If you are in any doubt about this Offering Circular, you should consult representatives of the Selling Agents such as a sales professional or bank manager, or a professional accountant or other professional adviser.

FINAL OFFERING CIRCULAR 27 SEPTEMBER 2019

BDO UNIBANK, INC.

(A BANKING CORPORATION ORGANIZED AND EXISTING UNDER PHILIPPINE LAWS)

₱6.50 BILLION 4.00% LONG TERM NEGOTIABLE CERTIFICATES OF DEPOSIT DUE 2025

BDO Unibank, Inc., (the "Bank") is offering ₱6.50 Billion worth of Long Term Negotiable Certificates of Deposit due 2025 (the "BDO Series 2019-2 CDs") pursuant to the authority granted by the Bangko Sentral ng Pilipinas ("BSP") to the Bank on 16 August 2019 and General Banking Law of 2000 (Republic Act No. 8791), Section 217 of the Manual of Regulations for Banks, Circular No. 304, Series of 2001 of the BSP as amended by Circular No. 877, Series of 2015; Circular No. 890, Series of 2015; Circular No. M-2014-034, Series of 2014; Circular No. 824, Series of 2014; Circular No. 822, Series of 2013; Circular No. 810, Series of 2013; Circular No. 674, Series of 2009; Circular No. 585 Series of 2007, and other related circulars and issuances as may be amended from time to time. The issuance of the BDO Series 2019-2 CDs is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The BDO Series 2019-2 CDs will bear interest at the rate of 4.00% per annum from and including 27 September 2019 to but excluding 27 March 2025 and interest will be payable quarterly in arrears at the end of each Interest Period on 27 December, 27 March, 27 June and 27 September, beginning on 27 December 2019. If the Interest Payment Date is not a Business Day, interest will be paid on the next succeeding Business Day, without adjustment to the amount of interest to be paid. *See Terms and Conditions of the BDO Series 2019-2 CDs.* Unless previously redeemed, the BDO Series 2019-2 CDs will be redeemed at their principal amount on Maturity Date which is on 27 March 2025. Subject to the satisfaction of certain regulatory approval requirements, the Bank may redeem the BDO Series 2019-2 CDs in whole and not only in part on the Pre-Termination Date at the face value of the BDO Series 2019-2 CDs, plus accrued and unpaid interest as of but excluding the Pre-Termination Date. *See Terms and Conditions of the BDO Series 2019-2 CDs – Pre-termination Date.*

The BDO Series 2019-2 CDs constitute direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, enforceable according to Terms and Conditions of the BDO Series 2019-2 CDs, and shall at all times rank pari passu and ratably without any preference or priority amongst themselves, and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

The BDO Series 2019-2 CDs will be issued in scripless form in denominations of ₱100,000 and in integral multiples of ₱50,000 thereafter and will be registered and lodged with the Registrar through the LTNCD Registry in the name of the CD Holders. The BDO Series 2019-2 CDs will be represented by a Master Long Term Negotiable Certificate of Time Deposit deposited with the Registrar. The electronic registry book of the Registrar (the "LTNCD Registry") shall serve as the best evidence of ownership with respect to the BDO Series 2019-2 CDs up to the level of the beneficial CD Holders. However, a written advice will be issued by the Registrar to the CD Holders to confirm the registration of BDO Series 2019-2 CDs in their name in the LTNCD Registry including the amount and summary terms Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in and subject to PDIC's applicable rules, regulations, terms and conditions, as may be amended from time to time. *See Terms and Conditions of the BDO Series 2019-2 CDs.*

The BDO Series 2019-2 CDs will be listed in the trading platform of the Philippine Dealing & Exchange Corp. ("PDEx") for secondary market trading pursuant to the BSP rules. Upon listing of the BDO Series 2019-2 CDs in the PDEx, investors shall course their secondary market trades through the trading participants of the PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. For the avoidance of doubt, the minimum denomination of ₱100,000 for the BDO Series 2019-2 CDs as prescribed by the BSP must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining CD Holder of the BDO Series 2019-2 CDs will hold less than the minimum denomination as prescribed or approved by the BSP.

The Bank has a Baa2 rating for its long-term local currency bank deposits from Moody's Investor Services. The Bank also has an Issuer/Debt Rating (long-term) of BBB- from Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned. The BDO Series 2019-2 CDs are not rated.

SOLE LEAD ARRANGER

SELLING AGENTS

FINANCIAL ADVISOR TO THE ISSUER

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The date of this Final Offering Circular is 27 September 2019.

This Offering Circular (or "Offering Circular") has been prepared solely for the information of persons to whom it is transmitted by ING Bank N.V., Manila Branch ("*ING*") as Sole Lead Arranger and Selling Agent (the "Sole Lead Arranger"), or the Bank and BDO Private Bank in their capacity as Selling Agent, with respect to the BDO Series 2019-2 CDs to be issued by the Bank. This Offering Circular shall not be reproduced in any form, in whole or in part, for any purpose whatsoever nor shall it be transmitted to any other person.

The Bank confirms that this Offering Circular contains all information with respect to the Bank and its subsidiaries (collectively, the "Group") and the BDO Series 2019-2 CDs which is material in the context of the issue and offering of the BDO Series 2019-2 CDs. The Bank also confirms that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the BDO Series 2019-2 CDs, make this document as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect, and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank accepts responsibility accordingly.

In making an investment decision, the prospective CD Holders must rely on its own examination of the Bank and the terms of the offering of the BDO Series 2019-2 CDs, including the merits and risks involved. By receiving this Offering Circular, the prospective CD Holder acknowledges that (i) it has not relied on the Sole Lead Arranger or any of the Selling Agents or any person affiliated with them in connection with its investigation of the accuracy of any information in this Offering Circular or its investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group or the BDO Series 2019-2 CDs other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank, the Sole Lead Arranger or the Selling Agents.

No representation or warranty, express or implied, is made by the Sole Lead Arranger and the Selling Agents as to the accuracy or completeness of the information contained in this Offering Circular. The Sole Lead Arranger and the Selling Agents assume no responsibility for the accuracy of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of the BDO Series 2019-2 CDs shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank or the Group since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof. The Sole Lead Arranger and the Selling Agents expressly do not undertake to update the contents of this Offering Circular.

None of the Bank, the Sole Lead Arranger or the Selling Agents or any of their respective affiliates or representatives is making any representation to any CD Holder regarding the legality of an investment by such CD Holder under applicable laws. In addition, the CD Holder should not construe the contents of this Offering Circular as legal, business or tax advice. The CD Holder should be aware that it may be required to bear the financial risks of an investment in the BDO Series 2019-2 CDs for an indefinite period. The CD Holder should consult with its own advisers as to the legal, tax, business, financial and related aspects of a purchase of the BDO Series 2019-2 CDs.

This Offering Circular does not constitute an offer to sell, or an invitation by or on behalf of the Bank, the Sole Lead Arranger or Selling Agents or any of their respective affiliates or representatives to purchase any of the BDO Series 2019-2 CDs, and may not be used for the purpose of an offer to, or a solicitation by, anyone, in each case, in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful. Recipients of this Offering Circular are required to inform themselves about and observe any applicable restrictions.

Each CD Holder must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such BDO Series 2019-2 CDs or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such BDO Series 2019-2 CDs under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and the Bank, the Sole Lead Arranger or the Selling Agents shall have no responsibility therefor.

Conventions

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references herein to the "Government" are references to the Government of the Philippines. All references herein to "United States" or "U.S." are to the United States of America. Unless otherwise specified or the context otherwise requires, references herein to "U.S. dollars" and "US$" are to the lawful currency of the United States of America and references herein to "Pesos" and "₱" are to the lawful currency of the Republic of the Philippines. Certain monetary amounts and currency translations included in this document have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures, which precede them. References in this document to ownership interests are, save as otherwise disclosed, as at the date of this document.

Forward-looking Statements

All statements contained in this Offering Circular that are not statements of historical fact constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "plan", "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Group's expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Group's business strategy, revenue and profitability, planned projects and other matters discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Bank or any third party) involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

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OFFERING CIRCULAR SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. Each prospective Noteholder is recommended to read this entire Offering Circular carefully, including the Bank's consolidated financial statements and related notes (the "Financial Statements") and "Investment Considerations".

DESCRIPTION OF THE BANK

BDO Unibank, Inc. (the "Bank") is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust and investments, investment banking, private banking, cash management, leasing and finance, remittance, insurance, rural banking, stock brokerage, retail cash cards and credit card services. The Bank is the product of a merger between Banco de Oro Universal Bank, Inc. ("BDO") and Equitable PCI Bank, Inc. ("EPCIB") which took effect on May 31, 2007. As of June 30, 2019, according to the statements of condition submitted by banks to the BSP, the Bank ranked as the number one bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital, and total trust funds under management. The Bank's consolidated total resources were ₱2.3 trillion, ₱2.7 trillion, ₱3.0 trillion and ₱3.1 trillion, as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively while total capital funds stood at ₱217.6 billion, ₱298.3 billion, ₱328.1 billion and ₱350.8 billion, respectively.

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

As of June 30, 2019, the Bank's network consists of 1,360 domestic branches (including 221 One Network Bank, Inc. or "ONB" branches), 4,379 ATMs (including 224 ONB ATMs), 511 CDMs, and two full-service branches in Hong Kong and Singapore. As of June 30, 2019, the Bank also has 25 remittance and representative offices across Asia, North America, Europe and the Middle East. As of the same date, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 54.47% of the Bank's issued share capital.

As of June 28, 2019, the Bank had a market capitalization on the Philippine Stock Exchange ("PSE") of approximately ₱612.8 billion. The Bank's consolidated Common Equity Tier 1 ("CET1") ratio, Tier 1 capital adequacy ratio and total capital adequacy ratio were 12.7%, 12.9%, and 14.3%, respectively, as of June 30, 2019.

COMPETITIVE STRENGTHS

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

Leading brand name and banking franchise in the Philippines

The Bank believes that its combination of scale, reach, business mix, product offerings and brand recognition has made it a leading financial institution in the Philippines. According to statements of condition submitted by banks to the BSP, as of June 30, 2019, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank believes it has one of the widest domestic branch networks in the Philippines spanning all major cities across the country with 1,360 domestic branches (including 221 ONB branches). The Bank believes that all of these factors have helped to develop the BDO brand, which covers the Bank's entire range of banking products and financial services under a single brand name, as one of the most well known in the domestic market. The Bank's premier branding and market dominance are also reflected in leading market shares across most business segments including private banking, investment banking, remittances and credit cards. The Bank believes that its scale of operations and brand recognition support the continued growth and diversification of its business, network and product mix.

