174
Cash flows from financing activities								
Additional borrowings	39,426	5,219	52,292	-	13,133	10	-	110,080
Repayment of borrowings	(47,292)	(1,205)	(76,436)	-	(1,026)	(10)	-	(125,969)
Non-cash financing activities								
Interest amortization	129	142	404	-	106	-	-	781
Revaluation	1,087	7,146	-	-	(427)	-	-	7,806
Balance as of December 31, 2022	P 39,142	P 84,355	P 52,696	P -	P 12,679	P -	P -	P 188,872
Balance as of January 1, 2021	P 43,573	P 83,138	P 76,156	P -	P -	P -	P -	P 202,867
Cash flows from financing activities								
Additional borrowings	59,811	-	-	-	941	10	-	60,762
Repayment of borrowings	(58,664)	(15,300)	-	-	(48)	(10)	-	(74,022)
Non-cash financing activities								
Interest amortization	(11)	61	280	-	-	-	-	330
Revaluation	1,083	5,154	-	-	-	-	-	6,237
Balance as of December 31, 2021	P 45,792	P 73,053	P 76,436	P -	P 893	P -	P -	P 196,174
Balance as of January 1, 2020	P 54,882	P 57,298	P 35,141	P -	P -	P -	P -	P 147,321
Cash flows from financing activities								
Additional borrowings	76,114	29,898	75,516	136	-	10	-	181,674
Repayment of borrowings	(85,267)	-	(35,141)	(109)	-	(10)	-	(120,527)
Non-cash financing activities								
Interest amortization	(57)	(27)	640	-	-	-	-	556
Revaluation	(2,099)	(4,031)	-	(27)	-	-	-	(6,157)
Balance as of December 31, 2020	P 43,573	P 83,138	P 76,156	P -	P -	P -	P -	P 202,867

19. 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 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 issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014. The Notes had a principal amount of P10,000 and a maturity date of March 10, 2025. 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. On said date, noteholders were 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 were considered redeemed and cancelled.

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 nil in 2022 and 2021 and P99 in 2020, both in BDO Unibank Group and Parent Bank (see Note 24).

20. INSURANCE CONTRACT LIABILITIES

This account consists of:

	<u>2022</u>	<u>2021</u>
Legal policy reserves	P 59,321	P 60,438
Policy and contract claims payable	3,516	3,716
Policyholders' dividends	<u>1,526</u>	<u>1,174</u>
	<u>P 64,363</u>	<u>P 65,328</u>

The aging profile of this account is presented below.

	<u>2022</u>	<u>2021</u>
Within one year	P 7,844	P 3,375
More than one year	<u>56,519</u>	<u>61,953</u>
	<u>P 64,363</u>	<u>P 65,328</u>

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities		Reinsurer's Share of Liabilities		Net	
	2022	2021	2022	2021	2022	2021
Aggregate reserves for:						
Ordinary life policies	P 30,781	P 35,217	P -	P -	P 30,781	P 35,217
Variable unit-linked (VUL) contracts	27,930	24,627	-	-	27,930	24,627
Group life insurance policies	614	578	20	31	594	547
Accident and health policies (	4)	15	-	-	(4)	15
Policy and contract claims	3,516	3,716	24	59	3,492	3,657
Policyholders' dividends	1,526	1,175	-	-	1,526	1,175
	<u>P 64,363</u>	<u>P 65,328</u>	<u>P 44</u>	<u>P 90</u>	<u>P 64,319</u>	<u>P 65,238</u>

The movements in legal policy reserves are as follows:

	Legal Policy Reserves		Reinsurer's Share of Liabilities		Net	
	2022	2021	2022	2021	2022	2021
Balance at the beginning of the year	P 60,438	P 55,439	P 31	P 60	P 60,407	P 55,379
Premiums received	19,240	18,384	73	92	19,167	18,292
Liability released for payments of death, maturity and surrender benefits and claims	(12,356)	(10,725)	(84)	(121)	(12,272)	(10,604)
Accretion of investment income or change in unit prices	542	2,584	-	-	542	2,584
Changes in valuation of interest rate	(9,620)	(5,686)	-	-	(9,620)	(5,686)
Change in assumptions	574	-	-	-	574	-
Foreign exchange adjustments	503	442	-	-	503	442
Balance at end of year	<u>P 59,321</u>	<u>P 60,438</u>	<u>P 20</u>	<u>P 31</u>	<u>P 59,301</u>	<u>P 60,407</u>

The movement in Legal policy reserves for the years ended December 31, 2022 and 2021 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 25).

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. 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 margins for adverse deviations from the expected experience. Assumptions are further evaluated on a continuous basis in order to ensure adequacy of valuations. Assumptions are subject to the provisions of the Code and guidelines set by the IC.

To test the adequacy of the statutory reserve liability, the present value of the current estimates of future cash flows is calculated without margins for adverse deviations, and compared to the booked statutory reserve liability. The test for adequacy is sensitive to the following key assumptions:

- a. *Mortality rates.* Assumptions are based on standard industry and morbidity tables, according to the type of contract written and adjusted, if appropriate, to reflect the BDO Unibank Group's own experiences. The 2017 Philippine Intercompany Mortality Table was chosen as an appropriate base table used in projecting death claims. Higher mortality and morbidity rates would lead to a larger number of claims, increasing the benefit payments and reducing profits for the shareholders.
- b. *Discount rates.* The discount rate affects the calculated present value of the cash flows. The estimate is based on current market returns as well as expectations about future economic and financial developments. A decrease in the discount rate will increase the present value of the cash flows. The discount rate used in the LAT is 6.25% for Peso and 5.50% for Dollar in 2022, and 4.50% for Peso and 3.25% for Dollar in 2021.
- c. *Expense assumptions.* The expense assumptions are based on the BDO Unibank Group's actual current expense experience as determined by an expense study. Future expense assumptions are projected based on the BDO Unibank Group's expense forecasts.
- d. *Lapse and surrender rates.* The lapse and surrender rates assumed vary by product type and policy duration. These assumptions are based on the BDO Unibank Group's experience.

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 15).

21. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	BDO Unibank Group		Parent Bank	
		2022	2021	2022	2021
Outstanding acceptances payable		P 21,983	P 16,972	P 21,983	P 16,972
Accounts payable		20,885	13,572	15,599	10,144
Accrued expenses		18,723	17,089	17,396	16,124
Lease liabilities	13.2	13,344	12,087	12,927	11,800
Manager's checks		12,774	13,788	12,655	13,682
Bills purchased – contra		9,601	6,039	9,601	6,039
Derivatives with negative fair values	10.1, 27(d)(i)(4)	7,809	5,742	3,636	2,462
Premium on deposit fund		3,971	3,641	-	-
Withholding taxes payable		2,669	2,093	2,449	1,922
Lease deposits		1,070	745	123	124
Due to BSP and Treasurer of the Philippines		722	727	719	723
Capitalized interest and other charges		297	193	254	151
Due to principal		206	97	-	-
Retirement benefit obligation	26.2	-	3,800	-	3,650
Others	16, 34.1.2	15,060	11,961	13,194	10,863
		<u>P 129,114</u>	<u>P 108,546</u>	<u>P 110,536</u>	<u>P 94,656</u>

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Within one year	P 106,608	P 88,339	P 95,158	P 80,340
More than one year	22,506	20,207	15,378	14,316
	P 129,114	P 108,546	P 110,536	P 94,656

The liability for unredeemed reward points amounting to P3,211 and P3,677 as of December 31, 2022 and 2021, respectively, presented as part of Accrued expenses above, represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.20).

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

Interest expense on certain liabilities amounting to P94, P78 and P106 in 2022, 2021 and 2020, respectively, for the BDO Unibank Group and P19, P10 and P18 in 2022, 2021 and 2020, respectively, for the Parent Bank which are presented as part of Interest expense on bills payable and other borrowings under Interest Expense account in the statements of income (see Note 24).

Impairment losses recognized for off-books account amounted to P5, P28 and P68 for both the BDO Unibank Group and the Parent Bank in 2022, 2021 and 2020, respectively. The accumulated impairment losses as of December 31, 2022, 2021 and 2020 amounting to P233, P289 and P317, 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 16).

22. EQUITY

22.1 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2022	2021	2022	2021
Preferred shares – P10 par value				
Authorized				
Balance at end of year	1,000,000,000	1,000,000,000	P 10,000	P 10,000
Issued, fully paid and outstanding				
Balance at beginning of year	515,000,000	515,000,000	P 5,150	P 5,150
Issued during the year	103,000,000	-	1,030	-
Balance at end of year	618,000,000	515,000,000	P 6,180	P 5,150

	<u>Number of Shares</u>		<u>Amount</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<u>Common shares – P10 par value</u>				
Authorized				
Balance at end of year	<u>8,500,000,000</u>	<u>5,500,000,000</u>	<u>P 85,000</u>	<u>P 55,000</u>
Issued, fully paid and outstanding				
Balance at beginning of year	<u>4,385,519,015</u>	<u>4,384,227,915</u>	<u>P 43,855</u>	<u>P 43,842</u>
Issued during the year	<u>878,612,660</u>	<u>1,291,100</u>	<u>8,786</u>	<u>13</u>
Balance at end of year	<u>5,264,131,675</u>	<u>4,385,519,015</u>	<u>P 52,641</u>	<u>P 43,855</u>

22.1.1 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.

22.1.2 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:

<u>Transaction</u>	<u>Subscriber</u>	<u>Issue Date</u>	<u>Number of Shares Issued</u>
IPO	Various	May 21, 2002	908,189,550
Private placement	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 Corporation	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
Stock options	Various employees	January 6, 2020 to December 28, 2020	2,857,581
Stock options	Various employees	January 15, 2021 to December 15, 2021	1,291,100
Stock dividends	Various	December 29, 2022	877,337,627
Stock options	Various employees	January 17, 2022 to December 27, 2022	1,275,033
			<u>5,264,131,675</u>

As of December 31, 2022 and 2021, there are 12,309 and 12,390 holders, respectively, of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P105.70 and P120.70 per share as of December 29, 2022 and December 31, 2021, respectively, (the last trading day in 2022 and 2021).

22.2 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.

The Parent Bank appointed Deutsche Bank (DB) as the exclusive depository of ADRs for a period of five years. As depository 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. In October 2018, the Parent Bank renewed the appointment of DB as the exclusive depository of ADRs for another five years.

As of December 31, 2022 and 2021, 554,539 and 442,787 ADRs valued at US\$11,566,297 and US\$11,046,429 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US\$20.86/share and US\$24.95/share, respectively).

