2018 ANNUAL REPORT
FINANCIAL SUPPLEMENTS

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The 2018 Annual Report and the Financial Supplements can be viewed online at www.bdo.com.ph/company-disclosures/financial-report

Corporate Profile

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

BDO's institutional strengths and value-added products and services hold the key to its successful business relationships with customers. Its branches remain at the forefront of setting high standards as a sales- and service-oriented, customer-focused force. BDO has the largest distribution network, with more than 1,300 operating branches and over 4,000 ATMs nationwide.

Through selective acquisitions and organic growth, BDO has positioned itself for increased balance sheet strength and continuing expansion into new markets. As of December 31, 2018, BDO is the country's largest bank in terms of total resources, customer loans, deposits, assets under management and capital, as well as branch and ATM network nationwide.

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

BDO is a publicly listed company (PLC), with its shares currently being traded at the Philippine Stock Exchange under the symbol "BDO".

Corporate Mission

To be the preferred bank in every market we serve.

Corporate Vision

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

Core Values

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

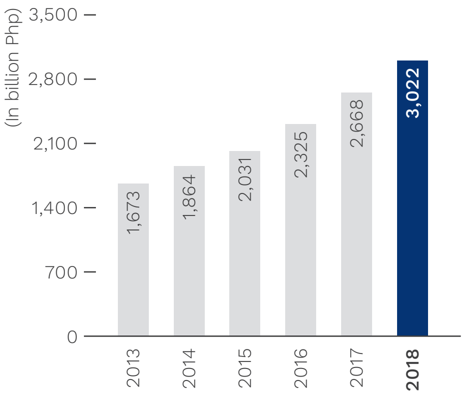
Commitment to a Dynamic and Efficient Organization. We are committed to creating an organization that is flexible, responds to change, and encourages innovation and creativity; we are committed to the process of continuous improvement in everything we do.

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

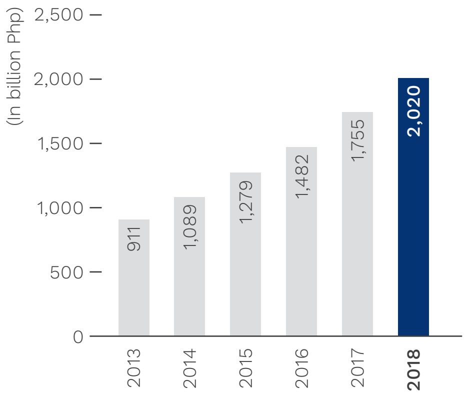
Commitment to Shareholders. We are committed to providing our shareholders with superior returns over the long term.

Financial Highlights

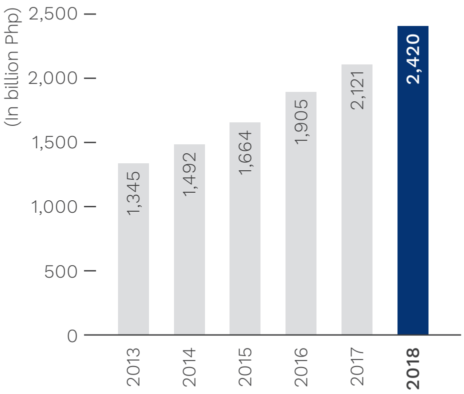
RESOURCES



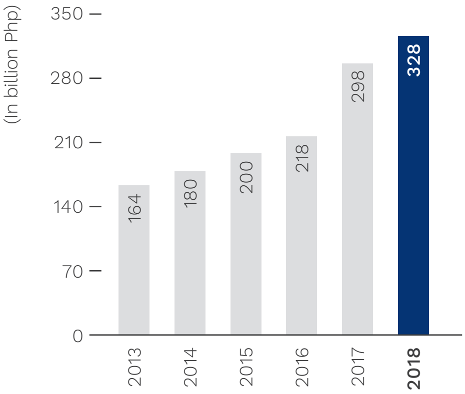
GROSS CUSTOMER LOANS



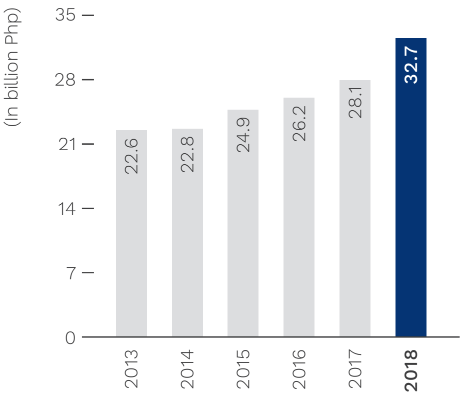
DEPOSIT LIABILITIES



CAPITAL FUNDS



NET INCOME*



* attributable to shareholders of the parent bank

Financial & Operating Highlights

	Consolidated			Parent Bank		
	2018	2017	Change	2018	2017	Change
BALANCE SHEET (in billion Php)						
Resources	3,022.2	2,668.1	*13%*	2,891.8	2,524.6	*15%*
Trading and Investment Securities	385.2	332.9	*16%*	304.3	258.2	*18%*
Liquid Assets	919.6	842.7	*9%*	825.8	736.4	*12%*
Gross Customer Loans	2,020.1	1,754.9	*15%*	1,966.5	1,700.9	*16%*
Deposits	2,420.0	2,121.0	*14%*	2,362.3	2,045.3	*15%*
Equity[1]	328.1	298.3	*10%*	327.6	297.7	*10%*
INCOME STATEMENT (in billion Php)						
Net Interest Income	98.3	81.8	*20%*	93.9	77.4	*21%*
Non-Interest Income	49.7	47.2	*5%*	35.8	33.6	*7%*
Gross Operating Income	148.0	129.0	*15%*	129.7	111.0	*17%*
Operating Expenses	98.0	84.9	*16%*	81.8	68.9	*19%*
Pre-provision Profit	49.9	44.1	*13%*	47.9	42.1	*14%*
Impairment Losses	6.3	6.5	*-4%*	5.7	5.8	*-2%*
Net Profit[2]	32.7	28.1	*17%*	32.7	28.0	*17%*
FINANCIAL PERFORMANCE INDICATORS						
Profitability						
Return on Average Common Equity	10.7%	10.2%		10.7%	10.2%	
Return on Average Equity	10.6%	10.2%		10.6%	10.2%	
Return on Average Assets	1.1%	1.1%		1.2%	1.2%	
Margins and Liquidity						
Net Interest Margin	3.6%	3.5%		3.7%	3.5%	
Gross Customer Loans to Deposit Ratio	83.5%	82.7%		83.2%	83.2%	
Liquid Assets to Total Assets	30.4%	31.6%		28.6%	29.2%	
Cost Efficiency						
Cost to Income Ratio	66.3%	65.8%		63.1%	62.1%	
Cost to Average Assets Ratio	3.4%	3.4%		3.0%	2.9%	
Asset Quality						
NPL to Gross Customer Loans	1.0%	1.2%		0.9%	1.0%	
NPL Cover	183.1%	146.2%		198.2%	156.7%	
Capital and Leverage						
CET 1 Ratio[3]	12.1%	12.9%		11.7%	12.2%	
Tier 1 Ratio[3]	12.4%	13.1%		11.9%	12.4%	
Capital Adequacy Ratio[3]	13.8%	14.5%		13.3%	13.8%	
Assets to Equity Ratio	9.2x	8.9x		8.8x	8.5x	
DISTRIBUTION NETWORK AND MANPOWER						
Branches	1,309	1,180	*11%*	1,126	1,053	*7%*
ATMs	4,325	4,022	*8%*	4,097	3,788	*8%*
Employees	36,387	33,747	*8%*	31,370	29,567	*6%*
SHAREHOLDER INFORMATION						
Market Value						
Share Price (in Php)	130.80	164.00	*-20%*			
Market Capitalization (in billion Php)	572.13	716.50	*-20%*			
Valuation						
Earnings per Share (in Php)	7.40	6.42	*15%*			
Book Value per Share (in Php)	73.67	66.91	*10%*			
Price-Earnings Ratio	17.7x	25.5x				
Price to Book Value Ratio	1.8x	2.5x				
Dividends						
Cash Dividends Paid to Common Shareholders (in billion Php)	5.2	5.2				
Cash Dividends per Common Share (in Php)	1.20	1.20				
Dividend Payout Ratio[4]	15.9%	18.5%				
Dividend Yield[5]	0.9%	0.9%				

1 Total capital accounts, inclusive of non-controlling interest and preferred shares
2 Net Income attributable to shareholders of the parent bank
3 Based on audited financial statements
4 Cash dividends paid during the year divided by net profit for the year
5 Cash dividends per common share paid during the year divided by average daily closing price for the year

Financial Statements

Report of the Audit Committee to the Board of Directors

Guided by its Board-approved Terms of Reference, the Board Audit Committee (BAC) discharged its oversight functions independently over the Bank's financial reporting process, system of internal control, overall management of risks and governance processes, Internal and External Audit functions and compliance with applicable rules and regulations. The BAC, composed of three independent directors and three advisers had thirteen meetings in 2018.

In 2018, the BAC accomplished the following:

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

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

4. On its oversight over the Compliance function

- Reviewed and approved the annual plans and compliance roadmaps.
- Endorsed for approval of the Board the revised manuals for the Compliance and Anti-Money Laundering (AML) Units incorporating new and amended regulations.
- Monitored the progress of the Independent Compliance and AML Testing.
- Ensured timely submission of regulatory requirements, compliance to mandatory ratios as well as continuous improvement of the Bank's Compliance and AML system.
- Discussed in detail the BSP Report of Examination (ROE) including the results of regulatory examinations of the Bank's foreign subsidiaries and reviewed Management's reply to the findings ensuring implementation of corrective actions.
- Assessed the performance of the Chief Compliance Officer.

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

The members and advisers of the BAC attended a Fintech Corporate Governance Seminar held on September 19, 2018.

As part of its commitment to excellent corporate governance, the Committee conducted a self-assessment for its 2018 performance based on its Terms of Reference. The BAC likewise evaluated the performance of Internal Audit, Compliance and Anti-Money Laundering Units and External Audit to ensure their effectiveness and achievement of objectives.

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

Statement of Management's Responsibility for Financial Statements

The management of **BDO Unibank, Inc. and Subsidiaries (the BDO Unibank Group)** and of **BDO Unibank, Inc. (the Parent Bank)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Teresita T. Sy
Chairman of the Board

Nestor V. Tan
President

Dalmacio D. Martin
Treasurer

Signed this 23rd day of February 2019

SUBSCRIBED and SWORN to me before this 26th day of February, 2019 affiants exhibiting to me their Competent Evidence of Identity (CEI), as follows:

Name	CEI Number	Date & Place Issued
1. Teresita T. Sy	Passport No. – P3927961A SSS No. – 03-2832705-4	08.24.2017/NCR East
2. Nestor V. Tan	Passport No. – EC7439560 CTC No. – 14471873	04.19.2016/Manila 01.16.2019/Makati
3. Dalmacio D. Martin	Driver's License No. – N11-89-041108 CTC No. – 11984099	02.13.2018/DLRC-Alabang 03.06.2018/Manila

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

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Series of 2019

Atty. ALEJANDRO M. TUPAS III
Appointment No. M-145
Notary Public until 31 December 2019
14/F BDO North Tower, BDO Corporate Center
7899 Makati Avenue, Makati City
Roll No. 55349
IBM Lifetime Member No. 013125, Quezon City
PTR No. 6619594, 03 January 2019, Makati City
MCLE Compliance No. VI - 0014833, 11/13/2018

Report of Independent Auditors

THE BOARD OF DIRECTORS AND STOCKHOLDERS
BDO UNIBANK, INC.

BDO Corporate Center
7899 Makati Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Unibank, Inc. and subsidiaries (collectively referred to as the BDO Unibank Group) and of BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the BDO Unibank Group and of the Parent Bank as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

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

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

(a) Adoption of PFRS 9, Financial Instruments

Description of the Matter

Effective January 1, 2018, the BDO Unibank Group and the Parent Bank adopted PFRS 9, *Financial Instruments*, (PFRS 9) which replaced PAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of this new standard, which primarily affected the BDO Unibank Group's and Parent Bank's classification and measurement of their financial assets and impairment of financial instruments using the expected credit losses, is considered significant in our audit due to the complexity of the accounting requirements and the significant judgement required in determining assumptions to be used in applying the standard.

The impact of the adoption of PFRS 9, and the related changes in accounting policies, basis of judgement and estimates, and risk management are disclosed in Notes 2, 3 and 4 to the financial statements.

How the Matter was Addressed in the Audit

We have obtained an understanding of the BDO Unibank Group's and the Parent Bank's implementation process of PFRS 9, including the changes to the BDO Unibank Group's and the Parent Bank's policies and Information Technology systems and processes. Our audit procedures for each of the new requirements of the PFRS 9 are the following:

(i) Classification and Measurement

- Evaluating the appropriateness of the BDO Unibank Group's and the Parent Bank's policy for classification and measurement of financial instruments based on the requirements of PFRS 9.

- Reviewing the sufficiency and appropriateness of the business model assessment and contractual cash flows characteristics assessment (i.e., testing if the cash flows arising relate solely to payment of principal and interest) performed by the BDO Unibank Group and the Parent Bank on their financial assets.

- Reviewing the classification and measurement analysis done by the BDO Unibank Group and the Parent Bank regarding the classification of financial assets into fair value through profit or loss, amortized cost and fair value through other comprehensive income (FVOCI).

- Evaluating the appropriateness of transition adjustments as a result of the adoption of PFRS 9 on classification and measurement of financial assets, and determining the adequacy of related financial statement disclosures, including changes in accounting policies and basis of judgement and estimates.

(ii) Impairment

- Evaluating the appropriateness of the impairment policies, particularly those requiring the exercise of judgement such as when a credit exposure has experienced a significant increase in credit risk.

- Understanding and assessing appropriateness of expected credit loss (ECL) models used, including reasonableness of overlays or forward looking information.

- Assessing completeness, accuracy, relevance and reliability of inputs in the ECL models, including historical information sourced outside of the controllership function or obtained from the third party sources.

- Reviewing the assessment done by the BDO Unibank Group and the Parent Bank regarding appropriateness of the ECL models and assumptions and estimates used and reasonableness of computed impairment loss.

- Evaluating appropriateness of the impairment adjustments resulting in the transition to PFRS 9, including completeness and reasonableness of related ECL disclosures.

(b) Proper Valuation of Loans and Other Receivables

Description of the Matter

The BDO Unibank Group and the Parent Bank had loans and other receivables that are subject to impairment. As of December 31, 2018, the BDO Unibank Group and the Parent Bank had loans and other receivables amounting to P2,071,834 million and P2,019,153 million, respectively, net of allowance for impairment of P29,045 million and P26,197 million, respectively. Loans and other receivables are the most significant resources of the BDO Unibank Group and the Parent Bank which account for 69% and 70% of the BDO Unibank Group's and the Parent Bank's total resources, respectively.

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

As discussed in item I(a) above, on January 1, 2018, the BDO Unibank Group and the Parent Bank adopted PFRS 9, which introduced the ECL model in determining impairment of financial assets. Accordingly, the BDO Unibank Group and the Parent Bank used the ECL model in determining impairment of their loans and other receivables. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated loss ratios and of default correlations between counterparties. Furthermore, the BDO Unibank Group and the Parent Bank incorporated forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement of ECL. The BDO Unibank Group and the Parent Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The disclosures of the BDO Unibank Group and the Parent Bank on the allowance for impairment of loans and other receivables, and the related credit risk are included in Notes 4 and 10 to the financial statements.

How the Matter was Addressed in the Audit

In addition to the procedures performed in I(a), our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of loans and other receivables, which were considered to be a significant risk, included:

- testing the design and operating effectiveness of key controls across the processes, as assisted by our own Information Technology specialists, over the loan classification into stages, and the calculation and recognition of the allowance for impairment;

- evaluating appropriateness of BDO Unibank Group's and the Parent Bank's credit policy and loan impairment process as approved by the Board of Directors;

- verifying that the loans are allocated to the appropriate stage, and challenging the criteria used to categorize the loan to Stage 1, 2 or 3 in accordance with PFRS 9;

- on a sample basis, evaluating the appropriateness of the credit risk ratings of performing Stage 1 loans to assess appropriateness of credit risk monitoring;

- evaluating the inputs and assumptions, as well as the formulas used in the development of the ECL models for each of their loan portfolio. This includes assessing the appropriateness of design of the ECL impairment model and formula used in determining the probability of default, loss given default and exposure at default;

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

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

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

(c) Valuation of Financial Instruments

Description of the Matter

The fair valuation of financial instruments of the BDO Unibank Group and the Parent Bank is considered a key area of focus in our audit due to the use of inputs from external sources in computing the market value of these financial instruments. For some financial instruments such as derivatives, the determination of fair value includes the use of estimates by the management. The fair value of derivative financial instruments is determined using the net present value computation. To the extent practicable, models use observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

As of December 31, 2018, the financial assets and financial liabilities of the BDO Unibank Group that are carried at fair value amounted to P140,697 million and P4,497 million, respectively, while that of the Parent Bank amounted to P81,372 million and P1,680 million, respectively.

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

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

- evaluating whether fair value prices used were appropriate by testing the inputs against reliable market sources, such as Philippine Dealing & Exchange Corp., Bloomberg and Philippine Stock Exchange;

- recomputing the fair values based on the inputs and compared with the market values used by the BDO Unibank Group and the Parent Bank;

- testing of controls over the valuation process of the BDO Unibank Group and the Parent Bank on financial instruments, particularly the measurement of derivative valuation adjustments; and,

- reviewing the formulas used in fair market valuation.

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

Carrying Value of Goodwill

Description of the Matter

BDO Unibank Group has goodwill of P4,435 million as of December 31, 2018, and the significant portion of which relates to the acquisition of One Network Bank (ONB) in prior years.

Under PFRS, BDO Unibank Group is required to annually test the amount of goodwill for impairment. This annual impairment testing of goodwill is considered to be a key audit matter because the management's process in assessing the recoverability of goodwill is complex. In addition, assumptions used in determining cash generating units (CGUs) where the goodwill is allocated and estimating the recoverable amount involves significant judgment. The recoverable amount of the CGUs has been computed using discounted cash flows method. This valuation method uses several key assumptions, including estimates for forecasted statement of financial position and net profit of CGUs, terminal value growth rates and discount rate.

The BDO Unibank Group's disclosures about goodwill are included in Notes 2 and 13 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to impairment of goodwill included, among others, evaluating the appropriateness of assumptions and methodologies used by the management, in particular, those relating to the forecasted statement of financial position and statement of income as well as the discount rate used. We have involved our Firm valuation specialist to assist in evaluating the appropriateness of assumptions used in estimating the recoverable amount of CGUs. In addition, our audit of the financial statements of ONB as of and for the year ended December 31, 2018 did not identify events or conditions that may cast significant doubt on ONB's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in the BDO Unibank Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the BDO Unibank Group and the Parent Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audits resulting in this independent auditors' report is Leonardo D. Cuaresma, Jr.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 7333690, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-5 (until July 9, 2021)
Firm - No. 0002-FR-5 (until March 26, 2021)
BIR AN 08-002511-7-2017 (until June 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until July 24, 2021)

February 23, 2019

Statements of Financial Position

BDO UNIBANK, INC. AND SUBSIDIARIES

DECEMBER 31, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
RESOURCES					
CASH AND OTHER CASH ITEMS	7	**P 53,749**	P 45,006	**P 52,492**	P 43,882
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**354,132**	353,308	**349,017**	340,596
DUE FROM OTHER BANKS	8	**55,292**	51,479	**48,780**	41,088
TRADING AND INVESTMENT SECURITIES	9	**385,197**	332,927	**304,281**	258,214
LOANS AND OTHER RECEIVABLES - Net	10	**2,071,834**	1,791,786	**2,019,153**	1,730,732
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**33,660**	29,346	**29,272**	24,917
INVESTMENT PROPERTIES - Net	12	**19,785**	18,040	**15,426**	14,496
OTHER RESOURCES - Net	13	**48,598**	46,212	**73,391**	70,700
TOTAL RESOURCES		**P 3,022,247**	P 2,668,104	**P 2,891,812**	P 2,524,625
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	**P 2,419,965**	P 2,121,012	**P 2,362,302**	P 2,045,321
BILLS PAYABLE	16	**143,623**	130,484	**117,693**	105,623
SUBORDINATED NOTES PAYABLE	17	**10,030**	10,030	**10,030**	10,030
INSURANCE CONTRACT LIABILITIES	18	**28,506**	25,986	**-**	-
OTHER LIABILITIES	19	**91,974**	82,252	**74,166**	65,990
Total Liabilities		**2,694,098**	2,369,764	**2,564,191**	2,226,964
EQUITY	20				
Attributable to:					
Shareholders of the Parent Bank		**327,372**	297,488	**327,621**	297,661
Non-controlling Interests		**777**	852	**-**	-
		328,149	298,340	**327,621**	297,661
TOTAL LIABILITIES AND EQUITY		**P 3,022,247**	P 2,668,104	**P 2,891,812**	P 2,524,625

See Notes to Financial Statements.

Statements of Income

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos Except Per Share Data)

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	BDO Unibank Group 2016	Parent Bank 2018	Parent Bank 2017	Parent Bank 2016
INTEREST INCOME	21	**P 129,040**	P 99,795	P 82,037	**P 122,615**	P 93,786	P 76,647
INTEREST EXPENSE	22	**30,748**	18,042	16,413	**28,720**	16,434	14,989
NET INTEREST INCOME		**98,292**	81,753	65,624	**93,895**	77,352	61,658
IMPAIRMENT LOSSES - Net	9, 13, 14	**6,286**	6,537	3,815	**5,700**	5,809	3,003
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**92,006**	75,216	61,809	**88,195**	71,543	58,655
OTHER OPERATING INCOME	23	**49,674**	47,206	41,613	**35,823**	33,633	27,494
OTHER OPERATING EXPENSES	23	**98,034**	84,865	69,988	**81,794**	68,929	56,379
PROFIT BEFORE PRE-ACQUISITION INCOME		**43,646**	37,557	33,434	**42,224**	36,247	29,770
PRE-ACQUISITION INCOME	28	**-**	-	(391)	**-**	-	-
PROFIT BEFORE TAX		**43,646**	37,557	33,043	**42,224**	36,247	29,770
TAX EXPENSE	29	**11,007**	9,452	6,797	**9,512**	8,241	5,713
NET PROFIT		**P 32,639**	P 28,105	P 26,246	**P 32,712**	P 28,006	P 24,057
Attributable to:							
Shareholders of the Parent Bank		**P 32,708**	P 28,070	P 26,234			
Non-controlling Interests		**(69)**	35	12			
		P 32,639	P 28,105	P 26,246			
Earnings Per Share:	30						
Basic		**P 7.40**	P 6.42	P 6.81	**P 7.40**	P 6.40	P 6.23
Diluted		**P 7.40**	P 6.42	P 6.81	**P 7.40**	P 6.40	P 6.23

See Notes to Financial Statements.

Statements of Comprehensive Income

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group			Parent Bank		
	Notes	**2018**	2017	2016	**2018**	2017	2016
NET PROFIT		**P 32,639**	P 28,105	P 26,246	**P 32,712**	P 28,006	P 24,057
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that are or will be reclassified subsequently to profit or loss:							
Net unrealized losses on debt investments at fair value through other comprehensive income (FVOCI), net of tax	9	**(4,984)**	-	-	**(2,475)**	-	-
Transfer of realized gains on disposed debt investments at FVOCI to statements of income, net of tax	9	**(143)**	-	-	**(11)**	-	-
Impairment losses on debt investments at FVOCI	9	**18**	-	-	**5**	-	-
Unrealized gains (losses) on available-for-sale (AFS) securities, net of tax	9	**-**	622	(943)	**-**	255	899
Transfer of amortized unrealized fair value losses on reclassified AFS securities to held-to-maturity investments to statements of income	9	**-**	621	275	**-**	288	292
Transfer of realized losses on impaired AFS securities to statements of income, net of tax	9	**-**	139	346	**-**	-	-
Transfer of realized gains on disposed AFS securities to statements of income, net of tax	9	**-**	(1,474)	(2,959)	**-**	(58)	(2,355)
Net losses on FVOCI securities, net of tax		**(5,109)**	-	-	**(2,481)**	-	-
Net gains (losses) on AFS securities, net of tax		**-**	(92)	(3,281)	**-**	485	(1,164)
Translation adjustment related to foreign operations		**34**	(8)	78	**1**	(14)	2
		(5,075)	(100)	(3,203)	**(2,480)**	471	(1,162)
Items that will not be reclassified to profit or loss:							
Remeasurement on life insurance reserves		**3,655**	785	(324)	**-**	-	-
Actuarial losses on remeasurement of retirement benefit obligation, net of tax	24	**(2,088)**	(2,550)	(645)	**(2,052)**	(2,445)	(516)
Unrealized gains (losses) on equity investments at FVOCI, net of tax	9	**(1,210)**	-	-	**54**	-	-
		357	(1,765)	(969)	**(1,998)**	(2,445)	(516)
Share in other comprehensive income (loss) of subsidiaries and associates accounted for under equity method	13	**(9)**	(3)	1	**(220)**	1,702	(2,413)
Other Comprehensive Loss, net of tax		**(4,727)**	(1,868)	(4,171)	**(4,698)**	(272)	(4,091)
TOTAL COMPREHENSIVE INCOME		**P 27,912**	P 26,237	P 22,075	**P 28,014**	P 27,734	P 19,966
Attributable to:							
Shareholders of the Parent Bank		**P 28,025**	P 26,226	P 22,016			
Non-controlling Interests		**(113)**	11	59			
		P 27,912	P 26,237	P 22,075			

See Notes to Financial Statements.

Statements of Changes in Equity

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group														
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Losses	Revaluation Increment	Remeasurement on Life Insurance Reserves	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2018																
As previously stated		P 43,690	P 5,150	P 122,966	P 3,354	P 11	P 133,529	(P 3,991)	(P 6,805)	P 1,008	(P 1,398)	(P 21)	(P 5)	P 297,488	P 852	P 298,340
Effect of adoption of PFRS 9	2	-	-	-	9,520	-	(2,010)	(529)	-	-	-	-	-	6,981	17	6,998
As restated		43,690	5,150	122,966	12,874	11	131,519	(4,520)	(6,805)	1,008	(1,398)	(21)	(5)	304,469	869	305,338
Transactions with owners	20															
Issuance of shares during the year		50	-	411	-	-	-	-	-	-	-	-	-	461	-	461
Cash dividends		-	-	-	-	-	(5,585)	-	-	-	-	-	-	(5,585)	(27)	(5,612)
		50	-	411	-	-	(5,585)	-	-	-	-	-	-	(5,124)	(27)	(5,151)
Total comprehensive income (loss)		-	-	-	-	-	32,708	(6,275)	(2,088)	-	3,655	34	(9)	28,025	(113)	27,912
Transfer from Surplus Free																
Trust reserve	20, 26	-	-	-	251	-	(251)	-	-	-	-	-	-	-	-	-
Reversal of appropriations during the period		-	-	-	(207)	-	207	-	-	-	-	-	-	-	-	-
Other reserves	20	-	-	-	1,870	-	(1,870)	-	-	-	-	-	-	-	-	-
		-	-	-	1,914	-	(1,914)	-	-	-	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	-	(401)	405	-	-	-	-	-	4	-	4
Other adjustments	28															
Additional capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	49	49
Change in ownership interest in subsidiaries		-	-	-	-	(2)	-	-	-	-	-	-	-	(2)	(1)	(3)
		-	-	-	-	(2)	-	-	-	-	-	-	-	(2)	48	46
BALANCE AT DECEMBER 31, 2018		**P 43,740**	**P 5,150**	**P 123,377**	**P 14,788**	**P 9**	**P 156,327**	**(P 10,390)**	**(P 8,893)**	**P 1,008**	**P 2,257**	**P 13**	**(P 14)**	**P 327,372**	**P 777**	**P 328,149**
BALANCE AT JANUARY 1, 2017		P 36,500	P 5,150	P 70,127	P 2,972	P 12	P 111,423	(P 3,919)	(P 4,259)	P 1,008	(P 2,183)	(P 13)	(P 2)	P 216,816	P 743	P 217,559
Transactions with owners	20															
Stock rights issuance		7,164	-	52,662	-	-	-	-	-	-	-	-	-	59,826	-	59,826
Issuance of shares during the year		26	-	177	-	-	-	-	-	-	-	-	-	203	-	203
Cash dividends		-	-	-	-	-	(5,582)	-	-	-	-	-	-	(5,582)	(50)	(5,632)
		7,190	-	52,839	-	-	(5,582)	-	-	-	-	-	-	54,447	(50)	54,397
Total comprehensive income (loss)		-	-	-	-	-	28,070	(72)	(2,546)	-	785	(8)	(3)	26,226	11	26,237
Transfer from Surplus Free																
Appropriations during the year	20	-	-	-	126	-	(126)	-	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	256	-	(256)	-	-	-	-	-	-	-	-	-
		-	-	-	382	-	(382)	-	-	-	-	-	-	-	-	-
Other adjustments	20, 28															
Additional capital contribution to a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	147	147
Change in ownership interest in subsidiaries		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	1	-
		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	148	147
BALANCE AT DECEMBER 31, 2017		P 43,690	P 5,150	P 122,966	P 3,354	P 11	P 133,529	(P 3,991)	(P 6,805)	P 1,008	(P 1,398)	(P 21)	(P 5)	P 297,488	P 852	P 298,340
BALANCE AT JANUARY 1, 2016		P 36,453	P 5,150	P 69,936	P 2,696	P 12	P 88,884	(P 622)	(P 3,614)	P 1,008	P -	(P 60)	(P 748)	P 199,095	P 623	P 199,718
Transactions with owners	20															
Issuance of shares during the year		47	-	191	-	-	-	-	-	-	-	-	-	238	-	238
Cash dividends		-	-	-	-	-	(4,716)	-	-	-	-	-	-	(4,716)	(50)	(4,766)
		47	-	191	-	-	(4,716)	-	-	-	-	-	-	(4,478)	(50)	(4,528)
Total comprehensive income (loss)		-	-	-	-	-	26,234	(3,297)	(645)	-	(324)	47	1	22,016	59	22,075
Transfer from Surplus Free																
Appropriations during the year	20	-	-	-	36	-	(36)	-	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	240	-	(240)	-	-	-	-	-	-	-	-	-
		-	-	-	276	-	(276)	-	-	-	-	-	-	-	-	-
Other adjustments																
Effect of restatement on a subsidiary previously classified as an associate		-	-	-	-	-	1,297	-	-	-	(1,859)	-	661	99	111	210
Consolidation of a new subsidiary	20, 28	-	-	-	-	-	-	-	-	-	-	-	84	84	-	84
		-	-	-	-	-	1,297	-	-	-	(1,859)	-	745	183	111	294
BALANCE AT DECEMBER 31, 2016		P 36,500	P 5,150	P 70,127	P 2,972	P 12	P 111,423	(P 3,919)	(P 4,259)	P 1,008	(P 2,183)	(P 13)	(P 2)	P 216,816	P 743	P 217,559

See Notes to Financial Statements.

Statements of Changes in Equity

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(Amounts in Millions of Philippine Pesos)

		Parent Bank										
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity
BALANCE AT JANUARY 1, 2018												
As previously stated		P 43,690	P 5,150	P 122,947	P 2,524	P 132,625	(P 1,203)	(P 6,452)	P 1,005	(P 2)	(P 2,623)	P 297,661
Effect of adoption of PFRS 9	2	-	-	-	9,356	(1,846)	(653)	-	-	-	126	6,983
As restated		43,690	5,150	122,947	11,880	130,779	(1,856)	(6,452)	1,005	(2)	(2,497)	304,644
Transactions with owners	20											
Issuance of shares during the year		50	-	411	-	-	-	-	-	-	-	461
Cash dividends		-	-	-	-	(5,585)	-	-	-	-	-	(5,585)
		50	-	411	-	(5,585)	-	-	-	-	-	(5,124)
Total comprehensive income (loss)		-	-	-	-	32,712	(2,427)	(2,052)	-	1	(220)	28,014
Transfer from Surplus Free												
Trust reserve	20, 26	-	-	-	181	(181)	-	-	-	-	-	-
Other reserves	20	-	-	-	1,824	(1,824)	-	-	-	-	-	-
		-	-	-	2,005	(2,005)	-	-	-	-	-	-
Disposals of equity securities classified as fair value through other comprehensive income		-	-	-	-	(401)	2	-	-	-	403	4
Other adjustment	28											
Change in ownership interest in subsidiaries		-	-	-	-	83	-	-	-	-	-	83
		-	-	-	-	83	-	-	-	-	-	83
BALANCE AT DECEMBER 31, 2018		**P 43,740**	**P 5,150**	**P 123,358**	**P 13,885**	**P 155,583**	**(P 4,281)**	**(P 8,504)**	**P 1,005**	**(P 1)**	**(P 2,314)**	**P 327,621**
BALANCE AT JANUARY 1, 2017		P 36,500	P 5,150	P 70,108	P 2,238	P 110,564	(P 1,688)	(P 4,007)	P 1,005	P 12	(P 4,325)	P 215,557
Transactions with owners	20											
Stock rights issuance		7,164	-	52,662	-	-	-	-	-	-	-	59,826
Issuance of shares during the year		26	-	177	-	-	-	-	-	-	-	203
Cash dividends		-	-	-	-	(5,582)	-	-	-	-	-	(5,582)
		7,190	-	52,839	-	(5,582)	-	-	-	-	-	54,447
Total comprehensive income (loss)		-	-	-	-	28,006	485	(2,445)	-	(14)	1,702	27,734
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	96	(96)	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	190	(190)	-	-	-	-	-	-
		-	-	-	286	(286)	-	-	-	-	-	-
Other adjustment												
Change in ownership interest in subsidiaries	28	-	-	-	-	(77)	-	-	-	-	-	(77)
BALANCE AT DECEMBER 31, 2017		P 43,690	P 5,150	P 122,947	P 2,524	P 132,625	(P 1,203)	(P 6,452)	P 1,005	(P 2)	(P 2,623)	P 297,661
BALANCE AT JANUARY 1, 2016		P 36,453	P 5,150	P 69,917	P 2,028	P 89,533	(P 524)	(P 3,491)	P 1,005	P 10	(P 718)	P 199,363
Transactions with owners	20											
Issuance of shares during the year		47	-	191	-	-	-	-	-	-	-	238
Cash dividends		-	-	-	-	(4,716)	-	-	-	-	-	(4,716)
		47	-	191	-	(4,716)	-	-	-	-	-	(4,478)
Total comprehensive income (loss)		-	-	-	-	24,057	(1,164)	(516)	-	2	(2,413)	19,966
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	28	(28)	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	182	(182)	-	-	-	-	-	-
		-	-	-	210	(210)	-	-	-	-	-	-
Other adjustment												
Effect of restatement on a subsidiary previously classified as an associate		-	-	-	-	1,900	-	-	-	-	(1,194)	706
BALANCE AT DECEMBER 31, 2016		P 36,500	P 5,150	P 70,108	P 2,238	P 110,564	(P 1,688)	(P 4,007)	P 1,005	P 12	(P 4,325)	P 215,557

See Notes to Financial Statements.