Diversified business model providing full-service operations

The Bank is a full-service universal bank offering a host of industry-leading banking products and services to serve the retail and corporate markets, including lending products (such as loan products tailored to corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, rural banking, life insurance, insurance brokerage and stock brokerage services. *See "Subsidiaries and Affiliates"*. The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products that is expected to increase the recurring fee income contribution the Bank's operating income. For the years ended December 31, 2016, 2017 and 2018, the Bank's other operating income, mainly comprising of non-interest income, increased by 30.7%, 13.4% and 5.2%, respectively to ₱41.6 billion, ₱47.2 billion and ₱49.7 billion. For the six months ended June 30, 2019, the Bank's other operating income increased 29.5% to ₱29.5 billion from ₱22.8 billion for the six months ended June 30, 2018. Moreover, the Bank believes that it has built a stable earnings base, wherein approximately more than 90% of its income is from recurring sources, rendering it less susceptible to market and industry volatility.

Customer-centric culture complemented by strategic distribution platform

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

To efficiently serve its customers, the Bank's branch network stretches to cover all major cities in the Philippines, with the Bank often establishing multiple branches in general areas it has identified to have greater potential for business. The Bank believes that this extensive domestic distribution network, including strategic locations within SM malls and other high customer traffic areas, allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As of June 30, 2019, the Bank's network consists of 1,360 domestic branches (including 221 ONB branches), 4,379 ATMs (including 224 ONB ATMs), 511 CDMs, and two full-service branches in Hong Kong and Singapore. As of June 30, 2019, the Bank also has 25 remittance and representative offices across Asia, North America, Europe and the Middle East. The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low cost deposit base. Its low cost CASA deposit base (comprising demand and savings deposits) increased from ₱1.382 trillion as of December 31, 2016 to ₱1.544 trillion as of December 31, 2017, representing a growth of 11.7%. As of December 31, 2018, its low cost CASA deposit base further grew to ₱1.686 trillion. As of December 31, 2018, 2017, and 2016, 69.7%, 72.8%, and 72.6%, respectively, of the Bank's total deposit base comprised of low cost CASA deposits compared to 68.4% as of December 31, 2015. As of June 30, 2019, the Bank's low cost CASA deposits stood at ₱1.686 trillion which comprised 70.3% of its total deposit base, representing a growth of 2.9% over its low cost CASA deposit base of ₱1.640 trillion as of June 30, 2018. In addition, the Bank also believes that its branch network and premier customer service have allowed it to actively utilize its branches to expand its loan portfolio and transform its non-interest income franchise, mainly through aggressive cross-selling of loan and other fee income related products and customer referrals across branches to increase the recurring fee income contribution to overall operating income, while reducing reliance on trading and foreign exchange related gains.

Scalable infrastructure platform for sustained growth

The Bank believes it has established a solid and scalable operating platform that allows it to implement its growth and expansion objectives. The Bank has achieved this mainly by making key investments in bank premises to support its expanding market reach, enhancing its business development capability, as well as upgrading its operations, processes, and Information Technology ("IT") applications to accommodate growing business volumes and changing market demands. In addition, the Bank has invested heavily into its digital banking (online and mobile) strategy and offerings which positions the Bank to create new digital revenue opportunities that increase the Bank's performance and focuses on the customer experience. The Bank believes that these initiatives make it well-placed to efficiently implement its continued goals of further large-scale expansion, business diversification and efficiency of service delivery.

Strong and experienced management team

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

Synergies with controlling shareholder group

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

BUSINESS STRATEGIES

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

Diversified and sustainable earnings stream

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

The Bank will continue to pursue focused loan growth to achieve a more balanced loan portfolio and more effective management of its concentration risk. While the Bank believes it already maintains a diversified loan portfolio across various market segments, it intends to increase lending to the more profitable and growing consumer and middle-market segments. The Bank also expects to continue to leverage operating synergies with the SM Group to further diversify its earnings stream through product origination capabilities and fee income sources. In addition, to minimize the volatility of the Bank's income sources, the Bank has gradually built its non-interest earnings by generating increased income from its fee-generating services including, among others, asset/wealth management, electronic banking, bancassurance, credit cards and investment banking. The Bank has been pro-active in transforming its non-interest earnings sources and has implemented relevant strategies such as the consolidation of BDO Life, increasing capabilities in wealth management and leveraging its distribution network to cross-sell fee income related products, which the Bank believes will increase the contribution of recurring fee income to its operating income. The Bank will also seek to more efficiently manage its resources, such as its securities portfolio, to maximize both accrual and trading income.

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

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

Prudent balance sheet management

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

Further develop operating systems, branch infrastructure and advertising efforts

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

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

Complement organic growth with mergers/acquisitions

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

RECENT DEVELOPMENTS

On January 28, 2016, the Bank entered into a joint venture with Mitsubishi Motors Philippines Corporation ("MMPC"), Sojitz Corporation ("SJC") and JACCS Co., Ltd. ("JACCS") to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On June 1, 2016, the Bank announced that the Philippine Securities and Exchange Commission approved the incorporation and registration of MMPC Auto Financial Services Corporation ("MAFSC") as a financing company. MAFSC is the joint venture company between BDO Leasing and Finance, Inc. ("BDOLF"), a subsidiary of the Bank, with MMPC, SJC and JACCS Co. Ltd. to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On March 7, 2019, BDOLF announced that it was selling its 40% equity interest in MAFSC to JACCS, allowing BDOLF to focus more on its core business of equipment leasing and finance and in line with JACCS' decision to expand its investment in MAFS to accelerate the growth of its overseas business.

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

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

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised gross proceeds of ₱60.0 billion. 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.

In March 2017, the Bank signed a Memorandum of Understanding with Shinkin Central Bank (SCB) to develop a business cooperation envisioned to benefit the Japanese bank's SME clients already operating in the Philippines and those eyeing the country as a potential investment destination. The Bank will potentially provide banking services which may include financial facilities, cash management and payment services, foreign exchange and other treasury products to SCB's diversified SME clients.

On August 18, 2017, the Bank issued ₱11.8 billion worth of long term negotiable certificates of deposit with a rate of 3.625% per annum which will mature on February 18, 2023.

On September 6, 2017, the Bank issued Senior Notes under its US$2 billion Medium Term Note Programme with a face value of US$700 million at a price of 99.909%. The Senior Notes mature on March 6, 2023 and bear a fixed interest rate of 2.950% per annum. The Senior Notes are payable semi-annually every March 6 and September 6. The Senior Note issue is part of the Bank's liability management initiatives to tap longer-term funding sources to support the Bank's lending operations and for general corporate purposes.

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

On May 7, 2018, the Bank issued ₱8.2 billion worth of long-term negotiable certificates of deposit with a rate of 4.375% per annum which will mature on November 7, 2023.

On October 1, 2018, the Bank announced that it entered into an agreement with Osmanthus Investment Holdings Pte. Ltd (Singapore) ("Osmanthus") for the latter to acquire a 15% stake in BDO's rural bank subsidiary, One Network Bank, Inc. (ONB). On May 16, 2019, the Bank completed its transaction with Osmanthus for the latter's acquisition of its 15% equity stake in ONB.

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

On April 5, 2019, the Bank issued ₱7.3 billion worth of long term negotiable certificates of deposit with a rate of 5.375% per annum which will mature on October 12, 2024.

On July 31, 2019, the SEC approved the resolution changing the corporate name of ONB from One Network Bank, Inc. (A Rural Bank of BDO) to BDO Network Bank, Inc.

INVESTMENT CONSIDERATIONS

Before making an investment decision, investors should carefully consider the risks associated with the Bank, including:

- Considerations relating to the Philippines
- Considerations relating to the Philippine Banking Industry
- Considerations relating to the Bank and its Business
- Considerations relating to the BDO Series 2019-2 CDs

Please refer to the section entitled "Investment Considerations", which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of BDO Series 2019-2 CDs

BANK INFORMATION

The registered office of the Bank is BDO Corporate Center, 7899 Makati Avenue, Makati City 0726, Philippines. The Bank's telephone number is +(632) 840 7000 and its corporate website is **www.bdo.com.ph.** The information on the Bank's website is not incorporated by reference into, and does not constitute part of, this Prospectus.

THE OFFER

ING, in its capacity as Sole Lead Arranger, has agreed with the Bank, subject to the satisfaction of certain conditions, to distribute and sell the BDO Series 2019-2 CDs at the Issue Price (defined below) in consideration for certain fees and expenses. The Sole Lead Arranger will offer the BDO Series 2019-2 CDs to selected prospective CD Holders.

The distribution and sale of the BDO Series 2019-2 CDs to prospective CD Holders shall be undertaken by the Sole Lead Arranger and the Selling Agents for the issue. Nothing herein shall limit the right of the Sole Lead Arranger to purchase the BDO Series 2019-2 CDs for its own account. The Sole Lead Arranger may, from time to time, engage in transactions with and perform services for the Bank or its shareholders or affiliates in the ordinary course of its business, for which customary compensation has been received. It is expected that the Sole Lead Arranger and their affiliates will continue to enter into such transactions with and perform such services to the Bank or its shareholders or its affiliates in the near future.

The following is a general summary of the terms of the BDO Series 2019-2 CDs. This summary is derived from and should be read in conjunction with the full text of the Terms and Conditions of the BDO Series 2019-2 CDs (the "Terms and Conditions"). The Terms and Conditions shall prevail in the event of any inconsistency with the terms set out in this section.