22.3 *Surplus Free*

The details of the Parent Bank's cash dividend distributions are as follows:

<u>Date Declared and Approved</u>	<u>Common shares dividend</u>		<u>Record Date</u>	<u>Date Paid/Payable</u>
	<u>Per Share</u>	<u>Total Amount</u>		
February 27, 2020	P 0.30	P 1,315	March 13, 2020	March 27, 2020
May 30, 2020	0.30	1,315	June 17, 2020	June 29, 2020
August 29, 2020	0.30	1,315	September 15, 2020	September 28, 2020
December 5, 2020	0.30	1,316	December 22, 2020	December 29, 2020
February 24, 2021	0.30	1,315	March 15, 2021	March 25, 2021
May 29, 2021	0.30	1,315	June 16, 2021	June 25, 2021
August 27, 2021	0.30	1,316	September 15, 2021	September 24, 2021
December 4, 2021	0.30	1,316	December 22, 2021	December 29, 2021
February 24, 2022	0.30	1,316	March 14, 2022	March 31, 2022
April 22, 2022	1.00	4,386	May 6, 2022	May 31, 2022
May 28, 2022	0.30	1,316	June 14, 2022	June 30, 2022
August 26, 2022	0.30	1,316	September 13, 2022	September 30, 2022
December 3, 2022	0.30	1,579	December 20, 2022	December 29, 2022

<u>Date Declared and Approved</u>	<u>Preferred shares dividend</u>		<u>Date Paid/ Payable</u>
	<u>Per Annum</u>	<u>Total Amount</u>	
February 1, 2020	6.50%	339	February 21, 2020
January 30, 2021	6.50%	340	February 22, 2021
January 29, 2022	6.50%	339	February 22, 2022

On March 26, 2022, the BOD approved the declaration of stock dividends equivalent to 20% of the BDO Unibank's outstanding capital stock to be issued out of the increase in BDO Unibank's authorized capital stock (common shares) from 5,500,000,000 to 8,500,000,000 shares amounting to P85,000 with par value of P10 per share and 103,000,000 preferred shares with a par value of P10 per share, payable to all stockholders as of record date. On November 29, 2022, the Bank received the approval from the SEC for this stock dividend issuance, setting December 15, 2022 as the record date. The stock dividends were issued on December 29, 2022.

22.4 ESOP

For options that were exercised in 2022 and 2021, BDO Unibank Group issued new common shares of 1,275,033 and 1,291,100, respectively, from its authorized capital stock (see Note 22).

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

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Balance at beginning of year	14,950,363	6,498,024	12,985,298	4,530,459
Vested during the year	10,018,699	14,118,934	9,492,930	13,552,572
Forfeited during the year	(43,235)	(46,800)	(36,135)	(29,250)
Expired during the year	(557,900)	(373,000)	(431,400)	(337,500)
Exercised during the year	(5,982,040)	(5,246,795)	(5,412,845)	(4,730,983)
Balance at end of year	<u>18,385,887</u>	<u>14,950,363</u>	<u>16,597,848</u>	<u>12,985,298</u>

The weighted average exercise price was P110.69 and P109.97 for the years ended December 31, 2022 and 2021, respectively.

The share options expensed and included as part of Compensation and benefits under Other Operating Expenses in the BDO Unibank Group's statements of income, amounted to P294, P273 and P354 in 2022, 2021 and 2020, respectively, and in the Parent Bank's statements of income, amounted to P289, P252 and P316, respectively (see Note 26.1).

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:

		2022		2021
Average option life		5 years		5 years
Average share price at grant date	P	119.50	P	101.80
Average exercise price at grant date	P	118.29	P	93.25
Average fair value of options at grant date	P	41.07	P	34.77
Average standard deviation of share price returns		30.29%		34.94%
Average dividend yield		0.97%		1.20%
Average risk-free investment rate		5.72%		2.75%

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

22.5 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to P132 in 2022, P44 for 2021 and P40 in 2020 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, P3 and P2 in 2022, 2021 and 2020, 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 P2,475 and P2,311 in 2022, P1,337 and P1,250 in 2021 and (P830) and (P827) in 2020, respectively. The accumulated amount of appropriation to surplus reserves for general loan loss portfolio as of December 31, 2022, 2021 and 2020 amounted to P15,905, P13,430 and P12,093, respectively, for BDO Unibank Group and P15,477, P13,166 and P11,916, respectively, for the Parent Bank. 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 P251, P263 and P272 in 2022, 2021 and 2020, respectively, and P251, P263 and P223 in 2022, 2021 and 2020, respectively, is appropriated to surplus reserves (see Note 28).

On June 10, 2020 and July 2, 2020, the BOD of BDO Securities approved the appropriation of P60 as additional capital requirements and the reversal of the previously approved appropriation for cash dividends amounting to P200, respectively.

Also, included in the 2022, 2021 and 2020 surplus reserves are the appropriations made by BDO Securities and ASI (see Note 2.3) totaling P5, P2 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*. On May 26, 2020, the BOD of BDO Nomura approved the reversal of the Surplus Reserves amounting to P9 back to Surplus Free. On July 28, 2022, ASI was sold to a third party which resulted in the reversal of Surplus Reserves amounting to P14 (see Note 2.3).

23. INTEREST INCOME

Interest income consists of the following:

		BDO Unibank Group		
	<u>Notes</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Loans and other receivables	11, 27	P 140,760	P 124,548	P 138,736
Trading and investment securities:				
At amortized cost	10.3	17,490	12,410	10,424
At FVOCI	10.2	7,275	6,215	5,546
At FVTPL	10.1	103	92	122
Due from BSP and other banks	8, 9	3,366	1,554	2,158
Others		<u>77</u>	<u>60</u>	<u>45</u>
		<u>P 169,071</u>	<u>P 144,879</u>	<u>P 157,031</u>
		Parent Bank		
	<u>Notes</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Loans and other receivables	11, 27	P 134,036	P 119,566	P 134,329
Trading and investment securities at:				
At amortized cost	10.3	16,612	11,633	9,689
At FVOCI	10.2	4,641	3,939	3,440
At FVTPL	10.1	69	59	84
Due from BSP and other banks	8, 9	3,207	1,533	2,120
Others		<u>67</u>	<u>42</u>	<u>35</u>
		<u>P 158,632</u>	<u>P 136,772</u>	<u>P 149,697</u>

24. INTEREST EXPENSE

Interest expense is composed of the following:

		BDO Unibank Group		
	<u>Notes</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Deposit liabilities	17, 27	P 12,377	P 6,952	P 15,521
Bills payable and other borrowings	18, 19, 21, 26.2	6,535	5,764	7,120
Finance lease liabilities	13.2, 21, 27	<u>927</u>	<u>817</u>	<u>690</u>
		<u>P 19,839</u>	<u>P 13,533</u>	<u>P 23,331</u>

	Notes	Parent Bank		
		2022	2021	2020
Deposit liabilities	17, 27	P 11,572	P 6,644	P 15,196
Bills payable and other borrowings	18, 19, 21, 26.2	6,251	5,455	6,529
Finance lease liabilities	13.2, 21	905	807	675
		<u>P 18,728</u>	<u>P 12,906</u>	<u>P 22,400</u>

25. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	BDO Unibank Group		
		2022	2021	2020
Service charges, fees and commissions	27	P 38,545	P 30,485	P 24,822
Insurance premiums		18,938	18,136	15,009
Foreign exchange gains	10.1	6,060	3,621	1,748
Trust fees	28	4,555	4,364	3,811
Rental	14	1,301	1,269	1,430
Income from assets sold or exchanged	14	483	1,275	1,169
Dividends	10.1	147	207	551
Trading gains (losses) - net	10.1	(600)	220	5,563
Miscellaneous - net		2,106	1,777	1,107
		<u>P 71,535</u>	<u>P 61,354</u>	<u>P 55,210</u>

	Notes	Parent Bank		
		2022	2021	2020
Service charges, fees and commissions	27	P 31,061	P 25,293	P 21,152
Share in net income of subsidiaries and associates	15.2	8,710	6,350	3,839
Foreign exchange gains		5,182	3,273	1,591
Trust fees	28	3,395	3,477	3,035
Rental	14	492	482	514
Income from assets sold or exchanged	14	326	1,174	1,097
Dividends		18	19	258
Trading gains (losses) - net	10.1	(299)	(349)	5,230
Miscellaneous - net		1,244	916	538
		<u>P 50,129</u>	<u>P 40,635</u>	<u>P 37,254</u>

Other operating expenses consist of the following:

		BDO Unibank Group			
	<u>Notes</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	
Compensation and benefits	26.1	P 44,405	P 41,744	P 37,392	
Fees and commissions		22,570	17,140	14,994	
Policy reserves, insurance benefits and claims	20	14,492	15,633	13,136	
Taxes and licenses	14	13,167	11,180	12,703	
Occupancy	13, 15.6				
	27	10,553	9,222	9,572	
Insurance		6,342	5,828	5,551	
Security, clerical, messengerial and janitorial		4,202	3,851	3,674	
Repairs and maintenance		2,334	1,982	1,600	
Advertising		2,016	2,586	2,621	
Power, light and water		1,402	1,130	1,011	
Amortization of computer software	15.6	1,356	1,342	734	
Representation and entertainment		1,317	1,806	1,877	
Information technology		1,104	1,136	919	
Traveling		991	883	1,034	
Litigation on assets acquired		854	773	601	
Supplies		794	731	767	
Telecommunication		520	560	616	
Freight		422	378	257	
Miscellaneous	15.6	2,367	1,970	3,581	
		P 131,208	P 119,875	P 112,640	
		Parent Bank			
	<u>Notes</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	
Compensation and benefits	26.1	P 37,955	P 35,786	P 32,525	
Fees and commissions		21,606	16,600	14,575	
Taxes and licenses	14	11,509	10,009	11,631	
Occupancy	13, 15.6				
	27	9,182	7,963	8,199	
Insurance		6,218	5,715	5,457	
Security, clerical, messengerial and janitorial		3,843	3,522	3,382	
Repairs and maintenance		2,158	1,855	1,487	
Advertising		1,823	2,509	2,495	
Power, light and water		1,263	1,047	912	
Amortization of computer software	15.6	1,259	1,291	696	
Representation and entertainment		1,141	1,573	1,637	
Information technology		1,057	1,113	885	
Litigation on assets acquired		834	766	592	
Supplies		675	606	676	
Traveling		638	619	778	
Telecommunication		421	456	523	
Freight		372	339	241	
Miscellaneous	15.6	2,165	1,844	3,376	
		P 104,119	P 93,613	P 90,067	

26. COMPENSATION AND BENEFITS

26.1 Compensation and Benefits

Expenses recognized for compensation and benefits (see Note 25) are presented below.

	Notes	BDO Unibank Group		
		2022	2021	2020
Salaries and wages		P 26,465	P 23,914	P 22,206
Bonuses		8,387	7,876	7,269
Retirement - defined benefit plan	26.2	2,961	2,421	2,097
Social security costs		1,413	1,254	1,013
Employee stock option plan	26.3	294	273	354
Other benefits		4,885	6,006	4,453
	25	<u>P 44,405</u>	<u>P 41,744</u>	<u>P 37,392</u>
	Notes	Parent Bank		
		2022	2021	2020
Salaries and wages		P 22,375	P 20,409	P 19,147
Bonuses		7,360	6,942	6,424
Retirement - defined benefit plan	26.2	2,583	1,825	1,850
Social security costs		1,195	1,062	863
Employee stock option plan	26.3	289	252	316
Other benefits		4,153	5,296	3,925
	25	<u>P 37,955</u>	<u>P 35,786</u>	<u>P 32,525</u>

26.2 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. Normal retirement benefit is an amount equivalent to a percentage ranging from 50% to 200% of plan salary for every year of credited service but not less than the regulatory benefit under Republic Act No. 7641, plus the cash conversion of accumulated vacation and sick leaves, if any.