Statements of Cash Flows

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group			Parent Bank		
	Notes	**2018**	2017	2016	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 43,646**	P 37,557	P 33,043	**P 42,224**	P 36,247	P 29,770
Adjustments for:							
Interest income	21	**(129,040)**	(99,795)	(82,037)	**(122,615)**	(93,786)	(76,647)
Interest received		**125,410**	97,862	80,887	**119,115**	91,455	75,720
Interest expense	22	**30,748**	18,042	16,413	**28,720**	16,434	14,989
Interest paid		**(23,833)**	(17,650)	(12,488)	**(21,948)**	(16,085)	(11,117)
Impairment losses	9, 13, 14	**6,286**	6,537	3,815	**5,700**	5,809	3,003
Depreciation and amortization	11, 12, 13	**5,776**	5,172	4,782	**4,555**	3,958	3,668
Fair value losses (gains)	9	**672**	(199)	(96)	**(476)**	(67)	45
Share in net profit of subsidiaries and associates	13	**(631)**	(612)	(481)	**(2,740)**	(4,312)	(3,657)
Income from acquisition of a subsidiary	28	**-**	-	(2,214)	**-**	-	-
Operating profit before changes in operating resources and liabilities		**59,034**	46,914	41,624	**52,535**	39,653	35,774
Decrease (increase) in financial assets at fair value through profit or loss		**1,048**	(1,048)	1,988	**487**	(32)	1,076
Increase in loans and other receivables		**(265,648)**	(259,476)	(226,766)	**(266,500)**	(255,626)	(219,711)
Increase in investment properties		**(2,113)**	(3,573)	(794)	**(2,107)**	(3,389)	(624)
Decrease (increase) in other resources		**(13,823)**	(17,395)	(3,612)	**(8,121)**	(16,848)	2,722
Increase in deposit liabilities		**297,683**	215,758	241,312	**315,718**	212,278	229,972
Increase in insurance contract liabilities		**6,175**	6,206	2,486	**-**	-	-
Increase in other liabilities		**18,587**	18,631	13,005	**13,935**	17,244	10,423
Cash generated from (used in) operations		**100,943**	6,017	69,243	**105,947**	(6,720)	59,632
Cash paid for income tax		**(10,631)**	(8,836)	(6,528)	**(9,087)**	(7,552)	(5,342)
Net Cash From (Used in) Operating Activities		**90,312**	(2,819)	62,715	**96,860**	(14,272)	54,290
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of investment securities at amortized cost	9	**(87,158)**	-	-	**(60,406)**	-	-
Maturities of investment securities at amortized cost		**54,036**	-	-	**26,154**	-	-
Acquisitions of securities at fair value through other comprehensive income (FVOCI)	9	**(40,130)**	-	-	**(17,629)**	-	-
Proceeds from disposals of securities at FVOCI		**24,417**	-	-	**8,387**	-	-
Acquisitions of premises, furniture, fixtures and equipment	11	**(8,135)**	(6,158)	(5,537)	**(6,920)**	(4,989)	(3,811)
Proceeds from disposals of premises, furniture, fixtures and equipment		**230**	113	144	**125**	17	30
Acquisitions of held-to-maturity (HTM) investments	9	**-**	(83,061)	(49,939)	**-**	(74,111)	(48,139)
Acqusitions of available-for-sale (AFS) securities	9	**-**	(59,161)	(77,520)	**-**	(26,052)	(40,953)
Proceeds from disposals of AFS securities		**-**	46,033	92,532	**-**	17,816	63,539
Maturities of HTM investments		**-**	34,503	13,194	**-**	33,013	12,832
Acquisition of a subsidiary	28	**-**	-	(2,298)	**-**	-	(2,298)
Net Cash Used in Investing Activities		**(56,740)**	(67,731)	(29,424)	**(50,289)**	(54,306)	(18,800)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from bills payable	16	**297,475**	342,828	246,547	**116,744**	172,575	93,177
Payments of bills payable	16	**(289,925)**	(313,242)	(247,420)	**(110,166)**	(143,071)	(98,122)
Dividends paid	20	**(5,612)**	(5,632)	(4,766)	**(5,585)**	(5,582)	(4,716)
Proceeds from issuance of common stock	20	**461**	203	238	**461**	203	238
Net proceeds from issuance of stock rights	20	**-**	59,826	-	**-**	59,826	-
Net Cash From (Used in) Financing Activities		**2,399**	83,983	(5,401)	**1,454**	83,951	(9,423)
NET INCREASE IN CASH AND CASH EQUIVALENTS *(Carried Forward)*		**P 35,971**	P 13,433	P 27,890	**P 48,025**	P 15,373	P 26,067

See Notes to Financial Statements.

Statements of Cash Flows

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	BDO Unibank Group 2016	Parent Bank 2018	Parent Bank 2017	Parent Bank 2016
NET INCREASE IN CASH AND CASH EQUIVALENTS ***(Brought Forward)***		**P 35,971**	P 13,433	P 27,890	**P 48,025**	P 15,373	P 26,067
CASH AND CASH EQUIVALENTS ACQUIRED FROM NEW SUBSIDIARY	28	**-**	-	851	**-**	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**45,006**	40,909	42,729	**43,882**	39,813	41,767
Due from Bangko Sentral ng Pilipinas	7	**353,308**	318,002	271,808	**340,596**	304,285	260,841
Due from other banks	8	**51,479**	41,794	24,837	**41,088**	33,463	20,944
Investment securities at amortized cost	9	**2,097**	-	-	**2,097**	-	-
HTM securities	9	**-**	894	-	**-**	894	-
Securities purchased under reverse repurchase agreement (SPURRA)	10	**18,260**	14,302	69,490	**14,872**	7,891	58,431
Interbank loans receivables	10	**31,576**	72,749	51,139	**31,576**	72,749	51,139
Foreign currency notes and coins (FCNC)	13	**3,695**	3,338	3,244	**3,694**	3,337	3,243
		505,421	491,988	463,247	**477,805**	462,432	436,365
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**53,749**	45,006	40,909	**52,492**	43,882	39,813
Due from Bangko Sentral ng Pilipinas	7	**354,132**	353,308	318,002	**349,017**	340,596	304,285
Due from other banks	8	**55,292**	51,479	41,794	**48,780**	41,088	33,463
Investment securities at amortized cost	9	**9,168**	-	-	**6,490**	-	-
HTM securities	9	**-**	2,097	894	**-**	2,097	894
SPURRA	10	**22,009**	18,260	14,302	**22,009**	14,872	7,891
Interbank loans receivables	10	**42,214**	31,576	72,749	**42,214**	31,576	72,749
FCNC	13	**4,828**	3,695	3,338	**4,828**	3,694	3,337
		P 541,392	P 505,421	P 491,988	**P 525,830**	P 477,805	P 462,432

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

a. On June 30, 2016, the BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life Assurance Holdings Corp. (BDO Life) from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. As of the date of acquisition, the fair value of previously-held interest of the Parent Bank, total resources and total liabilities of BDO Life amounted to P2,549, P27,454 and P21,083, respectively. The transaction resulted in the recognition in 2016 of gain on fair valuation of previously-held interest and gain on bargain purchase or negative goodwill amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214 (see Note 28).

b. On July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of One Network Bank, Inc. (ONB) in exchange for 64,499,890 common shares of the Parent Bank equivalent to P6,685. The acquisition resulted to recognition of additional paid-in capital amounting to P6,028. Goodwill amounted to P2,903 and non-controlling share in equity totalled P14 at the date the Parent Bank's control was established. As of the date of acquisition, total resources and total liabilities of ONB amounted to P28,196 and P24,398, respectively. In 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. Total additional goodwill recognized in 2016 amounted to P4 (see Note 28).

c. The BDO Unibank Group and the Parent Bank foreclosed real and other properties totalling to P13,032 and P12,834, respectively, in 2018, P11,975 and P11,784, respectively, in 2017, P10,342 and P10,074, respectively, in 2016, in settlement of certain loan accounts (see Note 12).

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES

DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

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

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

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2018, BDO Unibank Group had 1,309 branches (including two foreign branches), 2,347 on-site and 1,978 off-site automated teller machines (ATMs) and 484 cash accept machines (CAMs). As of December 31, 2018, the Parent Bank had 1,126 branches (including two foreign branches), 2,167 on-site and 1,930 off-site ATMs and 484 CAMs. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and the United States. These foreign operations accounted for 1.3%, 1.2% and 1.1% of BDO Unibank Group's total revenues in 2018, 2017 and 2016, respectively, and 1.4% of BDO Unibank Group's total resources both as of December 31, 2018 and 2017. BDO Unibank Group's subsidiaries and associates are shown in Notes 2.3 and 13.1.

1.2 Approval of Financial Statements

The financial statements of the BDO Unibank Group and the Parent Bank as of and for the year ended December 31, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 23, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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

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

(b) Presentation of Financial Statements

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

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

In 2018, the BDO Unibank Group and the Parent Bank adopted PFRS 9, *Financial Instruments,* which was applied using the transitional relief allowed by the standard. This allows BDO Unibank Group and Parent Bank not to restate its prior periods' financial statements. Accordingly, the adoption of this new accounting standards did not require BDO Unibank Group and Parent Bank to present its third statement of financial position. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Surplus Free or other components of equity in the current year
[see table in the next page and Note 2.2(a)(iv)].

The table below shows the impact of the adoption of PFRS 9 to the total equity as at January 1, 2018.

BDO Unibank Group:

	Effects on				
	Surplus Free	**Surplus Reserve**	**Net Unrealized Loss on FVOCI**	**Non-Controlling Interest**	**Total Equity**
Balance at December 31, 2017 under PAS 39	P 133,529	P 3,354	(P 3,991)	P 852	P 298,340
Impact of PFRS 9 [see Note 2.2(a)(iv)]					
Effect of reclassifications and remeasurements of financial assets	915	-	(598)	1	318
Decrease in allowance for impairment on loans and other receivables	6,792	-	-	16	6,808
Recognition of allowance for impairment on debt securities:					
At amortized cost	(128)	-	-	-	(128)
At fair value through other comprehensive income (FVOCI)	(69)	-	69	-	-
Appropriation of surplus free for general loan loss provision per BSP requirements	(9,520)	9,520	-	-	-
Total impact of PFRS 9	(2,010)	9,520	(529)	17	6,998
Balance at January 1, 2018 under PFRS 9	**P 131,519**	**P 12,874**	**(P 4,520)**	**P 869**	**P 305,338**

Parent Bank

	Effects on				
	Surplus Free	**Surplus Reserve**	**Net Unrealized Loss on FVOCI**	**Accumulated Share in Other Comprehensive Income (Loss)**	**Total Equity**
Balance at December 31, 2017 under PAS 39	P 132,625	P 2,524	(P 1,203)	(P 2,623)	P 297,661
Impact of PFRS 9 [see Note 2.2(a)(iv)]					
Effect of reclassifications and remeasurements of financial assets	881	-	(715)	126	292
Decrease in allowance for impairment on loans and other receivables	6,806	-	-	-	6,806
Recognition of allowance for impairment on debt securities:					
At amortized cost	(115)	-	-	-	(115)
At FVOCI	(62)	-	62	-	-
Appropriation of surplus free for general loan loss provision per BSP requirements	(9,356)	9,356	-	-	-
Total impact of PFRS 9	(1,846)	9,356	(653)	126	6,983
Balance at January 1, 2018 under PFRS 9	**P 130,779**	**P 11,880**	**(P 1,856)**	**(P 2,497)**	**P 304,644**

The impact of PFRS 9 has no effects in deferred tax asset since the BDO Unibank Group and the Parent Bank opted not to recognize deferred tax effect of the foregoing allowance for impairment.

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to BDO Unibank Group

BDO Unibank Group and the Parent Bank adopted for the first time the following new PFRS, amendments to PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4, *Insurance Contracts*
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value through Profit or Loss Classification

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

(i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provided a non-exhaustive list of examples constituting change in use. The application of these amendments has no significant impact on BDO Unibank Group's financial statements.

(ii) PFRS 2 (Amendments), *Share-based Payment – Classification and Measurement of Share-based Transactions.* The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The application of these amendments has no significant impact on BDO Unibank Group's financial statements.

(iii) PFRS 4 (Amendments), *Insurance Contracts – Applying PFRS 9 with PFRS 4.* The amendments address the temporary accounting consequences of the different effective dates of PFRS 9, and the anticipated new insurance contracts standard by introducing the following options: (a) overlay approach, which is an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; or, (b) an optional temporary exemption from applying PFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of PAS 39, *Financial Measurements: Recognition and Measurement.* The application of these amendments has no significant impact on BDO Unibank Group's financial statements.

(iv) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments i.e., financial asset at amortized cost, at fair value through profit or loss (FVTPL), and at FVOCI;

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

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

The new accounting policies relative to the adoption of PFRS 9 are fully disclosed in Notes 2.5, 2.6 and 2.15

The following table shows the effects of the adoption of PFRS 9 in the carrying amounts (CA) and presentation of the categories of the affected financial asset accounts in the statement of financial position as at January 1, 2018:

BDO Unibank Group

	Notes	CA, PAS 39 December 31, 2017	Reclassification	Remeasurement	CA, PFRS 9 January 1, 2018
Financial assets at FVTPL		P 14,710	P -	P -	P 14,710
Reclassification from AFS securities	a	-	7,321	-	7,321
Reclassification to:					
Investment securities at amortized cost	b	-	(34)	-	(34)
Financial assets at FVOCI	c	-	(13)	-	(13)
Financial assets at FVTPL		**P 14,710**	**P 7,274**	**P -**	**P 21,984**
Financial assets at FVOCI		P -	P -	P -	P -
Reclassification from:					
AFS securities	d	-	106,704	-	106,704
HTM investments	e	-	4,073	9	4,082
Financial assets at FVTPL	c	-	13	-	13
Financial assets at FVOCI		**P -**	**P 110,790**	**P 9**	**P 110,799**
AFS securities		P 121,019	P -	P -	P 121,019
Reclassification to:					
Financial assets at FVOCI	d	-	(106,704)	-	(106,704)
Financial assets at FVTPL	a	-	(7,321)	-	(7,321)
Investment securities at amortized cost	f	-	(6,945)	-	(6,945)
Other resources	g	-	(49)	-	(49)
AFS Securities		**P 121,019**	**(P 121,019)**	**P -**	**P -**
Investment securities at amortized cost					
Reclassification from:					
HTM investments	h	P -	P 193,125	P 191	P 193,316
AFS securities	f	-	6,945	111	7,056
Loans and other receivables	i	-	3,486	-	3,486
Financial assets at FVTPL	b	-	34	-	34
Allowance for impairment	j	-	-	(128)	(128)
Investment securities at amortized cost		**P -**	**P 203,590**	**P 174**	**P 203,764**
HTM investments		P 197,198	P -	P -	P 197,198
Reclassification to:					
Investment securities at amortized cost	h	-	(193,125)	-	(193,125)
Financial assets at FVOCI	e	-	(4,073)	-	(4,073)
HTM investments		**P 197,198**	**(P 197,198)**	**P -**	**P -**
Loans and other receivables		P 1,791,786	P -	P -	P 1,791,786
Reclassification to investment securities at amortized cost	i	-	(3,486)	-	(3,486)
Remeasurement of allowance for impairment	k	-	-	6,808	6,808
Loans and Other receivables		**P 1,791,786**	**(P 3,486)**	**P 6,808**	**P 1,795,108**
Other resources		P 5,555	P -	P -	P 5,555
Reclassification from AFS securities	g	-	49	-	49
Remeasurement of equity investments in associate		-	-	7	7
Other resources		**P 5,555**	**P 49**	**P 7**	**P 5,611**

Parent Bank

	Notes	CA, PAS 39 December 31, 2017	Reclassification	Remeasurement	CA, PFRS 9 January 1, 2018
Financial assets at FVTPL		P 4,260	P -	P -	P 4,260
Reclassification from AFS securities	a	-	1	-	1
Financial assets at FVTPL		**P 4,260**	**P 1**	**P -**	**P 4,261**
Financial assets at FVOCI	d	**P -**	**P 70,188**	**P -**	**P 70,188**
AFS securities		P 70,232	P -	P -	P 70,232
Reclassification to:					
Financial assets at FVOCI	d	-	(70,188)	-	(70,188)
Financial assets at FVTPL	a	-	(1)	-	(1)
Other resources	g	-	(43)	-	(43)
AFS Securities		**P 70,232**	**(P 70,232)**	**P -**	**P -**
Investment securities at amortized cost					
Reclassification from:					
HTM investments	h	P -	P 183,722	P 191	P 183,913
Loans and other receivables	i	-	7	-	7
Allowance for impairment	j	-	-	(115)	(115)
Investment securities at amortized cost		**P -**	**P 183,729**	**P 76**	**P 183,805**
HTM investments		P 183,722	P -	P -	P 183,722
Reclassification to investment securities at amortized cost	h	-	(183,722)	-	(183,722)
HTM investments		**P 183,722**	**(P 183,722)**	**P -**	**P -**
Loans and other receivables		P 1,730,732	P -	P -	P 1,730,732
Reclassification to investment securities at amortized cost	i	-	(7)	-	(7)
Remeasurement of allowance for impairment	k	-	-	6,806	6,806
Loans and other receivables		**P 1,730,732**	**(P 7)**	**P 6,806**	**P 1,737,531**
Other resources		P 4,241	P -	P -	P 4,241
Reclassification from AFS securities	g	-	43	-	43
Remeasurement of equity investments in subsidiaries and associates		-	-	101	101
Other resources		**P 4,241**	**P 43**	**P 101**	**P 4,385**

a. *Equity Securities Reclassified from AFS Securities to FVTPL*

The BDO Unibank Group and Parent Bank reclassified to FVTPL certain equity securities previously classified as AFS securities with fair value of P7,321 and P1, respectively, as these financial assets are now held with the objective of selling them in the short to medium term.

b. *Debt Instruments Reclassified from FVTPL to Investment Securities at Amortized Cost*

BDO Unibank Group reclassified certain government debt securities from FVTPL to Investment securities at amortized cost since the BDO Unibank Group determined that the objective of the business model is to hold these investments to collect the contractual cash flows, wherein said cash flows pertain solely to payment of principal and interest. As a result, these securities with fair value of P34 were reclassified to amortized cost wherein the fair value becomes the new gross carrying amount.

c. *Equity Securities Reclassified from FVTPL to FVOCI*

Certain equity securities which were previously classified as FVTPL were reclassified by the BDO Unibank Group as FVOCI because the Group irrevocably elected to hold these securities for long-term strategic investments and are not expected to provide the Group with short-to-medium term profit other than dividends.

d. *Financial Assets Reclassified from AFS Securities to FVOCI*

Certain debt securities which were previously classified as AFS securities were classified by BDO Unibank Group and Parent Bank as financial assets at FVOCI because these securities were determined that the investment objective of the business model is to hold these investments to collect the contractual cash flows, and sell but are held for long-term strategic investment and are not expected to be traded in the short-to-medium term. Consequently, the Group and the Parent Bank made an assessment whether these securities are impaired based on the ECL model developed by the Group [see Note 2.2 (a)(iv)j]. Furthermore, certain equity securities which were previously classified as AFS securities were designated as financial assets at FVOCI because the Group irrevocably elected to hold these securities for long-term strategic investments and does not expect to obtain profit through short-to-medium term trading other than dividends.

e. *Debt Instruments Reclassified from HTM Investments to FVOCI*

The BDO Unibank Group reclassified certain government and corporate debt securities under HTM investments to financial assets at FVOCI since it was determined that the investment objective of the business model is to hold these investments to collect the contractual cash flows, and sell but are held for long-term strategic investment and are not expected to be traded in the short-to-medium term. As a result, these securities valued at amortized cost are remeasured at fair value at the reclassification date. The BDO Unibank Group recognized an accumulated net unrealized fair value gain on FVOCI securities amounting to P9, which was adjusted to the opening balance of Net Unrealized Fair Value Gains/Losses (NUGL) on FVOCI account as at January 1, 2018. In addition, the BDO Unibank Group determined whether these securities are impaired based on the ECL model developed by the Group [(see Note 2.2(a)(iv)j].

f. *Debt Instruments Reclassified from AFS Securities to Investment Securities at Amortized Cost*

There are certain investments in debt instruments previously classified as AFS securities that met the criteria to be classified as financial assets at amortized cost under PFRS 9 because the business model is to hold these debt instruments in order to collect contractual cash flows. Accordingly, the accumulated net unrealized fair value losses on AFS securities amounting to P111 was adjusted to the opening balance of NUGL on FVOCI account as of January 1, 2018. Also, the BDO Unibank Group determined whether these securities are impaired based on the ECL model developed by the Group [(see Note 2.2(a)(iv)j].

g. Unquoted Equity Securities Reclassified from AFS Securities to Other Resources

The BDO Unibank Group and Parent Bank reclassified unquoted equity securities amounting to P49 and P43, respectively, previously classified as AFS securities to Other Resources account since the BDO Unibank Group and Parent Bank is not entitled to a contractual right to receive cash but for a privilege to use the facilities and services of the issuing corporation.

h. Debt Instruments Reclassified from HTM Investments to Investment Securities at Amortized Cost

The BDO Unibank Group and Parent Bank reclassified certain government and corporate debt securities under HTM investments as investment securities at amortized cost with the objective of holding these investments to collect the contractual cash flows, wherein said cash flows pertain solely to payment of principal and interest. Portion of these securities represents government and corporate debt securities that were previously subjected to tainting provision of PAS 39 (see Note 9.4). Under PFRS 9, these securities are no longer subject to the previous tainting rule but any disposal shall be within the context of permitted sales as defined by its business model. Moreover, the Group determined whether these securities are impaired based on the ECL model developed by the Group [see Note 2.2(a)(iv)j].

i. Unquoted Debt Securities Reclassified from Loans and Receivable to Investment Securities Amortized Cost

The BDO Unibank Group and Parent Bank reclassified unquoted debt securities previously classified under loans and other receivables to investment securities at amortized cost that meet the criteria set by the business model for investment securities at amortized cost. Furthermore, the Bank determined whether these securities are impaired based on the expected credit model developed [see Note 2.2 (a)(iv)j].

j. Credit Losses on Investment in Debt Securities

All of the BDO Unibank Group's and Parent Bank's investments in debt securities classified at amortized cost and FVOCI are considered to have low credit risk, and the loss allowance recognized was therefore limited to 12-month expected credit loss. Management considers 'low credit risk' for debt securities issued by listed companies and the government that has an investment grade credit rating with at least one reputable rating agency. Other instruments are considered to have low credit risk when they have a low probability of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The application of the ECL model developed by the Group resulted in the recognition of allowance for impairment in investment securities at amortized cost amounting to P128 and P115 and were adjusted against the opening balance of Surplus Free account [see Note 2.1(b)] in the BDO Unibank Group's and Parent Bank's financial statements, respectively. The Group and the Parent Bank also recognized allowance for impairment on debt securities at FVOCI amounting to P69 and P62 and were adjusted against the opening balance of NUGL [see Note 2.1(b)] in the BDO Unibank Group's and Parent Bank's financial statement's, respectively.

k. *Credit Losses on Loans and Receivables*

The application of the ECL methodology based on the stages of impairment assessment for loans and receivables resulted in the reversal of allowance for impairment amounting to P6,808 and P6,806, with adjustment charged against the opening balance of Surplus Free and Non-Controlling Interest accounts in the BDO Unibank Group's financial statements and Surplus Free account in the Parent Bank's financial statements [see Note 2.1(b)]. Also, in 2018, a general loan loss provision amounting to P9,520 and P9,356, which represents the excess of the 1% required allowance of the BSP over the computed allowance for ECL, was recognized by the Group and reported as part of Surplus Reserves account in the BDO Unibank Group's and Parent Bank's statement of changes in equity, respectively.

The reconciliation of the prior year's closing allowance for impairment measured in accordance with PAS 39 incurred loss model to the new impairment allowance measured in accordance with PFRS 9 ECL is presented in Note 4.3.5.

(v) PFRS 15, *Revenue from Contract with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The BDO Unibank Group and the Parent Bank's significant sources of revenue pertain to its lending activities which generate interest income, service charges, fees and commissions. Except for service charges, fees and commissions, significant amount of the Bank's revenues are out of scope of PFRS 15. Recognition and measurement of revenue streams within the scope of PFRS 15 did not vary from PAS 18.

The adoption of PFRS 15 has resulted in changes in the Group's accounting policies (see Note 2.18). The Group has applied the new standard retrospectively without restatement, with the cumulative effect of initial application, if any, recognized as an adjustment to the opening balance of Surplus Free at January 1, 2018. However, the adoption of this standard has no significant impact on the financial statements. Accordingly, no remeasurements nor reclassifications were recognized by the BDO Unibank Group and the Parent Bank at the date of initial application.

(vi) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no impact on the BDO Unibank Group financial statements.

(vii) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* is relevant to the Group and the Parent Bank. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. The application of this improvement has no impact on the BDO Unibank Group's financial statements.

(b) Effective in 2018 that are not Relevant to the Group and the Parent Bank

The annual improvements to PFRS (2014-2016 Cycle), PFRS 1 (Amendments): *First-time adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions* are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's financial statements.

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, interpretation, annual improvements to PFRS and amendments to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, management is currently assessing the impact on the Group and the Parent Bank's financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

(ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the solely for payment of principal and interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. Management initially assessed that these amendments will not affect the Group and the Parent Bank's financial statements since it has no financial instruments having prepayment features with negative compensation.

(iv) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

The management plans to adopt the partial retrospective application of PFRS 16. The Group and the Parent Bank will elect to apply the standard to contracts that were previously identified as leases applying PAS 17.

(v) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group and the Parent Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group and the Parent Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(vi) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(vii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group and the Parent Bank but had no material impact on the Group and the Parent Bank's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group and the Parent Bank obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group and the Parent Bank obtains joint control of the business.

2.3 Basis of Consolidation

The BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Bank, and its subsidiaries as enumerated in Notes 2.3(c) and 13.1, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the BDO Unibank Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

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

(a) Investments in Subsidiaries

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

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

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of BDO Unibank Group's share of the identifiable net assets acquired, is recognized as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as a gain in profit or loss [see Note 2.3(d)].

On the other hand, business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls BDO Unibank Group are accounted for under the pooling-of-interests method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparative periods presented are restated. The resources and liabilities acquired are recognized in BDO Unibank Group's financial statements at their carrying amounts. The components of equity of the acquired entities are added to the same components within BDO Unibank Group's equity.

Investments in subsidiaries are initially recognized at cost and subsequently accounted for using the equity method in the Parent Bank's financial statements (see Note 2.11).

(b) Investment in Associates

Associates are those entities over which the BDO Unibank Group and the Parent Bank are able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the BDO Unibank Group and the Parent Bank's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the BDO Unibank Group and the Parent Bank's share in the associate is included in the amount recognized as investment in an associate.

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 13.1).

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

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

(c) Transactions with Non-controlling Interests

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

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

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

The BDO Unibank Group holds interests in the following subsidiaries:

	Percentage of Ownership		
Subsidiaries	**2018**	2017	2016
Rural Bank			
One Network Bank, Inc. (A Rural Bank of BDO) (ONB)	**99.86%**	99.79%	99.76%
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**99.88%**	99.88%	99.88%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	**100%**	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	**88.54%**	88.54%	88.54%
Averon Holdings Corporation (Averon)	**99.88%**	99.88%	99.88%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%	88.54%
Securities Companies			
BDO Securities Corporation (BDO Securities)	**99.88%**	99.88%	99.88%
BDO Nomura [previously PCIB Securities, Inc. (PCIB Securities)]	**51%**	51%	51%
Armstrong Securities, Inc. (ASI)	**80%**	80%	80%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%	100%
Equimark-NFC Development Corporation (Equimark)	**60%**	60%	60%

Subsidiaries	Percentage of Ownership 2018	2017	2016
Insurance Companies			
BDO Life Assurance Company Inc., (BDO Life) [previously Generali Pilipinas Life Assurance Company, Inc. (GPLAC)]	**100%**	100%	100%
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	**-**	-	100%
BDO Life Assurance Holdings Corp. (BDO Life Holdings) [previously Generali Pilipinas Holdings Company, Inc. (GPHCI)]	**-**	-	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
Express Padala (Hongkong), Ltd.	**100%**	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	100%	100%
BDO Remit (Canada) Ltd.	**100%**	100%	100%
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
BDO Remit International Holdings B.V. (BDO RIH) [previously CBN Grupo International Holdings B.V. (CBN Grupo)]	**96.32%**	96.32%	96.32%
PCIB Europe S.p.A.	**-**	100%	100%
Others			
PCI Realty Corporation	**100%**	100%	100%

Non-controlling interests in 2018 and 2017 represent the interests not held by BDO Unibank Group in ONB, BDO Capital, BDO Leasing, Averon, BDO Rental, BDO Securities, BDO Nomura, ASI, Equimark and BDO RIH.

On July 31, 2016, BDO Capital, BDO Elite and BDO Savings consummated a three-way merger transaction with BDO Capital as the surviving entity (see Note 28.3).

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

In 2018 and 2017, the Parent Bank subscribed to additional shares of ONB (see Note 28.6).

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

(d) Business Combination

Business acquisitions are accounted for using the acquisition method of accounting [see Note 2.3(a)].

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.21). Impairment losses on goodwill are not reversed.

Negative goodwill, if any, which is the excess of BDO Unibank Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost of investment is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segments.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by BDO Unibank Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting or pooling-of-interest method [see Note 2.3(a)].

2.4 Segment Reporting

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

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

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

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

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

There have been significant changes from prior periods in the measurement methods used to determine reported segment information.

2.5 Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

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

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

(i) Financial Assets at Amortized Cost

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

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

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

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

BDO Unibank Group and the Parent Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Loans and Other receivables, Investment securities at amortized cost and certain accounts under Other Resources account in the statement of financial position.

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of income as part of Interest Income.

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

BDO Unibank Group accounts for financial assets at FVOCI if the assets meet the following conditions:

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

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

At initial recognition, BDO Unibank Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the BDO Unibank Group for trading or as mandatorily required to be classified as FVTPL. The BDO Unibank Group has designated equity instruments as at FVOCI on initial application of PFRS 9.

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

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the BDO Unibank Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and, the amount of dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

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

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

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

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

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

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

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

(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS securities.

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

A more detailed description of the four categories of financial assets is as follows:

(i) Financial Assets at FVTPL

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

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

(ii) Loans and Receivables

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

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

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, FCNC, SPURRA, certain interbank bank loans receivables and HTM securities with original maturities of three months or less from placement date.

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

(iii) HTM Investments

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

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

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

(iv) AFS Securities

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

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

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

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

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

- In the case of a financial asset with a fixed maturity, the gain or loss shall be amortized to profit or loss over the remaining life of the HTM investment using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

- In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

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

A financial asset is reclassified out of the FVTPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term under rare circumstances. A financial asset that is reclassified out of the FVTPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(c) Effective Interest Rate Method and Interest Income

Under both PFRS 9 and PAS 39, interest income is recognized using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under PFRS 9, similar to interest bearing financial assets classified as AFS or HTM under PAS 39, are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

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

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

(d) Impairment of Financial Assets Under PFRS 9

From January 1, 2018, BDO Unibank Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost, debt instruments measured at FVOCI and other contingent accounts. No impairment loss is recognized on equity investments. Recognition of credit losses or impairment is no longer dependent on the Company's identification of a credit loss event. Instead, BDO Unibank Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

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

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

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

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

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

Measurement of ECL

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

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

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

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

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

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

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

(e) Impairment of Financial Assets under PAS 39

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

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

BDO Unibank Group recognizes impairment loss based on the category of financial assets as follows:

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

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

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

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

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

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

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

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

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

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

- clean loans and advances past due for a period of more than six months;

- past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;

- past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;

- when the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;

- accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,

- accounts receivable past due for 361 days or more.

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

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

(ii) Carried at Cost – AFS Securities

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

(iii) Carried at Fair Value – AFS Securities

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

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

(f) Derecognition of Financial Assets

(i) Modification of Loans

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

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

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

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

(ii) Derecognition of Financial Assets Other than Through Modification

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

(g) Classification and Measurement of Financial Liabilities

As the accounting for financial liabilities remains largely the same under PFRS 9 compared to PAS 39, the BDO Unibank Group and the Parent Bank's financial liabilities were not impacted by the adoption of PFRS 9. However, for completeness, the accounting policy is disclosed below.