Issuer	BDO Unibank, Inc. (the "Bank")
CDs Offered	₱ 6.50 billion Fixed Rate Long-Term Negotiable Certificates of Time Deposit
Denomination	The BDO Series 2019-2 CDs will be issued in minimum denominations of One Hundred Thousand Pesos (₱100,000) and in integral multiples of Fifty Thousand Pesos (₱50,000) thereafter.
Issue Price	One Hundred Percent (100.0%) of the nominal principal amount of each BDO Series 2019-2 CDs.
Interest Rate	4.00% per annum
Issue Date	The date when the BDO Series 2019-2 CDs is issued by the Bank to CD Holders, as the Bank may determine, which shall be such number of Banking Days following the end of the Offer Period as may be determined by the Bank, or such other date as the Bank and the Sole Lead Arranger may agree in writing.
Maturity Date	Five and ½ (5.5) years from the Issue Date at which date the BDO Series 2019-2 CDs will be redeemed at their Maturity Value; Provided, that, if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day (without adjustment to interest).
Maturity Value	The Issue Price plus unpaid and accrued applicable interests up to but excluding the Maturity Date.
Offer Period	The period when the BDO Series 2019-2 CDs shall be offered for sale by the Bank to the public, through the Bank's branches and the Selling Agents to prospective CD Holders, commencing at 12:00 p.m. and ending at 5:00 p.m. on such days or dates as may be determined by the Bank and the Sole Lead Arranger.
Form	The BDO Series 2019-2 CDs shall be scripless and, subject to the payment of fees to the Registrar, registered and lodged with the Registrar in the name of the CD Holders. Once lodged, the BDO Series 2019-2 CDs shall be eligible for electronic transfer in the Registry, without the issuance or cancellation of certificates. The BDO Series 2019-2 CDs shall comply with the provisions of Republic Act No. 8792 or the Electronic Commerce Act, particularly, on the existence of an assurance on the integrity, reliability and authenticity of the BDO Series 2019-2 CDs.

Interest Accrual	The BDO Series 2019-2 CDs will bear interest on its principal from and including the Issue Date up to but excluding: (a) the Maturity Date (if the Pre-termination Option is not exercised); or (b) the Pre-termination Date (if the Pre-termination Option is exercised). Interest shall be payable on each Interest Payment Date. The amount of interest payable in respect of the BDO Series 2019-2 CDs for each Interest Period shall be calculated by the Registrar on a 30/360-day year basis. The determination by the Registrar of the amount of interest payable (in the absence of manifest error) is final and binding upon all parties.
Interest Periods	In respect of the BDO Series 2019-2 CDs, the period commencing on the Issue Date and having a duration of three (3) months and, thereafter, each successive three (3)-month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first (1st) day of the immediately succeeding Interest Period, but in the case of the last Interest Period, it will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the Maturity Date.
Interest Payment Date	in respect of the BDO Series 2019-2 CDs, the last day of an Interest Period when payment for Interest in respect of the BDO Series 2019-2 CDs for such series becomes due, as set out in these Terms and Conditions; Provided, that if any Interest Payment Date would otherwise fall on a day which is not a Business Day, the Interest Payment Date shall be deemed the next succeeding Business Day; Provided, further, that if such succeeding Business Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Business Day, in either case, without adjustment to the amount of interest to be paid. For the avoidance of doubt, each Interest Payment Date shall be specified in the BDO Series 2019-2 Master CD.
Principal Repayment	Unless the BDO Series 2019-2 CDs are pre-terminated by the Bank on Pre-termination Date (*See Condition 13*), the BDO Series 2019-2 CDs shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall fall on the immediately succeeding Business Day, without adjustment to interest payable in respect of the BDO Series 2019-2 CDs.
Non-Preterminability	Presentation of the BDO Series 2019-2 CDs to the Bank for termination or redemption before the Maturity Date is not allowed, unless otherwise expressly provided in the Terms and Conditions. LTNCD Holders may, however, transfer or assign their LTNCDs to a prospective LTNCD Holder who is not Prohibited Holder. Such transfer or assignment shall not be considered a pre-termination. (*See Terms and Conditions of the BDO Series 2019-2 CDs for the definition of the term "Prohibited CD Holder"*)
Status and PDIC Insurance	The BDO Series 2019-2 CDs constitute direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions. Claims of all the CD Holders in respect of the BDO Series 2019-2 CDs will at all times rank pari passu without any preference among themselves. The BDO Series 2019-2 CDs shall be at least pari passu with all other present and future unsecured and unsubordinated Peso-denominated obligations of the Bank that by their terms rank equal with the BDO Series 2019-2 CDs, except obligations mandatorily preferred by law. The BDO Series 2019-2 CDs are insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in, and subject to PDIC's applicable rules and regulations, as may be amended from time to time, including, without limit, the following:

Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (₱500,000) per depositor.

PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.

In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor.

In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of, entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following:

- details or information establishing the right and capacity or the relationship of the entity with the individual/s; or
- details or information establishing the validity or effectivity of the deposit transfer; or
- copy of the Board Resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.

In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor.

PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer or the right and capacity of the transferee or his relationship to the transferor.

Taxation

If payments of principal and/or interest in respect of the BDO Series 2019-2 CDs shall be subject to deductions and withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to income, stamp, issue, registration, documentary, value-added or similar tax, or other taxes and duties, including interest and penalties thereon, then such taxes or duties shall be for the account of the CD Holder concerned, and if the Bank shall be required by law or regulation to deduct or withhold such taxes or duties, then the Bank shall make the necessary withholding or deduction for the account of the CD Holder concerned; Provided, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the relevant CD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar in accordance with Condition 25. In case of transfers and assignments deemed by the Bank as a pre-termination for tax purposes, the transferor CD Holder shall be liable for the resulting tax due on the entire interest income earned on the BDO Series 2019-2 CDs (if any), based on the holding period of such BDO Series 2019-2 CDs and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it.

Documentary stamp tax for the primary issue of the BDO Series 2019-2 CDs and the documentation, if any, shall be for the Bank's account.

As issuer of the BDO Series 2019-2 CDs, the withholding of final tax on the interest due on the BDO Series 2019-2 CDs is the responsibility of the Bank

	pursuant to Section 57 of the National Internal Revenue Code, as amended, and Section 2.57 of Revenue Regulations No. 2-98, as amended. The Bank shall abide by the terms of the BIR accreditation of the PDS Group Corporate Action Auto-Claim (CAAC) System to the extent of its applicability, and to the extent that it affects information processed by the CAAC system in relation to the Bank's listed issues. Notwithstanding the foregoing, the Bank shall not be liable for the filing of returns and other reportorial requirements, as well as the payment of: (i) gross receipts tax under Section 121 of the National Internal Revenue Code, as amended; and (ii) taxes on the overall income of any CD Holder, whether or not subject to withholding.
SEC Registration	The BDO Series 2019-2 CDs have not been and will not be registered with the SEC. Since the BDO Series 2019-2 CDs qualify as exempt securities under Section 9.1 (e) of the Philippine Securities Regulation Code, the BDO Series 2019-2 CDs may be sold and offered for sale or distribution in the Philippines without registration. The BDO Series 2019-2 CDs shall be listed by the Bank in the PDEx.
Governing Law	Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.
Governing Regulations	The General Banking Law of 2000 (Republic Act No. 8791), Section 217 of the Manual of Regulations for Banks, Circular No. 304, Series of 2001 of the BSP as amended by Circular No. 877, Series of 2015; Circular No. 890, Series of 2015; Circular No. M-2014-034, Series of 2014; Circular No. 834, Series of 2014; Circular No. M-2014-023, Series of 2014; Circular No. 824, Series of 2014; Circular No. 822, Series of 2013; Circular No. 810, Series of 2013; Circular No. 674, Series of 2009; Circular No. 585, Series of 2007, and other related circulars and issuances, as may be amended from time to time.
Investment Considerations	*See "Investment Considerations*" for a discussion of certain factors to be considered in connection with an investment in the BDO Series 2019-2 CDs.
Sole Lead Arranger	ING Bank N.V., Manila Branch ("ING").
Financial Advisor	BDO Capital & Investment Corporation
Selling Agents	ING, BDO and BDO Private Bank and includes their respective successor entities, or the selling agent(s) in respect of the BDO CDs appointed from time to time under the Placement Agreement .
Registrar and Paying Agent	Philippine Depository & Trust Corp. ("PDTC"), or the registrar and paying agent in respect of the BDO Series 2019-2 CDs appointed from time to time under the Registry and Paying Agency Agreement or an agreement supplemental to it and in accordance with the Governing Regulations.
Business Day	Any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Metro Manila and Makati City are not required or authorized to close for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days.

USE OF PROCEEDS

The BDO Series 2019-2 CDs will be used to diversify the maturity profile of funding sources and to support the Bank’s business expansion plans.

SELECTED FINANCIAL INFORMATION

Summary of Consolidated Financial Information

The following tables present selected consolidated financial information of the Bank and its subsidiaries and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular. The selected financial information presented below as of and for the years ended December 31, 2016, 2017 and 2018 were derived from the consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards ("PFRS"), and audited by Punongbayan & Araullo (P&A) in accordance with PSA. The selected financial information as of June 30, 2018 and 2019 and for the six months ended June 30, 2018 and 2019 were derived from the unaudited interim consolidated financial statements of the Bank, prepared in accordance with PAS 34, Interim Financial Reporting and reviewed by P&A in accordance with Philippine Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"(PSRE 2410). P&A has modified its review report as the Group is still in the process of compiling the relevant information to determine the impact and the required adjustment to the Unaudited Interim Consolidated Financial Statements resulting from the adoption of Philippine Financial Reporting Standards 16, Leases. The impact of PFRS 16 will be recognized by the Group in the third quarter of 2019. The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date.