(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 2022 and 2021.

The amounts of Retirement assets and benefit obligation recognized under Other Assets accounts (see Note 15) and Other Liabilities accounts (see Note 21), respectively, in the statements of financial position are determined as follows:

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Present value of the DBO	P 43,139	P 42,440	P 39,252	P 38,325
Fair value of plan assets	(43,396)	(38,647)	(39,252)	(34,675)
Deficiency (surplus) of plan assets	(257)	3,793	-	3,650
Effect of asset ceiling	42	7	-	-
Retirement benefit obligation (assets)	(P 215)	P 3,800	P -	P 3,650

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

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Balance at beginning of year	P 42,440	P 34,288	P 38,325	P 31,318
Benefits paid by the plan	(2,285)	(3,231)	(2,086)	(3,037)
Current service cost	2,961	2,040	2,583	1,825
Interest expense	2,399	1,323	2,167	1,215
Past service cost	-	381	-	-
Transfer to/(from) the plan	-	-	110	(49)
Remeasurements:				
Actuarial losses (gains) arising from changes in:				
– financial assumption	(5,357)	3,173	(4,759)	3,464
– demographic assumptions	1,915	330	1,824	54
– experience adjustments	1,066	4,136	1,088	3,535
Balance at end of year	P 43,139	P 42,440	P 39,252	P 38,325

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

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Balance at beginning of year	P 38,647	P 35,650	P 34,675	P 32,582
Contributions paid into the plan	8,746	4,286	8,136	3,500
Interest income	2,107	1,378	1,899	1,272
Benefits paid by the plan	(2,285)	(3,231)	(2,086)	(3,037)
Transfer to/(from) the plan	-	-	110	(49)
Remeasurement loss - return on plan assets (excluding amounts included in net interest)	(3,819)	564	(3,482)	407
Balance at end of year	P 43,396	P 38,647	P 39,252	P 34,675

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics are shown below.

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Debt securities:				
Government bonds	P 25,317	P 19,400	P 22,900	P 17,407
Corporate bonds	7,416	7,726	6,708	6,932
UITFs	10,706	8,919	9,683	8,003
Loans and other receivables	2,400	499	2,171	447
Equity securities	512	881	463	790
Cash and cash equivalents	126	74	114	66
Other properties – net	(3,081)	1,148	(2,787)	1,030
	P 43,396	P 38,647	P 39,252	P 34,675

Actual returns on plan assets were (P1,712) and (P1,583) in 2022 and P1,943 and P1,679 in 2021 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 27(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 to the defined benefit plan is as follows:

	BDO Unibank Group		
	2022	2021	2020
<i>Recognized in profit or loss:</i>			
Current service costs	P 2,961	P 2,040	P 2,097
Past service costs	-	381	-
Interest expense (income)	292	(53)	68
	P 3,253	P 2,368	P 2,165
<i>Recognized in other comprehensive income, net of tax (see Note 31.1):</i>			
Actuarial losses (gains) arising from change in:			
- experience adjustments	P 799	P 3,102	P 729
- demographic assumptions	1,436	248	-
- financial assumptions	(4,018)	2,379	(2,105)
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	2,864	(423)	580
- changes in the effect of the asset ceiling	27	(43)	33
	1,108	5,263	(763)
Effect of change in income tax rate	-	750	-
	1,108	6,013	(763)
Share in actuarial losses of associates	(11)	9	7
	P 1,097	P 6,022	(P 756)

	Parent Bank		
	2022	2021	2020
<i>Recognized in profit or loss:</i>			
Current service costs	P 2,583	P 1,825	P 1,850
Interest expense (income)	268	(55)	70
	P 2,851	P 1,770	P 1,920
<i>Recognized in other comprehensive income, net of tax (see Note 31.1):</i>			
Actuarial losses (gains) arising from change in:			
– experience adjustments	P 816	P 2,651	P 693
– demographic assumptions	1,368	40	-
– financial assumptions	(3,569)	2,599	(1,935)
Remeasurement losses (gains) arising from:			
– return on plan assets (excluding amounts included in net interest expense)	2,612	(305)	477
– changes in the effect of the asset ceiling	-	(37)	33
	1,227	4,948	(732)
Effect of change in income tax rate	-	715	-
	1,227	5,663	(732)
Share in actuarial losses (gains) of subsidiaries and associates	(126)	342	(20)
	P 1,101	P 6,005	(P 752)

Current service costs are presented as part of Compensation and benefits under Other Operating Expenses account (see Note 25) while interest expense or income are presented or offset against Interest Expense account (see Note 24) 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	
	2022	2021	2022	2021
Discount rates	7.62% - 7.88%	5.03% - 5.04%	7.63%	5.03%
Expected rate of salary increases	2.00% - 14.00%	2.00% - 11.70%	4.75% - 11.00%	4.00% - 11.70%

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 22.6 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 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 in the succeeding pages.

(i) *Sensitivity Analysis*

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit asset as of December 31, 2022 and 2021.

<u>Impact on Retirement Benefit Obligation</u>				
	<u>Change in Assumption</u>		<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>BDO Unibank Group</u>				
<u>December 31, 2022</u>				
Discount rate	+/-1%	(P	1,954)	P 2,166
Salary increase rate	+/-1%		2,150	(1,978)
<u>December 31, 2021</u>				
Discount rate	+/-1%	(P	1,850)	P 2,051
Salary increase rate	+/-1%		1,990	(1,835)
<u>Parent Bank</u>				
<u>December 31, 2022</u>				
Discount rate	+/-1%	(P	1,615)	P 1,764
Salary increase rate	+/-1%		1,757	(1,639)
<u>December 31, 2021</u>				
Discount rate	+/-1%	(P	1,474)	P 1,601
Salary increase rate	+/-1%		1,556	(1,463)

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, 2022 and 2021 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 BDO Unibank Group and the Parent Bank's strategies to manage its risks from previous periods.

(iii) *Funding Arrangements and Expected Contributions*

As of December 31, 2022, the plan of the BDO Unibank Group is overfunded by P215 while the Parent Bank is fully funded based on the latest actuarial valuation report.

The BDO Unibank Group and the Parent Bank expect to pay P9,200 and P8,300, respectively, as contributions to retirement benefit plans in 2023.

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		Parent Bank	
	<u>Group</u>		<u>Parent Bank</u>	
Between one to five years	P	41,416	P	38,877
Between six to ten years		<u>28,413</u>		<u>25,443</u>
	P	<u>69,829</u>	P	<u>64,320</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 3.5 to 13.2 years for the BDO Unibank Group and 5.4 years for the Parent Bank.

26.3 ESOP

BDO Unibank Group's ESOP expense includes the amounts recognized by the Parent Bank and its subsidiaries over the vesting period. In 2022 and 2021, vested shares totaled 10,018,699 shares and 14,118,934 shares, respectively, for BDO Unibank Group, and 9,492,930 shares and 13,552,572 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 P294, P273 and P354 in 2022, 2021 and 2020, respectively, and in the Parent Bank's statements of income, amounted to P289, P252 and P316, respectively (see Note 26.1).

27. RELATED PARTY TRANSACTIONS

The Parent Bank created a Related Party Transactions Committee composed of two independent directors and a non-executive director, as of December 31, 2022. 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, 2022 and 2021 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction			Outstanding Balance	
		2022	2021	2020	2022	2021
DOSRI Loans	27(a)					
Stockholders		P 11,241	P 24,854	P 3,636	P 21,122	P 34,266
Related Parties under Common Ownership		2	12	24	-	-
Directors		-	3	3	-	-
Officers and Employees		1,900	1,807	1,418	2,254	2,068
Deposit Liabilities	27(b)					
Stockholders		500,212	468,175	390,344	27,962	19,852
Related Parties under Common Ownership		16,992	2,670	5,099	227	227
Directors		561	443	451	32	54
Officers and Employees		-	222	82	-	1
Other Transactions with Associates	27(d)					
Loans and Advances		-	480	500	7,895	8,261
Interest Income		295	251	359	98	58
Related Parties Under Common Ownership	27(d)					
Right-of-use Asset		1,619	1,677	378	4,818	3,904
Lease Liabilities		1,361	1,474	285	3,199	2,816
Interest Expense		87	77	3	237	178
Depreciation Expense		263	184	39	1,098	524
Key Management Personnel Compensation	27(d)					
		1,673	1,543	1,589	-	-
Retirement Plan	27(c)	(263)	160	238	5,705	8,351

The summary of the Parent Bank's significant transactions with its related parties as of December 31, 2022 and 2021 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction			Outstanding Balance	
		2022	2021	2020	2022	2021
DOSRI Loans	27(a)					
Stockholders		P 11,241	P 24,854	P 3,636	P 21,122	P 34,266
Related Parties under Common Ownership		2	12	24	-	-
Directors		-	3	3	-	-
Officers and Employees		1,898	1,805	1,411	2,250	2,065
Deposit Liabilities	27(b)					
Stockholders		500,212	468,175	390,344	27,962	19,852
Related Parties under Common Ownership		990	2,324	4,152	83	111
Directors		561	443	451	32	54
Officers and Employees		-	222	82	-	1
Other Transactions with Subsidiaries	27(d)					
Loans and Advances		P 28,755	P 25,011	P 37,123	P 9,339	P 2,912
Derivative Assets		3,059	992	-	123	31
Derivative Liabilities		1,738	612	1,471	60	-
Deposit Liabilities		6,599	(572)	(1,881)	11,368	4,769
Accounts Payable		-	-	(2)	-	1
Miscellaneous Assets		(83)	117	259	59	142
Miscellaneous Liabilities		28	(28)	-	-	-
Interest Income		183	119	238	24	3
Rent Income		143	136	132	-	-
Service Fees		1,070	874	796	-	-
Interest Expense		79	5	25	70	-
Right-of-use Asset		24	-	-	100	97
Lease Liabilities		3	(12)	(11)	117	113
Depreciation/Amortization		16	14	13	-	-
Interest Expense – Finance						
Lease Payment Payable		7	7	7	-	-
Trust Fees		120	120	107	-	-
Miscellaneous Expense		83	117	123	-	-
Insurance Expense		56	42	40	-	-
Trading Gain/Loss		230	(20)	(90)	-	-
Miscellaneous Income		123	49	3	-	-
Repairs and Maintenance		1	1	1	-	-
Fees and Commission		135	140	149	-	-
Other Transactions with Associates	27(d)					
Loans and Advances		-	480	500	7,895	8,261
Interest Income		295	251	344	98	58
Related Parties under Common Ownership	27(d)					
Right-of-use Asset		1,619	1,677	378	4,818	3,904
Lease Liabilities		1,361	1,474	285	3,199	2,816
Interest Expense		87	77	3	237	178
Depreciation Expense		263	184	39	1,098	524
Key Management Personnel	27(d)					
Compensation		966	905	1,006	-	-
Retirement Plan	27(c)	(263)	160	238	5,703	8,349

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 0.00% to 9.00% per annum in 2022, 2021 and 2020, 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.

Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within 20 years.

The total loan releases and collections in 2022 amounted to P13,143 and P26,101 for the BDO Unibank Group and P13,141 and P26,100 for the Parent Bank, respectively. The total loan releases and collections in 2021 amounted to P26,676 and P15,713 for the BDO Unibank Group and P26,674 and P15,709 for the Parent Bank, respectively. The total loan releases and collections in 2020 amounted to P5,081 and P10,265 for the BDO Unibank Group and P5,074 and P10,257 for the Parent Bank, respectively.

(b) *Deposits from Related Parties*

The total deposits made by the related parties amounted to P517,765, P471,510 and P395,976 in 2022, 2021 and 2020 for the BDO Unibank Group, and P501,763, P471,164 and P395,029 in 2022, 2021 and 2020 for the Parent Bank, respectively, and bearing interest rates range of 0.00% to 5.38% in 2022, and 0.00% to 4.53% 2021 and 2020, respectively. The related interest expense from deposits amounted to P935, P795 and P860 in 2022, 2021 and 2020, respectively (see Note 24).

(c) *Transactions with Retirement Plan*

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group as of December 31, 2022 and 2021 and for each of the three years ended are as follows:

Related Party Category	Amounts of Transaction			Outstanding Balance	
	2022	2021	2020	2022	2021
Loans to employees					
BDO Unibank, Inc.	P -	P -	P -	P 4	P 7
Investment in shares of					
BDO Unibank, Inc.	-	-	-	195	48
Dominion Holdings	-	-	-	2	2
Deposit liabilities					
(including LTNCDs)					
BDO Unibank, Inc.	-	-	-	5,504	8,294
Trading gain (loss)					
BDO Unibank, Inc.	(271)	158	235	-	-
Interest expense					
BDO Unibank, Inc.	6	-	1	-	-
Rental income					
BDO Unibank, Inc.	2	2	2	-	-

The BDO Unibank Group's retirement fund has transactions directly and indirectly with the Parent Bank as of December 31, 2022 and 2021 and for each of the three years ended are as follows:

Related Party Category	Amounts of Transaction			Outstanding Balance	
	2022	2021	2020	2022	2021
Loans to employees					
BDO Unibank, Inc.	P -	P -	P -	P 4	P 7
Investment in shares of –					
BDO Unibank, Inc.	-	-	-	195	48
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	-	-	-	5,504	8,294
Trading gain (loss)					
BDO Unibank, Inc.	(271)	158	235	-	-
Interest expense					
BDO Unibank, Inc.	6	-	1	-	-
Rental income					
BDO Unibank, Inc.	2	2	2	-	-

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 26.2.

(d) *Other Transactions with Related Parties*

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties are 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. The total advances granted and collected amounted to P259 and P111, P111 and P28, and P46 and P44, in 2022, 2021 and 2020, respectively. The 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 P259 and P111 as of December 31, 2022 and 2021, respectively (see Note 11).

The Parent Bank also grants both secured and unsecured interest-bearing loans to subsidiaries with outstanding balance of P9,080 and P2,801 as of December 31, 2022 and 2021, 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 11). The total loans granted amounted to P28,496, P24,900 and P37,076 while total loans collected amounted to P22,217, P27,215 and P35,593 for 2022, 2021 and 2020, respectively. These loans are payable in cash with a term between eight 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 23). Interest rate on these loans ranges from 3.32% to 6.50%, 2.50% to 3.50% and 2.27% to 5.75% per annum in 2022, 2021 and 2020, 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 monthly in cash 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.

The 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 25). There are no outstanding balance arising from these transactions as of December 31, 2022 and 2021. Total service fees amounted to P1,070, P874 and P796 in 2022, 2021 and 2020, 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. The total trust fees is presented as part of Trust fees under Other Operating Income account in the Parent Bank's statements of income (see Note 25). Outstanding balances arising from this as of December 31, 2022 and 2021 are included as part of Accounts receivable under Loans and Other Receivables (see Note 11). The total trust fees amounted to P120 for both 2022 and 2021, and P107 for 2020.

Certain subsidiaries lease office space and equipment from the Parent Bank. The 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 25). The term of the lease office space ranges from three years to five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2022 and 2021. The total rent income amounted to P143, P136 and P132 in 2022, 2021 and 2020, respectively.

(3) Expenses of the Parent Bank

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 P100 and P97, as of December 31, 2022 and 2021, respectively, which are presented as part of Premises, Furniture, Fixtures and Equipment (see Note 12). Depreciation expense and amortization of the right-of-use assets arising from these transactions amounted to P16, P14 and P13 in 2022, 2021 and 2020, respectively, and presented as part of Occupancy under Other Operating Expenses in the Parent Bank's statements of income (see Note 25). The 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 statement on income amounted to P7 for years 2022, 2021 and 2020 (see Note 24). Outstanding balance arising from these transactions amounted to P117, P113 and P118 as of December 31, 2022, 2021 and 2020, respectively, and is included as part of Lease liabilities under Other Liabilities (see Note 21).

The total amount paid for repairs and maintenance of leased properties is included as part of Repairs and Maintenance account under Other Operating Expenses in the Parent Bank's statements of income (see Note 25). The total repairs and maintenance expense amounted to P1 in 2022, 2021 and 2020.

The Parent Bank pays for the group life insurance of its employees and life and accident insurance of enrolled qualified remitters of Kabayan accounts to BDO Life. The total amount paid is included as part of Insurance Expense account under Other Operating Expenses in the Parent Bank's statements of income (see Note 25). Total insurance expense amounted to P56, P42 and P40 in 2022, 2021 and 2020, respectively.

In 2020, the Parent Bank purchased receivables from Dominion Holdings (see Note 30.3). This resulted to a loss amounting to P290 which was initially booked under Miscellaneous Asset and will be amortized over the term of the loan. The amortized loss incurred was recognized as part of Miscellaneous Expense account under Other Operating Expenses in the Parent Bank's statements of income amounting to P83 and P117 in 2022 and 2021, respectively (see Note 25). No similar transaction occurred in 2022 and 2021.

The Parent Bank pays commission to BDO Network and BDO Private related to the referred trust services to the Parent Bank. Also, the Parent Bank pays for various services rendered by foreign subsidiaries. The amount paid for both commission and services are included as part of Fees and Commission account under Other Operating Expense in the Parent Bank's statements of income. The total payments amounted to P135, P140 and P149 in 2022, 2021 and 2020, respectively.

(4) Derivatives

In 2022 and 2021, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards. As of December 31, 2022 and 2021, 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 10.1) and Derivatives with negative fair values under Other Liabilities account in the statements of financial position (see Note 21).

(5) Deposit Liabilities

The total deposits made by the subsidiaries to the Parent Bank during 2022, 2021 and 2020 amounted to P801,252, P669,405 and P559,611, respectively. These are with yearly corresponding withdrawals amounting to P794,653 for 2022, P668,833 for 2021 and P561,492 for 2020. These deposits bear interest rates of 0.00% to 4.88% in 2022, 0.00% to 0.50% in 2021 and 0.00% to 3.25% in 2020. The related interest expense from these deposits is included as part of Interest Expense account on deposit liabilities in the statements of income (see Note 24).

In 2022, the BOD approved the assignment of additional government securities to BDO Network amounting to P1.0 billion to secure transactions between the Parent Bank and BDO Network. As of December 31, 2022 and 2021, the total assigned government securities to BDO Network amounted to P2.0 billion and P1.0 billion, respectively. Additionally, the total assigned government securities to BDO Private for purposes of securing transactions amounted to P2.0 billion for both 2022 and 2021.

(6) Real Estate Joint Venture

On October 23, 2021 and November 11, 2021, the respective BOD of BDO Unibank and BDOSHI have approved the Real Estate Joint Venture Agreement between the two companies wherein BDOSHI will contribute its 3,695 square meters vacant lots and Air Rights in Valero St. Makati City. BDO Unibank will construct Annex A Building on the said lots as part of the BDO Makati Campus Project and shall bear the estimated cost of the construction subject to any adjustment based on the final calculations by the parties. As of December 31, 2022, construction of the said building has not yet started.

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2022 and 2021, the outstanding secured and unsecured interest-bearing loans and advances to associates amounting to P7,895 and P8,261 for the BDO Unibank Group and P7,895 and P8,261 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 11).

These loans are payable in cash between seven and a half years to twelve years. The total collections on loans and advances amounted to P366, P444 and P75 for BDO Unibank Group and P366, P262 and P57 for the Parent Bank in 2022, 2021 and 2020, respectively.

Annual interest rates on these loans are 4.95% and 2.94% in 2022 and 2021, respectively. For 2020, annual interest rates range from 2.95% to 7.70%. 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 23). As of December 31, 2022, 2021 and 2020, 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, as a lessee, recognized right-of-use assets related to lease of space from related parties for its branch operations, amounting to P4,818 and P3,904 as of December 31, 2022 and 2021, respectively, which is presented as part of Premises, Furniture, Fixtures and Equipment (see Note 12). Amortization expense on right-of-use assets arising from this transaction, amounting to P263, P184, and P39 in 2022, 2021 and 2020, respectively, and is presented as part of Occupancy under Other Operating Expenses account in the Parent Bank's statement of income (see Note 25).

The 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 P87, P77, and P3 in 2022, 2021 and 2020, respectively, in the Parent Bank's statements of income (see Note 24). The outstanding balances arising from this transaction amounted to P3,199 and P2,816 as of December 31, 2022 and 2021, respectively, and is included as part of Lease liabilities under Other Liabilities (see Note 21).

The terms of the lease are from one to ten 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 26.1):

		BDO Unibank Group		
		2022	2021	2020
Salaries and other benefits	P	1,450	P 1,381	P 1,368
Retirement expense		223	<u>162</u>	<u>221</u>
	P	1,673	<u>P 1,543</u>	<u>P 1,589</u>
		Parent Bank		
		2022	2021	2020
Salaries and other benefits	P	809	P 819	P 849
Retirement expense		157	<u>86</u>	<u>157</u>
	P	966	<u>P 905</u>	<u>P 1,006</u>

28. 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 35(h)].