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

- *Deposit liabilities and other liabilities* are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

- *Bills payable and subordinated notes payable* are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

- *Derivatives with negative fair values* are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

- *Lease deposits from operating and finance leases* (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day-one gain and is included as part of Miscellaneous – net under Other Operating Income account in the statement of income. Meanwhile, interest expense on the subsequent amortization of the lease deposits is accrued using the effective interest method and is included as part of Interest Expense account in the statement of income.

- *Dividend distributions to shareholders* are recognized as financial liabilities when the dividends are declared by BDO Unibank Group and subject to the requirements of BSP Circular 888.

(b) *Derecognition of Financial Liabilities*

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

2.6 Derivative Financial Instruments

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

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

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

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

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

Prior to 2018, under PAS 39, certain derivatives embedded in other financial instruments are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. Accordingly, these embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

With the adoption of PFRS 9, financial assets are no longer bifurcated; instead, the whole instrument (including the host contract) is measured at FVTPL.

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

2.7 Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, related carrying amounts are not depreciated. All other premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value. Property items of the former Equitable PCI Bank (EPCIB), entity merged with BDO Unibank in 2008, stated at appraised values were included in BDO Unibank Group balances at their deemed costs at the date of transition to PFRS in 2005. The revaluation increment is credited to Revaluation Increment account in the equity section of the statement of financial position, net of applicable deferred tax (see Note 2.16).

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

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

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

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

Fully depreciated assets are retained in accounts until they are no longer in use and no further change for depreciation is made in respect of those assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.21).

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

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

2.8 Investment Properties

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

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Notes 2.7 and 2.21).

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

2.9 Real Properties for Development and Sale

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

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

2.10 Non-current Assets Held for Sale

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

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

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

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

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

2.11 Equity Investments

In the Parent Bank's financial statements, investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.21). Associates are all entities over which the BDO Unibank Group and the Parent Bank has significant influence but which are neither subsidiaries nor interest in a joint venture.

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

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

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

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

2.12 Other Resources

Other resources pertain to other assets that are controlled by BDO Unibank Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to BDO Unibank Group and the asset has a cost or value that can be measured reliably. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.21).

2.13 Intangible Assets

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

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired at the date of acquisition [see Note 2.3(d)]. Goodwill is classified as intangible asset with indefinite useful life and, thus, not subject to amortization but to an annual test for impairment (see Note 2.21). Goodwill is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each primary reporting segment.

Trading rights represent the rights given to securities subsidiaries of BDO Unibank Group engage in stock brokerage to preserve access to the trading facilities and to transact business on PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment loss, if any. BDO Unibank Group has no intention to sell its trading right in the future as it intends to continue to operate its stock brokerage business. The trading right is tested annually for any impairment in realizable value (see Note 2.21).

Branch licenses, on the other hand, represent the rights given to BDO Unibank Group to establish certain number of branches as an incentive in acquiring distressed banks or as provided by the BSP in addition to the current branches of the acquired banks. Branch licenses are assessed as having an indefinite useful life and is tested annually for any impairment (see Note 2.21).

Customer lists consist of information about customers such as their name, contact information, and managed accounts under BDO Unibank Group's trust business. The customer list is classified as intangible asset with indefinite useful life, hence, would be reviewed for impairment by assessing at each reporting date whether there is any indication that the trust business brought about by the customer lists may be impaired (see Note 2.21).

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

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

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

2.14 Insurance Contracts

Insurance contract liabilities arose from the following types of insurance contract:

- *Life insurance contract*

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

- *Insurance contracts with fixed and guaranteed terms*

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

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

- *Variable unit-linked insurance contracts*

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

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

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

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

- *Insurance premiums*

  Premiums from life insurance contracts are recognized as revenue when payable by the policyholders. For single premium contracts, revenue is recognized upon the effective date of the policy. For regular premium contracts, revenues are recorded at the date when payments are due.

- *Insurance benefits and claims*

  Life insurance benefits and claims include the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Maturities are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

2.15 Offsetting Financial Instruments

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

2.16 Equity

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

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus reserves pertain to reserve for trust business representing the accumulated amount set aside by BDO Unibank Group and the Parent Bank under existing regulations requiring the Bank to carry to surplus 10% of its net profits accruing from its trust business until the surplus shall amount to 20% of the regulatory capital and, to the appropriation for general loan loss provision as prescribed by BSP. Surplus reserves also consist of reserve for insurance fund and additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 20).

Other reserves pertain to amount recognized from increase in percentage of ownership to any of the subsidiaries of BDO Unibank Group.

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

Net unrealized fair value gains (losses) on FVOCI compose of cumulative mark-to-market valuation of outstanding securities and accumulated impairment on debt securities classified as FVOCI.

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

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

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

Accumulated translation adjustment pertains to foreign exchange differences arising on translation of the resources and liabilities of foreign branch and subsidiaries that are taken up in other comprehensive income (see Note 2.22).

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

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

2.17 Related Party Transactions and Relationships

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

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

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

2.18 Other Income and Expense Recognition

In 2017 and prior years, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the BDO Unibank Group; and the expenses and costs incurred and to be incurred can be measured reliably. In 2018, revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Group's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

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

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

(a) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. These include the following accounts:

   (i) *Commission and fees* arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

   (ii) *Loan syndication fees* are recognized as revenue when the syndication has been completed and that BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

   (iii) *Arranger fees* arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the completion of the underlying assumptions.

(iv) *Portfolio and other management advisory and service fees* are recognized based on the applicable service contracts, usually on a time-proportionate basis.

(b) *Trust fees* – Trust fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(c) *Income/loss from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income account.

Collections from accounts, which did not qualify from revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

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

2.19 Provisions and Contingencies

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

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

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

The Group offers monetized rewards to active cardholders in relation to its credit card business' rewards program. Provisions for rewards are recognized at a certain rate of cardholders' credit card availments, determined by management based on redeemable amounts.

2.20 Leases

BDO Unibank Group accounts for its leases as follows:

(a) *BDO Unibank Group as Lessor*

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in profit or loss as part of Rental under Other Operating Income account in the statement of income on a straight-line basis over the lease term.

(b) *BDO Unibank Group as Lessee*

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

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
- there is a substantial change to the asset.

The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. The residual value of the leased asset at the end of the lease term is generally applied against the guaranty deposit of the lessee.

2.21 Impairment of Non-financial Assets

BDO Unibank Group's equity investments, goodwill, branch licenses, trading rights, trademark and customer lists recorded as part of Other Resources, premises, furniture, fixtures and equipment, investment properties and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill, branch licenses, customer lists and trading rights are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.22 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

The financial statements of the Foreign Currency Deposit Unit (FCDU) of BDO Unibank Group are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as FVOCI securities (AFS securities in 2017) are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

(b) Foreign Currency Translation

The accounting records of BDO Unibank Group are maintained in Philippine pesos except for foreign branches and subsidiaries, which are maintained in U.S. dollars, Canadian Dollar (CAD), European Union Euro (Euro), Great Britain Pound (GBP), Japanese Yen (JPY), Hong Kong Dollars (HKD) or Singapore Dollar (SGD).

The operating results and financial position of foreign branches and subsidiaries which are measured using the U.S. dollars, CAD, Euro, GBP, JPY, HKD or SGD, respectively, are translated to Philippine pesos (BDO Unibank Group's functional currency) as follows:

(i) Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation due from foreign branch and net investment in foreign subsidiaries is recognized in other comprehensive income as part of Accumulated Translation Adjustment (see Note 2.16). When a foreign operation is sold, the cumulative amount of exchange differences is recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the US dollar, Euro, GBP, JPY, HKD or SGD amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.23 Compensation and Benefits Expense

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

(a) *Post-employment Defined Benefit*

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

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

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

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

(b) *Post-employment Defined Contribution Plan*

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

(c) *Termination Benefits*

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

(d) *Bonus Plans*

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

(e) *Employee Stock Option Plan*

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

(f) *Unavailed Leaves*

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

2.24 Income Taxes

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

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

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

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

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

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

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

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

2.25 Earnings Per Share

Basic earnings per share is determined by dividing consolidated net profit by the weighted average number of common shares issued and outstanding during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per share is also computed by dividing consolidated net profit by the weighted average number of common shares issued and outstanding during the period. However, consolidated net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares and stock option plan granted by BDO Unibank Group to the qualified officers (to the extent that shares under the stock option plan shall be issued from the unissued authorized capital stock and not purchased from the market or stock exchange).

Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. The stock option plan is deemed to have been converted into common stock in the year the stock option is granted.

2.26 Trust Activities

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

2.27 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI (2018)

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

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

(b) Evaluation of Business Model Applied in Managing Financial Instruments (2018)

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

Upon adoption of PFRS 9, BDO Unibank Group developed business models which reflect how it manages its portfolio of financial instruments. BDO Unibank Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by BDO Unibank Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, BDO Unibank Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by BDO Unibank Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to BDO Unibank Group's investment, trading and lending strategies.

(c) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model (2018)

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

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, BDO Unibank Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if BDO Unibank Group can explain the reasons for those sales and why those sales do not reflect a change in BDO Unibank Group's objective for the business model.

(d) Classification of Financial Assets as HTM Investments (2017)

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

In 2016, after the end of the two-year tainting period, BDO Unibank Group and the Parent Bank reclassified AFS securities with a carrying value of P107,362 and P103,014, respectively, to HTM investments (see Note 9.4).

(e) *Impairment of AFS Securities (2017)*

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

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

(f) *Distinction Between Investment Properties and Owner-occupied Properties*

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generates cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

(g) *Distinction Between Operating and Finance Leases*

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

(h) Classification and Fair Value Determination of Acquired Properties

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, chattels as Non-current assets held for sale (presented under Other Resources account) if expected to be recovered through sale rather than use, real properties as Investment Properties if intended to be held for capital appreciation or lease, as Financial Assets if qualified as such in accordance with PFRS 9/PAS 39 or as Other properties (presented under Other Resources account) if held for sale but the depreciable properties (other than building) are not yet disposed within three years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties. The Group's methodology in determining the fair value of acquired properties are further discussed in Note 6.5.

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

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

ARSA provides that investors shall be entitled to nominate one director for as long as it owns at least 10% of the equity of NLEX Corporation, or shall be entitled to nominate two directors for as long as it owns at least 16.5% of the equity of NLEX Corporation.

Failure to make the right judgment will result in either overstatement or understatement of resources, liabilities, income and expenses.

(j) Determination of Timing of Satisfaction of Performance Obligations (2018)

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

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

(k) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.19 and relevant disclosures are presented in Note 33.

3.2 Key Sources of Estimation Uncertainty

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

(a) Estimation of Allowance for ECL (2018)

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

The carrying value of financial assets at FVOCI, Investments securities at amortized cost and Loans and Other Receivables and, the analysis of the allowance for impairment on such financial assets, are shown in Notes 9.2, 9.3, 10, and 14 respectively.

(b) Estimation of Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables) (2017)

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

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

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

(c) Fair Value Measurement for Financial Instruments

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

The carrying values of the BDO Unibank Group and the Parent Bank's financial assets at FVTPL and financial assets at FVOCI (previously as AFS securities) and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 9.1 and 9.2, respectively.

(d) Determination of Fair Value of Derivatives

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

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

BDO Unibank Group and the Parent Bank use judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

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

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

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other resources, including trademark, are analyzed in Notes 12 and 13, respectively.

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

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

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

(g) Determination of Realizable Amount of Deferred Tax Assets

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

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2018 and 2017 is disclosed in Note 29.1.

(h) Impairment of Non-financial Assets

Except for goodwill and other intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.21. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

(i) Valuation of Post-employment Defined Benefit

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

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

(j) Recognition of Reward Points

BDO Unibank Group provides rewards points to its banking clients and customers each time they avail of the pre-identified products and services of the Parent Bank and the companies which the Parent Bank has identified as partners in the rewards program. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

BDO Unibank Group sets up a liability to cover the cost of future reward redemptions for points earned to date. The estimated liability is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.

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

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

(k) Valuation of Legal Policy Reserves

Legal policy reserves represent estimates of present value of future benefits and expenses in excess of present value of future gross premiums. These estimates are based on interest rates, mortality/morbidity tables, and valuation method subject to the provisions of the Insurance Code and guidelines set by IC.

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

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

4. RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

4.1 Liquidity Risk

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

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2018 and 2017 in accordance with account classification of the BSP is presented in the succeeding pages. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2018				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 53,749	P -	P -	P -	P 53,749
Due from BSP and other banks	130,290	1,570	782	276,782	409,424
Loans and other receivables - net	463,437	201,081	349,271	1,058,045	2,071,834
Trading and investment securities	13,825	56,729	98,227	216,416	385,197
Other resources - net*	216	61	-	101,766	102,043
Total Resources	661,517	259,441	448,280	1,653,009	3,022,247
Liabilities and Equity:					
Deposit liabilities	448,970	24,151	18,963	1,927,881	2,419,965
Bills and subordinated notes payable	31,674	21,458	59,258	41,263	153,653
Insurance contract liabilities**	125	(1,078)	984	28,475	28,506
Other liabilities	27,564	2,739	4,712	56,959	91,974
Total Liabilities	508,333	47,270	83,917	2,054,578	2,694,098
Equity	-	-	-	328,149	328,149
Total Liabilities and Equity	508,333	47,270	83,917	2,382,727	3,022,247
On-book gap	153,184	212,171	364,363	(729,718)	-
Cumulative on-book gap	153,184	365,355	729,718	-	-
Contingent assets	178,126	47,437	15,049	6,978	247,590
Contingent liabilities	216,731	49,330	15,131	6,872	288,064
Off-book gap	(38,605)	(1,893)	(82)	106	(40,474)
Net Periodic Gap	114,579	210,278	364,281	(729,612)	40,474
Cumulative Total Gap	P 114,579	P 324,857	P 689,138	(P 40,474)	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*
** *Insurance Contract Liabilities with maturity of one month to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

BDO Unibank Group

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

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

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

Parent Bank

	2018				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 52,492	P -	P -	P -	P 52,492
Due from BSP and other banks	125,574	-	-	272,223	397,797
Loans and other receivables - net	451,821	185,561	325,786	1,055,985	2,019,153
Trading and investment securities	9,197	51,017	85,021	159,046	304,281
Other resources - net*	-	-	-	118,089	118,089
Total Resources	639,084	236,578	410,807	1,605,343	2,891,812
Liabilities and Equity:					
Deposit liabilities	467,983	20,164	18,261	1,855,894	2,362,302
Bills and subordinated notes payable	13,092	17,756	52,833	44,042	127,723
Other liabilities	23,876	-	-	50,290	74,166
Total Liabilities	504,951	37,920	71,094	1,950,226	2,564,191
Equity	-	-	-	327,621	327,621
Total Liabilities and Equity	504,951	37,920	71,094	2,277,847	2,891,812
On-book gap	134,133	198,658	339,713	(672,504)	-
Cumulative on-book gap	134,133	332,791	672,504	-	-
Contingent assets	172,428	30,373	4,148	1,054	208,003
Contingent liabilities	211,162	32,551	4,418	1,044	249,175
Off-book gap	(38,734)	(2,178)	(270)	10	(41,172)
Net Periodic Gap	95,399	196,480	339,443	(672,494)	41,172
Cumulative Total Gap	P 95,399	P 291,879	P 631,322	(P 41,172)	P -

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

Parent Bank

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

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

4.2 Market Risk

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

4.2.1 Foreign Exchange Risk

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

BDO Unibank Group's net foreign exchange exposure is computed as its foreign currency resources less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the group excess foreign exchange holding of banks in the Philippines. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

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

The breakdown of the financial assets and financial liabilities as to foreign and peso-denominated balances as of December 31, 2018 and 2017 follows:

BDO Unibank Group

	2018			2017		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P 152**	**P 407,729**	**P 407,881**	P 222	P 398,092	P 398,314
Due from other banks	**52,953**	**2,339**	**55,292**	50,499	980	51,479
Trading and investment securities:						
At FVTPL	**4,093**	**16,215**	**20,308**	5,181	9,529	14,710
At FVOCI	**75,464**	**44,925**	**120,389**	-	-	-
At amortized cost	**138,103**	**106,397**	**244,500**	-	-	-
AFS securities	**-**	**-**	**-**	72,443	48,576	121,019
HTM investments	**-**	**-**	**-**	119,011	78,187	197,198
Loans and other receivables	**305,505**	**1,766,329**	**2,071,834**	277,416	1,514,370	1,791,786
Other resources	**5,029**	**2,041**	**7,070**	4,997	558	5,555
	P 581,299	**P 2,345,975**	**P 2,927,274**	P 529,769	P 2,050,292	P 2,580,061
Liabilities:						
Deposit liabilities	**P 416,383**	**P 2,003,582**	**P 2,419,965**	P 395,183	P 1,725,829	P 2,121,012
Bills payable	**117,787**	**25,836**	**143,623**	106,293	24,191	130,484
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Insurance contract liabilities	**7,283**	**21,223**	**28,506**	7,081	18,905	25,986
Other liabilities	**5,439**	**75,635**	**81,074**	6,387	66,978	73,365
	P 546,892	**P 2,136,306**	**P 2,683,198**	P 514,944	P 1,845,933	P 2,360,877

Parent Bank

	2018			2017		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items						
and due from BSP	**P 36**	**P 401,473**	**P 401,509**	P 50	P 384,428	P 384,478
Due from other banks	**48,729**	**51**	**48,780**	41,031	57	41,088
Trading and investment						
securities:						
At FVTPL	**2,880**	**1,377**	**4,257**	3,689	571	4,260
At FVOCI	**61,026**	**16,089**	**77,115**	-	-	-
At amortized cost	**130,830**	**92,079**	**222,909**	-	-	-
AFS securities	**-**	**-**	**-**	57,078	13,154	70,232
HTM investments	**-**	**-**	**-**	116,987	66,735	183,722
Loans and other receivables	**307,567**	**1,711,586**	**2,019,153**	275,362	1,455,370	1,730,732
Other resources	**5,001**	**1**	**5,002**	3,969	272	4,241
	P 556,069	**P 2,222,656**	**P 2,778,725**	P 498,166	P 1,920,587	P 2,418,753
Liabilities:						
Deposit liabilities	**P 398,841**	**P 1,963,461**	**P 2,362,302**	P 373,386	P 1,671,935	P 2,045,321
Bills payable	**117,693**	**-**	**117,693**	105,623	-	105,623
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Other liabilities	**4,755**	**59,998**	**64,753**	6,078	52,554	58,632
	P 521,289	**P 2,033,489**	**P 2,554,778**	P 485,087	P 1,734,519	P 2,219,606

4.2.2 Interest Rate Risk

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

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2018 and 2017 based on the expected interest realization or recognition are shown in the succeeding pages.

BDO Unibank Group

	2018					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 53,749	P 53,749
Due from BSP and other banks	23,248	-	-	-	386,176	409,424
Loans and other receivables - net	1,025,682	189,261	620,802	236,089	-	2,071,834
Trading and investment securities	11,664	56,431	178,738	118,056	20,308	385,197
Other resources - net*	-	-	-	-	102,043	102,043
Total Resources	1,060,594	245,692	799,540	354,145	562,276	3,022,247
Liabilities and Equity:						
Deposit liabilities	608,569	71,985	75,763	16,766	1,646,882	2,419,965
Bills and subordinated notes payable	48,967	21,429	78,898	3,861	498	153,653
Insurance contract liabilities**	(405)	(1,270)	1,082	19,494	9,605	28,506
Other liabilities	-	1,072	4,742	93	86,067	91,974
Total Liabilities	657,131	93,216	160,485	40,214	1,743,052	2,694,098
Equity	-	-	-	-	328,149	328,149
Total Liabilities and Equity	657,131	93,216	160,485	40,214	2,071,201	3,022,247
On-book gap	403,463	152,476	639,055	313,931	(1,508,925)	-
Cumulative on-book gap	403,463	555,939	1,194,994	1,508,925	-	-
Contingent assets	10,835	1,618	-	-	-	12,453
Contingent liabilities	4,943	1,577	-	-	-	6,520
Off-book gap	5,892	41	-	-	-	5,933
Net Periodic Gap	409,355	152,517	639,055	313,931	(1,508,925)	(5,933)
Cumulative Total Gap	P 409,355	P 561,872	P 1,200,927	P 1,514,858	P 5,933	P -

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

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

BDO Unibank Group

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

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

** *Insurance Contract Liabilities with maturity of one month to five years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

Parent Bank

	2018					
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Non-rate Sensitive**	**Total**
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 52,492	P 52,492
Due from BSP and other banks	22,000	-	-	-	375,797	397,797
Loans and other receivables - net	1,015,170	166,254	597,213	240,516	-	2,019,153
Trading and investment securities	7,586	51,017	155,786	85,635	4,257	304,281
Other resources - net*	-	-	-	-	118,089	118,089
Total Resources	1,044,756	217,271	752,999	326,151	550,635	2,891,812
Liabilities and Equity:						
Deposit liabilities	583,500	67,010	73,865	20,936	1,616,991	2,362,302
Bills and subordinated notes payable	26,492	17,756	74,931	8,544	-	127,723
Other liabilities	-	-	-	-	74,166	74,166
Total Liabilities	609,992	84,766	148,796	29,480	1,691,157	2,564,191
Equity	-	-	-	-	327,621	327,621
Total Liabilities and Equity	609,992	84,766	148,796	29,480	2,018,778	2,891,812
On-book gap	434,764	132,505	604,203	296,671	(1,468,143)	-
Cumulative on-book gap	434,764	567,269	1,171,472	1,468,143	-	-
Contingent assets	5,784	-	-	-	-	5,784
Contingent liabilities	-	-	-	-	-	-
Off-book gap	5,784	-	-	-	-	5,784
Net Periodic Gap	440,548	132,505	604,203	296,671	(1,468,143)	(5,784)
Cumulative Total Gap	P 440,548	P 573,053	P 1,177,256	P 1,473,927	P 5,784	P -

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

Parent Bank

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Unibank Group

	2018		2017	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 27)**	**(P 401)**	(P 11)	(P 217)
Interest rate risk – Peso	**(71)**	**(754)**	(59)	(651)
Interest rate risk – USD	**(4)**	**(125)**	(15)	(489)
	(P 102)	**(P 1,280)**	(P 85)	(P 1,357)

Parent Bank

	2018		2017	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 25)**	**(P 367)**	(P 9)	(P 191)
Interest rate risk – Peso	**(47)**	**(348)**	(19)	(241)
Interest rate risk – USD	**(2)**	**(65)**	(11)	(340)
	(P 74)	**(P 780)**	(P 39)	(P 772)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2018 and 2017 is shown below.

BDO Unibank Group

	2018			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 4,533)**	**P 4,533**	**(P 2,266)**	**P 2,266**
As a percentage of the BDO Unibank Group's net interest income for 2018	**(4.60%)**	**4.60%**	**(2.30%)**	**2.30%**
Earnings-at-risk	**P 5,104**			

	2017			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 4,719)	P 4,719	(P 2,360)	P 2,360
As a percentage of the BDO Unibank Group's net interest income for 2017	(6.00%)	6.00%	(3.00%)	3.00%
Earnings-at-risk	P 8,972			

Parent Bank

	2018			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 4,715)**	**P 4,715**	**(P 2,358)**	**P 2,358**
As a percentage of the Parent Bank's net interest income for 2018	**(5.00%)**	**5.00%**	**(2.50%)**	**2.50%**
Earnings-at-risk	**P 5,715**			

	2017			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 4,966)	P 4,996	(P 2,483)	P 2,483
As a percentage of the Parent Bank's net interest income for 2017	(6.00%)	6.00%	(3.00%)	3.00%
Earnings-at-risk	P 9,528			

4.2.3 Price Risk

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

The table below summarizes the impact of equity prices on listed equity securities classified as HFT securities or financial assets at FVTPL and financial assets at FVOCI/AFS securities on BDO Unibank Group and Parent Bank's net profit after tax and equity as of December 31, 2018 and 2017. The results are based on the volatility assumption of the benchmark equity index, which was 2.28% and 2.04% in 2018 and 2017, respectively for securities classified as HFT securities or financial assets at FVTPL and FVOCI/AFS securities with all other variables held constant and all the BDO Unibank Group and the Parent Bank's equity instruments moved according to the historical correlation with the index.

BDO Unibank Group

	Impact on Net Profit After Tax Increase			Impact on Other Comprehensive Income Increase		
	2018	2017	2016	**2018**	2017	2016
HFT securities or financial assets at FVTPL	**P 194**	P 93	P 75	**P -**	P -	P -
AFS securities or financial assets at FVOCI	**-**	-	-	**136**	861	414
	P 194	P 93	P 75	**P 136**	P 861	P 414

Parent Bank

	Impact on Net Profit After Tax Increase			Impact on Other Comprehensive Income Increase		
	2018	2017	2016	**2018**	2017	2016
AFS securities or financial assets at FVOCI	**P -**	P -	P -	**P 2**	P 55	P 93

4.3 Credit Risk

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

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

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

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

4.3.1 Exposure to Credit Risk

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

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

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

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

(a) Unclassified

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

(b) Watchlisted

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

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

(c) Adversely Classified

(i) Loans Especially Mentioned (LEM)

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

(ii) Substandard

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

(iii) Doubtful

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

(iv) Loss

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value.

This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

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

4.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, financial assets measured at amortized cost (2018), HTM investments (2017), FVOCI debt investments (2018) and AFS debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts for loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2018 and 2017, there are no purchased or originated credit impaired financial assets in both BDO Unibank Group and Parent Bank financial statements.

The following table shows the exposure to credit risk as of December 31, 2018 and 2017 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

			2018				2017
			Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers - corporate							
Grades AAA to B	:	Current	P 1,531,995	P -	P 89	P 1,532,084	P 1,416,795
Grade B-	:	Watchlisted	29,445	4,940	22	34,407	260
Grade C	:	LEM	-	797	297	1,094	4,383
Grade D	:	Substandard	-	4,299	1,749	6,048	5,346
Grade E	:	Doubtful	-	-	1,468	1,468	4,270
Grade F	:	Loss	-	-	4,764	4,764	3,720
			1,561,440	10,036	8,389	1,579,865	1,434,774
Expected credit loss allowance			(6,630)	(1,972)	(6,243)	(14,845)	(18,600)
Carrying amount			P 1,554,810	P 8,064	P 2,146	P 1,565,020	P 1,416,174
Receivables from customers - consumer							
Grades AAA to B	:	Current	P 425,608	P -	P 37	P 425,645	P 299,430
Grade B-	:	Watchlisted	146	12	13	171	-
Grade C	:	LEM	-	1,446	84	1,530	3,489
Grade D	:	Substandard	-	867	766	1,633	7,496
Grade E	:	Doubtful	-	-	2,558	2,558	3,209
Grade F	:	Loss	-	-	8,660	8,660	6,490
			425,754	2,325	12,118	440,197	320,114
Expected credit loss allowance			(3,794)	(572)	(7,550)	(11,916)	(11,292)
Carrying amount			P 421,960	P 1,753	P 4,568	P 428,281	P 308,822
Other receivables							
Grades AAA to B	:	Current	P 77,857	P -	P -	P 77,857	P 65,681
Grade C	:	LEM	-	24	77	101	-
Grade D	:	Substandard	-	490	288	778	1,220
Grade E	:	Doubtful	-	-	609	609	612
Grade F	:	Loss	-	-	1,472	1,472	2,442
			77,857	514	2,446	80,817	69,955
Expected credit loss allowance			(235)	(37)	(2,012)	(2,284)	(3,165)
Carrying amount			P 77,622	P 477	P 434	P 78,533	P 66,790

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Debt investment securities at amortized Cost/HTM securities					
Grades AAA to B : Current	P 244,635	P -	P -	P 244,635	P 197,198
Grade F : Loss	-	-	1,446	1,446	-
	244,635	-	1,446	246,081	197,198
Expected credit loss allowance	(135)	-	(1,446)	(1,581)	-
Carrying amount	P 244,500	P -	P -	P 244,500	P 197,198
Debt investment securities at FVOCI/ AFS securities					
Grades AAA to B : Current	P 110,150	P -	P -	P 110,150	P 103,931
Loan commitments and other contingent accounts					
Grades AAA to B : Current	P 73,120	P -	P -	P 73,120	P 70,016
Grade B- : Watchlisted	447	155	-	602	-
	73,567	155	-	73,722	70,016
Expected credit loss allowance	(202)	(4)	-	(206)	-
Carrying amount	P 73,365	P 151	P -	P 73,516	P 70,016

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

	2018	2017
Grade:		
AAA	P 2,037	P 1,692
AA+ to AA	129	246
A+ to A-	341	522
BBB+ to BBB-	2,493	2,793
BB+ to BB-	14	-
	P 5,014	P 5,253

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

	Total		Exchange-traded		Over-the-counter: Central counterparties		Over-the-counter: Other bilateral collateralized	
	Notional Amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
2018								
Derivative assets	P 169,103	P 6,230	P -	P -	P 138,743	P 2,621	P 30,360	P 3,609
Derivative liabilities	133,144	4,497	-	-	105,775	1,680	27,369	2,817
2017								
Derivative assets	P 157,023	P 5,024	P 604	P 1	P 131,418	P 2,279	P 25,001	P 2,744
Derivative liabilities	157,248	3,750	-	-	133,797	1,798	23,451	1,952

As of December 31, 2018 and 2017, the BDO Unibank Group held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P463,173 and P449,793, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

Parent Bank

			2018				2017
			Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers – corporate							
Grades AAA to B	:	Current	P 1,507,824	P -	P 56	P 1,507,880	P 1,391,703
Grade B-	:	Watchlisted	28,873	4,907	-	33,780	-
Grade C	:	LEM	-	462	264	726	3,974
Grade D	:	Substandard	-	4,298	1,542	5,840	5,128
Grade E	:	Doubtful	-	-	1,184	1,184	4,096
Grade F	:	Loss	-	-	4,450	4,450	3,487
			1,536,697	9,667	7,496	1,553,860	1,408,388
Expected credit loss allowance			(6,506)	(1,968)	(5,893)	(14,367)	(17,960)
Carrying amount			P 1,530,191	P 7,699	P 1,603	P 1,539,493	P 1,390,428
Receivables from customers - consumer							
Grades AAA to B	:	Current	P 401,136	P -	P -	P 401,136	P 273,607
Grade B-	:	Watchlisted	146	12	13	171	-
Grade C	:	LEM	-	1,307	65	1,372	3,419
Grade D	:	Substandard	-	438	701	1,139	7,303
Grade E	:	Doubtful	-	-	2,131	2,131	2,895
Grade F	:	Loss	-	-	6,693	6,693	5,287
			401,282	1,757	9,603	412,642	292,511
Expected credit loss allowance			(3,545)	(429)	(5,805)	(9,779)	(9,867)
Carrying amount			P 397,737	P 1,328	P 3,798	P 402,863	P 282,644
Other receivables							
Grades AAA to B	:	Current	P 76,116	P -	P -	P 76,116	P 56,568
Grade D	:	Substandard	-	477	283	760	1,209
Grade E	:	Doubtful	-	-	601	601	480
Grade F	:	Loss	-	-	1,371	1,371	2,343
			76,116	477	2,255	78,848	60,600
Expected credit loss allowance			(83)	(37)	(1,931)	(2,051)	(2,940)
Carrying amount			P 76,033	P 440	P 324	P 76,797	P 57,660
Debt investment securities at amortized Cost/HTM securities							
Grades AAA to B	:	Current	P 223,032	P -	P -	P 223,032	P 183,722
Grade F	:	Loss	-	-	1,446	1,446	-
			223,032	-	1,446	224,478	183,722
Expected credit loss allowance			(123)	-	(1,446)	(1,569)	-
Carrying amount			P 222,909	P -	P -	P 222,909	P 183,722
Debt investment securities at FVOCI/ AFS securities							
Grades AAA to B	:	Current	P 73,741	P -	P -	P 73,741	P 66,465
Loan commitments and other contingent accounts							
Grades AAA to B	:	Current	P 73,120	P -	P -	P 73,120	P 70,016
Grade B-	:	Watchlisted	447	155	-	602	-
			73,567	155	-	73,722	70,016
Expected credit loss allowance			(202)	(4)	-	(206)	-
Carrying amount			P 73,365	P 151	P -	P 73,516	P 70,016

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

	2018	2017
Grade:		
AAA	**P 1,277**	P 493
AA+ to AA	**4**	2
BB+ to BB-	**354**	1,486
	P 1,635	P 1,981

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

	Total		Exchange-traded		Over-the-counter			
					Central counterparties		Other bilateral collateralized	
	Notional Amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
2018								
Derivative assets	**P 138,743**	**P 2,621**	**P -**	**P -**	**P 138,743**	**P 2,621**	**P -**	**P -**
Derivative liabilities	**105,775**	**1,680**	**-**	**-**	**105,775**	**1,680**	**-**	**-**
2017								
Derivative assets	P 131,418	P 2,279	P -	P -	P 131,418	P 2,279	P -	P -
Derivative liabilities	133,797	1,798	-	-	133,797	1,798	-	-

As of December 31, 2018 and 2017, the Parent Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totalling to P450,289 and P425,566, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

4.3.3 Concentrations of Credit Risk

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

BDO Unibank Group

	2018			2017		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities**	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities
Concentration by sector:						
Financial and insurance activities	**P 536,426**	**P 292,871**	**P 228,301**	P 504,779	P 195,923	P 212,314
Wholesale and retail trade	**-**	**274,443**	**1,085**	-	237,104	1,336
Real estate activities	**-**	**242,836**	**22,080**	1	227,050	22,426
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**234,238**	**-**	-	175,196	-
Electricity, gas, steam and and air-conditioning supply	**-**	**222,305**	**-**	-	200,952	-
Manufacturing	**-**	**215,108**	**13,940**	-	186,779	12,509
Transportation and storage	**-**	**114,023**	**3,333**	-	112,307	2,719
Arts, entertainment and recreation	**-**	**76,366**	**-**	-	68,853	-
Construction	**-**	**47,797**	**-**	-	36,605	-
Information and communication	**-**	**32,530**	**-**	-	38,707	-
Accommodation and food service activities	**-**	**31,465**	**-**	-	41,662	-
Mining and quarrying	**-**	**23,830**	**-**	-	24,054	-
Agriculture, forestry and fishing	**-**	**13,861**	**-**	-	13,007	-
Water supply, sewerage waste management and remediation activities	**-**	**12,567**	**-**	-	11,813	-
Professional, scientific and technical services	**-**	**10,980**	**-**	-	10,782	-
Administrative and support services	**-**	**9,517**	**-**	-	9,204	-
Human health and social work activities	**-**	**9,092**	**-**	-	16,461	-
Education	**-**	**5,960**	**-**	-	13,614	-
Public administrative and defense; compulsory social security	**-**	**640**	**-**	-	703	-
Activities of extraterritorial and organizations and bodies	**-**	**41**	**-**	-	66	-
Other service activities	**4,994**	**149,592**	**89,562**	641	134,046	58,005
	P 541,420	**P 2,020,062**	**P 358,301**	P 505,421	P 1,754,888	P 309,309
Concentration by location:						
Philippines	**P 448,131**	**P 1,891,447**	**P 279,391**	P 425,617	P 1,631,084	P 241,154
Others	**93,289**	**128,615**	**78,910**	79,804	123,804	68,155
	P 541,420	**P 2,020,062**	**P 358,301**	P 505,421	P 1,754,888	P 309,309

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

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

Parent Bank

	2018			2017		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities**	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities
Concentration by sector:						
Financial and insurance activities	**P 525,857**	**P 290,365**	**P 212,182**	P 477,805	P 191,194	P 181,378
Wholesale and retail traded	**-**	**267,923**	**1,030**	-	231,386	1,281
Real estate activities	**-**	**241,272**	**17,701**	-	223,746	17,910
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**225,550**	**-**	-	168,423	-
Electricity, gas, steam and air-conditioning supply	**-**	**221,533**	**-**	-	200,106	-
Manufacturing	**-**	**211,264**	**12,481**	-	183,382	9,903
Transportation and storage	**-**	**109,997**	**2,571**	-	108,496	2,403
Arts, entertainment and recreation	**-**	**75,000**	**-**	-	66,040	-
Construction	**-**	**42,900**	**-**	-	32,032	-
Information and communication	**-**	**32,072**	**-**	-	38,081	-
Accommodation and food service activities	**-**	**31,298**	**-**	-	41,307	-
Mining and quarrying	**-**	**22,434**	**-**	-	22,344	-
Agriculture, forestry and fishing	**-**	**13,043**	**-**	-	11,342	-
Water supply, sewerage waste management and remediation activities	**-**	**12,317**	**-**	-	11,286	-
Professional, scientific and technical services	**-**	**10,738**	**-**	-	10,517	-
Human health and social work activities	**-**	**8,235**	**-**	-	15,724	-
Administrative and support services	**-**	**8,131**	**-**	-	7,867	-
Education	**-**	**5,411**	**-**	-	5,201	-
Public administrative and defense; compulsory social security	**-**	**629**	**-**	-	639	-
Activities of extraterritorial and organizations bodies	**-**	**38**	**-**	-	66	-
Other service activities	**-**	**136,352**	**50,015**	-	131,720	39,475
	P 525,857	**P 1,966,502**	**P 295,980**	P 477,805	P 1,700,899	P 252,350
Concentration by location						
Philippines	**P 438,835**	**P 1,845,037**	**P 224,717**	P 406,394	P 1,579,763	P 190,008
Others	**87,022**	**121,465**	**71,263**	71,411	121,136	62,342
	P 525,857	**P 1,966,502**	**P 295,980**	P 477,805	P 1,700,899	P 252,350

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

4.3.4 Collateral Held as Security and Other Credit Enhancements

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

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

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Receivable from customers – corporate				
Property	**P 497,150**	P 446,998	**P 460,617**	P 393,555
Equity securities	**131,529**	162,284	**131,529**	162,284
Hold-out deposits	**141,806**	172,764	**141,806**	172,764
Debt securities	**5,147**	3,532	**5,109**	3,482
Others	**220,603**	238,732	**210,049**	236,008
	996,235	1,024,310	**949,110**	968,093
Receivable from customers – consumer				
Property	**286,512**	238,025	**278,268**	222,692
Equity securities	**171**	100	**171**	100
Hold-out deposits	**3,950**	3,973	**3,881**	3,893
Debt securities	**849**	713	**571**	232
Others	**170,747**	117,433	**159,536**	116,432
	462,229	360,244	**442,427**	343,349
Other receivables:				
Property	**2,139**	1,529	**2,139**	1,529
Debt securities	**-**	18	**-**	18
Others	**72,053**	53,126	**71,805**	52,861
	74,192	54,673	**73,944**	54,408
	P 1,532,656	P 1,439,227	**P 1,465,481**	P 1,365,850

As of December 31, 2018 and 2017, no collateral is held for due from other banks and trading and investment securities.