Consolidated Statements of Income

	For the year ended December 31,			For the six months ended June 30,	
	2016	**2017**	**2018**	**2018**	**2019**
	(audited) (in ₱ millions)			(unaudited) (in ₱ millions)	
Interest income on					
Loans and other receivables	73,171	88,178	115,384	52,588	70,946
Trading and investment securities	8,142	9,691	11,866	5,572	7,908
Due from BSP and other banks	696	1,742	1,733	905	533
Others	28	184	57	25	36
	82,037	**99,795**	**129,040**	**59,090**	**79,423**
Interest expense on					
Deposit liabilities	13,623	14,919	25,595	10,769	18,586
Bills payable and other borrowings	2,790	3,123	5,153	2,336	3,911
	16,413	**18,042**	**30,748**	**13,105**	**22,497**
Net interest income	65,624	81,753	98,292	45,985	56,926
Impairment losses	3,815	6,537	6,286	3,541	2,988
Net interest income after impairment losses	61,809	75,216	92,006	42,444	53,938
Other operating income					
Trading gain - net	1,860	450	(1,619)	(1,933)	1,990
Service charges and fees	19,074	25,701	27,372	12,964	14,979
Miscellaneous	20,679	21,055	23,921	11,757	12,540
	41,613	**47,206**	**49,674**	**22,788**	**29,509**
Other operating expenses					
Employee compensation and benefits	24,698	27,405	30,449	13,670	15,916
Occupancy	7,661	8,412	9,509	4,421	5,144
Taxes and licenses	7,224	8,270	11,639	5,779	7,081
Other operating expenses	30,405	40,778	46,437	22,925	28,360
	69,988	**84,865**	**98,034**	**46,795**	**56,501**

	For the year ended December 31,			For the six months ended June 30,	
	2016	**2017**	**2018**	**2018**	**2019**
		(audited) (in ₱ millions)		**(unaudited) (in ₱ millions)**	
Income before pre-acquisition income	33,434	37,557	43,646	18,437	26,946
Pre-acquisition income	391	-	-	-	-
Income before tax	33,043	37,557	43.646	18,437	26,946
Income tax expense	6,797	9,452	11,007	5,324	6,806
Net income after tax	**26,246**	**28,105**	**32,639**	**13,113**	**20,140**

Consolidated Statements of Financial Position

	As of December 31,			As of June 30,	
	2016	**2017**	**2018**	**2018**	**2019**
		(audited) (in ₱ millions)		**(unaudited) (in ₱ millions)**	
Cash and other cash items	40,909	45,006	53,749	36,634	44,718
Due from the Bangko Sentral ng Pilipinas	318,002	353,308	354,132	367,651	332,955
Due from other banks	41,794	51,479	55,292	64,193	37,319
Trading and investment securities	269,042	332,927	385,197	366,028	427,667
Loans and other receivables — net	1,573,965	1,791,786	2,071,834	1,950,204	2,119,920
Premises, furniture, fixtures and equipment – net	26,912	29,346	33,660	32,767	33,701
Investment properties	15,188	18,040	19,785	18,662	19,838
Equity investments	4,449	4,945	5,081	4,871	4,949
Deferred tax assets – net	6,334	7,403	8,312	7,560	8,217
Other resources — net	28,404	33,864	35,205	28,606	36,003
Total resources	**2,324,999**	**2,668,104**	**3,022,247**	**2,877,177**	**3,065,286**
Deposit liabilities					
Demand	114,284	134,931	179,944	158,550	190,520
Savings	1,267,983	1,409,256	1,505,680	1,481,027	1,495,834
Time	522,937	576,825	734,341	684,295	713,204
Total deposit liabilities	1,905,204	2,121,012	2,419,965	2,323,873	2,399,558
Bills payable	100,556	130,484	143,623	133,716	166,740
Subordinated notes payable	10,030	10,030	10,030	10,030	10,030
Insurance contract liabilities	20,565	25,986	28,506	25,664	36,156
Other liabilities	71,085	82,252	91,974	80,431	101,966
Total liabilities	**2,107,440**	**2,369,764**	**2,694,098**	**2,573,714**	**2,714,450**
Equity	217,559	298,340	328,149	303,463	350,836
Total liabilities and equity	**2,324,999**	**2,668,104**	**3,022,247**	**2,877,177**	**3,065,286**

Selected Financial Ratios

(in percentages except earnings per share)	For the year ended December 31,			For the six months ended June 30,	
	2016	2017	2018	2018	2019
Return on assets(1)	1.2	1.1	1.1	0.9	1.3
Return on shareholders' equity(2)	12.5	10.2	10.6	8.7	11.9
Return on average common equity(3)	12.7	10.2	10.7	8.8	12.0
Net interest margin(4)	3.2	3.5	3.6	3.5	4.0
Cost-income ratio(5)	65.4	65.8	66.3	68.0	65.4
Loans to deposits(6)	77.8	82.7	83.5	82.4	85.1
Common equity tier 1 ratio (7)	10.7	12.9	12.1	12.4	12.7
Tier 1 capital adequacy ratio(8)	11.0	13.1	12.4	12.6	12.9
Total capital adequacy ratio(9)	12.4	14.5	13.8	14.0	14.3
Total non-performing loans to total loans -- excluding interbank loans(10)	1.3	1.2	1.0	1.2	1.2
Total non-performing loans to total loans -- including interbank loans(11)	1.2	1.1	1.0	1.1	1.2
Allowances for probable loan losses to total loans(12)	1.8	1.7	1.9	1.9	2.0
Allowances for probable loan losses to total non-performing loans(13)	139.3	146.2	183.1	158.0	163.2
Earnings per share (₱)(14)	6.81	6.42	7.40	2.93	4.53

(1) *Net income divided by average total resources for the period indicated.*
(2) *Net income divided by average total capital funds for the period indicated.*
(3) *Net income attributable to shareholders of the Bank divided by average common equity for the period indicated.*
(4) *Net interest income divided by average interest-earning assets.*
(5) *Total operating expenses divided by the sum of net interest income and other income.*
(6) *Gross customer loans (net of unearned interests or discounts) divided by total deposits.*
(7) *Common equity tier 1 capital divided by total risk-weighted assets.*
(8) *Tier 1 capital divided by total risk-weighted assets.*
(9) *Total capital divided by total risk-weighted assets.*
(10) *Total non-performing loans divided by total loans excluding interbank loans.*
(11) *Total non-performing loans divided by total loans including interbank loans.*
(12) *Total allowance for probable loan losses divided by total loans.*
(13) *Total allowance for probable loan losses divided by total non-performing loans.*
(14) *Net income divided by total number of outstanding shares.*

CAPITALIZATION AND INDEBTEDNESS

The following table sets out the unaudited consolidated long-term debt and capitalization of the Bank as of June 30, 2019, and as adjusted to give effect to the issuance of the LTNCDs. This table should be read in conjunction with the Bank's unaudited consolidated financial statements as of and for the six months ended June 30, 2019 included in this Offering Circular.

	As at 30 June 2019	
	Actual	**As adjusted**
	(in ₱ millions)	
Short-Term Liabilities		
Deposit Liabilities	2,272,327	2,272,327
Bills Payable	51,000	51,000
Insurance Contract Liabilities	(729)	(729)
Other Liabilities	32,281	32,281
Total Short-Term Liabilities	**2,354,879**	**2,354,879**
Long-Term Liabilities – net of current portion		
Deposit Liabilities	127,231	133,731
Bills Payable and Subordinated Notes Payable	125,770	125,770
Insurance Contract Liabilities	36,885	36,885
Other Long-Term Liabilities	69,685	69,685
Total Long-Term Liabilities – net of current portion	**359,571**	**366,071**
Capital Funds		
Issued Share Capital		
Preferred Stock	5,150	5,150
Common Stock	43,772	43,772
Additional Paid-In Capital	123,663	123,663
Surplus Reserves	15,265	15,265
Other Reserves	12	12
Surplus Free	173,286	173,286
Net Unrealized Fair Value Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)	(3,158)	(3,158)
Accumulated Actuarial Gains (Losses)	(8,877)	(8,877)
Revaluation Increment	1,008	1,008
Remeasurement on Life Insurance Reserves	(938)	(938)
Accumulated Translation Adjustment	5	5
Accumulated Share in Other Comprehensive Income(Loss) of Associates	(14)	(14)
Non-controlling interest	1,661	1,661
Total Capital Funds	**350,836**	**350,836**
Total Capitalization and Indebtedness [(1)(2)]	**3,065,286**	**3,071,786**

(1) *Total capitalization is the sum of long-term debt net of current portion and stockholders' equity.*

(2) *Changes in the Bank's contingent accounts as of June 30, 2019 are discussed in Note 27.3 to the audited consolidated financial statements of the Bank as at June 30, 2019, included elsewhere in this Offering Circular.*

INVESTMENT CONSIDERATIONS

An investment in the Notes involves a number of investment considerations. You should carefully consider all the information contained in this Offering Circular including the investment considerations described below, before any decision is made to invest in the Notes. The Bank's business, financial condition and results of operations could materially and adversely be affected by any of these investment considerations. The market price of the Notes could decline due to any one of these risks, and all or part of an investment in the Notes could be lost. The following discussion is not intended to be a comprehensive description of the risks and other factors and is not in any way meant to be exhaustive. Prospective Noteholders are encouraged to make their own independent legal, financial, and business examination of the Bank and the market. Neither the Bank nor any of the Sole Lead Arranger makes any warranty or representation on the marketability or price on any investment in the Notes.

CONSIDERATIONS RELATING TO THE PHILIPPINES

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

The Philippine economy has experienced volatility of the Peso and limited availability of foreign exchange. In July 1997, the BSP, announced that the Peso can be traded and valued freely on the market. As a result the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱28.968 to one U.S. Dollar in July 1997 to ₱56.18 to one U.S. dollar by December 2004.

While the value of the Peso has not dropped to historic low levels yet, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the further rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As of December 31, 2018, according to BSP data, the Peso has depreciated by 5.6% to ₱52.724 per US$1 from ₱49.923 per US$1 at the end of 2017.

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

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

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations;
- foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government’s fiscal and regulatory policies (please see discussion on taxes below);
- government budget deficits;

- re-emergence of Middle East Respiratory Syndrome-Corona virus ("MERS-CoV"), SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

In December 2017, President Rodrigo Duterte signed into law Package One of the Tax Reform for Acceleration and Inclusion (TRAIN) bill which seeks to help fund the government's massive infrastructure program through increased revenues from higher excise taxes on certain items (e.g., petroleum products, coal, automobiles, tobacco and sugar-sweetened beverages), as well as higher tax rates on interest income from deposits in expanded foreign currency system, capital gains, documentary stamps (for various transactions) and stock transactions. While personal income taxes were also lowered under TRAIN, the inflationary impact from the tax reform, along with the sustained rise in oil and food prices, especially rice, partly negated the benefits from lower personal income taxes. Meanwhile, Package 2 of the tax reform package, also known as TRAIN 2 or TRABAHO (Tax Reform for Attracting Better and High-Quality Opportunities), which was approved by the House of Representatives in its third and final reading on September 10, 2018, and which the Duterte government hopes to be signed into law, involves lowering the corporate income tax and rationalizing fiscal incentives. The other tax reform packages that the government hopes to implement include tax amnesty (estate, general), as well as "sin" (e.g., alcohol, gaming), property, passive income and financial, and luxury taxes. While the tax reform program ensures fiscal sustainability, the dampening impact of higher taxes on consumer demand and affected industries (in terms of added costs), could slow down the country's growth pace and affect the Bank's business.