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Investments	P 1,813,001	P 1,769,064	P 1,246,315	P 1,223,191
Others	<u>12,018</u>	<u>9,654</u>	<u>9,436</u>	<u>7,679</u>
	<u>P 1,825,019</u>	<u>P 1,778,718</u>	<u>P 1,255,751</u>	<u>P 1,230,870</u>

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 P19,695 and P18,435 as of December 31, 2022 and 2021 (see Note 10.3), respectively, in BDO Unibank Group and, P13,495 and P12,178 as of December 31, 2022 and 2021, 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, 2022 and 2021, the additional reserve for trust functions amounted to P251 and P263 for both the BDO Unibank Group and Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 22.5).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P4,555, P4,364 and P3,811 for the years ended December 31, 2022, 2021 and 2020, respectively, in BDO Unibank Group's statements of income and P3,395, P3,477 and P3,035 for the years ended December 31, 2022, 2021 and 2020, respectively, in the Parent Bank's statements of income (see Note 25).

29. UNIT-LINKED FUNDS

VUL 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 per unit, which changes daily depending on the fund's performance.

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

As of December 31, 2022 and 2021, 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.

	<u>2022</u>	<u>2021</u>
Assets:		
Cash and cash equivalents	P 161	P 153
Financial assets at FVTPL	27,760	24,592
Other receivables	<u>55</u>	<u>36</u>
	<u>P 27,976</u>	<u>P 24,781</u>
Liabilities and Equity:		
Other liabilities	P 159	P 191
Net assets attributable to unitholders	<u>27,817</u>	<u>24,590</u>
	<u>P 27,976</u>	<u>P 24,781</u>

30. MERGERS AND ACQUISITIONS

30.1 Subscription of Additional Shares in BDO Remit International Holdings, B.V. (formerly CBN Grupo)

On October 21, 2016, BDO Capital subscribed to an additional 3,273,000 shares in BDO Remit International Holdings, B.V. (BDO RIH) for P170, making BDO Capital the owner of approximately 96% of the outstanding capital stock of BDO RIH (see Note 15.2). The total goodwill recognized amounted to P123 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statement of financial position (see Notes 15.2 and 15.3).

On December 9, 2020, BDO Capital approved the corporate dissolution and liquidation of BDO RIH and to acquire its assets and assume its liabilities. Since the liabilities to be assumed by BDO Capital is higher than the assets it will absorb, BDO Capital also approved the additional investment in BDO RIH amounting to P276 in 2021 and P16 in 2022. This was approved by the BSP on November 9, 2021 and by the BDO RIH shareholders on February 2, 2022.

On July 20, 2022, BDO Capital made additional investment of P47 for its purchase of the shares of BDO Remit UK.

30.2 Merger of BDO Nomura and BDO Securities

On June 23, 2020, the Parent Bank and Nomura Asia came to an agreement and signed a term sheet on the proposed buy-out of Nomura Asia's 49% equity stake in BDO Nomura. The BOD of the Parent Bank authorized BDO Capital to acquire the shares of Nomura Asia and the transaction was completed on November 25, 2020 with settlement amount of P42.

On July 2, 2020, the BOD of BDO Nomura and BDO Securities, at their respective meetings, approved the merger of the two companies, with BDO Securities as the surviving entity, and the Plan of Merger. The same were likewise approved by the respective stockholders of the two entities on July 7, 2020. The merger was approved by the SEC on November 25, 2020 and was implemented on December 1, 2020.

30.3 Sale of Assets of Dominion Holdings

On May 25, 2019, the BOD of BDO Unibank approved the restructuring of the leasing business of the BDO Unibank Group. Under the restructuring, a new, privately-held company BDO Finance was incorporated on December 9, 2019 to carry on the leasing business of the BDO Unibank Group. Dominion Holdings, on the other hand, has sold substantially all of its assets to BDO Unibank, BDO Finance and other subsidiaries.

On October 9, 2020, the BOD of BDO Finance approved the purchase of the BDO Rental shares owned by Dominion Holdings. The sale was consummated through a Deed of Absolute Sale of Shares with BDO Rental becoming a wholly-owned subsidiary of BDO Finance. BDO Finance started its commercial operations on October 19, 2020.

On July 18, 2022, the SEC approved the change in name and purpose of BDO Leasing into Dominion Holdings, Inc, a holding company and remains listed in the PSE.

30.4 Dissolution of BDO Remit Italia

On June 13, 2020, BDO Remit Italia has completed its liquidation and made partial repatriation of funds to BDO Strategic Holdings, Inc. amounting to P7. Final capital return was made on July 1, 2021 amounting to P51.

31. TAXES

31.1 Current and Deferred Tax

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

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

The components of tax expense relating to profit or loss and other comprehensive income follows:

		BDO Unibank Group		
		2022	2021	2020
<i>Reported in profit or loss:</i>				
Current tax expense:				
Regular corporate income tax (RCIT) at 25% in 2022 and 2021 and 30% in 2020	P	10,187	P 9,422	P 14,762
Final taxes at 20%, 15% and 10%		4,011	2,689	2,286
Adjustment to current income tax from prior year	(	69)	(13)	-
Minimum corporate income tax (MCIT) at 1% in 2022 and 2021 and 2% in 2020		7	(5)	33
Adjustment in 2020 income taxes due to change in income tax rate		-	(1,378)	-
		<u>14,136</u>	<u>10,715</u>	<u>17,081</u>
Deferred tax expense relating to origination and reversal of temporary differences				
		1,823	2,213	695
Effect of the change in income tax rate	-	-	1	-
Application of previously unrecognized MCIT	-	-	(22)	-
		<u>1,823</u>	<u>2,192</u>	<u>695</u>
	P	<u>15,959</u>	P <u>12,907</u>	P <u>17,776</u>
<i>Reported in other comprehensive income:</i>				
Actuarial gains (losses)	(P	389)	(P 1,754)	P 321
Fair value of financial assets at FVOCI	(	21)	4	-
Effect of the change in income tax rate	-	-	683	-
Revaluation increment	-	-	(4)	-
	(P	<u>410)</u>	(P <u>1,071)</u>	P <u>321</u>
		Parent Bank		
		2022	2021	2020
<i>Reported in profit or loss:</i>				
Current tax expense:				
RCIT at 25% and 30%	P	8,380	P 8,411	P 13,998
Final taxes at 20%, 15% and 10%		3,357	2,165	1,801
Adjustment in 2020 income taxes due to change in income tax rate	-	-	(1,300)	-
Adjustment to current income tax from prior year	(	68)	(13)	-
		<u>11,669</u>	<u>9,263</u>	<u>15,799</u>
Deferred tax expense relating to origination and reversal of temporary differences				
		1,664	2,112	483
Effect of the change in income tax rate	-	-	3	-
		<u>1,664</u>	<u>2,115</u>	<u>483</u>
	P	<u>13,333</u>	P <u>11,378</u>	P <u>16,282</u>
<i>Reported in other comprehensive income:</i>				
Actuarial gains (losses)	(P	408)	(P 1,649)	P 314
Fair value of financial assets at FVOCI	(	22)	12	-
Effect of the change in income tax rate	-	-	647	-
Revaluation increment	-	-	(4)	-
	(P	<u>430)</u>	(P <u>994)</u>	P <u>314</u>

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

BDO Unibank Group					
	2022		2021		2020
Tax on pretax profit at 25% and 30%	P 18,298	P	13,940	P	13,809
Adjustment for income subjected to lower income tax rates	(1,007)	(	561)	(	879)
Adjustment in 2020 income taxes due to change in income tax rate	-	(	1,377)		-
Tax effects of:					
Income exempt from tax	(7,246)	(	2,884)	(	4,062)
Non-deductible expenses	6,644		4,245		9,736
Deductible temporary differences not recognized	(914)	(	312)	(	903)
Net operating loss carryover (NOLCO) not recognized	94		4		91
Adjustment to current income tax from prior year	(69)	(	13)		-
Application of previously unrecognized MCIT	-	(	29)		-
Utilization of previously unrecognized NOLCO	-	-		(	1)
Others	159	(	106)	(	15)
Tax expense reported in profit or loss	P 15,959	P	12,907	P	17,776
Parent Bank					
	2022		2021		2020
Tax on pretax profit at 25% in 2022 and 2021 and 30% in 2020	P 17,581	P	13,515	P	13,467
Adjustment for income subjected to lower income tax rates	(738)	(	436)	(	865)
Adjustment in 2020 income taxes due to change in income tax rate	-	(	1,297)		-
Tax effects of:					
Income exempt from tax	(9,004)	(	4,120)	(	4,969)
Non-deductible expenses	6,306		4,103		9,519
Deductible temporary differences not recognized	(743)	(	374)	(	870)
Adjustment to current income tax from prior year	(69)	(	13)		-
Tax expense reported in profit or loss	P 13,333	P	11,378	P	16,282

Components of the net deferred tax assets (see Note 15) as of December 31 follow:

Statements of Financial Position							
BDO Unibank Group				Parent Bank			
	2022		2021		2022		2021
Deferred tax assets:							
Unamortized past service costs	P 3,521	P	2,577	P 3,190	P	2,280	
Allowance for impairment	2,681		4,088	2,455		3,747	
Retirement obligation (net of OCI)	(344)	(	606	(344)	(	568	
Recognition of right-of-use assets and lease liabilities	87		67	84		47	
Lease income differential	7		-	-		-	
Others	13		66	-		-	
	5,965		7,404	5,385		6,642	

Statements of Financial Position							
BDO Unibank Group				Parent Bank			
2022		2021		2022		2021	
Deferred tax liabilities:							
Revaluation increment	P 336	P 337		P 335	P 335		
Retirement asset (net of OCI)	54	-		-	-		
Capitalized interest	31	33		31	33		
Changes in fair values of financial assets at FVOCI	(7)	11	(9)		12		
Lease income differential	2	2	-		-		
Others	194	253	-		-		
	<u>610</u>	<u>636</u>		<u>357</u>	<u>380</u>		
Net deferred tax assets	<u>P 5,355</u>	<u>P 6,768</u>		<u>P 5,028</u>	<u>P 6,262</u>		

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

BDO Unibank Group

Statements of Income					
2022		2021		2020	
Allowance for impairment	P 1,407	P 2,289	P 160		
Retirement obligation (asset)	1,392	(405)	1,059		
Unamortized past service costs	(944)	317	(591)		
Recognition of right-of-use assets and lease liabilities	(19)	(45)	47		
Lease income differential	(8)	-	-		
Capitalized interest	(2)	(9)	(3)		
Others	(3)	67	23		
Deferred tax expense	<u>P 1,823</u>	<u>P 2,214</u>	<u>P 695</u>		

Parent Bank

Statements of Income					
2022		2021		2020	
Retirement obligation (asset)	P 1,321	(P 412)	P 1,012		
Unamortized past service costs	(910)	451	(576)		
Allowance for impairment	1,292	2,111	-		
Recognition of right-of-use assets and lease liabilities	(37)	(26)	49		
Capitalized interest	(2)	(9)	(2)		
Deferred tax expense	<u>P 1,664</u>	<u>P 2,115</u>	<u>P 483</u>		