BDO Unibank Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

(a) Receivable from Customers - Corporate

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

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

The net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables to corporate customers amounted to P10,210 and P9,618 as of December 31, 2018 and 2017, respectively, for the Group and P9,302 and P8,046 as of December 31, 2018 and 2017, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P996,235 and P1,024,310 as of December 31, 2018 and 2017, respectively, for the Group and P949,110 and P968,093 as of December 31, 2018 and 2017, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(b) Receivable from Customers - Consumer

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

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

The net carrying amount of credit-impaired receivables to individual customers amounted to P6,321 and P12,789 as of December 31, 2018 and 2017, respectively, for the Group and P5,126 and P11,701 as of December 31, 2018 and 2017, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P462,229 and P360,244 as of December 31, 2018 and 2017, respectively, for the Group and P442,427 and P343,349 as of December 31, 2018 and 2017, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(c) Other Receivables

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

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

The net carrying amount of credit-impaired receivables to corporate customers amounted to P911 and P1,706 as of December 31, 2018 and 2017, respectively, for the Group and P764 and P1,480 as of December 31, 2018 and 2017, respectively, for the Parent Bank. The value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P74,192 and P54,673 as of December 31, 2018 and 2017, respectively, for the Group and P73,944 and P54,408 as of December 31, 2018 and 2017, respectively, for the Parent Bank. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(d) Debt Investment Securities

The maximum exposure to credit risk of the investment securities at amortized cost/HTM investments, FVOCI/AFS securities and FVTPL are their carrying amounts of P244,500, P110,150 and P5,014, respectively, as of December 31, 2018, and P197,198, P103,931 and P5,253, respectively, as of December 31, 2017 for the Group. Meanwhile, maximum exposure to credit risk of the investment securities at amortized cost, FVOCI/AFS securities and FVTPL their carrying amounts of P222,909, P73,741 and P1,635, respectively, as of December 31, 2018, and P183,722, P66,465 and P1,981, respectively, as of December 31, 2017 for the Parent Bank.

4.3.5 Amounts Arising from Expected Credit Losses

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

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

(a) Significant Increase in Credit Risk

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

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

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

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

(i) Credit risk grading

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

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

(ii) Generating the term structure of PD

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

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

(iii) Determining whether credit risk has significantly increased

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

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as substantial decline in sales and intermittent delays in payments. If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

(b) Definition of Default

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

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

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

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

(c) Forward-looking Information (FLI)

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

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

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

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

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

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

(d) Modified financial assets

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

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

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

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

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

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

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

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 4.3.2). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(e) Measurement of ECL

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

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

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

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

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

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

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

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

(f) Loss Allowance

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under PAS 39.

BDO Unibank Group

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Receivables from customers – corporate					
Balance at January 1	P 6,684	P 455	P 5,209	P 12,348	P 16,638
Transfers to:					
Stage 1	7	(7)	-	-	-
Stage 2	(28)	28	-	-	-
Stage 3	(25)	(2)	27	-	-
Net remeasurement of loss allowance	(676)	1,554	1,174	2,052	(4,800)
New financial assets originated or purchased	3,058	-	-	3,058	7,507
Derecognition of financial assets	(2,396)	(60)	(137)	(2,593)	(242)
Write-offs	-	-	(31)	(31)	(512)
Foreign exchange	6	4	1	11	9
Balance at December 31	P 6,630	P 1,972	P 6,243	P 14,845	P 18,600
Receivables from customers – consumer					
Balance at January 1	P 3,787	P 505	P 6,147	P 10,439	P 9,592
Transfers to:					
Stage 1	416	(148)	(268)	-	-
Stage 2	(64)	94	(30)	-	-
Stage 3	(332)	(167)	499	-	-
Net remeasurement of loss allowance	(877)	468	5,243	4,834	3,824
New financial assets originated or purchased	1,382	-	-	1,382	1,748
Derecognition of financial assets	(521)	(180)	(2,215)	(2,916)	(1,893)
Write-offs	-	-	(1,830)	(1,830)	(2,000)
Foreign exchange	3	-	4	7	-
Others	-	-	-	-	21
Balance at December 31	P 3,794	P 572	P 7,550	P 11,916	P 11,292
Other receivables					
Balance at January 1	P 205	P 32	P 2,928	P 3,165	P 1,927
Transfers to:					
Stage 1	24	(1)	(23)	-	-
Stage 2	-	2	(2)	-	-
Stage 3	(1)	(1)	2	-	-
Net remeasurement of loss allowance	(33)	11	1,081	1,059	897
New financial assets originated or purchased	61	-	-	61	501
Derecognition of financial assets	(17)	(6)	(1,516)	(1,539)	(72)
Write-offs	(4)	-	(459)	(463)	(88)
Foreign exchange	-	-	1	1	-
Balance at December 31	P 235	P 37	P 2,012	P 2,284	P 3,165
Debt investment securities at FVOCI (2018) /AFS securities (2017)					
Balance at January 1	P 69	P -	P -	P 69	P -
Net remeasurement of loss allowance	13	-	-	13	-
New financial assets originated or purchased	6	-	-	6	-
Derecognition of financial assets	(1)	-	-	(1)	-
Balance at December 31	P 87	P -	P -	P 87	P -

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Debt investment securities at amortized cost (2018)/HTM securities (2017)					
Balance at January 1	P 128	P -	P 1,387	P 1,515	P -
Net remeasurement of loss allowance	(15)	-	-	(15)	-
New financial assets originated or purchased	21	-	-	21	-
Foreign exchange	6	-	61	67	-
Derecognition of financial assets	(5)	-	(2)	(7)	-
Balance at December 31	P 135	P -	P 1,446	P 1,581	P -
Loan commitments and other contingent accounts					
Balance at January 1	P 329	P 2	P -	P 331	-
Net remeasurement of loss allowance	(96)	3	-	(93)	-
New financial assets originated or purchased	83	-	-	83	-
Derecognition of financial assets	(114)	(1)	-	(115)	-
Foreign exchange	-	-	-	-	-
Balance at December 31	P 202	P 4	P -	P 206	P -

Parent Bank

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers – corporate					
Balance at January 1	P 6,537	P 433	P 4,865	P 11,835	P 15,995
Transfers to:					
Stage 1	7	(7)	-	-	-
Stage 2	(28)	28	-	-	-
Stage 3	(6)	(2)	8	-	-
Net remeasurement of loss allowance	(662)	1,565	1,158	2,061	(4,800)
New financial assets originated or purchased	3,007	-	-	3,007	7,482
Derecognition of financial assets	(2,355)	(53)	(109)	(2,517)	(214)
Write-offs	-	-	(30)	(30)	(512)
Foreign exchange	6	4	1	11	9
Balance at December 31	P 6,506	P 1,968	P 5,893	P 14,367	P 17,960
Receivables from customers – consumer					
Balance at January 1	P 3,311	P 459	P 5,259	P 9,029	P 8,703
Transfers to:					
Stage 1	199	(130)	(69)	-	-
Stage 2	(60)	71	(11)	-	-
Stage 3	(297)	(138)	435	-	-
Net remeasurement of loss allowance	(504)	327	4,082	3,905	3,176
New financial assets originated or purchased	1,287	-	-	1,287	1,654
Derecognition of financial assets	(394)	(160)	(2,065)	(2,619)	(1,736)
Write-offs	-	-	(1,830)	(1,830)	(1,951)
Foreign exchange	3	-	4	7	-
Others	-	-	-	-	21
Balance at December 31	P 3,545	P 429	P 5,805	P 9,779	P 9,867

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Other receivables					
Balance at January 1	**P 54**	**P 32**	**P 2,853**	**P 2,940**	P 1,713
Transfers to:					
Stage 1	**24**	**(1)**	**(23)**	**-**	-
Stage 2	**-**	**2**	**(2)**	**-**	-
Stage 3	**(1)**	**(1)**	**2**	**-**	-
Net remeasurement of loss allowance	**(37)**	**11**	**1,066**	**1,040**	862
New financial assets originated or purchased	**60**	**-**	**-**	**60**	497
Derecognition of financial assets	**(17)**	**(6)**	**(1,508)**	**(1,531)**	(72)
Write-offs	**-**	**-**	**(459)**	**(459)**	(60)
Foreign exchange	**-**	**-**	**1**	**1**	-
Balance at December 31	**P 83**	**P 37**	**P 1,931**	**P 2,051**	P 2,940
Debt investment securities at amortized cost/HTM securities (2017)					
Balance at January 1	**P 115**	**P -**	**P 1,387**	**P 1,502**	P -
Net remeasurement of loss allowance	**(11)**	**-**	**-**	**(11)**	-
New financial assets originated or purchased	**14**	**-**	**-**	**14**	-
Foreign exchange	**6**	**-**	**61**	**67**	-
Derecognition of financial assets	**(1)**	**-**	**(2)**	**(3)**	-
Balance at December 31	**P 123**	**P -**	**P 1,446**	**P 1,569**	P -
Debt investment securities at FVOCI/ AFS securities (2017)					
Balance at January 1	**P 62**	**P -**	**P -**	**P 62**	P -
Net remeasurement of loss allowance	**1**	**-**	**-**	**1**	-
New financial assets originated or purchased	**5**	**-**	**-**	**5**	-
Derecognition of financial assets	**(1)**	**-**	**-**	**(1)**	-
Balance at December 31	**P 67**	**P -**	**P -**	**P 67**	P -
Loan commitments and other contingent accounts					
Balance at January 1	**P 329**	**P 2**	**P -**	**P 331**	-
Net remeasurement of loss allowance	**(96)**	**3**	**-**	**(93)**	-
New financial assets originated or purchased	**83**	**-**	**-**	**83**	-
Derecognition of financial assets	**(114)**	**(1)**	**-**	**(115)**	-
Foreign exchange	**-**	**-**	**-**	**-**	-
Balance at December 31	**P 202**	**P 4**	**P -**	**P 206**	P -

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

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Balance at January 1	**P 27,867**	P 28,157	**P 25,699**	P 26,411
Net remeasurement of loss allowance	**7,850**	(79)	**6,903**	(762)
New financial assets originated or purchased	**4,611**	9,756	**4,456**	9,633
Derecognition of financial assets	**(7,171)**	(2,186)	**(6,786)**	(2,001)
Write-offs	**(2,324)**	(2,600)	**(2,319)**	(2,523)
Foreign exchange	**86**	9	**86**	9
Balance at December 31	**P 30,919**	P 33,057	**P 28,039**	P 30,767

4.3.6 Impaired Financial Assets – Comparative Information Under PAS 39

The BDO Unibank Group and the Parent Bank hold collateral against loans and receivables from customers in the form of mortgage interests over property and other registered securities.

BDO Unibank Group

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

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

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

	Loans and Other Receivables	
	Past due not impaired	Neither past due nor impaired
Up to 30 days	P 362	P 1,746,777
31 to 60 days	115	6,051
61 to 90 days	130	1,803
91 to 180 days	70	11,540
More than 180 days	824	-
	P 1,501	P 1,766,171

Parent Bank

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

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

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

	Loans and Other Receivables	
	Past due not impaired	Neither past due nor impaired
Up to 30 days	P 104	P 1,706,565
31 to 60 days	115	2,416
61 to 90 days	24	85
91 to 180 days	70	-
More than 180 days	126	-
	P 439	P 1,709,066

4.4 Operational Risk

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

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

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

Framework

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

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

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

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

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

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

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

5. SEGMENT REPORTING

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

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

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

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

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

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

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

(f) ***Others*** – includes asset management, realty management, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

These segments are the basis on which BDO Unibank Group reports its segment information. Transactions between the segments are on normal commercial terms and conditions. Inter-segment transactions are eliminated in consolidation.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BDO Unibank Group's cost of capital. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of BDO Unibank Group's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

Segment information (by service lines) as of and for the years ended December 31, 2018, 2017 and 2016 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2018								
Statement of Income								
Total interest income								
External	P 124,190	P 35	P 1,703	P 1,960	P 1,140	P 12	P -	P 129,040
Intersegment	248	9	1	-	30	36	(324)	-
	124,438	44	1,704	1,960	1,170	48	(324)	129,040
Total interest expense								
External	28,840	2	815	1,008	82	1	-	30,748
Intersegment	42	55	2	155	-	70	(324)	-
	28,882	57	817	1,163	82	71	(324)	30,748
Net interest income	95,556	(13)	887	797	1,088	(23)	-	98,292
Other operating income								
Investment banking fees	-	1,081	-	-	-	-	-	1,081
Others	36,702	324	1,004	1,254	11,956	594	(3,241)	48,593
	36,702	1,405	1,004	1,254	11,956	594	(3,241)	49,674
Other operating expenses								
Impairment losses	6,266	2	(2)	1	18	1	-	6,286
Depreciation and amortization	4,747	54	33	881	37	24	-	5,776
Others	79,574	981	1,359	748	10,330	378	(1,112)	92,258
	90,587	1,037	1,390	1,630	10,385	403	(1,112)	104,320
Profit before tax	41,671	355	501	421	2,659	168	(2,129)	43,646
Tax expense	9,363	161	200	90	1,151	42	-	11,007
Net profit	P 32,308	P 194	P 301	P 331	P 1,508	P 126	(P 2,129)	P 32,639
Statement of Financial Position								
Total resources								
Segment assets	P 2,905,520	P 5,745	P 48,802	P 41,382	P 43,167	P 5,486	(P 44,591)	P 3,005,511
Intangible assets	5,223	207	17	15	54	1	2,907	8,424
Deferred tax assets (liabilities) - net	8,319	(181)	29	126	34	(15)	-	8,312
	P 2,919,062	P 5,771	P 48,848	P 41,523	P 43,255	P 5,472	(P 41,684)	P 3,022,247
Total liabilities	P 2,586,747	P 2,075	P 43,711	P 36,180	P 34,746	P 2,375	(P 11,736)	P 2,694,098

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
Other segment information								
Capital expenditures	**P 9,791**	**P 37**	**P 26**	**P 986**	**P 75**	**P 27**	**P -**	**P 10,942**
Investment in associates under equity method	**P 4,846**	**P -**	**P -**	**P 235**	**P -**	**P -**	**P -**	**P 5,081**
Share in the profit of associates	**P 662**	**P -**	**P -**	**(P 31)**	**P -**	**P -**	**P -**	**P 631**

December 31, 2017

Statement of Income

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
Total interest income								
External	P 95,224	P 62	P 1,779	P 1,913	P 806	P 11	P -	P 99,795
Intersegment	232	5	-	1	16	14	(268)	-
	95,456	67	1,779	1,914	822	25	(268)	99,795
Total interest expense								
External	16,686	-	599	690	65	2	-	18,042
Intersegment	23	48	-	154	-	43	(268)	-
	16,709	48	599	844	65	45	(268)	18,042
Net interest income	78,747	19	1,180	1,070	757	(20)	-	81,753
Other operating income								
Investment banking fees	-	1,766	-	-	-	-	-	1,766
Others	34,646	412	855	1,242	12,642	457	(4,814)	45,440
	34,646	2,178	855	1,242	12,642	457	(4,814)	47,206
Other operating expenses								
Impairment losses	6,332	3	2	64	136	-	-	6,537
Depreciation and amortization	4,171	61	29	836	49	26	-	5,172
Others	67,025	897	1,367	693	10,389	349	(1,027)	79,693
	77,528	961	1,398	1,593	10,574	375	(1,027)	91,402
Profit before tax	35,865	1,236	637	719	2,825	62	(3,787)	37,557
Tax expense	8,138	340	223	148	587	16	-	9,452
Net profit	P 27,727	P 896	P 414	P 571	P 2,238	P 46	(P 3,787)	P 28,105

Statement of Financial Position

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
Total resources								
Segment assets	P 2,540,028	P 7,153	P 64,439	P 42,676	P 38,454	P 5,486	(P 46,038)	P 2,652,198
Intangible assets	5,374	134	26	29	32	1	2,907	8,503
Deferred tax assets (liabilities) - net	7,441	(182)	31	111	26	(24)	-	7,403
	P 2,552,843	P 7,105	P 64,496	P 42,816	P 38,512	P 5,463	(P 43,131)	P 2,668,104
Total liabilities	P 2,250,781	P 2,690	P 59,147	P 37,374	P 31,391	P 2,292	(P 13,911)	P 2,369,764

Other segment information

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
Capital expenditures	P 9,414	P 42	P 18	P 788	P 26	P 386	P -	P 10,674
Investment in associates under equity method	P 4,678	P -	P -	P 267	P -	P -	P -	P 4,945
Share in the profit of associates	P 626	P -	P -	(P 14)	P -	P -	P -	P 612

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2016								
Statement of Income								
Total interest income								
External	P 78,062	P 88	P 1,434	P 1,751	P 691	P 11	P -	P 82,037
Intersegment	127	3	-	1	8	1	(140)	-
	78,189	91	1,434	1,752	699	12	(140)	82,037
Total interest expense								
External	15,278	1	436	627	71	-	-	16,413
Intersegment	14	51	-	38	-	38	(141)	-
	15,292	52	436	665	71	38	(141)	16,413
Net interest income	62,897	39	998	1,087	628	(26)	1	65,624
Other operating income								
Investment banking fees	-	1,215	-	-	-	-	-	1,215
Others	28,643	297	1,181	1,100	10,138	585	(1,546)	40,398
	28,643	1,512	1,181	1,100	10,138	585	(1,546)	41,613
Other operating expenses								
Depreciation and amortization	3,880	56	24	738	65	19	-	4,782
Impairment losses	3,367	158	-	50	240	-	-	3,815
Others	54,409	817	1,254	647	8,269	287	(477)	65,206
	61,656	1,031	1,278	1,435	8,574	306	(477)	73,803
Profit before pre-acquisition	29,884	520	901	752	2,192	253	(1,068)	33,434
Pre-acquisition income	-	-	-	-	-	-	(391)	(391)
Profit before tax	29,884	520	901	752	2,192	253	(1,459)	33,043
Tax expense	5,759	201	219	181	429	8	-	6,797
Net profit	P 24,125	P 319	P 682	P 571	P 1,763	P 245	(P 1,459)	P 26,246
Statement of Financial Position								
Total resources								
Segment assets	P 2,205,184	P 5,794	P 62,258	P 38,802	P 30,087	P 5,270	(P 37,100)	P 2,310,295
Intangible assets	5,212	135	26	43	46	1	2,907	8,370
Deferred tax assets (liability) - net	6,455	(184)	37	41	11	(26)	-	6,334
	P 2,216,851	P 5,745	P 62,321	P 38,886	P 30,144	P 5,245	(P 34,193)	P 2,324,999
Total liabilities	P 1,997,541	P 2,378	P 57,064	P 33,536	P 24,747	P 1,968	(P 9,794)	P 2,107,440
Other segment information								
Capital expenditures	P 5,808	P 22	P 24	P 941	P 95	P 264	P -	P 7,154
Investment in associates under equity method	P 4,169	P -	P -	P 280	P -	P -	P -	P 4,449
Share in the profit of associates	P 501	P -	P -	(P 20)	P -	P -	P -	P 481

Currently, BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and holding Company in Europe and various remittance subsidiaries operating in Asia, Europe, Canada and United States. Geographical segment information is not presented as these foreign operations accounted for only 1.3%, 1.2% and 1.1% of BDO Unibank Group's total revenues in 2018, 2017 and 2016, respectively, and 1.4% of BDO Unibank Group's total resources both as of December 31, 2018 and 2017, respectively (see Note 1.1).

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

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

BDO Unibank Group

	2018			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
At amortized cost:				
Cash and other cash items	P 53,749	P -	P 53,749	P 53,749
Due from BSP	354,132	-	354,132	354,132
Due from other banks	55,292	-	55,292	55,292
Loans and other receivables	2,071,834	-	2,071,834	2,056,012
Other resources	7,070	-	7,070	7,070
Financial assets at FVTPL	-	20,308	20,308	20,308
Financial assets at FVOCI	-	120,389	120,389	120,389
Investment securities at amortized cost	244,500	-	244,500	234,973
	P 2,786,577	P 140,697	P 2,927,274	P 2,901,925
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,419,965	P -	P 2,419,965	P 2,462,134
Bills payable	143,623	-	143,623	138,501
Subordinated notes payable	10,030	-	10,030	9,757
Insurance contract liabilities	28,506	-	28,506	28,506
Other liabilities	76,577	-	76,577	76,577
At fair value –				
Other liabilities	-	4,497	4,497	4,497
	P 2,678,701	P 4,497	P 2,683,198	P 2,719,972

BDO Unibank Group

	2017			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 45,006	P -	P 45,006	P 45,006
Due from BSP	353,308	-	353,308	353,308
Due from other banks	51,479	-	51,479	51,479
Loans and other receivables	1,791,786	-	1,791,786	1,806,119
Other resources	5,555	-	5,555	5,955
Financial assets at FVTPL	-	14,710	14,710	14,710
AFS securities*	-	119,387	119,387	119,387
HTM investments	197,198	-	197,198	197,211
	P 2,444,332	P 134,097	P 2,578,429	P 2,593,175
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,121,012	P -	P 2,121,012	P 2,135,373
Bills payable	130,484	-	130,484	129,802
Subordinated notes payable	10,030	-	10,030	9,996
Insurance contract liabilities	25,986	-	25,986	25,986
Other liabilities	69,615	-	69,615	69,615
At fair value –				
Other liabilities	-	3,750	3,750	3,750
	P 2,357,127	P 3,750	P 2,360,877	P 2,374,522

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

Parent Bank

	2018			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
At amortized cost:				
Cash and other cash items	**P 52,492**	**P -**	**P 52,492**	**P 52,492**
Due from BSP	**349,017**	**-**	**349,017**	**349,017**
Due from other banks	**48,780**	**-**	**48,780**	**48,780**
Loans and other receivables	**2,019,153**	**-**	**2,019,153**	**2,004,881**
Other resources	**5,002**	**-**	**5,002**	**5,002**
Financial assets at FVTPL	**-**	**4,257**	**4,257**	**4,257**
Financial assets at FVOCI	**-**	**77,115**	**77,115**	**77,115**
Investment securities at amortized cost	**222,909**	**-**	**222,909**	**215,659**
	P 2,697,353	**P 81,372**	**P 2,778,725**	**P 2,757,203**

	2018			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities				
At amortized cost:				
Deposit liabilities	**P 2,362,302**	**P -**	**P 2,362,302**	**P 2,399,846**
Bills payable	**117,693**	**-**	**117,693**	**115,373**
Subordinated notes payable	**10,030**	**-**	**10,030**	**9,757**
Other liabilities	**63,073**	**-**	**63,073**	**63,073**
At fair value –				
Other liabilities	**-**	**1,680**	**1,680**	**1,680**
	P 2,553,098	**P 1,680**	**P 2,554,778**	**P 2,589,729**

Parent Bank

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

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

6.2 Fair Value Hierarchy

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

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

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

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

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

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

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

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

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2018 and 2017 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted debt and equity securities classified as AFS securities amounting to P1,632 and P183 as of December 31, 2017 (nil for 2018) in BDO Unibank Group and Parent Bank's financial statements, respectively, are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2018					
Resources:					
Financial assets at FVTPL:	9.1				
Equity securities – quoted		P 9,049	P 15	P -	P 9,064
Derivative financial assets		-	6,230	-	6,230
Government bonds		2,347	-	-	2,347
Corporate debt securities		204	2,463	-	2,667
		11,600	8,708	-	20,308
Financial assets at FVOCI:	9.2				
Government debt securities		60,165	-	-	60,165
Corporate debt securities		49,985	-	-	49,985
Equity securities – quoted		8,563	237	-	8,800
Equity securities – not quoted		-	-	1,439	1,439
		118,713	237	1,439	120,389
		P 130,313	P 8,945	P 1,439	P 140,697
Liabilities:					
Derivatives with negative fair values	19	P 79	P 4,418	P -	P 4,497

BDO Unibank Group

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

Parent Bank

	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2018					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P -**	**P 2,621**	**P -**	**P 2,621**
Government bonds		**1,616**	**-**	**-**	**1,616**
Corporate debt securities		**19**	**-**	**-**	**19**
Equity securities – quoted		**1**	**-**	**-**	**1**
		1,636	**2,621**	**-**	**4,257**
Financial assets at FVOCI:	9.2				
Government debt securities		**36,865**	**-**	**-**	**36,865**
Corporate debt securities		**36,876**	**-**	**-**	**36,876**
Equity securities – quoted		**2,974**	**233**	**-**	**3,207**
Equity securities – not quoted		**-**	**-**	**167**	**167**
		76,715	**233**	**167**	**77,115**
		P 78,351	**P 2,854**	**P 167**	**P 81,372**
Liabilities:					
Derivatives with negative fair values	19	**P 79**	**P 1,601**	**P -**	**P 1,680**

Parent Bank

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

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

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

(a) Equity securities

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

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

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

(ii) For unquoted equity securities classified as financial assets at FVOCI/AFS securities, the fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values. These instruments are included in Level 3.

(b) Debt securities

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

(i) In 2018, fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables. In 2017, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals, the simple average of all firm bids per benchmark tenor or interpolated yields. This is consistent with BSP Circular No. 813, *Amendment on Market Valuation of Government Securities,* issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

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

(c) Derivatives

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

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

The table below and in the succeeding page summarizes the fair value hierarchy of BDO Unibank Group and Parent Bank's financial assets and financial liabilities, which are measured at amortized cost in the statements of financial position but for which fair value is disclosed.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Resources:				
Cash and other cash items	P 53,749	P -	P -	P 53,749
Due from BSP	354,132	-	-	354,132
Due from other banks	55,292	-	-	55,292
Loans and other receivable	-	-	2,056,012	2,056,012
Investment securities at amortized cost	233,974	-	999	234,973
Other resources	6,742	-	328	7,070
	P 703,889	P -	P 2,057,339	P 2,761,228
Liabilities:				
Deposit liabilities	P 2,358,509	P 103,625	P -	P 2,462,134
Bills payable	-	115,680	22,821	138,501
Insurance contract liabilities	-	-	28,506	28,506
Subordinated notes payable	-	9,757	-	9,757
Other liabilities	-	-	76,577	76,577
	P 2,358,509	P 229,062	P 127,904	P 2,715,475

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Resources:				
Cash and other cash items	P 45,006	P -	P -	P 45,006
Due from BSP	353,308	-	-	353,308
Due from other banks	51,479	-	-	51,479
Loans and other receivable	-	-	1,806,119	1,806,119
HTM investments	197,211	-	-	197,211
Other resources	4,961	-	994	5,955
	P 651,965	P -	P 1,807,113	P 2,459,078
Liabilities:				
Deposit liabilities	P 2,014,201	P 121,172	P -	P 2,135,373
Bills payable	-	129,802	-	129,802
Insurance contract liabilities	-	-	25,986	25,986
Subordinated notes payable	-	9,996	-	9,996
Other liabilities	-	-	69,615	69,615
	P 2,014,201	P 260,970	P 95,601	P 2,370,772

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Resources:				
Cash and other cash items	**P 52,492**	**P -**	**P -**	**P 52,492**
Due from BSP	**349,017**	**-**	**-**	**349,017**
Due from other banks	**48,780**	**-**	**-**	**48,780**
Investment securities at amortized cost	**215,659**	**-**	**-**	**215,659**
Loans and other receivables	**-**	**-**	**2,004,881**	**2,004,881**
Other resources	**5,002**	**-**	**-**	**5,002**
	P 670,950	**P -**	**P 2,004,881**	**P 2,675,831**
Liabilities:				
Deposit liabilities	**P 2,309,333**	**P 90,513**	**P -**	**P 2,399,846**
Bills payable	**-**	**115,373**	**-**	**115,373**
Subordinated notes payable	**-**	**9,757**	**-**	**9,757**
Other liabilities	**-**	**-**	**63,073**	**63,073**
	P 2,309,333	**P 215,643**	**P 63,073**	**P 2,588,049**
December 31, 2017				
Resources:				
Cash and other cash items	P 43,882	P -	P -	P 43,882
Due from BSP	340,596	-	-	340,596
Due from other banks	41,088	-	-	41,088
HTM investments	183,918	-	-	183,918
Loans and other receivables	-	-	1,746,202	1,746,202
Other resources	3,970	-	671	4,641
	P 613,454	P -	P 1,746,873	P 2,360,327
Liabilities:				
Deposit liabilities	P 1,944,020	P 111,380	P -	P 2,055,400
Bills payable	-	105,141	-	105,141
Subordinated notes payable	-	9,996	-	9,996
Other liabilities	-	-	56,834	56,834
	P 1,944,020	P 226,517	P 56,834	P 2,227,371

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

(a) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by BDO Unibank Group to the BSP for clearing and reserve requirements. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) *Investment Securities at Amortized Cost (2018)/HTM investments (2017)*

The fair value of investment securities at amortized cost/ HTM investments (2017) are determined by direct reference to published price quoted in an active market for traded debt and equity securities.