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

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

The sovereign credit ratings of the Government directly affect companies resident in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies – Fitch (BBB-), Standard and Poor's (BBB-) and Moodys (Baa3). In 2014, S&P and Moody's upgraded their ratings a notch above investment grade to "BBB" and "Baa2" in May and December, respectively, with both agencies affirming these ratings in 2017 and 2018. In December 2017, Fitch upgraded the country's credit rating to "BBB-" with stable outlook, thus aligning the country's ratings with those of Moody's and S&P's at a notch above investment grade. In April 30, 2019, Standard and Poor ugraded the country's credit rating from "BBB" to "BBB+" with a "stable" outlook., citing the country's above-average economic growth, a healthy external position, and sustainable public finance These ratings are the highest that the country has received so far from any credit ratings agency.

With investment grade status from three credit rating agencies, the Philippines is eligible to be part of investment grade indices. These ratings reflect an assessment of the Government's overall financial capacity to pay its obligations and its ability or willlingness to meet its financial commitments as they become due. The ratings of the Government directly affect companies residing in the Philippines, such as the Bank, as international credit rating agencies issue credit ratings for companies with reference to the country in which they are resident.

There is no assurance that Fitch, Moody's, S&P or other international credit rating agency will not downgrade the credit ratings of the Philippines in the future. Any of such downgrades could have an adverse effect on liquidity in the Philippine financial markets, the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

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

The Philippines has from time to time experienced political and military instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business. In the last few years, there were instances of political instability, including public and military protests arising from alleged misconduct in the previous administration.

On March 27, 2014, the Government and the Moro Islamic Liberation Front ("MILF") signed a peace agreement, the Comprehensive Agreement on Bangsamoro. On September 10, 2014, the draft of the Bangsomoro Basic Law ("BBL") was submitted by former President Aquino to Congress. The BBL is a draft law intended to establish the Bangsamoro political entity in the Philippines and provide for its basic structure of government, which will replace the existing Autonomous Region in Muslim Mindanao. Following the Mamasapano incident where high-profile terrorists clashed with armed members of the Bangsamoro Islamic Freedom Fighters and MILF leading to the deaths of members of the Special Action Force ("SAF") of the Philippine National Police, MILF, the Bangsamoro Islamic Freedom Fighters, and several civilians, the Congress stalled deliberations on the BBL, until it was shelved. However, President Rodrigo Duterte, who was elected into office in June 2016, actively pushed for the passage of the BBL, stressing that it was a campaign promise to the Moro people and integral to his administration's campaign for a federal form of government. On July 26, 2018, President Duterte signed the Bangsamoro Organic Law (formerly known as BBL), creating the new Bangsamoro Autonomous Region in Muslim Mindanao with a regional government, parliament and justice system as well as fiscal autonomy, effectively replacing the Autonomous Region of Muslim Mindanao (ARMM). On January 21, 2019, a regional plesbiscite was held to ratify the Bangsamoro Organic Law.

The Philippine Presidential elections were held on May 9, 2016, and on June 30, 2016 President Rodrigo Duterte assumed the presidency with a mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte government also initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. In April 2018, the President created a task force to further improve the reintegration package for communist rebels who surrender to the government.

President Duterte is also pushing for the shift to the federal-parliamentary form of government. Under the draft federal charter, the Philippines will be divided into 18 autonomous federal regions which are given more power for self-governance than under the present Philippine Constitution. The federal regions are said to be granted greater powers over socioeconomic planning, land use, financial administration and management. The central government, on the other hand, will retain powers over national security and defense, international relations and diplomacy, customs and tariff, federal crimes and implementation of the criminal justic system. In addition to this, the draft federal charter increases the number of Philippine senators from 24 to 36 and Congressmen from 297 to 400. Recently, however, several concerns were raised regarding the financial viability and monetary cost of the proposed shift to federalism and the possibility of hyperinflation and implications on fiscal position due to the expected overspending in the federal regions.

There is no guarantee that future events will not cause political instability in the Philippines. Any potential instability could have an adverse effect on the Philippine economy, which may impact the Company's business, financial condition and results of operations.

Acts of terrorism, violent crimes and geo-political/territorial tensions could undermine the country's stability and adversely affect the Bank's business and financial condition.

The Philippines has been subject to a number of terrorist attacks since 2000. An increase in the number of terrorist activities or violent crimes in the Philippines could negatively affect the Philippine economy and, therefore, the Bank's financial condition and its business.

In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. In September 2015, Canadians John Ridsdel and Robert Hall, Norwegian Kjartan Sekkingstad and Filipina Marites Flor were kidnapped from a tourist resort on Samal Island in southern Philippines by the Abu Sayyaf which demanded ransom for the hostages' release. Hall and Ridsdel were later beheaded on separate occasions in April and June 2016, respectively, after the ransom demands were not allegedly met. Meanwhile, Sekkingstad and Flor were released from captivity separately by the Abu Sayyaf in September and June 2016. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

Moreover, there were isolated bombings in the Philippines in recent years, mainly in regions in the southern part of the Philippines, such as the province of Maguindanao. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines and adversely affect the country's economy.

The Government of the Philippines and the Armed Forces of the Philippines have clashed with members of several separatist groups seeking greater autonomy, including the MILF, the Moro National Liberation Front and the New People's Army.

In January 2015, a clash took place in Mamasapano in Maguindanao province between the SAF of the Philippine National Police and the Bangsamoro Islamic Freedom Fighters ("BIFF") and the MILF, which led to the deaths of 44 members of SAF, 18 from the MILF, five from the BIFF, and several civilians, including Zulkifli Abdhir, a Malaysian national included in the US Federal Bureau of Investigation's most wanted terrorists.

On September 2, 2016, a bombing that killed 15 and injured 71 took place in Davao City, Mindanao. It is believed that the Abu Sayyaf organization and/or their allies were responsible for the bombing.

On May 23, 2017, a deadly firefight in Marawi, Lanao del Sur, erupted between government security forces and the ISIS affiliated-Maute group, following the government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared Martial Law ("ML") in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on July 22 2017, both House of Congress voted to extend Martial Law until the end of 2017. After nearly five months since the rebellion broke out, Defense Secretary Delfin Lorenzana announced the termination of all combat operations in Marawi on October 21, 2017. Despite the liberation of Marawi, however, Martial Law has continually been extended over Mindanao, with the latest extension having been approved by Congress on December 12, 2018. Mindanao will thus be under martial law for a total of over two and a half years, or from May 23, 2017 to December 2019.

There can be no assurance that the Philippines will not be subject to further acts of terrorism and violence in the future. Terrorist attacks have, in the past, had material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, the Bank's business. Though the Bank has a current insurance policy that covers terrorist attacks, any terrorist attack or violent acts arising from, and leading to, instability and unrest could cause interruption to parts of the Bank's businesses and materially and adversely affect the Bank's financial conditions, results of operations and prospects.

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

In February 2015, a Filipina nurse who arrived from Saudi Arabia tested positive for the MERS-CoV (Middle East Respiratory Syndrome-Corona virus). She was quarantined, received medical treatment and later discharged and cleared of the disease by the Department of Health. All known contacts of the said nurse, including some passengers in the same flight that arrived from Saudi Arabia, were also cleared of the infection, putting the country once again free of an active case of the disease.

In March 2016, reports of an American woman who stayed in the Philippines for four weeks in January 2016, tested positive for the Zika virus upon returning home, indicating the local transmission of the disease through the Aedes aegypti mosquito. In May 2016, a South Korean national was reported to have acquired the infection while visiting the Philippines, following earlier reports of two other confirmed cases of the viral infection in the country. All of the patients had recovered, indicating that the Zika viral infection acquired in the country was self-limiting.

The outbreak of an infectious disease in the Philippines, Asia, or elsewhere, together with any resulting restriction on travel and/or imposition of quarantines, could have a negative impact on the economy and business activities in the Philippines or Asia generally and could materially and adversely affect the Bank's business, financial condition and results of operations.

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

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Bank's operations. These factors, which are not within the Bank's control, could potentially have significant effect on the Bank's branches and operations. While the Bank carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Bank believes are in line with general industry practices in the Philippines, there are losses for which the Bank cannot obtain insurance at a reasonable cost or at all. The Bank also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Bank could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Bank's business, financial condition and results of operations.

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

Although a principal objective of the Philippine securities laws and the The Philippine Stock Exchange's ("PSE") listing rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. Furthermore, although the Bank complies with the requirements of the PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code (Republic Act No. 8799) (the "SRC") requires the Bank to have at least two independent directors or such number of independent directors as is equal to 20.0% of the Board, whichever is the lower number. The Bank currently has five independent directors, representing 45% of the Board.

Furthermore, corporate governance standards may be different for public companies listed on the Philippine securities markets than for securities markets in developed countries. Rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well-defined and enforced in the Philippines than elsewhere, putting shareholders at a potential disadvantage. Because of this, the directors of Philippine companies may be more likely to have interests that conflict with the interests of shareholders generally, which may result in them taking actions that are contrary to the interests of shareholders.

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

The Philippines has been engaged in a number of territorial disputes with China, and other Southeast Asian countries over disputed islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over a group of islands known as the Scarborough Shoal is supported by recognized principles of international law, and is consistent with the United Nations Convention on the Law of the Sea ("UNCLOS"). Actions taken by both governments have disrupted trade between the two countries, including a temporary ban by China on banana imports from the Philippines. China rejected the Philippine government's request for arbitral proceedings in accordance with UNCLOS to resolve the disputes. In 2016, the Permanent Court of Arbitration ruled in favor of the Philippines and against China in relation to the disputes over the islands in the West Philippine Sea. Despite this, China has categorically stated that it will not recognize said ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. Without a formal enforcement mechanism, the territorial dispute remains unresolved.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Bank's operations could be adversely affected as a result. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or overseas Filipinos permits.

CONSIDERATIONS RELATING TO THE PHILIPPINE BANKING INDUSTRY

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

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

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board's lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank, United Overseas Bank, First Commercial Bank of Taiwan, Hua Nan Commercial Bank, Ltd. and Chang Hwa Commercial Bank, being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery. As of June 30, 2019, according to data from the BSP, there were a total of 46 domestic and foreign commercial banks operating in the Philippines.

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

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (approved on July 15, 2014): a) the acquisition, purchase or ownership of up to one hundred per cent (100%) of the voting stock of an existing bank; b) investment in up to one hundred per cent (100%) of the voting stock of a new banking subsidiary incorporated under Philippine law; or c) establishment of branches with full banking authority;
- Foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases resulting in excess capital that can be leveraged for asset growth and market share gains; and
- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the removal of foreign ownership restrictions.