Statements of Comprehensive Income								
BDO Unibank Group			Parent Bank					
2022	2021	2020	2022	2021	2020			
Movements in actuarial losses	(P 389)	(P 1,004)	P 321	(P 408)	(P 934)	P 314		
Movements in fair value of financial assets at FVOCI	(21)	5	-	(22)	12	-		
Movements in revaluation increment	-	(72)	-	-	(72)	-		
Deferred tax expense (income)	<u>(P 410)</u>	<u>(P 1,071)</u>	<u>P 321</u>	<u>(P 430)</u>	<u>(P 994)</u>	<u>P 314</u>		

The BDO Unibank Group is subject to MCIT, which is computed at 1% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods are as follows for the BDO Unibank Group (nil for the Parent Bank):

<u>Year</u>	<u>NOLCO</u>	<u>MCIT</u>	<u>Valid Until</u>
2022	P <u>359</u>	P <u>6</u>	2025

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2022 and 2021 are as follows:

BDO Unibank Group							
<u>2022</u>				<u>2021</u>			
	<u>Tax Base</u>	<u>Tax Effect</u>		<u>Tax Base</u>	<u>Tax Effect</u>		
Allowance for impairment	P 71,760	P 17,940	P	57,101	P 14,275	P	
NOLCO	359	90		-	-		
MCIT	6	6		2	2		
Others	<u>834</u>	<u>208</u>		<u>1,037</u>	<u>259</u>		
	<u>P 72,959</u>	<u>P 18,244</u>		<u>P 58,140</u>	<u>P 14,536</u>		
Parent Bank							
<u>2022</u>				<u>2021</u>			
	<u>Tax Base</u>	<u>Tax Effect</u>		<u>Tax Base</u>	<u>Tax Effect</u>		
Allowance for impairment	P 69,935	P 17,484	P	56,568	P 14,142	P	
Others	<u>1,022</u>	<u>255</u>		<u>1,021</u>	<u>255</u>		
	<u>P 70,957</u>	<u>P 17,739</u>		<u>P 57,589</u>	<u>P 14,397</u>		

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

31.2 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).

31.3 Documentary Stamp Tax

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

- (a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;
- (b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other notes payable at sight or on demand;

- (c) Acceptance of bills of exchange and letters of credit; and,
- (d) Bills of lading or receipt.

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

- (a) On every issue of debt instruments, there shall be collected a DST of one peso and fifty centavos on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.
- (b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of one peso and 50 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.
- (c) On all bills of exchange or drafts, there shall be collected a DST of 60 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.
- (d) The following instruments, documents and papers shall be exempt from DST:
 - Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
 - Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
 - Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA No. 9243;
 - Fixed income and other securities traded in the secondary market or through an exchange;
 - Derivatives including repurchase agreements and reverse repurchase agreements;
 - Bank deposit accounts without a fixed term or maturity; and,
 - Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

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

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

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

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

32. EARNINGS PER SHARE

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

	<u>2022</u>	2021 (As Restated)	2020 (As Restated)
Net profit attributable to shareholders of the Parent Bank	P 57,054	P 42,791	P 28,246
Dividends on preferred shares	(339)	(340)	(339)
Net profit available to common shares	56,715	42,451	27,907
Divided by the weighted average number of outstanding common shares (in millions)	5,264	5,262	5,261
Basic earnings per share	<u>P 10.77</u>	<u>P 8.07</u>	<u>P 5.30</u>

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

	<u>2022</u>	2021 (As Restated)	2020 (As Restated)
Net profit attributable to shareholders of the Parent Bank	P 57,054	P 42,791	P 27,907*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	5,264	5,262	5,261
Potential common shares from assumed conversion of preferred shares	58	51	*
Potential common shares from stock option plan	**	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	5,322	5,313	5,261
Diluted earnings per share	<u>P 10.72</u>	<u>P 8.05</u>	<u>P 5.30</u>

* Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred share 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.

The 2021 and 2020 earnings per share of BDO Unibank Group were restated to account for the stock dividends declared in 2022 (Note 2.26). As a result of this restatement, the 2021 and 2020 basic earnings per share decreased from P9.68 to P8.07 and from P6.37 to P5.30, respectively. On the other hand, the 2021 and 2020 diluted earnings per share decreased from P9.66 to P8.05 and from P6.37 to P5.30, respectively.

33. EVENTS AFTER THE REPORTING PERIOD

33.1 Dividend

On January 28, 2023, 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 P407. The dividends will be paid within 60 days from dividend declaration date.

33.2 Liquidation of BDO Remit (Spain)

On February 7, 2023, BDO Remit (Spain) S.A. has completed its liquidation as confirmed by the Mercantile Registry of Barcelona.

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, 2022, 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 Revenue Regulations No. 4-2011 (RR 4-2011) regarding the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 prescribed a special method of allocation of cost and expenses for banks 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, Consortium of Banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Writ of Preliminary Injunction, docketed as Civil Case No. 15-287 with the Regional Trial Court (RTC) of Makati. BDO Unibank Inc., and BDO Private Bank, Inc. are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011.

In the Petition, the Petitioners sought to annul RR No. 4-2011 as there is no provision in the National Internal Revenue Code which authorized the issuance of RR 4-2011 that a bank's cost and expenses be allocated to its different income streams.

The Petitioners also claimed that RR 4-2011 deprived them of their legal right under the Tax Code to claim ordinary and necessary expenses as tax deductions.

On April 8, 2015, the RTC of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR 4-2011. Subsequently, the RTC of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 4-2011 against the Petitioners, including the issuance of preliminary assessment notice or final assessment notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

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

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

On August 9, 2018, DOF and BIR filed a Petition for Review on Certiorari dated August 1, 2018 (“Petition”) assailing the RTC decision based on the following grounds: (i) the RTC has no jurisdiction over petitions assailing the constitutionality and validity of tax laws, rules and regulation, and other administrative issuance of the BIR; (ii) the Court of Tax Appeals has the exclusive jurisdiction to determine the constitutionality or validity of Tax Laws, Rules and Regulations issued by the Commissioner of Internal Revenue; and, (iii) 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 Consortium of Banks filed their Comment on/Opposition to the Petition.

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

In a Decision dated December 1, 2021, the Supreme Court denied the Petition and declared that RR 4-2011 issued by the Secretary of the Department of Finance is void for having been issued ultra vires. The decision became final and executory on June 7, 2022, and was recorded in the Book of Entries of Judgement.

34.1.2 First e-Bank

In 2002, First e-Bank (“FeB”) experienced liquidity problems prompting PDIC to invite several banks to propose a solution for FeB’s bailout. PDIC entered into contract with BDO Unibank where in consideration of the assumption by BDO Unibank of FeB’s liabilities in the maximum amount of P10,000, PDIC will provide BDO Unibank P10,000 of Financial Assistance and PDIC will receive FeB’s assets to recover said financial assistance.

About P5,000 of the financial assistance was released to BDO Unibank and the remaining P5,000 was deposited in escrow with BDO - TIG in accordance with the escrow agreement dated October 23, 2002 entered into by BDO Unibank, PDIC, and BDO - TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets BDO Unibank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon. Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against BDO Unibank, which case was raffled to RTC Makati City Branch 60.

On October 14, 2016, BDO Unibank filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

In a judgement dated May 31, 2018, RTC Makati dismissed the complaint, granted BDO Unibank's counterclaim and ordered BDO - TIG to immediately release the remaining escrow amount, plus interests, to BDO Unibank. PDIC filed Motion for Reconsideration but the same was denied by RTC Makati. PDIC filed Notice of Appeal. In the Decision dated June 15, 2020, the Court of Appeals (CA) dismissed PDIC's appeal. PDIC filed Motion for Reconsideration but the same was denied by the CA in a Resolution dated January 25, 2021. PDIC filed Petition for Review with the Supreme Court.

On June 18, 2018, the Parent Bank received an amount of P1,243 for the full termination of escrow. As of December 30, 2021, the difference between the amount received and the balance of the amount in escrow amounts to P572. This is presented as part of Others under Other Liabilities account and is not yet recognized as income due to the pending resolution of the Petition for Review filed by PDIC (see Note 21).

The case is still pending before the Supreme Court as of December 31, 2022.

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, 2022, 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 Lessor

The following are the significant lease commitments involving the BDO Unibank Group:

34.2.1 Finance Leases

BDO Unibank Group, as a lessor, enters into finance leases covering various equipment and vehicles with lease term ranging from one to more than four years. The BDO Unibank Group is subject to risk incidental to the operation of its leased properties, which include, among others, changes in market rental rates, inability to renew leases upon lease expiration, and inability to collect rent from lessees due to bankruptcy or insolvency of lessees. Majority of the BDO Unibank Group's revenue from rental properties are derived from various equipment and vehicles. If the expected growth, particularly from the lessees, does not meet management's expectations, the BDO Unibank Group may not be able to lease their properties in a timely manner or collect rent at profitable rates.

To manage its risks over these finance leases, the BDO Unibank Group retains its legal title over the underlying assets and uses these as securities over the finance lease receivables. Moreover, it requires lessees to pay security deposits, which are presented as Lease Deposits under Other Liabilities in the BDO Unibank Group's statements of financial position (see Note 21).

Future minimum lease payments receivable (MLPR) under these finance leases together with the present value of net minimum lease payments receivable (NMLPR) follow:

	2022		2021	
	Future MLPR	PV of NMLPR	Future MLPR	PV of NMLPR
Within one year	P 1,301	P 1,297	P 770	P 767
After one year but not more than two years	1,148	1,091	725	705
After two years but not more than three years	694	603	616	506
After three years but not more than five years	612	329	224	129
More than five years	-	-	3	2
Total MLPR	3,755	3,320	2,338	2,109
Unearned lease income	(435)	-	(229)	-
Present value of MLPR	P 3,320	P 3,320	P 2,109	P 2,109

The net investment relating to these finance leases, presented as Others under Loans and Other Receivables in the BDO Unibank Group's statements of financial position for the years ended December 31, 2022 and 2021, amounted to P3,320 and P2,109, respectively, for the BDO Unibank Group and nil in both years for the Parent Bank (see Note 11). The change in the carrying amount of the net investment in finance leases during the year pertains to new lease arrangements entered, amortization of interest income and paydowns.

Interest income recognized on the net investment in finance leases, presented under Others as part of Interest Income in the BDO Unibank Group's statements of income for the years ended December 31, 2022, 2021 and 2020, amounted to P185, P94 and P622, respectively, for the BDO Unibank Group and nil for the Parent Bank (see Note 23).

34.2.2 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 less than 1 year to 15 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, 2022, 2021 and 2020, amounted to P1,301, P1,269 and P1,430, respectively, for the BDO Unibank Group and P492, P482 and P514, respectively, for the Parent Bank (see Note 25).