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

(c) *Loans and Other Receivables*

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

(d) *Deposits and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of Senior Notes presented as part of Bills Payable account in the statements of financial position is computed based on the average of ask and bid prices as appearing on Bloomberg. For Bills Payable categorized within Level 3, BDO Unibank Group and the Parent Bank classify financial instruments that have no quoted prices or observable market data where reference of fair value can be derived; hence, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(e) *Other Resources and Liabilities*

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

6.5 Fair Value Measurement for Non-financial Assets

Details of BDO Unibank Group and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2018 and 2017 are shown below.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Investment properties				
Land	**P -**	**P -**	**P 22,585**	**P 22,585**
Building and improvements	**-**	**-**	**16,096**	**16,096**
Non-current assets held for sale	**-**	**-**	**722**	**722**
	P -	**P -**	**P 39,403**	**P 39,403**
December 31, 2017				
Investment properties				
Land	P -	P -	P 17,544	P 17,544
Building and improvements	-	-	13,917	13,917
Non-current assets held for sale	-	-	672	672
	P -	P -	P 32,133	P 32,133

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Investment properties				
Land	**P -**	**P -**	**P 17,644**	**P 17,644**
Building and improvements	**-**	**-**	**12,318**	**12,318**
Non-current assets held for sale	**-**	**-**	**711**	**711**
	P -	**P -**	**P 30,673**	**P 30,673**
December 31, 2017				
Investment properties				
Land	P -	P -	P 15,774	P 15,774
Building and improvements	-	-	11,492	11,492
Non-current assets held for sale	-	-	661	661
	P -	P -	P 27,927	P 27,927

The fair value of the investment properties of the BDO Unibank Group and the Parent Bank as of December 31, 2018 and 2017 (see Note 12) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of the BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers were used by the BDO Unibank Group and the Parent Bank in determining the fair value of discounted cash flows of the Investment Properties.

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

(a) *Fair Value Measurement for Land*

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

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

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

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

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

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Further, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.

6.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2018 and 2017 are subject to offsetting, enforceable master netting arrangements and similar agreements:

BDO Unibank Group

		Financial Assets		Financial Liabilities Available for Set-off		Collateral Received		Net Amount
December 31, 2018								
Financial assets at FVOCI	**P**	**1,232**	**P**	**196**	**P**	**-**	**P**	**1,036**
Financial assets at FVTPL –								
Currency swaps		**322**		**296**		**-**		**26**
Interest rate swaps		**130**		**65**		**-**		**65**
Loans and receivables –								
Receivables from customers		**51,202**		**30**		**50,835**		**337**
	P	**52,886**	**P**	**587**	**P**	**50,835**	**P**	**1,464**
December 31, 2017								
AFS securities	P	1,912	P	857	P	-	P	1,055
HTM investments		1,075		907		-		168
Financial assets at FVTPL –								
Currency swaps		310		282		-		28
Interest rate swaps		90		35		-		55
Loans and receivables –								
Receivables from customers		65,327		558		63,950		819
	P	68,714	P	2,639	P	63,950	P	2,125

Parent Bank

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2018				
Financial assets at FVTPL – Interest rate swaps	**P 65**	**P -**	**P -**	**P 65**
Loans and receivables – Receivables from customers	**50,779**	**-**	**50,779**	**-**
	P 50,844	**P -**	**P 50,779**	**P 65**
December 31, 2017				
HTM investments	P 1,075	P 907	P -	P 168
Financial assets at FVTPL – Interest rate swaps	55	-	-	55
Loans and receivables – Receivables from customers	63,864	-	63,864	-
	P 64,994	P 907	P 63,864	P 223

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

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

BDO Unibank Group

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Given	Net Amount
December 31, 2018				
Deposit liabilities	**P 274,740**	**P 50,835**	**P -**	**P 223,905**
Bills payable	**226**	**-**	**226**	**-**
Derivatives with negative fair values –				
Currency swaps	**2,028**	**296**	**1,732**	**-**
Interest rate swaps	**158**	**65**	**-**	**93**
	P 277,152	**P 51,196**	**P 1,958**	**P 223,998**

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

Parent Bank

		Financial Liabilities		**Financial Assets Available for Set-off**		**Collateral Given**		**Net Amount**
December 31, 2018								
Deposit liabilities	**P**	**274,683**	**P**	**50,778**	**P**	**-**	**P**	**223,905**
Bills payable		**-**		**-**		**-**		**-**
Derivatives with negative fair values –								
Interest rate swaps		**90**		**-**		**-**		**90**
	P	**274,773**	**P**	**50,778**	**P**	**-**	**P**	**223,995**
December 31, 2017								
Deposit liabilities	P	165,147	P	63,864	P	-	P	101,283
Bills payable		907		-		907		-
Derivatives with negative fair values –								
Interest rate swaps		51		-		-		51
	P	166,105	P	63,864	P	907	P	101,334

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

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Cash and other cash items	**P 53,749**	P 45,006	**P 52,492**	P 43,882
Due from BSP:				
Mandatory reserves	**347,260**	333,302	**342,145**	324,794
Other than mandatory reserves	**6,872**	20,006	**6,872**	15,802
	354,132	353,308	**349,017**	340,596
	P 407,881	P 398,314	**P 401,509**	P 384,478

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims (see Note 15). Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate ranging from 2.5% to 5.3% in 2018, from 2.5% to 3.5% in 2017 and annual interest rate of 2.5% in 2016. Total interest income earned amounted to P899, P1,441 and P564 in 2018, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P785, P1,165 and P474 in 2018, 2017 and 2016, respectively, in the Parent Bank's financial statements (see Note 21).

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

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Foreign banks	**P 51,537**	P 48,740	**P 48,117**	P 39,969
Local banks	**3,755**	2,739	**663**	1,119
	P 55,292	P 51,479	**P 48,780**	P 41,088

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
U.S. dollars	**P 37,669**	P 38,049	**P 34,924**	P 29,620
Philippine pesos	**2,339**	980	**51**	57
Other foreign currencies	**15,284**	12,450	**13,805**	11,411
	P 55,292	P 51,479	**P 48,780**	P 41,088

Annual interest rates on these deposits range from 0.00% to 2.45% in 2018, from 0.00% to 3.00% in 2017, and from 0.01% to 2.38% in 2016 in BDO Unibank Group's financial statements, and from 0.00% to 2.45% in 2018, from 0.00% to 1.35% in 2017, and from 0.01% to 1.05% in 2016 in the Parent Bank's financial statements. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to P834, P301, and P132 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements, and P661, P234, and P91 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements (see Note 21).

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

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2018**	2017	**2018**	2017
Financial assets at FVTPL	9.1	**P 20,308**	P 14,710	**P 4,257**	P 4,260
Financial assets at FVOCI	9.2	**120,389**	-	**77,115**	-
Investment securities at amortized cost – net	9.3	**244,500**	-	**222,909**	-
AFS securities – net	9.2	**-**	121,019	**-**	70,232
HTM investments	9.3	**-**	197,198	**-**	183,722
		P 385,197	P 332,927	**P 304,281**	P 258,214

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Derivative financial assets	**P 6,230**	P 5,024	**P 2,621**	P 2,279
Government bonds	**2,347**	3,139	**1,616**	1,976
Corporate debt securities	**2,667**	2,114	**19**	5
	11,244	10,277	**4,256**	4,260
Equity securities – quoted	**9,064**	4,433	**1**	-
	P 20,308	P 14,710	**P 4,257**	P 4,260

All financial assets at FVTPL are held for trading. For government bonds and corporate debt securities, the amounts presented have been determined either directly or indirectly by reference to published prices quoted in an active market. On the other hand, the fair value of certain derivative financial assets is determined through valuation technique using net present value of future cash flows method.

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

	Notes	BDO Unibank Group 2018	2017	2016
Interest income	21	**P 72**	P 162	P 201
Trading gain (loss) – net	23	**(1,863)**	202	(536)
Dividend income	23	**87**	3	3
Foreign exchange gain	23	**137**	147	52
Total other income (loss)		**(1,639)**	352	(481)
Total other expenses		**10**	1	1
Net income (loss)		**(P 1,577)**	P 513	(P 281)

	Notes	Parent Bank 2018	2017	2016
Interest income	21	**P 51**	P 116	P 142
Trading loss – net	23	**(126)**	(51)	(901)
Net income (loss)		**(P 75)**	P 65	(P 759)

The BDO Unibank Group's government bonds and other debt securities earn interest at annual rates ranging from 2.75% to 10.63%, from 0.00% to 10.63% and from 0.09% to 10.63% in 2018, 2017 and 2016, respectively, while the Parent Bank's government bonds and other debt securities earn interest at annual rates ranging from 2.75% to 10.63% in 2018, from 0.38% to 10.63% in 2017 and 2016, respectively.

Foreign currency-denominated securities amounted to P4,093 and P5,181 as of December 31, 2018 and 2017, respectively, in BDO Unibank Group's financial statements and P2,880 and P3,689 as of December 31, 2018 and 2017, respectively, in the Parent Bank's financial statements.

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

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

BDO Unibank Group

	2018			2017		
	Notional Amount	Fair Values Assets	Fair Values Liabilities	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	P 220,114	P 1,884	P 1,020	P 234,561	P 1,868	P 1,433
Cross currency swaps	35,255	4,037	3,083	31,123	2,987	2,144
Interest rate swaps	38,403	309	315	32,962	169	135
Republic of the Philippines (ROP) warrants	8,475	-	79	15,021	-	38
Others	-	-	-	604	-	-
	P 302,247	P 6,230	P 4,497	P 314,271	P 5,024	P 3,750

Parent Bank

	2018			2017		
	Notional Amount	Fair Values Assets	Fair Values Liabilities	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	P 213,708	P 1,769	P 1,020	P 229,429	P 1,741	P 1,433
Cross currency swaps	10,379	787	491	8,239	483	276
Interest rate swaps	11,956	65	90	12,526	55	51
ROP warrants	8,475	-	79	15,021	-	38
	P 244,518	P 2,621	P 1,680	P 265,215	P 2,279	P 1,798

9.2 Financial Assets at FVOCI (2018)/AFS Securities (2017)

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

		BDO Unibank Group		Parent Bank	
	Note	2018	2017	2018	2017
Government debt securities		P 60,165	P 55,529	P 36,865	P 31,937
Corporate debt securities:					
Quoted		49,985	48,159	36,876	34,285
Not quoted		-	243	-	243
Equity securities:					
Quoted		8,800	18,291	3,207	5,858
Not quoted		1,439	2,127	167	559
		120,389	124,349	77,115	72,882
Allowance for impairment	14	-	(3,330)	-	(2,650)
		P 120,389	P 121,019	P 77,115	P 70,232

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Foreign currencies	**P 75,464**	P 72,443	**P 61,026**	P 57,078
Philippine peso	**44,925**	48,576	**16,089**	13,154
	P 120,389	P 121,019	**P 77,115**	P 70,232

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 1.8% to 12.1% in 2018, from 0.0% to 12.1% in 2017 and from 2.0% to 12.1% in 2016 for BDO Unibank Group's financial statements while from 2.4% to 10.6% in 2018, from 2.1% to 10.6% in 2017, and from 2.0% to 10.6% in 2016 in the Parent Bank's financial statements (see Note 21).

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

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

The reconciliation of the carrying amounts of financial assets at FVOCI (2018)/AFS securities (2017) is as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year				
As previously stated	**P -**	P 108,132	**P -**	P 62,637
Effect of adoption of PFRS 9 [see Note 2.2(a)(i)(iv)]				
Reclassifications from:				
AFS securities	**106,704**	-	**70,188**	-
HTM investments	**4,082**	-	**-**	-
FVTPL	**13**	-	**-**	-
As restated	**110,799**	108,132	**70,188**	62,637
Additions	**40,130**	59,161	**17,629**	26,052
Disposals	**(28,550)**	(46,167)	**(11,305)**	(18,999)
Unrealized fair value gains (losses)	**(6,194)**	622	**(2,421)**	255
Foreign currency revaluation	**4,215**	(575)	**3,024**	290
Deferred tax liability	**(11)**	-	**-**	-
Impairment loss – net	**-**	(154)	**-**	(3)
Balance at end of year	**P 120,389**	P 121,019	**P 77,115**	P 70,232

Government securities of BDO Unibank Group and the Parent Bank with an aggregate principal amount of P1,232 and nil, respectively, as of December 31, 2018 and P1,912 and nil, respectively, as of December 31, 2017 were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 31).

In 2018, impairment losses recognized for FVOCI debt securities presented in NUGL amounted to P18 and P5 for BDO Unibank Group and the Parent Bank, respectively. Total accumulated impairment losses presented in NUGL amounted to P87 and P67 for the BDO Unibank Group and the Parent Bank, respectively, as of December 31, 2018 (see Note 4.3.5). No similar amounts were recognized in 2017 and 2016 since the Group and the Parent Bank applied the transitional relief allowed by the new standard (see Note 2.2).

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

9.3 Investment Securities at Amortized Cost (2018)/HTM Investments (2017)

This account consists of:

		BDO Unibank Group		Parent Bank	
		2018	2017	**2018**	2017
Government debt securities		**P 199,004**	P 166,282	**P 182,861**	P 153,362
Other debt securities:					
Quoted		**44,240**	30,360	**40,369**	30,360
Not quoted		**2,837**	556	**1,248**	-
		246,081	197,198	**224,478**	183,722
Allowance for impairment	14	**(1,581)**	-	**(1,569)**	-
		P 244,500	P 197,198	**P 222,909**	P 183,722

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Foreign currencies	**P 138,103**	P 119,011	**P 130,830**	P 116,987
Philippine peso	**106,397**	78,187	**92,079**	66,735
	P 244,500	P 197,198	**P 222,909**	P 183,722

The reconciliation of the carrying amounts of investment securities at amortized cost in 2018 and HTM investments in 2017 is as follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year				
As previously stated	**P -**	P 146,886	**P -**	P 140,951
Effect of adoption of PFRS 9 [see Note 2.2(a)(i)(iv)]				
Reclassifications from:				
HTM investments	**193,316**	-	**183,913**	-
AFS securities	**7,056**	-	**-**	-
Loans and other receivables	**3,486**	-	**7**	-
FVTPL	**34**	-	**-**	-
Allowance for impairment	**(128)**	-	**(115)**	-
As restated	**203,764**	146,886	**183,805**	140,951
Additions	**87,158**	83,061	**60,406**	74,111
Maturities	**(52,687)**	(33,169)	**(27,459)**	(31,745)
Foreign currency gains – net	**6,264**	420	**6,157**	405
Impairment gain	**1**	-	**-**	-
Balance at end of year	**P 244,500**	P 197,198	**P 222,909**	P 183,722

Annual coupon interest rates on government and other debt securities range from 1.40% to 15.00% in 2018 and from 0.00% to 10.63% in 2017 for BDO Unibank Group's financial statements while from 2.38% to 15.00% in 2018 and from 0.00% to 10.63% in 2017 for the Parent Bank's financial statements (see Note 21).

Government securities with an aggregate principal amount of nil for both BDO Unibank Group and the Parent Bank as of December 31, 2018 were pledged as collateral for bills payable under repurchase agreements (see Notes 16 and 31).

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

9.4 Reclassification of Investment Securities

In 2016, after the end of the two-year tainting period, provision of PAS 39 [see Note 3.1(d)], BDO Unibank Group and the Parent Bank reclassified certain government securities from AFS securities to HTM investments. The carrying value of the securities reclassified to HTM investments from AFS securities of BDO Unibank Group and the Parent Bank amounted to P86,027 and P81,766, respectively, as of December 31, 2017, with related unamortized fair value losses of BDO Unibank Group and the Parent Bank amounted to P1,746 and P1,690, respectively. As part of the BDO Unibank Group and the Parent Bank transition to PFRS 9, the HTM investments were further reclassified to measurement categories according to the business model for managing these financial assets. As a result, these HTM investments that were previously subjected to tainting provisions were reclassified as Investment securities at amortized cost which should be remeasured at amortized cost, taking into consideration their related unamortized fair value losses. However, as it is no longer practical to determine the effective interest rate and other related information during the dates these securities were purchased due to voluminous transactions and lapse of time, the appropriate amortized cost of these securities could no longer be determined. Accordingly, as allowed under the transition provision of PFRS 9, the fair value of the financial assets at the date of initial application was considered as the new gross carrying amount, hence, the remaining unamortized fair value losses were charged to the opening balance of Surplus Free amount as at January 1, 2018 (see Note 2.2).

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Receivables from customers:					
Loans and discounts	25	**P 1,847,364**	P 1,631,280	**P 1,792,227**	P 1,575,990
Customers' liabilities under letters of credit and trust receipts		**79,476**	53,246	**79,476**	53,246
Credit card receivables		**78,738**	61,621	**78,738**	61,621
Bills purchased		**16,641**	10,156	**16,632**	10,144
		2,022,219	1,756,303	**1,967,073**	1,701,001
Unearned interests or discounts		**(2,157)**	(1,415)	**(571)**	(102)
Allowance for impairment	14	**(26,761)**	(29,892)	**(24,146)**	(27,827)
		(28,918)	(31,307)	**(24,717)**	(27,929)
		1,993,301	1,724,996	**1,942,356**	1,673,072
Other receivables:					
Interbank loans receivables		**49,264**	37,733	**49,264**	37,733
SPURRA		**22,009**	18,260	**22,009**	14,872
Accounts receivable	25	**7,698**	7,038	**6,550**	5,459
Unquoted debt securities classified as loans (UDSCL)		**-**	5,267	-	1,332
Sales contract receivables		**1,150**	1,327	**1,025**	1,204
Others		**696**	330	**-**	-
		80,817	69,955	**78,848**	60,600
Allowance for impairment	14	**(2,284)**	(3,165)	**(2,051)**	(2,940)
		78,533	66,790	**76,797**	57,660
		P 2,071,834	P 1,791,786	**P 2,019,153**	P 1,730,732

Non-performing loans (NPL) included in the total loan portfolio of BDO Unibank Group and the Parent Bank as of December 31, 2018 and 2017 are presented below as net of specific allowance for impairment in compliance with BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans.*

	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
NPL	**P 19,977**	P 19,648	**P 17,108**	P 17,044
Allowance for impairment	**(13,408)**	(11,540)	**(11,346)**	(10,352)
	P 6,569	P 8,108	**P 5,762**	P 6,692

Per MORB, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Financial and insurance activities	**P 292,871**	P 195,923	**P 290,365**	P 191,194
Wholesale and retail trade	**274,443**	237,104	**267,923**	231,386
Real estate activities	**242,836**	227,050	**241,272**	223,746
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**234,238**	175,196	**225,550**	168,423
Electricity, gas, steam and air-conditioning supply	**222,305**	200,952	**221,533**	200,106
Manufacturing	**215,108**	186,779	**211,264**	183,382
Transportation and storage	**114,023**	112,307	**109,997**	108,496
Arts, entertainment and recreation	**76,366**	68,853	**75,000**	66,040
Construction	**47,797**	36,605	**42,900**	32,032
Information and communication	**32,530**	38,707	**32,072**	38,081
Accommodation and food service activities	**31,465**	41,662	**31,298**	41,307
Mining and quarrying	**23,830**	24,054	**22,434**	22,344
Agriculture, forestry and fishing	**13,861**	13,007	**13,043**	11,342
Water supply, sewerage, waste management and remediation activities	**12,567**	11,813	**12,317**	11,286
Professional, scientific and technical services	**10,980**	10,782	**10,738**	10,517
Administrative and support services	**9,517**	9,204	**8,131**	7,867
Human health and social work activities	**9,092**	16,461	**8,235**	15,724
Education	**5,960**	13,614	**5,411**	5,201
Public administrative and defense; compulsory social security	**640**	703	**629**	639
Activities of extraterritorial organizations and bodies	**41**	66	**38**	66
Other service activities	**149,592**	134,046	**136,352**	131,720
	P 2,020,062	P 1,754,888	**P 1,966,502**	P 1,700,899

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Secured:				
Real estate mortgage	**P 292,723**	P 260,645	**P 288,276**	P 255,029
Chattel mortgage	**113,812**	97,013	**90,928**	76,144
Other securities	**119,541**	137,233	**118,422**	136,063
	526,076	494,891	**497,626**	467,236
Unsecured	**1,493,986**	1,259,997	**1,468,876**	1,233,663
	P 2,020,062	P 1,754,888	**P 1,966,502**	P 1,700,899

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Variable interest rates	**P 1,596,046**	P 1,366,610	**P 1,569,277**	P 1,335,078
Fixed interest rates	**424,016**	388,278	**397,225**	365,821
	P 2,020,062	P 1,754,888	**P 1,966,502**	P 1,700,899

Loans and receivables bear annual interest rates of 0.0% (e.g. non-performing loans and zero percent credit card installment program) to 4.1% per month in 2018, 0.0% to 4.1% per month in 2017 and 0.0% to 4.0% per month in 2016 (see Note 21).

The BDO Unibank Group's and the Parent Bank's receivables from customers amounting to P269 and nil, respectively, as of December 31, 2018 and P1,046 and nil, respectively, as of December 31, 2017 are pledged as collaterals to secure borrowings under rediscounting privileges (see Notes 16 and 31).

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2018						
Cost	**P 6,199**	**P 25,976**	**P 20,017**	**P 7,086**	**P 985**	**P 60,263**
Accumulated depreciation and amortization	**-**	**(15,267)**	**(5,939)**	**(4,882)**	**-**	**(26,088)**
Allowance for impairment (see Note 14)	**(140)**	**-**	**(375)**	**-**	**-**	**(515)**
Net carrying amount	**P 6,059**	**P 10,709**	**P 13,703**	**P 2,204**	**P 985**	**P 33,660**
December 31, 2017						
Cost	P 6,155	P 24,452	P 16,744	P 6,201	P 711	P 54,263
Accumulated depreciation and amortization	-	(14,837)	(5,368)	(4,197)	-	(24,402)
Allowance for impairment (see Note 14)	(140)	-	(375)	-	-	(515)
Net carrying amount	P 6,015	P 9,615	P 11,001	P 2,004	P 711	P 29,346
January 1, 2017						
Cost	P 6,118	P 21,051	P 15,739	P 5,512	P 289	P 48,709
Accumulated depreciation and amortization	-	(12,947)	(4,749)	(3,589)	-	(21,285)
Allowance for impairment (see Note 14)	(137)	-	(375)	-	-	(512)
Net carrying amount	P 5,981	P 8,104	P 10,615	P 1,923	P 289	P 26,912

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2018						
Cost	**P 5,458**	**P 19,723**	**P 18,829**	**P 6,504**	**P 984**	**P 51,498**
Accumulated depreciation and amortization	**-**	**(11,714)**	**(5,546)**	**(4,470)**	**-**	**(21,730)**
Allowance for impairment (see Note 14)	**(125)**	**-**	**(371)**	**-**	**-**	**(496)**
Net carrying amount	**P 5,333**	**P 8,009**	**P 12,912**	**P 2,034**	**P 984**	**P 29,272**
December 31, 2017						
Cost	P 5,414	P 18,395	P 15,588	P 5,659	P 711	P 45,767
Accumulated depreciation and amortization	-	(11,461)	(5,043)	(3,850)	-	(20,354)
Allowance for impairment (see Note 14)	(125)	-	(371)	-	-	(496)
Net carrying amount	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P 24,917
January 1, 2017						
Cost	P 5,378	P 15,448	P 14,752	P 5,037	P 265	P 40,880
Accumulated depreciation and amortization	-	(10,158)	(4,494)	(3,304)	-	(17,956)
Allowance for impairment (see Note 14)	(123)	-	(371)	-	-	(494)
Net carrying amount	P 5,255	P 5,290	P 9,887	P 1,733	P 265	P 22,430

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017 of premises, furniture, fixtures and equipment is shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
Balance at January 1, 2018, net of accumulated depreciation, amortization and impairment	**P 6,015**	**P 9,615**	**P 11,001**	**P 2,004**	**P 711**	**P 29,346**
Additions	**69**	**3,833**	**3,082**	**615**	**536**	**8,135**
Disposals	**-**	**(160)**	**-**	**(9)**	**(71)**	**(240)**
Reclassifications	**(25)**	**28**	**191**	**361**	**(191)**	**364**
Revaluation	**-**	**-**	**6**	**4**	**-**	**10**
Depreciation and amortization charges for the year	**-**	**(2,607)**	**(577)**	**(771)**	**-**	**(3,955)**
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	**P 6,059**	**P 10,709**	**P 13,703**	**P 2,204**	**P 985**	**P 33,660**
Balance at January 1, 2017, net of accumulated depreciation, amortization and impairment	P 5,981	P 8,104	P 10,615	P 1,923	P 289	P 26,912
Additions	-	4,336	659	508	655	6,158
Disposals	-	(110)	-	(7)	-	(117)
Reclassifications	34	9	302	270	(233)	382
Depreciation and amortization charges for the year	-	(2,724)	(575)	(690)	-	(3,989)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	P 6,015	P 9,615	P 11,001	P 2,004	P 711	P 29,346

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
Balance at January 1, 2018, net of accumulated depreciation, amortization and impairment	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P 24,917
Additions	69	2,686	3,056	573	536	6,920
Disposals	-	(48)	-	(7)	(71)	(126)
Reclassifications	(25)	30	191	364	(192)	368
Revaluation	-	-	-	1	-	1
Depreciation and amortization charges for the year	-	(1,593)	(509)	(706)	-	(2,808)
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	P 5,333	P 8,009	P 12,912	P 2,034	P 984	P 29,272
Balance at January 1, 2017, net of accumulated depreciation, amortization and impairment	P 5,255	P 5,290	P 9,887	P 1,733	P 265	P 22,430
Additions	-	3,375	526	444	644	4,989
Disposals	-	(14)	-	(6)	-	(20)
Reclassifications	34	20	266	261	(198)	383
Depreciation and amortization charges for the year	-	(1,737)	(505)	(623)	-	(2,865)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	P 5,289	P 6,934	P 10,174	P 1,809	P 711	P 24,917

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2018 and 2017, BDO Unibank Group and the Parent Bank has complied with this requirement.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2018 and 2017 are still being used in operations with acquisition costs amounting to P7,619 and P6,846, respectively, in the BDO Unibank Group's financial statements and P6,885 and P6,696, respectively, in the Parent Bank's financial statements.

12. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P381 and P87 in 2018, P290 and P71 in 2017, P247 and P70 in 2016 in BDO Unibank Group and Parent Bank's financial statements, respectively, and are presented as part of Rental under Other Operating Income account (see Note 23). Direct expenses incurred from these properties such as taxes and licenses amounted to P5 and P2 in 2018, P19 and P2 in 2017, and P55 and P2 in 2016 in BDO Unibank Group's and Parent Bank's financial statements, respectively, and are presented as part of Taxes and licenses under Other Operating Expenses account in the BDO Unibank Group and Parent Bank's financial statements, respectively (see Note 23).

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2018 and 2017 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Buildings	Total
December 31, 2018			
Cost	**P 11,094**	**P 14,768**	**P 25,862**
Accumulated depreciation	**-**	**(4,190)**	**(4,190)**
Allowance for impairment (see Note 14)	**(1,783)**	**(104)**	**(1,887)**
Net carrying amount	**P 9,311**	**P 10,474**	**P 19,785**
December 31, 2017			
Cost	P 9,429	P 13,471	P 22,900
Accumulated depreciation	-	(3,217)	(3,217)
Allowance for impairment (see Note 14)	(1,539)	(104)	(1,643)
Net carrying amount	P 7,890	P 10,150	P 18,040
January 1, 2017			
Cost	P 9,923	P 10,227	P 20,150
Accumulated depreciation	-	(2,893)	(2,893)
Allowance for impairment (see Note 14)	(1,962)	(107)	(2,069)
Net carrying amount	P 7,961	P 7,227	P 15,188

Parent Bank

	Land	Buildings	Total
December 31, 2018			
Cost	**P 8,693**	**P 12,182**	**P 20,875**
Accumulated depreciation	**-**	**(3,913)**	**(3,913)**
Allowance for impairment (see Note 14)	**(1,479)**	**(57)**	**(1,536)**
Net carrying amount	**P 7,214**	**P 8,212**	**P 15,426**
December 31, 2017			
Cost	P 8,129	P 10,874	P 19,003
Accumulated depreciation	-	(2,943)	(2,943)
Allowance for impairment (see Note 14)	(1,504)	(60)	(1,564)
Net carrying amount	P 6,625	P 7,871	P 14,496

Parent Bank

	Land	Buildings	Total
January 1, 2017			
Cost	P 8,533	P 7,855	P 16,388
Accumulated depreciation	-	(2,630)	(2,630)
Allowance for impairment (see Note 14)	(1,911)	(63)	(1,974)
Net carrying amount	P 6,622	P 5,162	P 11,784

A reconciliation of the carrying amounts, at the beginning and end of 2018 and 2017, of investment properties is shown below and in the succeeding page.

BDO Unibank Group

	Land	Buildings	Total
Balance at January 1, 2018, net of accumulated depreciation and impairment	**P 7,890**	**P 10,150**	**P 18,040**
Additions	**916**	**1,891**	**2,807**
Reclassifications	**898**	**3**	**901**
Disposals	**(400)**	**(281)**	**(681)**
Revaluation	**7**	**(21)**	**(14)**
Depreciation for the year	**-**	**(1,268)**	**(1,268)**
Balance at December 31, 2018, net of accumulated depreciation and impairment	**P 9,311**	**P 10,474**	**P 19,785**
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 7,961	P 7,227	P 15,188
Additions	623	3,893	4,516
Disposals	(676)	(268)	(944)
Reclassifications	(18)	(82)	(100)
Depreciation for the year	-	(620)	(620)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P 7,890	P 10,150	P 18,040

Parent Bank

	Land	Buildings	Total
Balance at January 1, 2018, net of accumulated depreciation and impairment	**P 6,625**	**P 7,871**	**P 14,496**
Additions	**915**	**1,851**	**2,766**
Disposals	**(386)**	**(280)**	**(666)**
Reclassifications	**53**	**-**	**53**
Revaluation	**7**	**-**	**7**
Depreciation for the year	**-**	**(1,230)**	**(1,230)**
Balance at December 31, 2018, net of accumulated depreciation and impairment	**P 7,214**	**P 8,212**	**P 15,426**
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 6,622	P 5,162	P 11,784
Additions	621	3,623	4,244
Disposals	(583)	(268)	(851)
Reclassifications	(35)	(65)	(100)
Depreciation for the year	-	(581)	(581)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P 6,625	P 7,871	P 14,496

The fair value of investment properties as of December 31, 2018 and 2017, determined using observable recent prices of the reference properties and replacement cost approach, amounted to P38,681 and P31,461, respectively, for BDO Unibank Group's financial statements and P29,962 and P27,266, respectively, for the Parent Bank's financial statements. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.5.

The recoverable amount of impaired investment properties as of December 31, 2018 and 2017 was based on value in use computed through discounted cash flows method at an effective rate of 2.63% and 1.39% in 2018 and 2017, respectively.

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

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, financial assets at FVOCI (previously AFS investments), other resources or non-current assets held for sale. As of December 31, 2018 and 2017, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Investment properties	**P 11,581**	P 10,357	**P 11,389**	P 10,182
Financial assets at FVOCI	**687**	-	**687**	-
Non-current assets held for sale	**764**	700	**758**	684
AFS securities	**-**	918	**-**	918
	P 13,032	P 11,975	**P 12,834**	P 11,784

13. OTHER RESOURCES

The components of this account are shown below.

	Notes	BDO Unibank Group		Parent Bank	
		2018	2017	**2018**	2017
Deferred tax assets – net	29.1	**P 8,312**	P 7,403	**P 7,608**	P 6,927
Deferred charges		**7,926**	6,260	**7,925**	6,259
Credit card acquiring		**6,182**	7,857	**6,182**	7,857
Equity investments	13.1	**5,081**	4,945	**36,919**	36,611
Foreign currency notes and coins on hand		**4,828**	3,695	**4,828**	3,694
Goodwill	13.3, 28.1, 28.6	**4,435**	4,435	**1,391**	1,391
Branch licenses	13.4	**3,020**	3,020	**3,020**	3,020
Margin deposits		**2,279**	1,265	**173**	276
Computer software – net		**1,953**	1,817	**1,776**	1,713
Prepaid documentary stamps		**956**	358	**923**	326
Non-current assets held for sale	13.5	**764**	700	**758**	684
Customer lists – net	13.7	**487**	487	**487**	487
Real properties for development and sale		**382**	1,631	**-**	-
Returned checks and other cash items		**361**	165	**360**	162
Trademark – net	13.6, 28.2	**91**	124	**91**	124
Dividend receivable		**54**	76	**-**	-
Deposits under escrow	13.2	**-**	672	**-**	672
Others	13.7, 18	**3,808**	3,964	**3,034**	2,636
		50,919	48,874	**75,475**	72,839
Allowance for impairment	14	**(2,321)**	(2,662)	**(2,084)**	(2,139)
		P 48,598	P 46,212	**P 73,391**	P 70,700

13.1 Equity Investments

Equity investments consist of the following:

	Held	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Acquisition costs:					
Philippine subsidiaries					
ONB	99.86%	**P -**	P -	**P 8,700**	P 7,696
BDOSHI	100%	**-**	-	**5,684**	5,684
BDO Life**	97%	**-**	-	**3,403**	3,403
BDO Private	100%	**-**	-	**2,579**	2,579
BDO Leasing	87.43%	**-**	-	**1,878**	1,878
BDO Capital	99.88%	**-**	-	**1,878**	1,878
BDO Nomura	51%	**-**	-	**243**	39
PCI Realty Corporation	100%	**-**	-	**34**	34
BDOI	100%	**-**	-	**11**	11
Equimark	60%	**-**	-	**4**	4
		-	-	**24,414**	23,206
Foreign subsidiaries					
BDORO	100%	**-**	-	**169**	169
BDO Remit (Japan) Ltd.	100%	**-**	-	**92**	92
BDO Remit (Canada) Ltd.	100%	**-**	-	**50**	42
Express Padala (Hongkong), Ltd.	100%	**-**	-	**28**	28
BDO Remit (USA), Inc.	100%	**-**	-	**26**	26
PCIB Europe S.p.A.	100%	**-**	-	**-**	1
		-	-	**365**	358
Associates					
SM Keppel Land, Inc. (SM Keppel)	50%	**1,658**	1,658	**1,658**	1,658
NLEX Corporation	12.40%	**1,405**	1,405	**1,405**	1,405
MMPC Auto-Financial Services Corporation (MAFSC)	34.97%	**300**	300	**-**	-
Northpine Land Incorporated	20%	**232**	232	**232**	232
Taal Land, Inc.	33.33%	**170**	170	**170**	170
Others	*	**5**	5	**5**	5
		3,770	3,770	**3,470**	3,470
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**1,182**	674	**9,397**	8,050
Equity in net profit		**631**	612	**2,740**	4,312
Equity in other comprehensive income (loss)		**(17)**	(3)	**(92)**	1,702
Dividends		**(485)**	(224)	**(3,458)**	(1,876)
Reclassifications***		**-**	116	**-**	(2,687)
Change in percentage ownership in subsidiaries		**-**	-	**83**	(77)
BDO Life step-up acquisition**		**-**	-	**-**	-
Balance at end of year		**1,311**	1,175	**8,670**	9,424
Deposit for future stock subscription on BDO Nomura****		**-**	-	-	153
Net investments in associates/subsidiaries		**5,081**	4,945	**36,919**	36,611
Allowance for impairment		**(155)**	(155)	**(155)**	(155)
		P 4,926	P 4,790	**P 36,764**	P 36,456

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

** *BDO Life is an associate of BDO Unibank Group and the Parent Bank in 2015. It became a subsidiary when the Parent Bank acquired full ownership in 2016 (see Note 28.3).*

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

**** *This pertains to additional capital infusion of the Parent Bank on BDO Nomura (see Note 28.4).*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2018 and 2017, except for BDO Leasing, which is at 88.54% respectively in BDO Unibank Group (see Note 2.3) and 87.43% in the Parent Bank, and as discussed above, in both years.