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

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

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

- The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;

- The vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances;
- The large foreign debt of the Government and the corporate sector, relative to the gross domestic product ("GDP") of the Philippines; and
- Volatility of interest rates and U.S. dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the NPL ratios exclusive of interbank loans in the Philippine banking system for universal and commercial banks were 1.7%, 1.4%, 1.3%, 1.3%, and 1.6% as of the years ended December 2015, 2016, 2017, 2018, and six months ended June 30, 2019 respectively.

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

The Philippine banking sector has generally recovered from the global economic crisis. According to data published by the BSP as of June 30, 2019, NPL ratios in the Philippine universal and commercial banking system were at less than 2.0%, an improvement from the 2%-4% range reported from 2009-2011. Further, the NPL coverage ratio in the Philippine universal and commercial banking system reached 113.24% as of June 30, 2019, within the the 96%-126% range reported from 2009 to 2011, according to the BSP. The Bank has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

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

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

However, BSP's early adoption of Basel III on January 1, 2014 a year ahead of the Basel Committee on Banking Supervision's recommended implementation timeline as well as the imposition of higher limits and stricter minimum requirements for regulatory capital relative to international standards with no transition period are seen as efforts to boost the Philippine banking industry's resiliency and enhance its ability to absorb risks. In addition the BSP has been prudent and conservative in setting the minimum reserve requirement compared to other regulators in the region, with a minimum reserve requirement for Peso deposit balances of 16% to be held with the BSP (compared to, for example, Indonesia, where the minimum local currency reserve requirement is 6.0% of local currency deposit balances).

Philippine banks face regulatory pressure to comply with new and stricter capital, liquidity and leverage standards, as well as meet prudential limits for real estate exposures; the Bank may experience difficulties due to the implementation of such standards, including Basel III, in the Philippines.

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

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short- and medium-term quantitative liquidity ratios. The revised standards also distinguish further (i) Tier 1 capital, which is also referred to as Going-Concern Capital, and is composed of Common Equity and Additional Tier 1 capital; and (ii) Tier 2 capital, which is also referred to as Gone-Concern capital and establish new eligibility criteria for such capital instruments previously not implemented in regulatory capital instruments. The BSP adopted Basel III on January 1, 2014 with higher limits and stricter minimum requirements for regulatory capital relative to international standards and with no phase-in period.

In response to Basel III, the BSP and Monetary Board imposed a number of new requirements, including a capital surcharge to banks deemed as Domestic Systemically Important Banks ("D-SIB"), with compliance to be phased in starting from January 2017 until January 2019, as well as increased minimum capital requirements for banks in all categories. Local banks also face new liquidity requirements such as the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

In March 2016, the Monetary Board announced that it had approved the LCR framework which requires universal and commercial banks to hold sufficient High Quality Liquid Assets ("HQLAs") that can be easily converted into cash to service liquidity requirements over a 30-day stress period. The approval of the LCR framework by the Monetary Board provides for an observation period from July 1, 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On January 1, 2018, the LCR threshold that banks are required to meet is 90%, to be increased to 100% commencing on January 1, 2019.

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

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

In December 2018, the Monetary Board approved the Philippine adoption of the Basel III countercyclical buffer ("CCyB"), completing the BSP's implementation of international standards for banks in terms of capital. The BSP initially set the CCyB at 0%, citing that the ongoing buildup of credit does not pose an imminent risk. The CCyB is subject to upward adjustment to a rate determined by the BSP when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall he effective 12 months after its announcement. Meanwhile, reductions in the buffer take effect immediately.

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

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

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

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

Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Group's business, financial condition and results of operations.

Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the BSP and Monetary Board regulations add pressure on local banks to meet these additional capital adequacy requirements. This may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. This may also lead banks in the Philippines to conduct capital raising exercises. Through its compliance with these regulations, the Bank's business, financial position and results of operations may be adversely affected.

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

PFRS continues to evolve as standards and interpretations promulgated subsequent to December 31, 2013 come into effect. PFRS 9, the local adoption of International Financial Reporting Standards ("IFRS") 9 Financial Instruments, originally issued in 2009, reflects the first and third phases of the three-phase improvement project by the International Accounting Standards Board to replace International Accounting Standards ("IAS") 39 Financial Instruments: Recognition and Measurement. Phases 1 and 3 of the project apply to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. It requires entities to classify and subsequently measure financial assets at either amortized cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. The adoption of the first phase of PFRS 9 affects the classification and measurement of the Banks financial assets, but has no impact on the classification and measurement of financial liabilities. On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach.

PFRS 9 also requires enhanced disclosures to help the users of financial statements to better understand the risks and the likely cash flows from the financial assets. The latest amendment to PFRS 9, issued in July 2014, provides for the new standard on financial instruments and its effectivity on January 1, 2018.

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

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

The Bank believes that other amendments and improvement to PFRS issued effective after December 31, 2018 have no material impact on the Bank's financial statements.

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

Domestic interest rates have remained low since 2009, with the monetary policy directed towards stimulating the economy. In 2018, however, domestic interest rates started to rise following the BSP's staggered 175 basis point hike in policy rates to subdue inflationary pressures from higher taxes under TRAIN (implemented in January 2018), rising global oil prices, an acute rice shortage, and a weaker peso. In 2019, the BSP has cumulatively cut its rates by 50 basis points to help bolster economic growth back to the government's target and with inflation on a downtrend.

The Bank realizes income from the margin between income earned on its interest-earning assets and interest paid on its interest-bearing liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates and any changes in the liquidity position of the Philippine market. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial position, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio and the Bank's ability to earn excess trading gains as revenue. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all).

Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimize the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Bank's credit portfolio in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding.In addition, lower levels of liquidity in the system may lead to an increase in the cost of funding as banks actively compete for funds by raising the interest rates they charge on deposits. Banks with strong deposit franchise and large low-cost deposit base are better equipped amid tighter liquidity and increasing funding costs.

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

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

FATCA impacts a number of organizations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions ("FFIs") that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens.

An FFI will have to set up a process to identify U.S. accounts as part of its on boarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

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

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

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on April 25, 2014 as a PFFI and then amended its FATCA status on March 27, 2015 to Registered Deemed Compliant Foreign Financial Institution under a Model 1 Intergovernmental Agreement ("IGA").

The IGA between the US and the Philippines was signed on July 13, 2015 and is presently awaiting concurrence by the Philippine Senate. It is only after such concurrence that the FATCA will enter into force and reporting by the Bank to the Philippine Bureau of Internal Revenue ("BIR") shall begin.

CONSIDERATIONS RELATING TO THE BANK AND ITS SUBSIDIARIES

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

Over the past three years, the Bank has experienced substantial growth (organically and through acquisitions), with its loan portfolio expanding by 15.8%, 18.4% and 15.1% in the years ended 31 December 2016, 2017 and 2018, respectively, and 6.7% for the six months ended June 30, 2019 (compared to June 30, 2018). The Bank's total assets reached ₱1.0 trillion as at 31 December 2010, the first local bank to achieve this milestone, resulting in the Bank being ranked as the largest domestic bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital and total trust funds under management. Total assets thereafter stood at ₱2.3 trillion, ₱2.7 trillion and ₱3.0 trillion, as of December 31, 2016, 2017 and 2018, respectively, and ₱3.1 trillion as of June 30, 2019. The Bank is also the industry leader in terms of investment banking, private banking, rural banking, remittances, leasing and finance, insurance brokering and credit cards in 2018. However, the Bank's strategy, which includes growing and diversifying its loan portfolio and expanding its range of products and services to better cater to the needs of its customers, is also dependent on a number of external factors.

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

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

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

As of June 30, 2019, the Bank's total exposure to borrowers (or gross loans and receivables to customers) was ₱2.043 trillion. The ten largest borrower groups in aggregate accounted for 23.7% of the Bank's total exposure and its ten largest individual borrowers in aggregate accounted for 13.0% of its total exposure. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group, excluding Government-related entities, of connected persons, in excess of 25% of its net worth (the single borrower limit). As of June 30, 2019, the Bank's single borrower limit was ₱86.7 billion. In determining whether the Bank meets the single borrower limit of the BSP, the Bank includes exposures to related accounts (including accounts of subsidiaries and parent companies of the borrower). The Bank's largest borrower as of June 30, 2019 accounted for 2.2% of the Bank's total exposure and 12.6% of the Bank's total equity. The largest borrower group as of June 30, 2019 accounted for 3.5% of the Bank's total exposure and for 20.6% of the Bank's total equity. Credit losses on these large single borrower and group exposures could adversely affect the business, financial position and results of operation of the Bank.

Under BSP Circular 700, the total amount of loans, credit accommodations and guarantees may be increased by an additional 25.0% of a bank's net worth for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Program of the Philippine government duly certified by the Secretary of Socio-Economic Planning. BSP Circular 700 expired on December 28, 2016 and was not extended, but the Bank believes that the expiration of the additional 25% SBL is not an issue given the Bank's expanded capital base following the successful completion of its ₱60 billion (USD1.2 billion) stock rights offer ("SRO") in January 2017, as well as the preference by the current administration for hybrid/Official Development Assistance ("ODA") financing that may temper loans under the PPP. However, there can be no guarantee that the BSP will not issue new regulations or guidelines with stricter lending limits.

The Bank extends loans to various sectors in the Philippines. The table below sets out the Bank's five largest industry exposures (net of unearned interest or discount) as of June 30, 2019.

Rank	Industry[1]	Amount (₱ millions)	Per cent. of Total Exposure to Borrowers
1	Financial and insurance activities	288,496	14.1
2	Wholesale and retail trade	279,149	13.7
3	Real estate acitivities	256,310	12.5
4	Activities of private household	253,267	12.4
5	Electricity, gas, steam	218,669	10.7
	Total	1,295,891	63.4

(1) Industry classifications are in accordance with the Philippine Standard Industrial Classification Code

The Bank's exposure to these five sectors, totaling ₱1.296 trillion, constituted 63.4% of the Bank's total loan portfolio (net of unearned interest or discount). Although the Bank's portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of non-performing loans ("NPLs") and restructured assets, and adversely affect the Bank's business, financial position and results of operations.