Future minimum rental receivables as of December 31, 2022 under operating leases follow:

	BDO	
	<u>Unibank Group</u>	<u>Parent Bank</u>
Within one year	P 1,171	P 443
More than one year to two years	859	320
More than two years to three years	445	170
More than three years to four years	198	70
More than four years to five years	84	14
More than five years	<u>7</u>	<u>1</u>
	<u>P 2,764</u>	<u>P 1,018</u>

35. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) Selected Financial Performance Indicators

The following are some indicators of the of BDO Unibank Group and Parent Bank's financial performance.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<u>BDO Unibank Group</u>			
Return on common equity*:			
$\frac{\text{Net profit}}{\text{Average common equity}}$	13.0%	10.5%	7.6%
Return on average equity*:			
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	12.9%	10.4%	7.5%
Return on average resources*:			
$\frac{\text{Net profit}}{\text{Average total resources}}$	1.5%	1.2%	0.9%
Net interest margin*:			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	4.1%	4.0%	4.4%
<u>Parent Bank</u>			
Return on common equity*:			
$\frac{\text{Net profit}}{\text{Average total common equity}}$	13.0%	10.5%	7.6%
Return on average equity*:			
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	12.9%	10.4%	7.6%
Return on average resources*:			
$\frac{\text{Net profit}}{\text{Average total resources}}$	1.5%	1.3%	0.9%
Net interest margin*:			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	4.1%	4.0%	4.4%

* In 2022, average asset, capital, and interest-earning assets are computed as the simple average of outstanding balance of assets, capital, and interest-earning assets at average of December 2021 and December 2022. (2 data points)

* In 2021 and 2020, averages are computed as the simple average of outstanding balance at average of December 2020, March 2021, June 2021, September 2021 and December 2021. (5 data points)

(b) *Capital Instruments Issued*

As of December 31, 2022 and 2021, the BDO Unibank Group has only two classes of capital stock, which are common and preferred shares.

(c) *Significant Credit Exposures for Loans*

The BDO Unibank Group and Parent Bank's concentration of credit as to industry for its receivables from customer's gross of allowance for ECL below (amounts in millions) are disclosed in Note 4.3.3.

BDO Unibank Group

	2022		2021	
	Amount	Percentage	Amount	Percentage
Financial and insurance activities	P 402,156	15.4%	P 397,823	16.6%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	399,101	15.3%	356,129	14.8%
Real estate activities	324,074	12.4%	307,048	12.8%
Wholesale and retail trade	299,896	11.5%	282,446	11.8%
Electricity, gas, steam and air-conditioning supply	281,036	10.7%	282,036	11.8%
Manufacturing	232,488	8.9%	206,445	8.6%
Construction	90,712	3.5%	68,951	2.9%
Information and communication	90,342	3.5%	42,845	1.8%
Transportation and storage	87,256	3.3%	88,043	3.7%
Arts, entertainment and recreation	83,076	3.2%	77,010	3.2%
Education	71,731	2.7%	37,199	1.5%
Water supply, sewerage, waste management and remediation activities	38,760	1.5%	26,912	1.1%
Accommodation and food service activities	36,529	1.4%	39,937	1.7%
Human health and social service activities	31,875	1.2%	30,653	1.3%
Agriculture, forestry and fishing	15,642	0.6%	15,266	0.6%
Mining and quarrying	10,578	0.4%	10,175	0.4%
Professional, scientific, and technical activities	9,912	0.4%	9,642	0.4%
Administrative and support services	9,581	0.4%	7,592	0.3%
Public administrative and defense; compulsory social security	1,030	0.0%	693	0.0%
Other service activities	98,036	3.7%	113,348	4.7%
	P 2,613,811	100%	P 2,400,193	100%

	2022		2021	
	Amount	Percentage	Amount	Percentage
<u>Parent Bank</u>				
Financial and insurance activities	P 401,394	15.8%	P 397,733	16.9%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	391,623	15.4%	347,713	14.8%
Real estate activities	325,088	12.8%	308,053	13.1%
Wholesale and retail trade	294,838	11.6%	278,173	11.8%
Electricity, gas, steam and air-conditioning supply	280,969	11.1%	281,990	12.0%
Manufacturing	231,327	9.1%	205,679	8.7%
Information and communication	90,123	3.6%	42,634	1.8%
Construction	89,326	3.5%	68,108	2.9%
Transportation and storage	87,613	3.5%	88,607	3.8%
Arts, entertainment and recreation	82,107	3.3%	76,004	3.3%
Water supply, sewerage, waste management and remediation activities	38,714	1.5%	26,870	1.2%
Accommodation and food service activities	36,329	1.4%	39,688	1.7%
Human health and social service activities	31,616	1.2%	30,392	1.3%
Agriculture, forestry and fishing	14,876	0.6%	14,600	0.6%
Mining and quarrying	10,483	0.4%	10,122	0.4%
Education	10,151	0.4%	4,373	0.2%
Professional, scientific, and technical activities	9,861	0.4%	9,601	0.4%
Administrative and support services	9,375	0.4%	7,430	0.3%
Public administrative and defense; compulsory social security	1,030	0.0%	693	0.0%
Other service activities	100,801	4.0%	113,088	4.8%
	<u>P 2,537,644</u>	<u>100%</u>	<u>P 2,351,551</u>	<u>100%</u>

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

As of December 31, 2022, 10% of Tier 1 capital of the BDO Unibank Group and the Parent Bank amounted to P40,110 million and P37,083 million, respectively. As of December 31, 2021, 10% of Tier 1 capital of the BDO Unibank Group and the Parent Bank amounted to P37,229 million and P34,744 million, respectively. The table below and in the succeeding pages show the industry groups exceeding this level (amounts in millions).

	BDO			BDO	
	<u>Unibank Group</u>			<u>Parent Bank</u>	
<u>December 31, 2022</u>					
Financial and insurance activities	P	402,156	P	401,394	
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use		399,101		391,623	
Real estate activities		324,074		325,088	
Wholesale and retail trade		299,896		294,838	
Electricity, gas, steam and air-conditioning supply		281,036		280,969	
Manufacturing		232,488		231,327	
Construction		90,712		89,326	
Information and communication		90,342		90,123	

	BDO			Unibank Group		Parent Bank
<u>December 31, 2022</u>						
Transportation and storage	P	87,256	P		87,613	
Arts, entertainment and recreation		83,076			82,107	
Education		71,731			10,151	
Water supply, sewerage, waste management and remediation activities		38,760			38,714	
Other service activities		98,036			100,801	
<u>December 31, 2021</u>						
Financial and insurance activities	P	397,823	P		397,733	
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use		356,129			347,713	
Real estate activities		307,048			308,053	
Wholesale and retail trade		282,446			278,173	
Electricity, gas, steam and air-conditioning supply		282,036			281,990	
Manufacturing		206,445			205,679	
Transportation and storage		88,043			88,607	
Arts, entertainment and recreation		77,010			76,004	
Construction		68,951			68,108	
Information and communication		42,845			42,634	
Accommodation and food service activities		39,937			39,688	
Other service activities		113,348			113,088	

(d) *Credit Status of Loans*

The breakdown of receivable from customers as to status is shown below:

	2022		
	<u>Performing</u>	<u>Non-Performing</u>	<u>Total Loan Portfolio</u>
<u>BDO Unibank Group</u>			
Gross carrying amount:			
Corporate	P 2,005,115	P 19,823	P 2,024,938
Consumer	554,461	34,412	588,873
Allowance for ECL	(41,372)	(32,404)	(73,776)
Net carrying amount	<u>P 2,518,204</u>	<u>P 21,831</u>	<u>P 2,540,035</u>

	2022		
	<u>Performing</u>	<u>Non-Performing</u>	<u>Total Loan Portfolio</u>
<u>Parent Bank</u>			
Gross carrying amount:			
Corporate	P 1,998,357	P 19,821	P 2,018,178
Consumer	487,990	31,476	519,466
Allowance for ECL	(40,689)	(30,887)	(71,576)
Net carrying amount	<u>P 2,445,658</u>	<u>P 20,410</u>	<u>P 2,466,068</u>

	2021		
	<u>Performing</u>	<u>Non-Performing</u>	<u>Total Loan Portfolio</u>
<u>BDO Unibank Group</u>			
Gross carrying amount:			
Corporate	P 1,860,981	P 21,443	P 1,882,424
Consumer	468,097	49,672	517,769
Allowance for ECL	(31,001)	(34,258)	(65,259)
Net carrying amount	<u>P 2,298,077</u>	<u>P 36,857</u>	<u>P 2,334,934</u>

<u>Parent Bank</u>			
Gross carrying amount:			
Corporate	P 1,855,300	P 21,443	P 1,876,743
Consumer	428,553	46,255	474,808
Allowance for ECL	(30,535)	(32,739)	(63,274)
Net carrying amount	<u>P 2,253,318</u>	<u>P 34,959</u>	<u>P 2,288,277</u>

Non-performing loans (NPL) included in the total loan portfolio of the BDO Unibank Group and the Parent Bank as of December 31, 2022 and 2021 are presented below as net of specific allowance for impairment in compliance with BSP Circular No. 941, *Amendments to Regulations on Past Due and Non-Performing Loans*.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
NPL	P 53,314	P 69,821	P 50,543	P 66,601
Allowance for impairment	(31,766)	(33,498)	(30,395)	(32,149)
	<u>P 21,548</u>	<u>P 36,323</u>	<u>P 20,148</u>	<u>P 34,452</u>

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.

As at December 31, 2022 and 2021, the non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Gross NPLs	P 53,314	P 69,821	P 50,543	P 66,601
NPLs fully covered by allowance for impairment	(<u>17,217</u>)	(<u>9,689</u>)	(<u>17,130</u>)	(<u>9,359</u>)
	<u>P 36,097</u>	<u>P 60,132</u>	<u>P 33,413</u>	<u>P 57,242</u>

Restructured loans are generally considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six months; or (b) written off.

Restructured loans amount to P102,416 and P143,337 for BDO Unibank Group and P101,110 and P142,062 for Parent Bank as of December 31, 2022 and 2021, respectively. The related allowance for credit loss of such loans amounted to P22,918 and P21,137 for BDO Unibank Group and P22,228 and P20,578 for Parent Bank as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, gross and net NPL ratios of the BDO Unibank Group and the Parent Bank as reported to BSP were 1.95% and 0.79%, and 1.89% and 0.76%, respectively. As of December 31, 2021, gross and net NPL ratios of the BDO Unibank Group and the Parent Bank were 2.80% and 1.46%, and 2.72% and 1.41%, respectively. Most of the NPLs are secured by real estate or chattel mortgages.