The fair value of BDO Leasing amounts to P4,193 and P7,314 in 2018 and 2017, respectively, which had been determined directly by reference to published prices quoted in an active market. The fair value of the remaining equity investments is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

BDO Unibank Group's subsidiaries as of December 31, 2018 are all incorporated in the Philippines, except for the following:

Foreign Subsidiaries	Country of Incorporation
Express Padala (Hongkong), Ltd.	Hong Kong
BDO Remit (USA), Inc.	United States of America
BDORO	United Kingdom
BDO Remit International Holdings B.V**	Netherlands
BDO Remit UK, Ltd. **	United Kingdom
BDO Remit (Ireland) Designated Activity Company**	Ireland
CBN Remittance Centre S.A. **	Spain
CBN Greece S.A. **	Greece
BDO Remit (Italia) S.p.A*	Italy
BDO Remit (Japan) Ltd.	Japan
BDO Remit (Canada) Ltd.	Canada
BDO Remit Limited*	Hongkong
BDO Remit (Macau) Ltd.*	Macau

**Wholly-owned subsidiaries of BDOSHI.*
***Subsidiaries of BDO Capital*

On May 30, 2012, BDORO was registered with the Registrar of Companies for England and Wales (UK) as a private limited company with registered office at the 5th floor, 6 St. Andrew Street, London. BDORO will provide commercial banking services in UK and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. In 2012, BDORO applied for a banking license in the UK, but the approval is still pending as of December 31, 2018. In 2012, the Parent Bank has an outstanding investment in BDORO amounting to P133 (absolute amount) representing the minimal capitalization of 2 GBP as an initial contribution to incorporate BDORO. Starting in 2013, the Parent Bank's outstanding investment in BDORO increased to P169.

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

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

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

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

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

On January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.81%.

On January 23, 2018 and December 27, 2018, the Parent Bank subscribed to an additional 124,275 and 14,276 shares, respectively, from ONB's total issued and outstanding capital stock thereby increasing its shareholdings in ONB to 99.86%.

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

	Proportion of Ownership Interest and Voting Rights Held by NCI		**Profit Allocated to NCI**		**Accumulated NCI**	
Name	**2018**	2017	**2018**	2017	**2018**	2017
BDO Leasing	**11.46%**	11.46 %	**P 38**	P 65	**P 612**	P 624

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

Dividends amounting to P25 and P50 were paid to the NCI in 2018 and 2017, respectively (see Note 20.4).

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

	2018	2017
Statements of financial position:		
Total resources	**P 41,549**	P 42,842
Total liabilities	**36,206**	37,400
Equity attributable to owners of the parent	**4,731**	4,818
Non-controlling interest	**612**	624
Statements of comprehensive income:		
Total interest income	**1,960**	1,914
Total other operating income	**1,254**	1,242
Profit attributable to owners of the parent	**293**	506
Profit attributable to NCI	**38**	65
Profit	**331**	571
Total comprehensive income attributable to owners of the parent	**31**	465
Total comprehensive income attributable to NCI	**4**	60
Total comprehensive income	**P 35**	P 525
Statements of cash flows:		
Net cash from (used in) operating activities	**P 1,401**	(P 889)
Net cash used in investing activities	**133**	(1,710)
Net cash from (used in) financing activities	**(1,717)**	2,686
Net cash inflow (outflow)	**(P 183)**	P 87

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2018, 2017 and 2016:

	NLEX Corporation	SM Keppel	Others	Total
December 31, 2018 (Unaudited)				
Assets	**P 43,003**	**P 9,475**	**P 3,526**	**P 56,004**
Liabilities	**29,210**	**7,299**	**1,474**	**37,983**
Equity	**13,793**	**2,176**	**2,052**	**18,021**
Revenues	**12,161**	**269**	**1,257**	**13,687**
Net profit (loss)	**5,208**	**(155)**	**163**	**5,216**
December 31, 2017 (Audited)				
Assets	P 40,146	P 9,270	P 2,506	P 51,922
Liabilities	29,490	6,941	564	36,995
Equity	10,656	2,329	1,942	14,927
Revenues	11,880	191	1,099	13,170
Net profit	4,644	32	153	4,829

	NLEX Corporation		SM Keppel		Others		Total
December 31, 2016 (Audited)							
Assets	P	35,289	P	5,406	P	2,472	P 43,167
Liabilities		25,677		3,109		626	29,412
Equity		9,612		2,297		1,846	13,755
Revenues		10,769		156		697	11,622
Net profit		4,087		23		98	4,208

13.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by the Parent Bank in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by the Parent Bank with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement. On August 26, 2016, the Parent Bank received an amount of P4,650 for the partial termination of escrow. As of December 31, 2017, BDO Unibank Group provided an allowance for impairment amounting to P400. Thereafter, on June 18, 2018, the Parent Bank received an amount of P1,243 for the full termination of escrow. As of December 31, 2018, the difference between the amount received and the balance of the amount in escrow is presented as part of Miscellaneous Liability under Others of Other Liabilities account, pending the resolution of the Motion for Reconsideration filed by the counterparty (see Note 19).

13.3 Goodwill

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

The Parent Bank recognized impairment loss of nil, P2 and P4 in 2018, 2017, and 2016, respectively, to write-down the value of the goodwill to their recoverable amount (see Note 14). The Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. There is no impairment loss recognized on the goodwill at the BDO Unibank Group's financial statements, except those related to the Parent Bank.

13.4 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Bank to establish certain number of branches as an incentive in acquiring The Real Bank (A Thrift Bank), Inc. [TRB] and BDO Savings in addition to the current branches of the acquired banks (see Note 13.1). In 2018, allowance on impairment loss was recognized on branch licenses at the BDO Unibank Group's financial statements amounting to P80 for possible unutilized branch licenses upon the expiry of the term in 2019 given by the BSP to the Parent Bank in establishing certain number of branches.

13.5 Non-current Assets Held for Sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group and the Parent Bank intends to sell within one year from the date of classification as held for sale. No impairment loss was recognized in 2016 to 2018 in both BDO Unibank Group and Parent Bank's financial statements.

13.6 Trademark

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio (see Note 28.2) both amounted to P33 in 2018 and 2017 and P8 in 2016. This is recorded under Miscellaneous under Other Operating Expenses account in the statements of income (see Note 23).

13.7 Others

Amortization expense on computer software licenses amounted to P516, P528 and P436 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P480, P477 and P372 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 23).

Depreciation expense on certain assets amounting to P4, P2 and P10 in 2018, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P4, P2 and P9 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 23).

In 2016, the Parent Bank recognized impairment loss amounting to P15 (nil in 2017 and 2018), respectively, to write-down the value of customer list to its recoverable amount. The impairment provision was recognized through direct write-off of the cost of the asset. The customer list was recognized as a result of the Parent Bank's acquisition of a trust business in 2014 (see Note 28.7).

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Balance at beginning of year:					
Investment securities at amortized cost (AC)	9.3	**P -**	P -	**P -**	P -
Debt securities at FVOCI	9.2	**-**	-	**-**	-
AFS securities	9.2	**3,330**	4,318	**2,650**	3,788
Loans and other receivables	10	**33,057**	28,087	**30,767**	26,314
Bank premises	11	**515**	512	**496**	494
Investment properties	12	**1,643**	2,069	**1,564**	1,974
Other resources	13	**2,662**	2,566	**2,139**	4,845
Balance before adoption of PFRS 9		**41,207**	37,552	**37,616**	37,415
Effect of adoption of PFRS 9		**(9,409)**	-	**(9,100)**	-
Balance as restated		**31,798**	37,552	**28,516**	37,415
Impairment losses - net		**6,243**	6,537	**5,670**	5,809
Write-offs		**(2,325)**	(3,013)	**(2,320)**	(2,927)
Reversals		**(379)**	(3)	**-**	(8)
Foreign currency revaluation		**244**	13	**243**	14
Reclassification		**(226)**	-	**(226)**	-
Adjustments		**(6)**	121	**(1)**	(2,687)
		P 35,349	P 41,207	**P 31,882**	P 37,616
Balance at end of year:					
Investment securities at AC	9.3	**P 1,581**	P -	**P 1,569**	P -
AFS securities	9.2	**-**	3,330	**-**	2,650
Loans and other receivables	10	**29,045**	33,057	**26,197**	30,767
Bank premises	11	**515**	515	**496**	496
Investment properties	12	**1,887**	1,643	**1,536**	1,564
Other resources	13	**2,321**	2,662	**2,084**	2,139
		P 35,349	P 41,207	**P 31,882**	P 37,616

In 2018, BDO Unibank Group and the Parent Bank provide impairment loss on debt securities measured as FVOCI amounting to P18 and P5, respectively. The impairment losses on debt securities classified as FVOCI are recognized as part of items that are or will be reclassified subsequently to profit or loss in the statement of comprehensive income (see Note 9.2). Moreover, in 2018, BDO Unibank Group and the Parent Bank provide impairment loss on loan commitments and other contingent accounts amounting to P25 which is recognized as Provision – Others under Other Liabilities in the statement of financial position (see Note 19).

Total impairment losses on certain financial assets amounted to P6,141, P6,531, and P3,789 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P5,569, P5,807 and P3,029 in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements.

Total impairment losses (recoveries) on non-financial assets amounted to P102, P6, and P26 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P101, P2, and (P26) in 2018, 2017, and 2016, respectively, in the Parent Bank's financial statements.

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Demand	**P 179,944**	P 134,931	**P 151,492**	P 91,592
Savings	**1,505,680**	1,409,256	**1,490,664**	1,396,404
Time	**734,341**	576,825	**720,146**	557,325
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Due to other banks:				
Demand	**P 2,282**	P 1,395	**P 2,271**	P 1,395
Savings	**7,647**	7,469	**7,636**	7,465
Time	**2,159**	4,281	**2,154**	3,973
	12,088	13,145	**12,061**	12,833
Due to customers:				
Demand	**177,662**	133,536	**149,221**	90,197
Savings	**1,498,033**	1,401,787	**1,483,028**	1,388,939
Time	**732,182**	572,544	**717,992**	553,352
	2,407,877	2,107,867	**2,350,241**	2,032,488
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Philippine pesos	**P 2,003,582**	P 1,725,829	**P 1,963,461**	P 1,671,935
Foreign currencies	**416,383**	395,183	**398,841**	373,386
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Less than one year	**P 2,279,536**	P 1,976,582	**P 2,223,549**	P 1,906,842
One to five years	**45,420**	48,379	**43,744**	42,428
Beyond five years	**95,009**	96,051	**95,009**	96,051
	P 2,419,965	P 2,121,012	**P 2,362,302**	P 2,045,321

The BDO Unibank Group's and Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates ranging from 0.0% to 6.8% in 2018, and 0.0% to 5.3% 2017 and 2016. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 22).

The BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Deposits (LTNCD) as of December 31, 2018 and 2017 as follows:

BSP Approval	Effective Rate	Outstanding Balance 2018	Outstanding Balance 2017	Issue Date	Maturity Date
June 23, 2017	4.375%	**P 8,200**	P -	May 7, 2018	November 7, 2023
June 23, 2017	3.625%	**11,800**	11,800	August 18, 2017	February 18, 2023
July 10, 2014	3.75%	**7,500**	7,500	April 6, 2015	October 6, 2020
October 25, 2013	3.125%	**5,000**	5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.50%	**5,000**	5,000	September 12, 2013	September 12, 2020
May 3, 2012	5.25%	**5,000**	5,000	October 15, 2012	October 15, 2019
January 31, 2013	3.80%	**-**	5,000	March 25, 2013	September 25, 2018
		P 42,500	P 39,300		

The net proceeds from the issuance of LTNCD are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

Effective June 1, 2018, Philippine Peso deposit liabilities, LTNCD under Circular No. 824 and LTNCD under Circular No. 304 of BDO Unibank Group are subject to a reserve requirement of 18%, 7% and 4%, respectively, in compliance with the BSP Circular No.1004 issued on May 24, 2018 (see Note 7).

16. BILLS PAYABLE

This account is composed of the following borrowings from:

	Note	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Senior notes	16.1	**P 59,437**	P 50,093	**P 59,437**	P 50,093
Foreign banks		**55,406**	48,499	**55,312**	48,430
Local banks		**22,443**	15,658	**-**	1,500
Deposit substitutes		**-**	907	**-**	907
Others		**6,337**	15,327	**2,944**	4,693
		P 143,623	P 130,484	**P 117,693**	P 105,623

The breakdown of this account as to currency follows:

	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Foreign currencies	**P 117,787**	P 106,293	**P 117,693**	P 105,623
Philippine pesos	**25,836**	24,191	**-**	-
	P 143,623	P 130,484	**P 117,693**	P 105,623

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
One to three months	**P 33,898**	P 63,243	**P 13,697**	P 40,386
More than three months to one year	**11,683**	4,271	**7,854**	2,491
More than one to three years	**54,882**	13,213	**53,005**	13,056
More than three years	**43,160**	49,757	**43,137**	49,690
	P 143,623	P 130,484	**P 117,693**	P 105,623

Bills payable bear annual interest rates of 1.00% to 7.20% in 2018, 0.60% to 3.50% in 2017, and 1.00% to 6.30% in 2016 (see Note 22). Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9.2, 10 and 31).

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

	2018	2017	2016
BDO Unibank Group			
Senior notes	**P 1,778**	P 823	P 902
Foreign banks	**1,566**	814	533
Local banks	**698**	339	223
Deposit substitutes	**-**	91	11
Others	**374**	503	605
	P 4,416	P 2,570	P 2,274
Parent Bank			
Senior notes	**P 1,778**	P 823	P 902
Foreign banks	**1,564**	814	533
Local banks	**2**	3	-
Deposit substitutes	**-**	91	11
Others	**59**	146	196
	P 3,403	P 1,877	P 1,642

16.1 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount		Outstanding Balance 2018		Outstanding Balance 2017
February 20, 2018	February 20, 2025	4.16%	US$	150	**P 7,945**	P	-
September 6, 2017	March 6, 2023	2.95%		700	**35,646**		35,047
October 24, 2016	October 24, 2021	2.63%		300	**15,846**		15,046
					P 59,437	P	50,093

The issuance of senior notes in 2018, 2017 and 2016 is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds.

16.2 Reconciliation of Liabilities Arising from Financing Activities

Presented below and the succeeding page is the reconciliation of liabilities arising from financing activities both in 2018 and 2017, which includes both cash and non-cash changes.

BDO Unibank Group

	Foreign Banks	Senior Notes	Local Banks	Deposit Substitutes	Others	Total
Balance as of January 1, 2018	**P 48,499**	**P 50,093**	**P 15,658**	**P 907**	**P 15,327**	**P 130,484**
Cash flows from financing activities						
Additional borrowings	**109,470**	**7,694**	**121,358**	**907**	**58,046**	**297,475**
Repayment of borrowings	**(105,101)**	**(1,308)**	**(114,677)**	**(1,812)**	**(67,027)**	**(289,925)**
Non-cash financing activities						
Interest amortization	**261**	**73**	**72**	**(2)**	**(9)**	**395**
Revaluation	**2,277**	**2,885**	**32**	**-**	**-**	**5,194**
Balance as of December 31, 2018	**P 55,406**	**P 59,437**	**P 22,443**	**P -**	**P 6,337**	**P 143,623**
Balance as of January 1, 2017	P 36,545	P 30,150	P 10,334	P 602	P 22,925	P 100,556
Cash flows from financing activities						
Additional borrowings	105,134	35,599	74,139	30,328	97,628	342,828
Repayment of borrowings	(93,479)	(15,586)	(68,790)	(30,159)	(105,228)	(313,242)
Non-cash financing activities						
Interest amortization	500	(70)	25	136	(11)	580
Revaluation	(201)	-	(50)	-	13	(238)
Balance as of December 31, 2017	P 48,499	P 50,093	P 15,658	P 907	P 15,327	P 130,484

Parent Bank

	Foreign Banks	Senior Notes	Local Banks	Deposit Substitutes	Others	Total
Balance as of January 1, 2018	**P 48,430**	**P 50,093**	**P 1,500**	**P 907**	**P 4,693**	**P 105,623**
Cash flows from financing activities						
Additional borrowings	**105,207**	**7,694**	**-**	**907**	**2,936**	**116,744**
Repayment of borrowings	**(100,872)**	**(1,308)**	**(1,498)**	**(1,812)**	**(4,676)**	**(110,166)**
Non-cash financing activities						
Interest amortization	**261**	**73**	**(2)**	**(2)**	**(9)**	**321**
Revaluation	**2,286**	**2,885**	**-**	**-**	**-**	**5,171**
Balance as of December 31, 2018	**P 55,312**	**P 59,437**	**P -**	**P -**	**P 2,944**	**P 117,693**
Balance as of January 1, 2017	P 36,522	P 30,150	P -	P 602	P 8,526	P 75,800
Cash flows from financing activities						
Additional borrowings	103,130	35,599	2,381	30,328	1,137	172,575
Repayment of borrowings	(91,521)	(15,586)	(833)	(30,159)	(4,972)	(143,071)
Non-cash financing activities						
Interest amortization	500	(70)	2	136	(11)	557
Revaluation	(201)	-	(50)	-	13	(238)
Balance as of December 31, 2017	P 48,430	P 50,093	P 1,500	P 907	P 4,693	P 105,623

17. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (Notes) represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation (PDIC), or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The Notes were used further to expand the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

The issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014. The Notes has a principal amount of P10,000 and will mature on March 10, 2025. As of December 31, 2018 and 2017, the outstanding balance of the Notes including accrued interest amounted to P10,030.

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to P519 in 2018, 2017 and 2016 both in BDO Unibank Group and Parent Bank's statements of income (see Note 22).

18. INSURANCE CONTRACT LIABILITIES

This account consists of:

		2018		2017
Legal policy reserves	P	26,514	P	24,602
Policy and contract claims payable		1,524		1,051
Policyholders' dividends		468		333
	P	28,506	P	25,986

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities		Reinsurer's Share of Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Aggregate reserves for:						
Ordinary life policies	P 17,718	P 18,753	P -	P -	P 17,718	P 18,753
Variable unit-linked (VUL) contracts	8,535	5,649	-	-	8,535	5,649
Group life insurance polices	248	192	44	27	204	165
Accident and health policies	13	8	-	-	13	8
Policy and contract claims	1,524	1,051	44	36	1,480	1,015
Policyholders' dividends	468	333	-	-	468	333
	P 28,506	P 25,986	P 88	P 63	P 28,418	P 25,923

The movements in legal policy reserves are as follows:

	Legal Policy Reserves		Reinsurer's Share of Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Balance at the beginning of the year	P 24,602	P 19,531	P 27	P 12	P 24,575	P 19,519
Premiums received	11,968	6,139	99	27	11,869	6,112
Liability released for payments of death, maturity and surrender benefits and claims	(7,033)	(1,439)	(82)	(12)	(6,951)	(1,427)
Accretion of investment income or change in unit prices	286	254	-	-	286	254
Changes in valuation of interest Rate	(3,656)	-	-	-	(3,656)	-
Changes in mortality assumptions	-	90	-	-		90
Foreign exchange adjustments	347	27	-	-	347	27
Balance at end of year	P 26,514	P 24,602	P 44	P 27	P 26,470	P 24,575

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

The movement in Legal policy reserves for the years ended December 31, 2018 and 2017 is recognized as part of Policy reserves, insurance benefits and claims under Other Operating Expenses in the BDO Unibank Group's statements of income (see Note 23).

19. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	BDO Unibank Group 2018	BDO Unibank Group 2017	Parent Bank 2018	Parent Bank 2017
Accounts payable		**P 20,688**	P 17,914	**P 18,572**	P 15,379
Manager's checks		**14,447**	14,160	**14,379**	14,016
Accrued expenses		**11,151**	9,895	**10,181**	9,037
Bills purchased – contra		**10,774**	9,984	**10,774**	9,984
Lease deposits		**6,760**	6,106	**115**	109
Retirement benefit obligation	24.2	**4,537**	2,779	**4,379**	2,542
Derivatives with negative fair values	9.1, 25(d)	**4,497**	3,750	**1,680**	1,798
Premium on deposit fund		**3,605**	3,078	**-**	-
Outstanding acceptances payable		**3,591**	4,059	**3,591**	4,059
Withholding taxes payable		**1,342**	1,825	**1,204**	1,679
Due to principal		**451**	394	**-**	-
Capitalized interest and other charges		**411**	408	**362**	358
Due to BSP and Treasurer of the Philippines		**100**	103	**96**	99
Others	13.2, 14	**9,620**	7,797	**8,833**	6,930
		P 91,974	P 82,252	**P 74,166**	P 65,990

Accounts payable includes the amount pertaining to BDO Unibank Group's ESOP which is equivalent to the cumulative amount of amortized awarded share options and the amounts paid by the eligible senior officers who exercised their options (see Notes 20.6 and 24.3).

The liability for unredeemed reward points amounting to P3,377 and P3,015 as of December 31, 2018 and 2017, respectively, presented as part of Accrued expenses above represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.19).

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

Interest expense on certain liabilities amounting to P101, P85 and P84 in 2018, 2017, and 2016, respectively, in BDO Unibank Group's financial statements and P19, P12 and P9 in 2018, 2017, and 2016, respectively, in Parent Bank's financial statements are presented as part of Interest expense on bills payable and other liabilities under Interest Expense account in the statements of income (see Note 22).

Impairment losses recognized for off-books account as a result of the adoption of PFRS 9 amounted to P206 for both the Group and the Parent Bank in 2018. This amount is recorded as Provision - Others under Other Liabilities account in the statement of financial position (see Note 14). No accrual of impairment losses for off-books accounts were recognized in 2017 and 2016 since the Group and the Parent Bank applied the restatement using the transitional relief allowed by the new standard (see Note 2.2).

20. EQUITY

20.1 Capital Management and Regulatory Capital

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

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

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

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

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

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

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

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

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

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

Under BSP Circular 781, universal banks with more than 100 branches are required to comply with the minimum capital requirement of P20 billion. As of December 31, 2018 and 2017, the Parent Bank has complied with the above capitalization requirement.

On October 29, 2014, the BSP issued Circular 856 on the guidelines on the framework for dealing with domestic systemically important banks (DSIB) that is consistent with the Basel principles. Banks, which are identified as DSIB shall be required to have a higher loss absorbency (HLA). The HLA requirement is aimed at ensuring that DSIBs, have a higher share of their statements of financial position funded by instruments, which increase their resilience as a going concern. The HLA requirement is to be met with CET 1 capital.

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

BDO Unibank Group's and the Parent Bank's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of December 31, 2018 and 2017 follows:

	BDO Unibank Group	Parent Bank
December 31, 2018		
Tier 1 Capital		
CET 1	P 309,694	P 310,281
Additional Tier 1	5,150	5,150
	314,844	315,431
Tier 2 Capital	31,799	30,925
Total Regulatory Capital	346,643	346,356
Deductions	(32,872)	(56,908)
Total Qualifying Capital	P 313,771	P 289,448
Total Risk-Weighted Assets	P 2,279,864	P 2,171,899
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	13.8%	13.3%
Tier 1 Capital Ratio	12.4%	11.9%
Total CET 1 Ratio	12.1%	11.7%

	BDO Unibank Group	Parent Bank
December 31, 2017		
Tier 1 Capital		
CET 1	P 291,215	P 291,507
Additional Tier 1	5,150	5,150
	296,365	296,657
Tier 2 Capital	27,551	26,767
Total Regulatory Capital	323,916	323,424
Deductions	(29,573)	(57,905)
Total Qualifying Capital	P 294,343	P 265,519
Total Risk-Weighted Assets	P 2,032,004	P 1,919,673
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.5%	13.8%
Tier 1 Capital Ratio	13.1%	12.4%
Total CET 1 Ratio	12.9%	12.2%

20.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2018	2017	**2018**	2017
Preferred shares – P10 par value				
Authorized				
Balance at beginning of year	**2,000,000,000**	2,000,000,000	**P 20,000**	P 20,000
Reclassification to common shares (see Note 20.2.1)	**(1,000,000,000)**	-	**(10,000)**	-
Balance at end of year	**1,000,000,000**	2,000,000,000	**P 10,000**	P 20,000
Issued, fully paid and outstanding	**515,000,000**	515,000,000	**P 5,150**	P 5,150
Common shares – P10 par value				
Authorized				
Balance at beginning of year	**4,500,000,000**	4,500,000,000	**P 45,000**	P 45,000
Reclassification from preferred shares (see Note 20.2.1)	**1,000,000,000**	-	**10,000**	-
Balance at end of year	**5,500,000,000**	4,500,000,000	**P 55,000**	P 45,000
Issued, fully paid and outstanding				
Balance at beginning of year	**4,368,974,554**	3,649,967,648	**P 43,690**	P 36,500
Issued during the year	**5,073,510**	719,006,906	**50**	7,190
Balance at end of year	**4,374,048,064**	4,368,974,554	**P 43,740**	P 43,690

20.2.1 Preferred Shares

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

(a) Perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A shares;

(b) Convertible to common shares at the option of the holder after five years from the issue date or at the option of BDO Unibank Group at any time after issue date; and,

(c) Dividend rate is 6.5% per annum of the par value.

On January 7, 2017, the Parent Bank's BOD authorized the conversion of 1,000,000,000 unissued shares of the Parent Bank, consisting of 500,000,000 unissued Series A Preferred Shares and 500,000,000 unissued ordinary Preferred Shares, each with a par value of P10 per share, into 1,000,000,000 common shares with par value of P10 per share. This will provide BDO with the flexibility to issue common shares should the need arise in the future. The BSP approved the transaction on December 22, 2017 and endorsed it to the SEC. The SEC approved the conversion of the unissued preferred shares into common shares, and the corresponding amendment of the Parent Bank's articles of incorporation to reflect said conversion on March 9, 2018.

20.2.2 Common Shares

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

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

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

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
Private placement	Sybase Equity Investments Corp.	July 20, 2015	64,499,890
Stock options	Various employees	June 6, 2016 to December 31, 2016	4,592,430
Stock options	Various employees	January 3, 2017 to December 27, 2017	2,604,020
Stock rights	Various	January 31, 2017	716,402,886
Stock rights	Various	January 31, 2018	5,073,510
			4,374,048,064

As of December 31, 2018 and 2017, there are 12,583 and 12,649, respectively, holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P130.80 and P164.00 per share as of December 28, 2018 and December 29, 2017, respectively, (the last trading day in 2018 and 2017).

20.3 BDO American Depositary Receipt Program

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

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

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

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

As of December 31, 2018 and 2017, 581,041 and 351,492 ADRs valued at US$14,711,958 and US$11,170,416 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$25.32/share and US$31.78/share respectively).

20.4 Surplus Free

On December 8, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of December 21, 2018 and paid on December 28, 2018.

On November 21, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P70.00 per share or a total of P700. The dividends were declared to stockholders as of November 30, 2018 and paid on December 5, 2018, of which, total dividends paid to non-controlling interest amounted to P0.8.

On August 31, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,312. The dividends were declared to stockholders of record as of September 14, 2018 and paid on September 28, 2018.

On May 26, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares in the amount of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of June 13, 2018 and paid on June 29, 2018.

On March 2, 2018, the BOD of BDO Capital approved the declaration of cash dividends in the amount of P80.00 per share or a total of P800. The dividends were declared to stockholders of record as of February 28, 2018 and paid on March 23, 2018, of which, total dividends paid to non-controlling interest amounted to P1.

On February 24, 2018, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,311. The dividends were declared to stockholders of record as of March 13, 2018 and paid on March 28, 2018.

On February 21, 2018, the BOD of BDO Leasing approved the declaration of cash dividends at P0.10 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P216. The dividends were declared to stockholders of record as of March 9, 2018 and paid on March 27, 2018, of which, total dividends paid to non-controlling interest amounted to P25.

On January 27, 2018, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.50% per annum for a total dividend amount of P339. The dividends were paid on March 2, 2018.

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

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

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

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

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

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

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

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

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

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

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

20.5 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to nil, P96 and P28 in 2018, 2017 and 2016, respectively, representing insurance fund on losses due to fire, robbery and other cash losses. This was approved by the Parent Bank's President. In 2017, ONB appropriated its Surplus Free amounting to P25 (nil in 2018) representing insurance fund on losses due to fire, robbery and other cash losses, which was approved by its Chairman.

On April 19, 2018, the BOD of BDO Insurance approved the reversal of the previously approved appropriation for branches/satellite office expansion amounting to P7.

On February 12, 2018, the BOD of BDO Securities approved the reversal of the previously approved appropriation for proprietary trading amounting to P200.

Also, included in the 2018 surplus reserve are the appropriations made by BDO Securities and BDOSHI totaling P9 and P1, respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers*.

In compliance with BSP regulations, 10% of BDO Unibank Group's and the Parent Bank's profit from trust business amounting to P251, P256 and P240 in 2018, 2017 and 2016 respectively, and P181, P190 and P182 in 2018, 2017 and 2016 respectively, is appropriated to surplus reserves (see Note 26).

On January 1, 2018, as a result of the adoption of PFRS 9, the BDO Unibank Group and the Parent Bank recognized appropriations to surplus reserves representing the excess over the computed ECL allowance for general loan loss portfolio amounting to P9,520 and P9,356, respectively [see Note 2.1(b)], which was charged against the opening balance of Surplus Free. In 2018, BDO Unibank Group and the Parent Bank appropriated its Surplus Free for impairment of general loan loss portfolio amounting to P1,860 and P1,824, respectively. The accumulated amount of appropriation to surplus reserves for general loan portfolio as of December 31, 2018 amounted to P11,380 and P11,180 for BDO Unibank Group and the Parent Bank, respectively. This appropriation was prescribed by BSP and was recognized as part of Surplus Reserves account.

20.6 ESOP

For options that were vested in 2018 and 2017, BDO Unibank Group issued new common shares of 5,073,510 and 2,604,020, respectively from its authorized capital stock (see Note 19).