The Bank may face increasing levels of non-performing loans and provisioning expense for impairment of assets, which may adversely affect the Bank's business, financial condition, results of operations and capital adequacy.

The Bank's results of operations have been, and continue to be, negatively affected by the level of its non-performing loans. For the years ended December 31 2016, 2017 and 2018 and for the six months ended June 30, 2019, the Bank's provisioning expense for impairment of assets amounted to ₱3.8 billion, ₱6.5 billion, ₱6.3 billion and ₱3.0 billion, respectively, which represented 5.8%, 8.0%, 6.4% and 5.2%, respectively, of net interest income in those periods and 0.3%, 0.4%, 0.3% and 0.1%, respectively, of gross loans in those periods. A slowdown in global growth momentum may adversely affect the ability of the Bank's borrowers to finance their indebtedness and, as a result, the Bank may experience an increase in non-performing loans and loan loss provisions.

The Bank's consolidated NPLs increased by 1.9% to ₱20.8 billion as of December 31, 2018 (representing 1.0% of the Bank's total gross customer loans net of interbank loans as of that date) from ₱20.4 billion as of

December 31, 2017, and increased by 9.8% to ₱24.7 billion as of June 30, 2019 from ₱22.5 billion as of June 30, 2018. As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank's NPL coverage ratio was 139.3%, 146.2%, 183.1% and 163.2%, respectively. The Bank has experienced significant growth in its loan portfolio in recent years and it may experience problems in non-payment arising from these new loans in the future. Any significant increase in the Bank´s non-performing loans would have a material adverse effect on its financial condition, capital adequacy and results of operations. *See "Assets and Liabilities – Non-Performing Loans (NPL) and ROPA".*

The Bank believes that it has set aside adequate provisions with an NPL coverage ratio of 163.2% as of June 30, 2019 compared to the industry's average NPL coverage ratio of 93.4% (113.2% for universal and commercial banks only), as of June 30, 2019 and reflected current valuations as regards its investment portfolio. While the financial markets have since stabilized, there can be no assurance that the value of the Bank's investment portfolio will not deteriorate should renewed volatility in global financial markets occur.

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

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

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

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

Certain accounting standards have been adopted in the Philippines based on International Accounting Standards, which require the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral. Further, in preparation for IFRS 9, the Bank estimates provisioning based on a loan loss methodology. The IFRS 9 Expected Credit Loss ("ECL") poses risk of variability of provisions due to the subjective nature of assumptions used and complexity of data requirements for the model forecasts as well as potentially unforeseen changes in macroeconomic and industry conditions.

While the Bank believes that the new NPL definition and the implementation of IFRS 9 in 2018 will not have any material impact on its loan loss provisioning, there is no guarantee that such new accounting standards may result in the Bank recognizing significantly higher provisions for loan loss in the future.

In addition, while the Bank believes its current level of provisions and collateral position are more than adequate to cover its non-performing loan exposure, an unexpected or significant increase in non-performing loan levels may result in the need for higher levels of loan loss provisions in the future.

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

As of June 30, 2019, the Bank's secured loans represented 25.1% of the Bank's total gross customer loans, and 57.2% of the collateral on these secured loans consisted of real estate properties. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the current prevailing value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its loan loss provisions may be inadequate and the Bank may need to increase such provisions. Any increase in the Bank's loan loss provisions could adversely affect its business, financial position, results of operations and capital adequacy ratios.

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

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

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

In the six months ended June 30, 2019, the Bank sold ₱1.0 billion worth of acquired assets and intends to continue with its strategy of gradually reducing ROPA holdings. As a result, the Bank recorded net ROPA of ₱11.7 billion as of June 30, 2019 representing 0.4% of the Bank's total resources. In prior years, the Bank had ₱7.8 billion, ₱9.8 billion and ₱11.1 billion, as of December 31, 2016, 2017 and 2018, respectively, representing 0.3%, 0.4% and 0.4% of the Bank's total resources as of such dates.

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

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

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

For example, while the Philippines enacted the Anti-Money Laundering Act of 2001 (the "Anti-Money Laundering Act") to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the Financial Action Task Force (the "FATF"). However, following pressure from the FATF, an amendment to the Anti-Money Laundering Act became effective on March 23, 2003. In January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories ("NCCTs"), confirming that anti-money laundering ("AML") measures to remedy deficiencies that were originally identified by the FATF were in place. AML systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. In June 2012, President Benigno S. Aquino III signed into law two measures intended to further strengthen the country's campaign against money laundering. These measures included criminalizing terrorist financing activities as well as allowing the Government, upon determination of probable cause, to examine bank accounts or investments ex parte, or without informing the account holder concerned. The enactment of these measures resulted in the Philippines being upgraded by the FATF to the anti-money laundering compliance "gray list", signifying sufficient progress in the country's campaign against money laundering and terrorist financing.

On February 15, 2013, then President Aquino signed into law Republic Act No. 10365 (An Act Further Strengthening the Anti-Money Laundering Law, Amending for the Purpose Republic Act No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001", as amended), which expanded the AMLA covered institutions and crimes. This law took effect on March 7, 2013.

Under Republic Act No. 10365, jewelry dealers will now be required to report transactions worth ₱1 million and above. The law also required the Land Registration Authority to submit to the Anti-Money Laundering Council reports covering real estate purchases worth ₱500,000 and above. Aside from this, predicate crimes – or those criminal acts where the law may also be applied if money is involved – were also expanded to cover 20 additional offenses or crimes, including bribery, extortion, malversation of public funds, fraud and financing of terrorism. The original law only mentioned 14 offenses or crimes connected to money laundering such as kidnapping, piracy on high seas, smuggling, robbery and plunder.

The controversy involving the US$81 Million heist of the Bangladesh central bank account last year prompted Philippine legislators and agencies, such as the Department of Finance and the BSP, to propose the further amendment of the AMLA (RA 9160). On 15 March 2017, BSP issued Circular 950 Series of 2017 containing the amendments approved by the Monetary Board to the Anti-Money Laundering-Combating the Financing of Terrorism (AML/CFT) regulations. The changes reflected the amendments to the Anti-Money Laundering Act (AMLA) that took effect in January 2017 as well as the recommendations from Paris-based Financial Action Task Force (FATF). It added the requirements for group-wide anti-money laundering compliance function and monitoring systems are incorporated for a holistic management and prevention of money laundering and terrorist financing risks. The amendments feature refinements in the conduct of customer due diligence, more pragmatic definition of "official document" and the use of other reliable, independent source documents, data or information for customer identification and verification. The new rules likewise introduced the concept of a "restricted account" to cater to targeted unbanked sector, wherein minimal customer information are required subject to certain conditions, such as constraints in terms of activity. The new rules recognize and allow the use of information and communication technology in the conduct of customer identification subject to implementation of appropriate measures to manage attendant risks.

On July 14, 2017, President Rodrigo Duterte signed into law Republic Act No. 10927 that amends the Anti-Money Laundering Act of 2001 by expanding the coverage of the AMLA to include casinos (these encompass internet and ship-based operations). RA 10927 also puts any single casino cash transaction of more than ₱5 million, or its equivalent in other currencies, as a "covered transaction" and thus must be reported to the AMLC. Further the Court of Appeals ("CA") can now issue a 20-day freeze order against any monetary instrument or property linked to unlawful activities as those defined and enumerated under RA 9160.

There can be no assurance however, that current Philippine AML systems will continue to be effective against money laundering and similar transactions, as shown by the incident involving a large Philippine universal bank in an international money laundering case. Any deficiencies or lapses, whether minor or material, in such systems could result in sanctions against Philippine banks, including the Bank, and other financial institutions or persons included in the web of transfers and currency conversions, which could adversely affect its reputation, business and operations or cause it to be in breach of its contractual obligations.

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

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures ("REEs") to include mortgages and loans extended to the following: individuals to finance the acquisition/construction of residential real estate for own-occupancy as well as land developers and construction companies for the development of socialized and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines.

As these guidelines are for monitoring purposes only, banks shall continue to comply with the 20% adjusted real estate exposure limit as provided under BSP Circular 600. There is no guarantee, however, that the BSP will not enforce further tightening of real estate exposure limits in the future to head off potential asset bubbles.

In May 2013, the BSP released new guidelines governing its Special Deposit Account ("SDA") facility limiting SDA access by trust departments/entities to fund management activities of trust accounts effective January 1, 2014 and banning other fiduciary business including agency accounts and investment management activities access to the SDA facility. The new rules likewise required banks to wind down all SDA placements not consistent with the BSP memorandum by at least 30% by July 31, 2013, until these were eventually phased out on November 30, 2013. In addition, the BSP intermittently reduced SDA rates by a total of 150 basis points in 2013 to 2.0%. Further, the participation of Unit Investment Trust Funds in SDA facilities was gradually wound down, i.e., 50% in December 2016, 30% in March 2017 and fully terminated in June 2017 in line with the BSP's adoption of the interest rate corridor ("IRC"). Under the IRC, SDA windows were replaced by the overnight deposit facility ("ODF"), with the interest rate for the ODF facility set by the Monetary Board at 2.5%, unchanged from the previous SDA rate. With the BSP's 175 basis point policy rate hike in 2018, the ODF rate now stands at 4.25%.

In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guidelines applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates shall be used. Banks with large holdings of peso-denominated securities in their portfolio are seen most affected by the new BSP ruling as they will have to absorb any losses from the change in valuation.

The Bank signed up on 25 April 2014 ahead of the 1 July 2014 deadline to participate in FATCA ("Foreign Account Tax Compliance Act"), a US law enacted in 2010 to combat tax evasion by US taxpayers. Under FATCA, participating foreign financial institutions ("FFIs") are required to disclose data or information on clients who are US taxpayers. Non-compliant FFIs face a 30% withholding tax on payments of US-sourced income, e.g., interest, dividends, among others.

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

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

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. These proceedings are currently on appeal and if the BIR's position is upheld, it could result in the Bank's taxation charge being increased.

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

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

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

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

The Bank's asset portfolio is comprised primarily of loans to customers and investments in securities held at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") securities and hold-to-collect ("HTC") securities (comprised primarily of Philippine Government securities). As of June 30, 2019, the Bank's total Philippine government securities balance was ₱291.3 billion representing 67.9% of the Bank's investment securities portfolio.