(e) *Analysis of Loan Portfolio as to Type of Security*

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	
	2022	2021	2022	2021
Secured:				
Real estate mortgage	P 342,468	P 327,719	P 335,612	P 320,993
Chattel mortgage	90,508	94,875	87,153	92,748
Other securities	86,575	83,797	84,574	81,998
	519,551	506,391	507,339	495,739
Unsecured	2,094,260	1,893,802	2,030,305	1,855,812
	<u>P 2,613,811</u>	<u>P 2,400,193</u>	<u>P 2,537,644</u>	<u>P 2,351,551</u>

(f) *Information on Related Party Loans*

In the ordinary course of business, the Parent Bank has loan transactions with subsidiaries, affiliates, and certain DOSRI. Under existing policies of the Parent Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Parent Bank and/or any of its lending and nonbank financial subsidiaries. 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.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	BDO Unibank Group		Parent Bank	
	2022	2021	2022	2021
Total DOSRI loans	P 23,376	P 36,334	P 23,372	P 36,331
Unsecured DOSRI loans	2,123	1,919	2,123	1,919
Past due DOSRI loans	11	3	11	3
Non-performing DOSRI loans	16	12	16	12
% of DOSRI loans to total loan portfolio	0.89%	1.51%	0.92%	1.54%
% of unsecured DOSRI loans to total DOSRI loans	9.08%	5.28%	9.08%	5.28%
% of past due DOSRI loans to total DOSRI loans	0.05%	0.01%	0.05%	0.01%
% of non-performing DOSRI loans to total DOSRI loans	0.07%	0.03%	0.07%	0.03%

DOSRI loans of the BDO Unibank Group and the Parent Bank bear annual interest rates of 0.00% to 9.00% in 2022, 2021 and 2020 (except for credit card receivables which bear a monthly interest rate of 0.00% to 2.00% in 2022 and 0.00% to 3.64% for both in 2021 and 2020).

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to related parties (inclusive of DOSRI) as of December 31 as reported to the BSP:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Total Related Party loans	P 119,439	P 111,024	P 119,388	P 110,966
Unsecured Related Party	80,819	66,036	80,819	66,036
Past due Related Party	11	3	11	3
Non-performing Related Party	16	12	16	12
% of Related Party loans to total loan portfolio	4.57%	4.63%	4.70%	4.72%
% of unsecured Related Party loans to total Related Party loans	67.67%	59.48%	67.69%	59.51%
% of past due Related Party loans to total Related Party loans	0.01%	0.00%	0.01%	0.00%
% of non-performing Related Party loans to total Related Party loans	0.01%	0.01%	0.01%	0.01%

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

Under BSP regulations, total outstanding exposures to each of the Parent Bank's subsidiaries and affiliates shall not exceed 10.0% of the BDO Unibank Group's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the Parent Bank.

As of December 31, 2022 and 2021, the BDO Unibank Group and Parent Bank is in compliance with these regulatory requirements.

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

The aggregate amount of resources pledged as security and secured liabilities in 2022 totaled to P22,573 and P15,179 for the BDO Unibank Group and P16,191 and P12,679 for the Parent Bank, respectively. In 2021, the aggregate amount of resources pledged as security and secured liabilities totaled to P1,320 and P1,088 for the BDO Unibank Group and nil for the Parent Bank, respectively.

(b) *Contingencies and Commitments arising from Off-Balance Sheet Items*

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, 2022 and 2021, 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	
	<u>Notes</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Trust department accounts	28	P 1,825,019	P 1,778,718	P 1,255,751	P 1,230,870
Committed credit lines	4.3.2	445,683	433,247	445,683	433,247
Forward exchange sold		194,235	190,055	161,324	164,674
Forward exchange bought		164,713	177,434	133,773	153,492
Unused commercial letters of credit	4.3.2	94,851	75,758	94,851	75,758
Bills for collection		14,889	8,673	14,889	8,673
Export letters of credit confirmed		14,757	4,644	14,757	4,644
Spot exchange sold		12,945	15,646	12,290	15,618
ROP warrants		8,475	8,475	8,475	8,475
Spot exchange bought		5,038	9,233	4,383	9,205
Interest rate swap receivable		4,660	6,993	4,110	4,493
Interest rate swap payable		4,660	6,993	4,110	4,493
Other contingent accounts		2,889	1,710	5,472	3,049
Outstanding guarantees issued		2,270	4,202	2,270	4,202
Late deposits/payments received		1,417	461	1,399	450



February 24, 2023

THE PHILIPPINE STOCK EXCHANGE, INC.

6/F PSE Tower, 5th Avenue corner 28th Street
Bonifacio Global City, Taguig City

Attention: **Ms. Alexandra D. Tom Wong**
Officer-in-Charge, Disclosure Department

PHILIPPINE DEALING AND EXCHANGE CORP.

29th Floor, BDO Equitable Tower
8751 Paseo de Roxas, Makati City 1226

Attention: **Atty. Marie Rose M. Magallen-Lirio**
Head, Issuer Compliance and Disclosure Department

Ladies and Gentlemen:

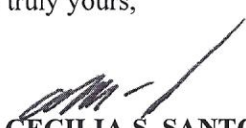
Please be informed that BDO Unibank, Inc. (BDO) will be releasing to the press the attached statements entitled "*BDO net income reaches ₱57.1 billion in 2022*" and "*BDO increases quarterly cash dividends to ₱0.75 per share.*"

BDO's net income increased to ₱57.1 billion for the full year 2022 vs. ₱42.8 billion in 2021. The key highlights of the financial statements are as follows: strong results continue across core businesses; earnings are broad-based and diversified; full-year Return on Equity (ROE) at 13% with 4Q ROE further improving to 15.3%; balance sheet is solid with very comfortable capital position; and asset quality improving with ample provisioning. BDO continues being alert to the challenges posed by supply constraints, higher inflation, tighter external liquidity, rates/FX volatility and geopolitical strains.

The Board of Directors of BDO approved on February 24, 2023 an increase in the regular quarterly cash dividends on common shares of BDO to ₱0.75 per share beginning on the 1st Quarter of 2023, payable on March 31, 2023. This will be the new dividend policy of BDO going forward.

Thank you.

Very truly yours,



MA. CECILIA S. SANTOS
First Vice President and Alternate
Corporate Information Officer

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Salcedo Village
Makati City 1226
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bdo.com.ph

We find ways®



24 February 2023

BDO net income reaches ₱57.1 billion in 2022

Key highlights:

- Strong results continue across all core businesses; earnings are broad-based and diversified
- Full-year ROE at 13% with 4Q ROE further improving to 15.3%;
- Balance sheet is solid with very comfortable capital position; asset quality improving with ample provisioning
- We continue being alert to the challenges posed by supply constraints, higher inflation, tighter external liquidity, rates/FX volatility and geopolitical strains

BDO Unibank, Inc.'s (BDO) net income increased to ₱57.1 billion for the full year 2022 vs. ₱42.8 billion in 2021, driven by robust growth across its core businesses. This led to Return on Average Common Equity (ROCE) of 13.0% for the year improving to 15.3% for the fourth quarter, from 10.5% in 2021 and 12.8% in pre-covid pandemic 2019.

Gross customer loans went up by 9% year-on-year on broad-based growth due to the economic re-opening. Total deposits rose by 14%, with Net interest income growing by 14% to ₱149.2 billion.

Non-interest income climbed by 17% to ₱71.5 billion bolstered by strong performance of our fee income, FX and fixed income client-flow businesses.

Positive operating jaws continued with revenues up 15% for the year, versus operating expenses up 9% on back of new branches in underserved/rural areas and continued Information Technology spend for digital initiatives.

Asset quality improved further, with Non-Performing Loan (NPL) ratio dipping to 1.95% and NPL coverage strengthening to 167%.

Total capital expanded to ₱461.5 billion, with Capital Adequacy Ratio (CAR) and Common Equity Tier 1 (CET1) Ratio both comfortably above regulatory minimum levels at 14.5% and 13.4%, respectively. Book value per share rose by 9% to Php 86.20 YoY.

While macroeconomic challenges remain with persistent inflation and foreign exchange and interest rate volatility, BDO believes that its established business franchise and strong balance sheet will allow the Bank to surmount near-term risks and capitalize on structural growth opportunities to attain long-term sustainable growth.

About BDO

BDO is a full-service universal bank which provides a wide range of corporate and retail services such as traditional loan and deposit products, treasury, trust banking, investment banking, private banking, rural banking, cash management, leasing and finance, remittance, insurance, cash cards, credit cards, and online and non-online brokerage services.

BDO has the country's largest distribution network, with over 1,600 consolidated operating branches and more than 4,600 ATMs nationwide. It also has 16 international offices (including full-service branches in Hong Kong and Singapore) in Asia, Europe, North America and the Middle East.

The Bank also offers digital banking solutions to make banking easier, faster, and more secure for its clients.

BDO ranked as the largest bank in terms of total assets, loans, deposits and trust funds under management based on published statements of condition as of December 31, 2022. For more information, please visit www.bdo.com.ph

24 February 2023



BDO increases quarterly cash dividends to P0.75 per share

The Board of Directors of BDO Unibank, Inc. (BDO) approved an increase in the regular quarterly cash dividends on common shares of BDO to ₱0.75 per share beginning on the 1st Quarter of 2023, payable on March 31, 2023. This will be the new dividend policy of BDO going forward.

This higher dividend payout compares favorably with the ₱0.30 per share quarterly dividend in the past, as the Bank recognizes the importance of providing a stable and sustainable dividend stream consistent with its commitment to shareholders, and its financial performance.

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COVER SHEET

SEC Registration Number

(Company's Full Name)

(Business Address: No. Street City/Town/Province)

(Contact Person)

8840-7000/8702-6000(Company Telephone Number)MonthDay(Fiscal Year)SEC 17-C

(Form Type)

Any day in April of each year, or if not practicable, on such date as may be fixed by the Board of Directors

Month Day

(Annual Meeting)

(Secondary License Type, If Applicable)

MSRDDept. Requiring this Doc.Amended Articles Number/Section

Total Amount of Borrowing

DomesticForeign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.



SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

1. February 24, 2023
Date of Report (Date of earliest event reported)
2. SEC Identification Number 34001 3. BIR Tax Identification No. 000-708-174-000
4. BDO Unibank, Inc.
Exact name of issuer as specified in its charter
5. METRO MANILA 6. (SEC Use Only)
Province, country or other jurisdiction of Industry Classification Code:
incorporation
7. BDO Corporate Center, 7899 Makati Avenue, Makati 0726
City, Philippines
Address of principal office Postal Code
8. (632) 8840-7000/8702-6000
Issuer's telephone number, including area code
9. N.A.
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON	5,264,382,524
PREFERRED	618,000,000

11. Indicate the item numbers reported herein:

Item 9

Please be informed that BDO Unibank, Inc. (BDO) will be releasing to the press the attached statements entitled "BDO net income reaches ₱57.1 billion in 2022" and "BDO increases quarterly cash dividends to ₱0.75 per share."

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BDO's net income increased to ₱57.1 billion for the full year 2022 vs. ₱42.8 billion in 2021. The key highlights of the financial statements are as follows: strong results continue across core businesses; earnings are broad-based and diversified; full-year Return on Equity (ROE) at 13% with 4Q ROE further improving to 15.3%; balance sheet is solid with very comfortable capital position; and asset quality improving with ample provisioning. BDO continues being alert to the challenges posed by supply constraints, higher inflation, tighter external liquidity, rates/FX volatility and geopolitical strains.

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SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BDO Unibank, Inc.
Issuer

Date: February 24, 2023
.....


EDMUNDO L. TAN
Corporate Secretary



24 February 2023

BDO net income reaches ₱57.1 billion in 2022

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24 February 2023



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