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year	**5,177,283**	3,557,111	**3,727,213**	2,981,499
Vested during the year	**9,455,129**	9,720,328	**8,189,694**	7,850,278
Exercised during the year	**(7,371,716)**	(8,100,156)	**(6,377,918)**	(7,104,564)
Balance at end of year	**7,260,696**	5,177,283	**5,538,989**	3,727,213

21. INTEREST INCOME

Interest income consists of the following:

	Notes	BDO Unibank Group 2018	2017	2016
Loans and other receivables	10, 25	**P 115,384**	P 88,178	P 73,171
Trading and investment securities:				
At amortized cost	9.3	**7,812**	-	-
At FVOCI	9.2	**3,982**	-	-
At FVTPL	9.1	**72**	162	201
AFS securities	9.2	**-**	3,468	3,618
HTM investments	9.3	**-**	6,061	4,323
Due from BSP and other banks	7, 8	**1,733**	1,742	696
Others		**57**	184	28
		P 129,040	P 99,795	P 82,037

	Notes	Parent Bank 2018	2017	2016
Loans and other receivables	10, 25	**P 111,685**	P 84,431	P 69,570
Trading and investment securities at:				
At amortized cost	9.3	**6,995**	-	-
At FVOCI	9.2	**2,391**	-	-
At FVTPL	9.1	**51**	116	142
AFS securities	9.2	**-**	2,032	2,237
HTM investments	9.3	**-**	5,634	4,115
Due from BSP and other banks	7, 8	**1,446**	1,399	565
Others		**47**	174	18
		P 122,615	P 93,786	P 76,647

22. INTEREST EXPENSE

Interest expense is composed of the following:

	Notes	BDO Unibank Group 2018	2017	2016
Deposit liabilities	15, 25	**P 25,595**	P 14,919	P 13,623
Bills payable and other liabilities	9.2, 16, 17, 19, 24.2	**5,153**	3,123	2,790
		P 30,748	P 18,042	P 16,413

	Notes	Parent Bank 2018	2017	2016
Deposit liabilities	15, 25	**P 24,671**	P 14,076	P 12,898
Bills payable and other liabilities	16, 17 19, 24.2	**4,049**	2,358	2,091
		P 28,720	P 16,434	P 14,989

23. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	BDO Unibank Group 2018	2017	2016
Service charges, fees and commissions	25	**P 27,372**	P 25,701	P 19,074
Insurance premiums		**11,799**	9,871	8,051
Foreign exchange gains	9.1	**3,789**	3,412	2,978
Trust fees	26	**3,314**	3,246	3,123
Rental	12	**1,653**	1,588	1,475
Trading gains (loss) – net	9.1, 9.2	**(1,619)**	450	1,860
Income from assets sold or exchanged	12	**1,057**	798	809
Dividends	9.1	**630**	551	440
Miscellaneous – net	13, 28	**1,679**	1,589	3,803
		P 49,674	P 47,206	P 41,613

	Notes	Parent Bank 2018	2017	2016
Service charges, fees and commissions	25	**P 24,372**	P 21,755	P 15,510
Foreign exchange gains		**3,412**	3,072	2,703
Share in net income of subsidiaries and associates	13.1	**2,740**	4,312	3,657
Trust fees	26	**2,593**	2,647	2,491
Income from assets sold or exchanged	12	**943**	751	767
Rental	12	**583**	534	494
Dividends		**188**	184	132
Trading gains – net	9.1, 9.2	**130**	(405)	1,061
Miscellaneous – net	13, 28	**862**	783	679
		P 35,823	P 33,633	P 27,494

Other operating expenses consist of the following:

	Notes	BDO Unibank Group 2018	2017	2016
Compensation and benefits	24.1	**P 30,449**	P 27,405	P 24,698
Fees and commissions		**13,807**	12,095	6,640
Taxes and licenses	12	**11,639**	8,270	7,224
Occupancy	13.7, 25, 33.2	**9,509**	8,412	7,661
Policy reserves, insurance benefits and claims	18	**7,494**	7,463	5,742
Insurance		**4,805**	4,144	3,802
Advertising		**4,301**	3,431	2,711
Security, clerical, messengerial and janitorial		**3,723**	3,276	2,914
Representation and entertainment		**2,313**	1,861	1,594
Repairs and maintenance		**1,463**	1,316	1,123
Travelling		**1,369**	1,308	1,204
Power, light and water		**1,214**	1,058	959
Supplies		**1,062**	943	691
Telecommunication		**667**	557	488
Information technology		**647**	538	443
Litigation on assets acquired		**542**	473	408
Amortization of computer software	13.7	**516**	528	436
Freight		**331**	307	302
Miscellaneous	13.6	**2,183**	1,480	948
		P 98,034	P 84,865	P 69,988

	Notes	Parent Bank 2018		2017		2016
Compensation and benefits	24.1	P	**26,538**	P 23,909	P	21,508
Fees and commissions			**13,190**	11,372		5,747
Taxes and licenses	12		**10,476**	7,222		6,227
Occupancy	13.7, 25, 33.2		**8,129**	7,046		6,459
Insurance			**4,661**	3,911		3,593
Advertising			**4,208**	3,319		2,600
Security, clerical, messengerial and janitorial			**3,484**	3,054		2,728
Representation and entertainment			**2,063**	1,623		1,401
Repairs and maintenance			**1,351**	1,218		1,052
Travelling			**1,128**	1,089		1,003
Power, light and water			**1,112**	953		862
Supplies			**971**	827		567
Information technology			**615**	510		408
Telecommunication			**573**	465		384
Litigation on assets acquired			**527**	431		378
Amortization of computer software	13.7		**480**	477		372
Freight			**312**	285		282
Miscellaneous	13.6		**1,976**	1,218		808
		P	**81,794**	P 68,929	P	56,379

24. COMPENSATION AND BENEFITS

24.1 Compensation and Benefits

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

	Notes	BDO Unibank Group 2018		2017		2016
Salaries and wages		**P**	**18,550**	P 16,732	P	15,009
Bonuses			**5,870**	5,255		4,608
Retirement – defined benefit plan	24.2		**1,558**	1,432		1,296
Social security costs			**716**	629		583
Employee stock option plan	24.3		**649**	518		836
Other benefits			**3,106**	2,839		2,366
	23	**P**	**30,449**	P 27,405	P	24,698

	Notes	Parent Bank 2018		2017		2016
Salaries and wages		**P**	**16,001**	P 14,432	P	12,811
Bonuses			**5,253**	4,696		4,193
Retirement – defined benefit plan	24.2		**1,340**	1,248		1,134
Social security costs			**603**	539		500
Employee stock option plan	24.3		**582**	464		739
Other benefits			**2,759**	2,530		2,131
	23	**P**	**26,538**	P 23,909	P	21,508

24.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

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

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

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2018 and 2017.

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

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Present value of the DBO	**P 28,599**	P 25,347	**P 26,331**	P 23,171
Fair value of plan assets	**(24,070)**	(22,575)	**(21,952)**	(20,629)
Deficiency of plan assets	**4,529**	2,772	**4,379**	2,542
Effect of asset ceiling	**8**	7	**-**	-
	P 4,537	P 2,779	**P 4,379**	P 2,542

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

	BDO Unibank Group		**Parent Bank**	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 25,347**	P 21,072	**P 23,171**	P 19,253
Current service cost	**1,535**	1,432	**1,340**	1,248
Interest expense	**1,445**	1,159	**1,321**	1,059
Benefits paid by the plan	**(1,405)**	(1,252)	**(1,247)**	(1,208)
Past service cost	**23**	-	**-**	-
Remeasurements:				
Actuarial losses (gains) arising from changes in:				
- experience adjustments	**5,645**	13,860	**5,156**	13,272
- demographic assumptions	**(1,951)**	(9,699)	**(2,195)**	(9,237)
- financial assumption	**(2,040)**	(1,225)	**(1,215)**	(1,216)
Balance at end of year	**P 28,599**	P 25,347	**P 26,331**	P 23,171

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 22,575**	P 21,850	**P 20,629**	P 20,093
Contributions paid into the plan	**2,899**	1,533	**2,542**	1,355
Interest income	**1,329**	1,210	**1,213**	1,109
Benefits paid by the plan	**(1,405)**	(1,252)	**(1,247)**	(1,208)
Remeasurement loss - return on plan assets (excluding amounts included in net interest)	**(1,328)**	(766)	**(1,185)**	(720)
Balance at end of year	**P 24,070**	P 22,575	**P 21,952**	P 20,629

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Placements in debt instruments:				
Government bonds	**P 2,552**	P 7,374	**P 2,182**	P 6,711
Corporate bonds	**12,970**	4,629	**12,100**	4,268
UITFs	**5,088**	4,835	**4,715**	4,534
Cash and cash equivalents	**1,002**	2,483	**933**	2,321
Loans and other receivables	**1,425**	982	**1,339**	928
Equity instruments	**777**	807	**433**	485
Other properties	**256**	1,465	**250**	1,382
	P 24,070	P 22,575	**P 21,952**	P 20,629

Actual returns on plan assets were nil and P27 in 2018 and P444 and P389 in 2017 in the BDO Unibank Group and the Parent Bank's financial statements, respectively.

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

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

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

	BDO Unibank Group		
	2018	2017	2016
Recognized in profit or loss:			
Current service costs	**P 1,534**	P 1,432	P 1,296
Past service costs	**23**	-	-
Interest expense (income)	**117**	(51)	(87)
	P 1,674	P 1,381	P 1,209
Recognized in other comprehensive income, net of tax (see Note 29.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 3,951**	P 9,702	P 472
- demographic assumptions	**(1,365)**	(6,790)	16
- financial assumptions	**(1,428)**	(857)	134
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**930**	536	48
- changes in the effect of the asset ceiling	**-**	(41)	(22)
Share in actuarial gains of associates	**-**	-	(3)
	P 2,088	P 2,550	P 645

	Parent Bank		
	2018	2017	2016
Recognized in profit or loss:			
Current service costs	**P 1,340**	P 1,248	P 1,134
Interest expense	**108**	(50)	(79)
	P 1,448	P 1,198	P 1,055
Recognized in other comprehensive income, net of tax (see Note 29.1):			
Actuarial losses (gains) arising from change in:			
- experience adjustments	**P 3,609**	P 9,290	P 377
- demographic assumptions	**(1,537)**	(6,466)	-
- financial assumptions	**(850)**	(851)	106
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**830**	504	53
- changes in the effect of the asset ceiling	**-**	(32)	(20)
	2,052	2,445	516
Share in actuarial losses (gains) of subsidiaries and associates	**36**	(92)	129
	P 2,088	P 2,353	P 645

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

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

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Discount rates	**7.52%**	5.70%	**7.53%**	5.70%
Expected rate of salary increases	**2.00 - 11.00%**	2.00 - 11.00%	**7.00 - 8.00%**	6.00 - 8.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 25 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) Investment and Interest Risks

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

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit asset as of December 31, 2018 and 2017:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
BDO Unibank Group			
December 31, 2018			
Discount rate	**+/-1%**	**(P 845)**	**P 924**
Salary increase rate	**+/-1%**	**910**	**(849)**
December 31, 2017			
Discount rate	+/-1%	(P 1,190)	P 1,337
Salary increase rate	+/-1%	1,082	(985)
Parent Bank			
December 31, 2018			
Discount rate	**+/-1%**	**(P 639)**	**P 675**
Salary increase rate	**+/-1%**	**666**	**(643)**
December 31, 2017			
Discount rate	+/-1%	(P 982)	P 1,087
Salary increase rate	+/-1%	864	(798)

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

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

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, BDO Unibank Group through its Compensation Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds or UITFs) with maturities that match the benefit payments as they fall due and in the appropriate currency. BDO Unibank Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2018 and 2017 consists of debt instruments and UITFs, although the BDO Unibank Group and the Parent Bank also invest in cash and cash equivalents and properties. The debt instruments include government bonds and corporate bonds.

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

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2018, the plan of the BDO Unibank Group and the Parent Bank is underfunded by P4,538 and P4,379, respectively, based on the latest actuarial valuation report. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The BDO Unibank Group and the Parent Bank expects to pay P6,376 and P6,119 respectively, as contributions to retirement benefit plans in 2019.

The expected maturity of undiscounted expected benefits payments of BDO Unibank Group and the Parent Bank from the plan for the next ten years is presented as follows:

	BDO Unibank Group	Parent Bank
Between one to five years	P 32,986	P 31,574
Between six to ten years	4,322	2,842
	P 37,308	**P 34,416**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 2.5 to 17.6 years for the BDO Unibank Group and 2.5 years for the Parent Bank.

24.3 ESOP

BDO Unibank Group's ESOP expense includes the amounts recognized by the Parent Bank and its subsidiaries over the vesting period. In 2018 and 2017, vested shares totaled 9,455,129 and 9,720,328, respectively for BDO Unibank Group, and 8,189,694 and 7,850,278 shares, respectively for Parent Bank.

The ESOP expense, included as part of Compensation and benefits under Other Operating Expenses in the BDO Unibank Group's statements of income, amounted to P649, P518 and P836 in 2018, 2017, and 2016, respectively, and in the Parent Bank's statements of income, amounted to P582, P464 and P739, respectively (see Note 24.1).

25. RELATED PARTY TRANSACTIONS

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

The summary of BDO Unibank Group's significant transactions with its related parties as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction 2018	2017	2016	Outstanding Balance 2018	2017
DOSRI Loans	25(a)					
Stockholders		**P 35,813**	P 78,597	P 16,529	**P 51,131**	P 51,916
Related Parties Under Common Ownership		**476**	3,314	42,812	**1,032**	2,066
Officers and Employees		**1,601**	1,504	1,296	**2,019**	1,860
Deposit Liabilities	25(b)					
Stockholders		**638,830**	554,530	386,266	**46,873**	52,886
Related Parties Under Common Ownership		**12,638**	80,630	403,677	**3,765**	3,790
Officers and Employees		**620**	349	36	**21**	93
Other Transactions with Associates	25(d)					
Loans and Advances		**1,800**	-	-	**6,936**	5,920
Interest Income		**370**	254	88	**342**	52
Related Parties Under Common Ownership						
Rent Expense	25(d)	**1,157**	1,031	915	**92**	109
Key Management Personnel	25(d)					
Compensation		**1,574**	1,413	1,501	**-**	-
Retirement Plan	25(c)	**(135)**	64	109	**5,188**	5,058

The summary of the Parent Bank's significant transactions with its related parties as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction 2018	Amounts of Transaction 2017	Amounts of Transaction 2016	Outstanding Balance 2018	Outstanding Balance 2017
DOSRI Loans	25(a)					
Stockholders		**P 35,813**	P 78,597	P 16,529	**P 51,131**	P 51,916
Related Parties Under Common Ownership		**476**	3,314	42,812	**1,032**	2,064
Officers and Employees		**1,600**	1,500	1,289	**2,014**	1,853
Deposit Liabilities	25(b)					
Stockholders		**638,830**	554,530	386,266	**46,873**	52,886
Related Parties Under Common Ownership		**12,405**	80,630	403,677	**3,703**	3,790
Officers and Employees		**621**	349	36	**21**	93
Other Transactions with Subsidiaries	25(d)					
Loans and Advances		**69,388**	69,613	42,035	**5,887**	8,539
Derivative Assets		-	100	742	**-**	1
Derivative Liabilities		**538**	1,276	600	**5**	25
Deposit Liabilities		**423**	697	699	**4,821**	4,398
Interest Income		**247**	232	128	**46**	9
Rent Income		**120**	115	96	**-**	-
Service Fees		**637**	539	222	**-**	-
Interest Expense		**41**	23	13	**5**	1
Rent Expense		**14**	9	9	**-**	-
Related Parties Under Common Ownership						
Rent Expense	25(d)	**1,009**	912	820	**92**	109
Key Management Personnel	25(d)					
Compensation		**1,060**	985	976	**-**	-
Retirement Plan	25(c)	**(135)**	64	109	**5,187**	5,055

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

(a) *Loans to Related Parties*

Under existing policies of BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.5% to 6.5% per annum in 2018, 2.0% to 3.5% per annum in 2017 and 2016, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2018 and 2017, the BDO Unibank Group and the Parent Bank is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Total DOSRI loans	**P 54,182**	P 55,842	**P 54,177**	P 55,833
Unsecured DOSRI loans	**1,726**	1,573	**1,726**	1,572
Past due DOSRI loans	**7**	1	**7**	1
Non-performing DOSRI loans	**15**	-	**15**	-
% of DOSRI loans to total loan portfolio	**2.68%**	3.18%	**2.75%**	3.28%
% of unsecured DOSRI loans to total DOSRI loans	**3.19%**	2.82%	**3.19%**	2.82%
% of past due DOSRI loans to total DOSRI loans	**0.01%**	0.00%	**0.01%**	0.00%
% of non-performing DOSRI loans to total DOSRI loans	**0.03%**	0.00%	**0.03%**	0.00%

DOSRI loans of BDO Unibank Group and the Parent Bank bear annual interest rates of 0.00% to 9.00% in 2018 and 0.00% to 10.60% 2017 and 0.00% to 12.00% in 2016 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

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

Total loan releases and collections in 2018 amounted to P37,890 and P39,548 for BDO Unibank Group and P37,889 and P39,544 for the Parent Bank, respectively. Total loan releases and collections in 2017 amounted to P83,415 and P50,813 for BDO Unibank Group and P83,411 and P50,805 for the Parent Bank, respectively. Total loan releases and collections in 2016, on the other hand, amounted to P60,637 and P67,087 for BDO Unibank Group and P60,630 and P66,961 for the Parent Bank, respectively.

(b) Deposits from Related Parties

Total deposits made by the related parties amounted to P652,088, P635,509 and P789,979 in 2018, 2017 and 2016 for BDO Unibank Group, and P651,856, P635,509 and P789,979 in 2018, 2017 and 2016 for the Parent Bank, respectively, and bearing interest rates range of 0.00% to 5.50% in 2018, 0.00% to 4.32% in 2017 and 0.00% to 5.30% in 2016. The related interest expense from deposits amounted to P1,873 and P2,181 and P2,391 in 2018, 2017, and 2016, respectively (see Note 22).

(c) Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

Related Party Category	Amounts of Transaction			Outstanding Balance	
	2018	2017	2016	**2018**	2017
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 18**	P 27
BDO Leasing	**-**	-	-	**-**	1
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**20**	26
BDO Leasing	**-**	-	-	**1**	2
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**5,149**	5,002
Trading gain					
BDO Unibank, Inc.	**(159)**	59	105	**-**	-
Interest expense					
BDO Unibank, Inc.	**24**	5	4	**-**	-

BDO Unibank Group's retirement fund has transactions directly and indirectly with Parent Bank as of December 31, 2018 and 2017 and for each of the three years ended are as follows:

Related Party Category	Amounts of Transaction			Outstanding Balance	
	2018	2017	2016	**2018**	2017
Loans to employees					
BDO Unibank, Inc.	**P -**	P -	P -	**P 18**	P 27
Investment in shares of -					
BDO Unibank, Inc.	**-**	-	-	**20**	26
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	**-**	-	-	**5,149**	5,002
Trading gain					
BDO Unibank, Inc.	**(159)**	59	105	**-**	-
Interest expense					
BDO Unibank, Inc.	**24**	5	4	**-**	-

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

(d) Other Transactions with Related Parties

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

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

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. Total advances granted and collected amounted to P79 and P85, P85 and P29 and P344 and P478, in 2018, 2017 and 2016, respectively. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables in the Parent Bank's statements of financial position amounted to P79 and P85 as of December 31, 2018 and 2017, respectively (see Note 10).

The Parent Bank also grants both secured and unsecured interest-bearing loans to subsidiaries with outstanding balance of P5,808 and P8,454 as of December 31, 2018 and 2017, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 10). Total loans granted amounted to P69,309, P69,528 and P41,691 while total loans collected amounted to P71,955, P67,005 and P42,578 for 2018, 2017 and 2016, respectively. These loans are payable in cash with a term between one month to five years. Interest income recognized on these is presented as part of Interest Income in the Parent Bank's statements of income (see Note 21). Interest rate on these loans ranges from 2.5% to 6.5%, 2.0% to 3.5% and 2.0% to 3.5% per annum in 2018, 2017, and 2016, respectively.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank. Total service fees are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). There are no outstanding balance arising from these transactions as of December 31, 2018 and 2017. Total service fees amounted to P637, P539 and P222 in 2018, 2017 and 2016, respectively.

BDO Life, a former associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life pays the Parent Bank management fees in cash equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. Total service fees is presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). Outstanding balances arising from this as of December 31, 2018 and 2017 is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

Certain subsidiaries lease office space from the Parent Bank. Total rent collected from the subsidiaries is included as part of Miscellaneous under Other Operating Income in the Parent Bank's statements of income (see Note 23). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2018 and 2017. Total rent income amounted to P120, P115 and P96 in 2018, 2017 and 2016, respectively.

BDO Capital, BDO Securities and BDOI, have reimbursed the Parent Bank in cash on the actual costs and expenditures in relation to its services amounting to nil, P67 and P90 in 2018, 2017, and 2016, respectively. There are no outstanding receivable from subsidiaries as of December 31, 2018 and 2017.

(3) Expenses of the Parent Bank

The Parent Bank leases space from BDOSHI for its branch operations. Total rent paid is included as part of Occupancy account under Other Operating Expenses account in the Parent Bank statements of income (see Note 23). The lease term is between 10 to 20 years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2018 and 2017. Total rent expense amounted to P14, P9 and P9 in 2018, 2017 and 2016, respectively.

(4) Derivatives

In 2018 and 2017, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards, interest rate swap and cross currency swaps. As of December 31, 2018 and 2017, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account (see Note 9.1) and Derivatives with negative fair values under Other Liabilities account in the statements of financial position (see Note 19).

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank bear interest rates of 0.00% to 6.75% in 2018, 0.00% to 2.50% in 2017 and 0.00% to 2.60% in 2016. These related interest expense from these deposits are included as part of Interest Expense account on deposit liabilities in the statements of financial position (see Note 22).

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2018 and 2017, there is an outstanding secured and unsecured interest-bearing loans and advances to associates amounting to P6,936 and P5,920 for the BDO Unibank Group and P6,750 and P5,200 for the Parent Bank, respectively, and are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable in cash between two months to twelve years. Total collections on loans and advances amounted to P536, P8 and P488 in 2018, 2017 and 2016, respectively.

Annual interest rate on these loans ranges from 6.37% to 7.70% for 2018 and 3.0% to 7.7% for the years 2017 and 2016. The related interest income is presented as part of Interest Income on loans and other receivables in the BDO Unibank Group's statements of income (see Note 21). As of December 31, 2018, 2017 and 2016, there were no impairment losses recognized on these loans and advances.

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

The Parent Bank leases space from related parties for its branch operations. For the years ended December 31, 2018, 2017 and 2016, total rent paid to related parties amounted to P1,009, P912 and P820, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 23). The terms of the lease are from two to five years and is payable in cash. Outstanding balances arising from this transaction amounted to P92 and P109 as of December 31, 2018 and 2017, respectively and is included as part of Accounts payable under Other Liabilities (see Note 19).

(iv) Key Management Personnel Compensation

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

	BDO Unibank Group		
	2018	2017	2016
Salaries and other benefits	**P 1,374**	P 1,267	P 1,348
Retirement expense	**200**	146	153
	P 1,574	P 1,413	P 1,501

	Parent Bank		
	2018	2017	2016
Salaries and other benefits	**P 931**	P 886	P 878
Retirement expense	**129**	99	98
	P 1,060	P 985	P 976

26. TRUST OPERATIONS

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

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Investments	**P 1,150,783**	P 1,036,651	**P 841,019**	P 743,955
Others	**10,934**	9,507	**8,665**	7,806
	P 1,161,717	P 1,046,158	**P 849,684**	P 751,761

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

(a) Investment in government securities which are shown as part of Investment securities at amortized cost (see Note 9.3) with a total face value of P13,136 as of December 31, 2018 and HTM investments (see Note 9.3) with a total face value of P11,008 as of December 31, 2017, in BDO Unibank Group and, P8,628 and P7,830 as of December 31, 2018 and 2017, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2018 and 2017, the additional reserve for trust functions amounted to P251 and P256, respectively, for BDO Unibank Group and P181 and P190, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 20.5).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P3,314, P3,246 and P3,123 for the years ended December 31, 2018, 2017 and 2016, respectively, in BDO Unibank Group statements of income and P2,593, P2,647, and P2,491 for the years ended December 31, 2018, 2017 and 2016, respectively, in the Parent Bank statements of income (see Note 23).

27. UNIT-LINKED FUNDS

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

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

As of December 31, 2018 and 2017, BDO Life has 12 VUL funds. The details of the investment funds, which comprise the assets backing the unit-linked liabilities, are presented in the table below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the BDO Unibank Group's financial statements.

		2018		2017
Assets:				
Cash and cash equivalents	**P**	**73**	P	62
Financial assets at FVTPL		**8,514**		5,658
Other receivables		**13**		7
	P	**8,600**	P	5,727
Liabilities and Equity:				
Other liabilities	**P**	**45**	P	32
Net assets attributable to unitholders		**8,555**		5,695
	P	**8,600**	P	5,727

28. MERGERS AND ACQUISITIONS

28.1 Subscription of Additional Shares in CBN Grupo

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

28.2 Acquisition of Credit Card Portfolio

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

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

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

28.3 Acquisition of BDO Life

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of BDO Life, a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by GPHCI. As of December 31, 2015, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of BDO Life.

On June 30, 2016, BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. Although the acquisition was consummated in 2016, the consideration was agreed by the parties in 2014. During 2015, BDO Life's net asset substantially increased as a result of the improvement in the latter's insurance operations. Accordingly, the fair value of the net assets exceeded the amount of consideration received by the Group resulting in the recognition of a gain on fair valuation of previously-held interest and gain on bargain purchase (negative goodwill) amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214. This is recorded as part of Miscellaneous under Other Operating Income account in the 2016 financial statements of BDO Unibank Group (see Note 23).

BDO Unibank Group is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market. By assuming full control of BDO Life Assurance's operations, BDO Unibank Group will be able to adapt more readily to the demands of its target markets.

On the date of acquisition, the equity share in BDO Life was re-measured at fair value, as follows:

Fair value	P 2,549
Book value	(1,921)
Gain on fair valuation of previously-held interest	P 628

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	851
Trading and investment securities		25,882
Loans and other receivables		563
Bank premises, furniture, fixtures and equipment		54
Other resources		104
Total resources		27,454
Insurance contract liabilities		17,910
Other liabilities		3,173
Total liabilities		21,083
Net assets acquired		6,371
Fair value of the investment for the previously held interest in BDO Life	(	2,549)
Consideration transferred (for the 60% ownership interest)	(	2,236)
Gain on bargain purchase	P	1,586

Pre-acquisition income arising from the step-up acquisition amounted to P391. Subsequently, GPHCI was renamed to BDO Life Holdings (see Notes 2.3 and 13.1).

On November 24, 2016, the BOD of BDO Life Holdings and BDO Life, at their respective meetings, approved the merger of the two companies, with BDO Life as the surviving entity, and the Plan of Merger. The same were likewise approved by the respective stockholders of the companies on December 3, 2016. The merger was approved by the SEC on September 4, 2017 and was implemented on the same date.

Under the Articles of Merger, the capital stock owned by the Parent Bank and BDO Capital in BDO Life Holdings shall be exchanged for shares in the capital stock of BDO Life on the basis of the net asset value of BDO Life Holdings. BDO Life issued a total of 15,931,324 shares with a par value of P100 per share to the shareholders of BDO Life Holdings in exchange for the net asset of BDO Life Holdings, composed of 15,150,505 shares reacquired by BDO Life as a consequence of the merger, since it was previously wholly-owned by BDO Life Holdings, and 780,819 shares from the unissued authorized capital stock of BDO Life. The shareholdings of the Parent Bank and BDO Capital after the merger is 97.0% and 3.0%, respectively.

28.4 Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in an Investment Agreement (the Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share. Such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 new common shares of PCIB Securities at P370.34 per share, resulting to new percentage of ownership of the Parent Bank to 51.0% and Nomura having 49.0% over PCIB Securities. Subsequently, PCIB Securities was renamed as BDO Nomura.

On July 20, 2017, BDO Nomura's BOD and stockholders approved the increase in its authorized capital stock from P100, divided into 1,000,000 shares with P100 par value per share to P1,000, divided into 10,000,000 shares with P100 par value per share. In relation to the increase in authorized capital stock, BDO Nomura received a cash infusion from the Parent Bank and Nomura Asia Investment (Singapore) Pte. Ltd. amounting to P153 and P147, respectively, for future subscription of additional shares of stock of BDO Nomura with a total par value of P300. The deposit for future stock subscription were recorded as part of Equity investments under Other Resources account in the Parent Bank's 2017 statement of financial position (see Note 13.1). On February 5, 2018, the application for the increase in authorized capital stock of BDO Nomura was approved by the SEC. Accordingly, such deposit was applied against subscription of additional shares of stock of BDO Nomura in 2018.

On November 27, 2018 additional cash infusion was received from the Parent Bank and Nomura Asia Investment (Singapore) Pte. Ltd amounting to P51 and P49, respectively with a total par value of P100.

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

On January 28, 2016, BDO Leasing entered into a joint venture investment agreement with MMPC, SJC and JACCS to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles in the Philippines. The joint venture, incorporated and named MAFSC, is seen harnessing the complementary strengths of the partners of the joint venture to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and a growing population. Upon the incorporation of MAFSC on May 31, 2016, BDO Leasing contributed P300 for 3,000,000 common shares, thereby owning 40% of the company while MMPC, SJC and JACCS jointly hold the remaining 60% stake (see Note 13.1).

28.6 Acquisition of One Network Bank, Inc. (A Rural Bank)

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of Additional Paid-in Capital amounting to P6,028, net of related transaction costs amounting to P3. Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%. The total goodwill recognized in 2015 amounting to P2,903 is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

As of December 31, 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. These additional purchases of ONB common shares by the Parent Bank increased its total shareholdings in ONB to 99.76%. Total additional goodwill recognized in 2016 amounted to P4.

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	3,294
Trading and investment securities		2,457
Loans and other receivables		20,532
Bank premises, furniture, fixtures and equipment		1,510
Other resources		403
Total resources		28,196
Deposit liabilities		20,920
Other liabilities		3,478
Total liabilities		24,398
Net asset position		3,798
Non-controlling share in equity	(	14)
Cost of investment	(	6,687)
Goodwill (see Note 13.3)	P	2,903

On December 3, 2016, the Parent Bank's BOD authorized a P1,000 capital infusion into ONB to allow the subsidiary to provide for its ongoing expansion plans and to comply with BSP regulations. The BSP approved the additional equity investment into ONB on August 10, 2017. On September 13, 2017, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.79%.

On September 30, 2017, the Parent Bank's BOD authorized an additional P1,000 capital infusion into ONB to support its MSME initiatives and give it additional leeway in its expansion plans. The BSP approved the additional equity investments into ONB on December 13, 2017. Moreover, on January 18, 2018, the Parent Bank subscribed to an additional 32,386,356 of new ONB shares thereby increasing its shareholdings in ONB to 99.81%. On January 23, 2018 and December 27, 2018, the Parent Bank subscribed to an additional 124,275 and 14,276 shares, respectively, from ONB's total issued and outstanding capital stock thereby increasing its shareholdings in ONB to 99.86%

On October 1, 2018, the Parent Bank has entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire a 15% ownership interest in ONB. The transaction is subject to closing conditions, including requisite regulatory approvals.

28.7 Acquisition of Trust Business

In 2014, the Parent Bank entered into a definitive agreement for the acquisition of the trust business of Deutsche Bank AG's Manila branch (Deutsche) comprising of trust, other fiduciary and investment management activities amounting to P35,751 and presented as part of contingent accounts under Trust department accounts (see Note 33.3). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources account in the statements of financial position (see Note 13.7).

29. TAXES

29.1 Current and Deferred Taxes

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

	BDO Unibank Group		
	2018	2017	2016
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 9,305**	P 8,031	P 5,528
Minimum corporate income tax (MCIT) at 2%	**23**	14	16
Final taxes at 20%, 15%, 10% and 7.5%	**1,685**	1,371	1,220
	11,013	9,416	6,764
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(6)**	36	33
	P 11,007	P 9,452	P 6,797

	BDO Unibank Group		
	2018	2017	2016
Reported in other comprehensive income:			
Actuarial losses	**(P 859)**	(P 1,125)	(P 267)
Fair value of financial assets at FVOCI	**(44)**	-	-
Fair value of AFS securities	**-**	20	(21)
	(P 903)	(P 1,105)	(P 288)

	Parent Bank		
	2018	2017	2016
Reported in profit or loss:			
Current tax expense:			
RCIT at 30%	**P 8,080**	P 7,045	P 4,651
Final taxes at 20%, 15%, 10% and 7.5%	**1,234**	978	870
	9,314	8,023	5,521
Deferred tax expense relating to origination and reversal of temporary differences	**198**	218	192
	P 9,512	P 8,241	P 5,713
Reported in other comprehensive income:			
Actuarial losses	**(P 879)**	(P 1,048)	(P 221)

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

	BDO Unibank Group		
	2018	2017	2016
Tax on pretax profit at 30%	**P 13,094**	P 11,267	P 9,870
Adjustment for income subjected to lower income tax rates	**(617)**	(379)	(349)
Tax effects of:			
Income exempt from tax	**(3,494)**	(2,552)	(2,868)
Non-deductible expenses	**2,278**	2,545	1,734
Deductible temporary differences not recognized	**(659)**	(908)	(1,022)
Net operating loss carryover (NOLCO) not recognized	**127**	17	20
Application of previously unrecognized MCIT	**-**	(4)	-
Utilization of previously unrecognized NOLCO	**-**	-	(30)
Others	**278**	(534)	(558)
Tax expense reported in profit or loss	**P 11,007**	P 9,452	P 6,797

	Parent Bank		
	2018	2017	2016
Tax on pretax profit at 30%	**P 12,667**	P 10,874	P 8,931
Adjustment for income subjected to lower income tax rates	**(621)**	(484)	(399)
Tax effects of:			
Income exempt from tax	**(3,882)**	(3,492)	(3,216)
Non-deductible expenses	**1,998**	2,259	1,460
Deductible temporary differences not recognized	**(650)**	(916)	(1,021)
Others	**-**	-	(42)
Tax expense reported in profit or loss	**P 9,512**	P 8,241	P 5,713

Components of the net deferred tax assets (see Note 13) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Deferred tax assets:				
Allowance for impairment	**P 6,560**	P 6,386	**P 5,858**	P 5,858
Unamortized past service costs	**1,219**	1,116	**1,182**	1,070
Retirement obligation	**863**	495	**901**	351
Lease income differential	**146**	128	**146**	129
NOLCO	**-**	3	**-**	-
Others	**217**	1	**-**	-
	9,005	8,129	**8,087**	7,408
Deferred tax liabilities:				
Revaluation increment	**432**	432	**431**	431
Changes in fair values of financial assets at FVOCI (2018)/ AFS securities (2017)	**36**	80	**-**	-
Capitalized interest	**48**	50	**48**	50
Lease income differential	**2**	10	**-**	-
Others	**175**	154	**-**	-
	693	726	**479**	481
Net deferred tax assets	**P 8,312**	P 7,403	**P 7,608**	P 6,927

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

BDO Unibank Group

	Statements of Income		
	2018	2017	2016
Unamortized past service costs	**(P 103)**	P 222	P 154
Allowance for impairment	**(175)**	(115)	(117)
Lease income differential	**(25)**	(51)	(46)
Retirement asset (obligation)	**332**	23	87
Capitalized interest	**(3)**	(3)	(3)
NOLCO	**-**	(2)	17
Others	**(32)**	(38)	(59)
Deferred tax expense (income)	**(P 6)**	P 36	P 33

Parent Bank

	Statements of Income		
	2018	2017	2016
Unamortized past service costs	**(P 110)**	P 183	P 155
Retirement asset (obligation)	**328**	46	89
Lease income differential	**(17)**	(8)	(14)
Capitalized interest	**(3)**	(3)	(3)
Allowance for impairment	**-**	-	(35)
Deferred tax expense	**P 198**	P 218	P 192

	Statements of Comprehensive Income					
	BDO Unibank Group			Parent Bank		
	2018	2017	2016	**2018**	2017	2016
Movements in actuarial losses	**(P 859)**	(P 1,125)	(P 267)	**(P 879)**	(P 1,048)	(P 221)
Movements in fair value of financial assets at FVOCI	**(44)**	-	-	**-**	-	-
Movements in fair value of AFS securities	**-**	20	(21)	**-**	-	-
Movements in revaluation Increment	**-**	-	-	**-**	-	-
Deferred tax income	**(P 903)**	(P 1,105)	(P 288)	**(P 879)**	(P 1,048)	(P 221)

BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

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

Year	NOLCO	MCIT	Valid Until
2018	P 269	P 9	2021
2017	57	13	2020
2016	69	11	2019
	P 395	P 33	

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2018 and 2017 are as follows:

	BDO Unibank Group			
	2018		2017	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 13,247**	**P 3,974**	P 22,088	P 6,626
NOLCO	**299**	**90**	128	38
MCIT	**31**	**31**	36	36
Others	**1,206**	**362**	1,238	371
	P 14,783	**P 4,457**	P 23,490	P 7,071

	Parent Bank			
	2018		2017	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 12,357**	**P 3,707**	P 20,778	P 6,233
Others	**1,214**	**364**	1,341	402
	P 13,571	**P 4,071**	P 22,119	P 6,635

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

29.2 Gross Receipts Tax

On January 29, 2004, RA No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

29.3 Documentary Stamp Tax

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

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

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

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

(d) Bills of lading or receipt.

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

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

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

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

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

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;

- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;

- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the affectivity of RA No. 9243;

- Fixed income and other securities traded in the secondary market or through an exchange;

- Derivatives including repurchase agreements and reverse repurchase agreements;

- Bank deposit accounts without a fixed term or maturity; and,

- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

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

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

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

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

30. EARNINGS PER SHARE

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

	BDO Unibank Group		
	2018	2017	2016
Net profit attributable to shareholders of the Parent Bank	**P 32,708**	P 28,070	P 26,234
Dividends on preferred shares	**(339)**	(340)	(339)
Net profit available to common shares	**32,369**	27,730	25,895
Divided by the weighted average number of outstanding common shares (in millions)	**4,372**	4,322	3,805
Basic earnings per share	**P 7.40**	P 6.42	P 6.81

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

	BDO Unibank Group		
	2018	2017	2016
Net profit attributable to shareholders of the Parent Bank	**P 32,369***	P 27,730*	P 25,895*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**4,372**	4,322	3,805
Potential common shares from assumed conversion of preferred shares	*****	*	*
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**4,372**	4,322	3,805
Diluted earnings per share	**P 7.40**	P 6.42	P 6.81

* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

** *Potential common shares from assumed conversion of stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

Basic earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2018	2017	2016
Net profit	**P 32,712**	P 28,006	P 24,057
Dividends on preferred shares	**(339)**	(340)	(339)
Net profit available to common shares	**32,373**	27,666	23,718
Divided by the weighted average number of outstanding common shares (in millions)	**4,372**	4,322	3,805
Basic earnings per share	**P 7.40**	P 6.40	P 6.23

Diluted earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2018	2017	2016
Net profit	**P 32,373***	P 27,666*	P 23,718*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**4,372**	4,322	3,805
Potential common shares from assumed conversion of convertible preferred shares	*****	*	*
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**4,372**	4,322	3,805
Diluted earnings per share	**P 7.40**	P 6.40	P 6.23

* *Net profit of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

** *Potential common shares from assumed conversion of stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2018	2017	2016
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**10.6%**	10.2%	12.5%
Return on average resources:			
Net profit / Average total resources	**1.1%**	1.1%	1.2%
Net interest margin:			
Net interest income / Average interest earning resources	**3.6%**	3.5%	3.2%
Return on common equity:			
Net profit / Average common equity	**10.7%**	10.2%	12.7%
Liquidity ratio:			
Total liquid resources / Total resources	**30.4%**	31.6%	33.5%
Debt to equity:			
Total liabilities / Total equity	**821.0%**	794.3%	968.7%
Resources to equity:			
Total resources / Total equity	**921.0%**	894.3%	1,068.7%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**241.9%**	308.2%	301.3%
Profit margin:			
Net profit / Revenues	**18.3%**	19.1%	21.2%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**13.8%**	14.5%	12.4%

* *Computed using balances prepared under PFRS*

	2018	2017	2016
Parent Bank			
Return on average equity:			
Net profit / Average total capital accounts	**10.6%**	10.2%	11.5%
Return on average resources:			
Net profit / Average total resources	**1.2%**	1.2%	1.2%
Net interest margin:			
Net interest income / Average interest earning resources	**3.7%**	3.5%	3.2%
Return on common equity:			
Net profit / Average common equity	**10.7%**	10.2%	11.7%
Liquidity ratio:			
Total liquid resources / Total resources	**28.6%**	29.2%	31.5%
Debt to equity:			
Total liabilities / Total equity	**782.7%**	748.2%	915.8%
Resources to equity:			
Total resources / Total equity	**882.7%**	848.2%	1,015.8%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**247.0%**	320.6%	298.6%
Profit margin:			
Net profit / Revenues	**20.6%**	22.0%	23.1%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**13.3%**	13.8%	11.4%

* *Computed using balances prepared under PFRS*

(b) Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Aggregate amount of secured liabilities	**P 226**	P 2,322	**P -**	P 907
Aggregate amount of resources pledged as security	**P 1,501**	P 4,033	**P -**	P 1,075

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

32.1 Dividends

On January 26, 2019, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.5% per annum of the par value for a total dividend of P339. The dividends will be paid within 60 days from dividend declaration date.

32.2 Purchase of Loans and Deposits of Rural Bank of Pandi by ONB

On February 4, 2019, ONB, entered into an asset sale and purchase agreement with Rural Bank of Pandi, Inc. (RBPI) to purchase RBPI's gross loan receivables and assume its recorded deposit liabilities worth approximately P781 and P918, respectively. The transaction is seen to provide ONB with a stronger presence in Bulacan and fast track its expansion in Central Luzon.

The agreement is still subject to closing conditions and regulatory approvals.

32.3 Issuance of Peso-Denominated Bonds

On February 11, 2019, the Parent Bank issued P35,000 fixed rate bonds. The bonds have a tenor of 1.5 years and bear a coupon rate of 6.42%. Interest will be paid quarterly, calculated on a 30/360 count basis. This represents the initial issuance from P100 billion peso bond program approved by the BOD in August 2018. The issue aims to further diversify the Bank's funding sources and support business expansion.

33. COMMITMENTS AND CONTINGENCIES

33.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2018, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

33.1.1 PEACe bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers. Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly 10 years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT. On October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the Bureau of Treasury (BTr) and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling. On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds. On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On August 16, 2016, the Supreme Court ordered the BTr to immediately release and pay the bondholders the amount of P4,966, representing the 20% FWT on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

On October 19, 2016, the Respondents filed Motions where they respectfully prayed that the Honorable Court grant them leave to file the Motion for Partial Reconsideration and admit the Motion for Partial Reconsideration. The Respondents also prayed that the Resolution dated August 16, 2016 be partially reconsidered and for judgment to be rendered stating that (1) jurisdiction to hear actions assailing the validity of the exercise of quasi-legislative powers of the Commissioner of Internal Revenue pertains to the regular courts after review by the Secretary of Finance; and, (2) the 6% interest on the withheld amount of P4,966 be deleted or in the alternative, and only when respondents are held liable for interest, computation thereof shall be reckoned from the date of finality of the Decision dated January 13, 2015 at the prevailing market rate of comparable short term government debt securities at the time of payment.

On November 22, 2016, the Supreme Court denied, for lack of merit, the Respondents Motion for Leave to File Motion for Partial Reconsideration, as well as the Motion to Admit Motion for Partial Reconsideration, considering that a second motion for reconsideration is a prohibited pleading. The Supreme Court stated that no further pleadings or motions will be entertained and ordered the entry of judgment.

On April 11, 2017, the Parent Bank entered into a Settlement Agreement with the Republic of the Philippines, (acting through the BTr) to settle all claims and put closure to the PEACe Bonds case. Under the terms of the Settlement Agreement:

- The BTr paid the 20% final withholding tax withheld on the PEACe bonds amounting to P690, plus interest of 4% per annum from October 19, 2011 to April 10, 2017 amounting to P151; and,

- The payment was made in the form of 3-Year Retail Treasury Bonds, with interest of 4.25 % per annum.

The 3-Year Retail Treasury Bonds settlement was recognized by the Parent Bank as part of financial assets at FVTPL (see Note 9.1). The interest was recognized as part of Others under Interest Income account (see Note 21) in the 2017 statement of income.

33.1.2 Applicability of RR 4-2011

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

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

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

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

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

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

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

The case remains pending as of December 31, 2018.

33.1.3 First e-Bank

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting Philippine Deposit Insurance Corporation ("PDIC") to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with the Parent Bank wherein consideration of the assumption by the Parent Bank of FeB's liabilities in the maximum amount of P10,000, PDIC will provide the Parent Bank P10,000 of financial assistance and PDIC will receive FeB's assets to recover said financial assistance.

About P5,000 of the financial assistance was released to the Parent Bank and the remaining P5,000 was deposited in escrow with BDO Trust and Investments Group ("BDO-TIG") in accordance with the escrow agreement dated October 23, 2002 entered into by the Parent Bank, PDIC, and BDO-TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets the Parent Bank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon.

Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against the Parent Bank, which case was raffled to RTC Makati City Branch 60. On October 14, 2016, the Parent Bank filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

In a judgement dated May 31, 2018, RTC Makati dismissed the complaint, granted the Parent Bank's counterclaim and ordered BDO-TIG to immediately release the remaining escrow amount, plus interests, to the Parent Bank. PDIC filed Motion for Reconsideration and the Parent Bank and BDO-TIG filed their respective comment/opposition thereto. PDIC's Motion for Reconsideration was submitted for resolution.

33.1.4 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2018, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

33.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the statements of income, amounted to P3,597, P3,220 and P2,846 in 2018, 2017 and 2016, respectively, in BDO Unibank Group's financial statements and P3,385, P3,012 and P2,670 in 2018, 2017 and 2016, respectively, in the Parent Bank's financial statements (see Note 23).

As of December 31, 2018 and 2017, the estimated minimum future annual rentals of BDO Unibank Group and Parent Bank follow:

	BDO Unibank Group		Parent Bank	
	2018	2017	**2018**	2017
Within one year	**P 1,931**	P 2,089	**P 1,682**	P 1,864
More than one year but not more than five years	**15,569**	12,282	**14,800**	11,512
More than five years	**6,102**	4,714	**5,927**	4,575
	P 23,602	P 19,085	**P 22,409**	P 17,951

33.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2018 and 2017, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies. The summary of BDO Unibank Group's commitments and contingent accounts is shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2018**	2017	**2018**	2017
Trust department accounts	26	**P 1,161,717**	P 1,046,158	**P 849,684**	P 751,761
Committed credit lines	4.3.1	**349,732**	303,425	**349,732**	303,353
Forward exchange sold		**132,422**	128,650	**118,276**	116,021
Forward exchange bought		**122,948**	137,034	**105,811**	121,647
Unused commercial letters of credit	4.3.1	**48,950**	47,553	**48,950**	47,536
Interest rate swap receivable		**19,201**	16,481	**5,978**	6,263
Interest rate swap payable		**19,201**	16,481	**5,978**	6,263
Spot exchange sold		**10,818**	14,054	**10,290**	13,740
Bills for collection		**10,716**	5,125	**10,716**	5,125
ROP warrants		**8,475**	15,021	**8,475**	15,021
Spot exchange bought		**7,273**	6,546	**6,745**	6,232
Export letters of credit confirmed		**6,180**	2,351	**6,180**	2,351
Other contingent accounts		**3,038**	2,643	**3,038**	2,038
Late deposits/payments received		**2,674**	1,436	**2,654**	1,426
Outstanding guarantees issued		**1,715**	20,221	**1,715**	20,209

The capital-to-risk assets ratio of BDO Unibank Group as presented in the Capital Adequacy Ratio (Basel III) reports as of December 31, 2018 and 2017 are shown in the table below.

	BDO Unibank Group	**Parent Bank**	BDO Unibank Group	Parent Bank
	December 31, 2018		December 31, 2017	
	(in Millions)		(in Millions)	
Common equity tier 1 capital	**309,694**	**310,281**	291,215	291,507
Additional tier 1 capital	**5,150**	**5,150**	5,150	5,150
Tier 1 capital	**314,844**	**315,431**	296,365	296,657
Tier 2 capital	**31,799**	**30,925**	27,551	26,767
Gross qualifying capital	**346,643**	**346,356**	323,916	323,424
Less: Regulatory adjustments/deductions	**32,872**	**56,908**	29,573	57,905
Total qualifying capital	**313,771**	**289,448**	294,343	265,519
Credit risk-weighted assets	**2,077,623**	**1,990,282**	1,844,983	1,751,453
Market risk-weighted assets	**17,378**	**16,341**	28,057	26,923
Operational risk-weighted assets	**184,863**	**165,276**	158,964	141,297
Risk weighted assets	**2,279,864**	**2,171,899**	2,032,004	1,919,673
Total capital ratio	**13.8%**	**13.3%**	14.5%	13.8%
Tier 1 capital ratio	**12.4%**	**11.9%**	13.1%	12.4%
Common equity tier 1 ratio	**12.1%**	**11.7%**	12.9%	12.2%
Capital conservation buffer	***6.1%***	***5.7%***	***6.9%***	***6.2%***

Capital ratios involving components of regulatory capital are calculated as follows:

Total capital ratio :	Total Qualifying Capital	**313,771**	**289,448**	294,343	265,519
	Risk-Weighted Assets	**2,279,864**	**2,171,899**	2,032,004	1,919,673
Tier 1 capital ratio :	Tier 1 Capital (net of Regulatory Deductions)	**281,972**	**258,523**	266,792	238,752
	Risk-Weighted Assets	**2,279,864**	**2,171,899**	2,032,004	1,919,673
Common equity ratio :	Common Equity Tier 1 (net of Regulatory Deductions)	**276,822**	**253,373**	261,642	233,602
	Risk-Weighted Assets	**2,279,864**	**2,171,899**	2,032,004	1,919,673

The regulatory qualifying capital of the Parent Bank consists of Tier 1 capital which comprises paid-up common and preferred, surplus including current year profit, surplus reserves (excluding appropriated surplus free for deficiency in 1% BSP-required general provision), other comprehensive income {net unrealized gains or losses on AFS securities and cumulative foreign currency translation and actuarial gain/(loss)}, and minority interest less regulatory deductions such as unsecured credit accommodations to directors, officers, stockholders and their related interests (DOSRI), unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, deferred tax assets, goodwill, other intangible assets, and defined benefit pension fund assets. The other component of regulatory capital is Tier 2 capital, which includes unsecured subordinated debt, appraisal increment reserve, and general loan loss provision (including appropriated surplus free for deficiency in 1% BSP-required general provision).

The components of Tier 1 capital and deductions follow:

	BDO Unibank Group	**Parent Bank**	BDO Unibank Group	Parent Bank
	December 31, 2018		**December 31, 2017**	
	(in Millions)		(in Millions)	
Common Equity Tier 1 (CET1) Capital				
Paid-up common stock	**43,740**	**43,740**	43,690	43,690
Additional paid-in capital	**123,377**	**123,358**	122,966	122,947
Retained earnings	**125,308**	**125,575**	105,745	105,787
Undivided profits	**32,681**	**32,712**	28,026	28,006
Net unrealized gains or losses on AFS securities	**(8,733)**	**(8,534)**	(2,396)	(2,086)
Cumulative foreign currency translation	**12**	**13**	(23)	(23)
Remeasurements of Net Defined Benefit Liability/(Asset)	**(6,691)**	**(6,583)**	(6,793)	(6,814)
Minority interest in subsidiary banks which are less than wholly-owned	**-**	**-**	-	-
Sub-total	**309,694**	**310,281**	291,215	291,507
Less: Regulatory adjustments/deductions				
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	**1,725**	**1,725**	1,570	1,570
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries	**1,232**	**5,618**	367	7,607
Deferred tax assets	**8,277**	**7,608**	7,376	6,927
Goodwill	**3,044**	**-**	3,044	-
Other intangible assets	**5,326**	**5,193**	5,427	5,345
Defined benefit pension fund assets (liabilities)	**-**	**-**	-	-
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable)	**-**	**23,663**	-	24,806
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	**7,857**	**8,411**	6,931	7,127
Other equity investments in non-financial allied undertakings and non-allied undertakings	**5,411**	**4,690**	4,858	4,523
Sub-total	**32,872**	**56,908**	29,573	57,905
Total Common Equity Tier 1 Capital	**276,822**	**253,373**	261,642	233,602
Additional Tier 1 Capital				
Perpetual preferred shares	**5,150**	**5,150**	5,150	5,150
Additional paid-in capital	**-**	**-**	-	-
	5,150	**5,150**	5,150	5,150
Total Tier 1 Capital	**281,972**	**258,523**	266,792	238,752

The components of Tier 2 capital follow:

	BDO Unibank Group	**Parent Bank**	BDO Unibank Group	Parent Bank
	December 31, 2018		December 31, 2017	
	(in Millions)		(in Millions)	
Tier 2 Capital				
Instruments issued by the bank that are eligible as Tier 2 capital	**10,000**	**10,000**	10,000	10,000
Appraisal increment reserve-bank premises, as authorized by the Monetary Board	**1,013**	**1,009**	853	850
General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	**20,786**	**19,916**	16,698	15,917
	31,799	**30,925**	**27,551**	**26,767**

Below is the full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements for 2018 AND 2017:

	December 31, 2018					
	BDO Unibank Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
Qualifying Capital		(in Millions)			(in Millions)	
A.1 Common Equity Tier 1 (CET1) Capital	**309,889**	**(195)**	**309,694**	**310,362**	**(81)**	**310,281**
Paid-up common stock	43,740	-	43,740	43,740	-	43,740
Additional paid-in capital	123,358	19	123,377	123,358	-	123,358
Retained earnings	125,369	(61)	125,308	125,551	24	125,575
Undivided profits	32,706	(25)	32,681	32,708	4	32,712
Other comprehensive income	(15,284)	(128)	(15,412)	(14,995)	(109)	(15,104)
Net unrealized gains or losses on AFS securities	(8,805)	72	(8,733)	(8,488)	(46)	(8,534)
Cumulative foreign currency translation	10	2	12	9	4	13
Actuarial gain/(loss)	(6,489)	(202)	(6,691)	(6,516)	(67)	(6,583)
Minority interest in subsidiary banks which are less than wholly-owned	-	-	-	-	-	-
A.2 Regulatory adjustments to CET1 capital	**(33,848)**	**976**	**(32,872)**	**(57,337)**	**429**	**(56,908)**
Total outstanding unsecured credit accommodations both direct and indirect, to DOSRI	(1,725)	-	(1,725)	(1,725)	-	(1,725)
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries	(1,232)	-	(1,232)	(5,618)	-	(5,618)
Deferred tax assets	(8,341)	64	(8,277)	(7,675)	67	(7,608)
Goodwill	(3,044)	-	(3,044)	-	-	-
Other intangible assets	(5,508)	182	(5,326)	(5,375)	182	(5,193)
Defined benefit pension fund assets (liabilities)	-	-	-	-	-	-
Investment in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable)	-	-	-	(23,679)	16	(23,663)
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	(8,596)	739	(7,857)	(8,575)	164	(8,411)
Other equity investments in non-financial allied undertakings and non-allied undertakings	(5,402)	(9)	(5,411)	(4,690)	-	(4,690)
Total Common Equity Tier 1 Capital	**276,041**	**781**	**276,822**	**253,025**	**348**	**253,373**
Additional tier 1 capital	5,150	-	5,150	5,150	-	5,150
TOTAL TIER 1 CAPITAL	**281,191**	**781**	**281,972**	**258,175**	**348**	**258,523**
Tier 2 Capital	**31,619**	**180**	**31,799**	**30,764**	**161**	**30,925**
Instruments issued by the bank that are eligible as Tier 2 capital	10,000	-	10,000	10,000	-	10,000
Deposit for subscription of Tier 2 capital	-	-	-	-	-	-
Appraisal increment reserve-bank premises, as authorized by the MB	850	163	1,013	850	159	1,009
General loan loss provision, limited to a maximum of 1% of CRWA, and any amount in excess thereof shall be deducted from the CRWA in computing the denominator of the risk-based capital ratio	20,769	17	20,786	19,914	2	19,916
TOTAL QUALIFYING CAPITAL	**312,810**	**961**	**313,771**	**288,939**	**509**	**289,448**

*Per summary of adjustments as of December 31, 2018 as submitted to the Bangko Sentral ng Pilipinas

Qualifying Capital	December 31, 2017					
	BDO Unibank Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
A.1 Common Equity Tier 1 (CET1) Capital	**291,120**	**95**	**291,215**	**291,369**	**138**	**291,507**
Paid-up common stock	43,690	-	43,690	43,690	-	43,690
Additional paid-in capital	122,947	19	122,966	122,947	-	122,947
Retained earnings	105,010	735	105,745	104,984	803	105,787
Undivided profits	28,005	21	28,026	27,990	16	28,006
Other comprehensive income	(8,532)	(680)	(9,212)	(8,242)	(681)	(8,923)
Net unrealized gains or losses on AFS securities	(2,469)	73	(2,396)	(2,154)	68	(2,086)
Cumulative foreign currency translation	(4)	(19)	(23)	(3)	(20)	(23)
Actuarial gain/(loss)	(6,059)	(734)	(6,793)	(6,085)	(729)	(6,814)
Minority interest in subsidiary banks which are less than wholly-owned	-	-	-	-	-	-
A.2 Regulatory adjustments to CET1 capital	**(30,146)**	**573**	**(29,573)**	**(57,759)**	**(146)**	**(57,905)**
Total outstanding unsecured credit accommodations both direct and indirect, to DOSRI	(1,570)	-	(1,570)	(1,570)	-	(1,570)
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries	(367)	-	(367)	(7,607)	-	(7,607)
Deferred tax assets	(7,474)	98	(7,376)	(6,995)	68	(6,927)
Goodwill	(3,044)	-	(3,044)	-	-	-
Other intangible assets	(5,427)	-	(5,427)	(5,345)	-	(5,345)
Defined benefit pension fund assets (liabilities)	-	-	-	-	-	-
Investment in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable)	-	-	-	(24,790)	(16)	(24,806)
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	(6,954)	23	(6,931)	(6,929)	(198)	(7,127)
Other equity investments in non-financial allied undertakings and non-allied undertakings	(5,310)	452	(4,858)	(4,523)	-	(4,523)
Total Common Equity Tier 1 Capital	**260,974**	**668**	**261,642**	**233,610**	**(8)**	**233,602**
Additional tier 1 capital	5,150	-	5,150	5,150	-	5,150
TOTAL TIER 1 CAPITAL	**266,124**	**668**	**266,792**	**238,760**	**(8)**	**238,752**
Tier 2 Capital	**27,537**	**14**	**27,551**	**26,767**	**-**	**26,767**
Instruments issued by the bank that are eligible as Tier 2 capital	10,000	-	10,000	10,000	-	10,000
Deposit for subscription of Tier 2 capital	-	-	-	-	-	-
Appraisal increment reserve-bank premises, as authorized by the MB	850	3	853	850	-	850
General loan loss provision, limited to a maximum of 1% of CRWA, and any amount in excess thereof shall be deducted from the CRWA in computing the denominator of the risk-based capital ratio	16,687	11	16,698	15,917	-	15,917
TOTAL QUALIFYING CAPITAL	**293,661**	**682**	**294,343**	**265,527**	**(8)**	**265,519**

*Per summary of adjustments as of December 31, 2017 as submitted to the Bangko Sentral ng Pilipinas

Comparative risk-weighted assets by type of exposure as of December 31, 2018 and 2017 consist of the following:

	Credit Risk *		Market Risk **		Operational Risk	
	December 31, 2018					
	Group	Parent	Group	Parent	Group	Parent
	(in Millions)					
On-Balance Sheet	2,046,028	1,962,749				
Off-Balance Sheet	25,942	25,942				
Counterparty (Banking/Trading Book)	6,672	2,924				
Credit-Linked Notes in the Banking Book	-	-				
Securitization Exposures	-	-				
Deductions ***	(1,019)	(1,333)				
Interest Rate Exposures			2,502	1,588		
Equity Exposures			103	-		
Foreign Exchange Exposures			14,773	14,753		
Options			-	-		
Basic Indicator					184,863	165,276
Total	2,077,623	1,990,282	17,378	16,341	184,863	165,276
Capital Requirements	207,762	199,028	1,738	1,634	18,486	16,528

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

** Excludes interest rate risks in the banking book (IRRBB). For IRRBB, please refer to NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly.

***General loan loss provision (in excess of the amount permitted to be included in Tier 2).

On-Balance Sheet Assets

BDO Unibank Group

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	58,518	58,518	58,518	-	-	-	-	-	58,518
Checks and Other Cash Items	58	58	-	58	-	-	-	-	58
Due from Bangko Sentral ng Pilipinas	354,132	354,132	354,132	-	-	-	-	-	354,132
Due from Other Banks	54,446	54,446	-	5,139	48,543	-	764	-	54,446
Financial Assets Designated at Fair Value through Profit or Loss	56	56	5	-	-	-	51	-	56
Available for Sale Securities	94,914	94,914	11,551	1,996	43,578	-	37,789	-	94,914
Held-to-Maturity (HTM) Securities	242,769	232,578	95,571	7,320	106,119	-	23,568	-	232,578
Unquoted Debt Securities Classified as Loans	-	-	-	-	-	-	-	-	-
Loans and Receivables	2,056,988	1,943,756	13	124,327	68,618	53,741	1,692,066	4,991	1,943,756
Loans and Receivables Arising from Repurchase Agreements	22,009	22,009	22,009	-	-	-	-	-	22,009
Sales Contract Receivable	920	920	-	-	-	-	603	317	920
Real and Other Properties Acquired	9,994	9,994	-	-	-	-	-	9,994	9,994
Other Assets	63,991	63,991	-	-	-	-	63,991	-	63,991
Total Exposures	2,958,795	2,835,372	541,799	138,840	266,858	53,741	1,818,832	15,302	2,835,372
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	27,768	133,429	40,306	1,818,832	22,953	2,043,288
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	10	49	-	2,681	-	2,740
Total Risk-weighted On-Balance Sheet Assets			-	27,778	133,478	40,306	1,821,513	22,953	2,046,028

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	37	-	-	-	-	37	-	37
Transaction-related contingencies	22,871	-	724	-	-	19,249	-	19,973
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	5,932	-	-	-	-	5,932	-	5,932
	28,840	-	724	-	-	25,218	-	25,942

On-Balance Sheet Assets

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Parent Bank						
			Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	57,262	57,262	57,262	-	-	-	-	-	57,262
Checks and Other Cash Items	58	58	-	58	-	-	-	-	58
Due from Bangko Sentral ng Pilipinas	349,017	349,017	349,017	-	-	-	-	-	349,017
Due from Other Banks	48,780	48,780	-	2,276	46,448	-	56	-	48,780
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	-	-	-
Available for Sale Securities	77,115	77,115	7,335	1,229	39,509	-	29,042	-	77,115
Held-to-Maturity (HTM) Securities	222,909	212,718	84,231	6,080	98,846	-	23,561	-	212,718
Unquoted Debt Securities Classified as Loans	-	-	-	-	-	-	-	-	-
Loans and Receivables	2,002,791	1,889,725	13	124,140	67,125	46,253	1,648,236	3,958	1,889,725
Loans and Receivables Arising from Repurchase Agreements	22,009	22,009	22,009	-	-	-	-	-	22,009
Sales Contract Receivable	803	803	-	-	-	-	573	230	803
Real and Other Properties Acquired	9,852	9,852	-	-	-	-	-	9,852	9,852
Other Assets	50,119	50,119	-	-	-	-	50,119	-	50,119
Total Exposures	2,840,715	2,717,458	519,867	133,783	251,928	46,253	1,751,587	14,040	2,717,458
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	26,757	125,964	34,690	1,751,587	21,060	1,960,058
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	10	-	-	2,681	-	2,691
Total Risk-weighted On-Balance Sheet Assets			-	26,767	125,964	34,690	1,754,268	21,060	1,962,749

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	37	-	-	-	-	37	-	37
Transaction-related contingencies	22,871	-	724	-	-	19,249	-	19,973
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	5,932	-	-	-	-	5,932	-	5,932
	28,840	-	724	-	-	25,218	-	25,942

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

	Credit Risk *		Market Risk **		Operational Risk	
	December 31, 2017					
	Group	Parent	Group	Parent	Group	Parent
	(in Millions)					
On-Balance Sheet	1,800,830	1,710,480				
Off-Balance Sheet	37,761	37,734				
Counterparty (Banking/Trading Book)	6,392	3,239				
Credit-Linked Notes in the Banking Book	-	-				
Securitization Exposures	-	-				
Deductions ***	-	-				
Interest Rate Exposures			4,183	2,587		
Equity Exposures			216	-		
Foreign Exchange Exposures			23,658	24,336		
Options			-	-		
Basic Indicator					158,964	141,297
Total	1,844,983	1,751,453	28,057	26,923	158,964	141,297
Capital Requirements	184,498	175,145	2,806	2,692	15,896	14,130

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

** Excludes interest rate risks in the banking book (IRRBB). For IRRBB, please refer to NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly.

***General loan loss provision (in excess of the amount permitted to be included in Tier 2).

On-Balance Sheet Assets

BDO Unibank Group

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	48,599	48,599	48,599	-	-	-	-	-	48,599
Checks and Other Cash Items	101	101	-	101	-	-	-	-	101
Due from Bangko Sentral ng Pilipinas	353,308	353,308	353,308	-	-	-	-	-	353,308
Due from Other Banks	51,266	51,266	-	6,013	44,336	-	917	-	51,266
Financial Assets Designated at Fair Value through Profit or Loss	871	871	-	35	449	-	387	-	871
Available for Sale Securities	91,541	91,541	10,609	2,276	39,991	-	38,665	-	91,541
Held-to-Maturity (HTM) Securities	197,051	187,379	73,659	4,369	91,633	-	17,718	-	187,379
Unquoted Debt Securities Classified as Loans	3,497	3,479	-	-	3,479	-	-	-	3,479
Loans and Receivables	1,781,666	1,684,534	10	84,505	70,807	51,695	1,472,339	5,178	1,684,534
Loans and Receivables Arising from Repurchase Agreements	18,260	18,260	18,260	-	-	-	-	-	18,260
Sales Contract Receivable	1,124	1,124	-	-	-	-	563	561	1,124
Real and Other Properties Acquired	9,520	9,520	-	-	-	-	-	9,520	9,520
Other Assets	60,718	60,718	-	-	-	-	60,718	-	60,718
Total Exposures	2,617,522	2,510,700	504,445	97,299	250,695	51,695	1,591,307	15,259	2,510,700
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	19,459	125,348	38,771	1,591,307	22,889	1,797,774
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	5	36	-	3,015	-	3,056
Total Risk-weighted On-Balance Sheet Assets			-	19,464	125,384	38,771	1,594,322	22,889	1,800,830

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	49	-	-	-	-	49	-	49
Transaction-related contingencies	28,711	-	47	7	-	28,462	-	28,516
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	9,200	-	-	-	-	9,196	-	9,196
	37,960	-	47	7	-	37,707	-	37,761

On-Balance Sheet Assets

Parent Bank

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Risk Weights 0%	20%	50%	75%	100%	150%	Total
Cash on Hand	47,474	47,474	47,474	-	-	-	-	-	47,474
Checks and Other Cash Items	101	101	-	101	-	-	-	-	101
Due from Bangko Sentral ng Pilipinas	340,596	340,596	340,596	-	-	-	-	-	340,596
Due from Other Banks	41,088	41,089	-	2,960	38,064	-	65	-	41,089
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	-	-	-
Available for Sale Securities	70,032	70,032	3,716	1,254	36,534	-	28,528	-	70,032
Held-to-Maturity (HTM) Securities	183,722	174,050	62,922	3,813	89,610	-	17,705	-	174,050
Unquoted Debt Securities Classified as Loans	18	-	-	-	-	-	-	-	-
Loans and Receivables	1,727,224	1,630,366	10	83,783	69,768	44,728	1,428,068	4,010	1,630,366
Loans and Receivables Arising from Repurchase Agreements	14,872	14,872	14,872	-	-	-	-	-	14,872
Sales Contract Receivable	1,008	1,008	-	-	-	-	536	472	1,008
Real and Other Properties Acquired	9,366	9,366	-	-	-	-	-	9,366	9,366
Other Assets	42,870	42,870	-	-	-	-	42,870	-	42,870
Total Exposures	2,478,372	2,371,825	469,590	91,911	233,976	44,728	1,517,772	13,848	2,371,826
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	18,382	116,988	33,546	1,517,772	20,772	1,707,460
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	5	-	-	3,015	-	3,020
Total Risk-weighted On-Balance Sheet Assets			-	18,387	116,988	33,546	1,520,787	20,772	1,710,480

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights 0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	36	-	-	-	-	36	-	36
Transaction-related contingencies	28,711	-	47	7	-	28,462	-	28,516
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	9,182	-	-	-	-	9,182	-	9,182
	37,929	-	47	7	-	37,680	-	37,734

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

BDO