During periods of declining interest rates, the Bank is able to generate relatively higher earnings from its trading and investment activities. Other debt securities, non-debt securities and derivative financial assets amounted to ₱110.0 billion, ₱22.5 billion and ₱5.4 billion, respectively, as of June 30, 2019, representing 25.6%, 5.2% and 1.3%, respectively, of the Bank's trading and investment securities portfolio.

The Bank's income from these activities is subject to fluctuations based on changes in interest rate direction, foreign currency exchange rate volatility and stock market changes. For example, an increase in interest rates may impact on the value of the Bank's investments in fixed income securities. However, the Bank has undertaken measures to mitigate the negative effects on the portfolio by shortening the duration of its holdings to avert potential losses that may arise once interest rates rise. The Bank is likewise less exposed to risk given that fixed income portfolio comprises approximately 10% of total assets. In addition, the Bank has shifted to higher rated securities in the mix of its credit exposures to minimize the risk of credit rating downgrades.

However, the impact of the implementation of IFRS 9 on the Bank's investment portfolio affects the opportunities to realize trading gains due to the more restricted conditions for disposals and results in volatility due to mark to market valuation of the Bank's trading book. Although the Bank does have hedging and trading limits in place to mitigate these risks, there can be no assurance that the Bank will not incur trading and investment losses in the future in connection with its trading and investment activities. IFRS 9 also introduces expected credit loss provisions for fixed income portfolio not previously required under the IAS accounting framework.

In addition, the varying gains recognized by the Bank as a result of its trading of securities have caused the Bank's trading income to vary significantly from period to period. The Bank experienced a net trading loss amounting to ₱2.9 billion for the year ended December 31, 2008 (which represented 5.1% of total operating income in that period), attributable to the volatility in the global financial markets arising from the subprime crisis in the U.S.. However, as global financial markets stabilized and global interest rates declined, the Bank generated gains from trading activity, with trading gains representing 7.3%, 10.7% and 7.2% of total operating income for the years ended December 31, 2009, 2010 and 2011, respectively. The Bank experienced trading gains of ₱1.9 billion, ₱0.5 billion and ₱2.0 billion, for the years ended December 31, 2016 and 2017 and for the six months ended June 30, 2019, respectively, but recorded a trading loss of ₱1.6 billion for the year ended December 31, 2018, representing 1.7%, 0.3%, 2.3% and -1.1% of total operating income for such periods, respectively. A slowdown in domestic or global growth may make it more difficult for the Bank to generate substantial gains from its trading activities.

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

As a consequence, in part, of the acquisitions the Bank has made over the financial years ended December 31, 2016, 2017 and 2018, and the varying levels of provisions it has made in respect of non-performing loans, ROPA, pension liabilities, impairment in the value of investments and other developments, the Bank's results of operations have varied from period to period in the past and may fluctuate significantly in the future due to these and other factors.

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

The Bank has a funded non-contributory retirement plan covering substantially all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As of December 31, 2018, the fair value of the retirement plan assets of the Bank was ₱24.1 billion and the present value of the obligation was at ₱28.6 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit liability of ₱4.5 billion for 2018.

The principal actuarial assumptions used by the Bank to determine the cost of retirement benefits include a discount rate of 7.52% and a salary increase of 2.0% to 11.0% per annum, compounded annually. If these assumptions prove to be incorrect, the Bank's funding obligations in respect of its retirement plans may be significantly higher than currently anticipated. The Bank regularly reviews its assumptions and methodology and takes appropriate actions to ensure that the retirement plan assets meet actuarial requirements. Any change in methodology and assumptions affects the amount that the Bank amortizes each year in respect of its retirement fund liabilities, which would adversely affect the Bank's net income.

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

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

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

On February 11, 2018, the Bank disclosed that its subsidiary, ONB, signed an agreement with Rural Bank of Pandi Inc. (RBPI) for the acquisition of the latter's banking business in Bulacan to provide ONB with a stronger presence in the province and fast track its expansion in Central Luzon. The transaction is stil subject to closing conditions and applicable regulatory approvals.

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

- The expected cost savings or revenue enhancing opportunities cannot be realized in the amounts or within the time frames contemplated;
- The extraordinary expenses, costs or difficulties relating to the integration of the businesses and information management systems are greater than expected;
- The existing customer and employee relationships are adversely affected, leading to potential deposit attrition from target entity customers; and
- The integration difficulties or other factors relating to the rationalization of the business cause unexpected business interruption.

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

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

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

The Bank is effectively controlled by the SM Group, which is comprised of entities affiliated with SM Investments Corporation ("SMIC") and its controlling shareholders. As of June 30, 2019, SMIC directly owned approximately 40.00% of the Bank's common shares, and Multi Realty Development Corporation, Sybase Equity Investments Corporation and SM Prime Holdings, Inc., companies affiliated with the SM Group, held 6.66%, 5.48% and 2.06%, respectively, of the Bank's issued common shares. Through these, other entities and certain Sy Family members, the SM Group owned directly and indirectly 54.47% of the Bank's common shares as of June 30, 2019, thus effectively controlling the Bank and the composition of its Board of Directors. There can be no assurance that the interests of the SM Group will necessarily coincide with the interests of the Bank and the Bank's other Shareholders. *See "Management"*

The Bank has historically had close business relationships with the SM Group, and as of June 30, 2019, the Bank's loans to the SM Group amounted to ₱24.8 billion, or 1.2% of the Bank's total loan portfolio (including secured non-risk loans not subject to the BSP's single borrower limit), which is below the BSP's single borrower limit for related party transactions. The Bank's loans to the SM Group are on commercial arm's length terms. While the Bank is not dependent on the SM Group for any funding, financial guarantees, or other forms of financial support, any default by the SM Group on such loans from the Bank, or failure by the SM Group to make timely payments of amounts due under such loans, could have a material adverse effect on the Bank's financial condition and results of operation. Furthermore, the Bank benefits from its relationship with the SM Group through certain business synergies, including access to SM clients and prospective clients, joint product development and branch/ATM locations in SM malls. As a result, deterioration in the financial condition of the SM Group could have a material adverse effect on the Bank's financial condition and business opportunities.

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

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

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

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

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

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

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

The Bank also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other materially disruptive problems caused by the Bank's increased use of the internet in digital banking. Computer break-ins and security breaches could affect the security of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs security systems, including firewalls and password encryption, designed to minimize the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failures in security measures could have a material adverse effect on the Bank's business, financial position and results of operations.

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

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

The Bank is subject to interest rate risk.

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

The Bank is subject to foreign exchange risk.

As a financial organization, the Bank is exposed to foreign exchange risk. Movements in foreign exchange rates could adversely affect the Bank's business, financial condition and results of operations. The foreign exchange transactions of Philippine banks are subject to stringent BSP regulation. Under BSP guidelines, the Bank is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit ("FCDU") books. As of June 30, 2019, the Bank had ₱458.4 billion of foreign currency assets and ₱448.2 billion of foreign currency liabilities in the FCDU books, primarily in U.S. dollars. The decline in the value of the Peso against foreign currencies, in particular, the U.S. dollar may affect the ability of the Bank's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the Peso can depress the export market which can negatively affect the ability of the Bank's customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the Peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on the Bank.

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

The Government has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts to agrarian reform beneficiaries and the agricultural sectors of the country. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. The

Bank has been unable to generate sufficient exposure to the agrarian reform based sector due to its prudent credit and risk management policies, and has, as a result, paid fines in the past and may continue to do so in the future. As an example, as of June 30, 2019, the total requirement applicable to the Parent Bank was ₱305.0 billion comprising a ₱183.0 billion minimum requirement to the agricultural sector and a ₱122.0 billion requirement to agrarian reform beneficiaries. As of June 30, 2019, the Parent Bank lent a total of ₱123.7 billion to the agricultural sector and ₱0.0 billion for agrarian reform credits. As a result of its non-compliance with the requirement for agriculture lending and lending to agrarian reform beneficiaries, the Parent Bank is estimated to pay a fine of approximately ₱446.8 million as of June 30, 2019. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or the Bank is forced to extend loans to the agrarian reform and agricultural sectors that are inconsistent with the Bank's credit and risk management policies, its business, financial position and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

The Bank is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities to third parties. One such litigation that the Bank is currently involved in is its action against the City of Cebu relating to the latter's inaction on the Bank's business permit applications for 29 of its branches in Cebu. This inaction stems from an earlier complaint filed by the City of Cebu against the directors and officers of the Bank and the managers of certain Cebu branches for the Bank's alleged under-declaration of the Bank's gross receipts for the year 2015 in its application for business permits for the 2016 calendar year. Said criminal complaints against the directors and officers of the Bank were dismissed by the Investigating Prosecutor. The City of Cebu filed a Petition for Review before the Department of Justice (DOJ), but the same was likewise dismissed. The City of Cebu filed Motion for Reconsideration before the DOJ, which motion is pending to date. Meanwhile, BDO's Amended Petition for Mandamus against the City of Cebu to compel the latter to issue business permits for BDO branches in Cebu City is also still pending to-date before the RTC Cebu City. Further, the Writ of Preliminary Injunction issued by the RTC Cebu City in BDO's favor is still effective, to-date. The Bank's management believes that these actions are not significant given the Bank's overall size. However, there can be no assurance that the results of legal proceedings in which the Bank is involved (including the pending litigation actions by and against the City of Cebu) will not materially harm the Bank's business, reputation or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. Further, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of bank insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial position or results of operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

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

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

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

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

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

In 2015, the effect of the devaluation of the Renminbi by the People's Republic of China (the "PRC"), coupled with the slowing of economic growth in various regions around the world, has had an impact on the prospective economic growth in the global financial markets and downward pressure on equity prices. Moreover, further increases in the U.S. Federal Reserve's interest rate, following rate hikes in 2016, 2017 and 2018 have led to the continued appreciation of the U.S. dollar relative to a number of emerging economy currencies (including the Peso), resulting in capital outflows from these economies. Meanwhile, Greece's official creditors will continue to monitor developments in Greece after it completed a third bail-out programme in June 2018 and negotiated a debt relief plan with euro zone creditors on the condition that Greece adheres to existing austerity measures.

Further, economic conditions in some Eurozone sovereign states could possibly lead to these member states re-negotiating or restructuring their existing debt obligations, which may lead to a material change in the current political and/or economic framework of the European Monetary Union. One potential change that may result from the crisis is an end to the single-currency system that prevails across much of Europe, with some or all European member states reverting to currency forms used prior to adoption of the euro. The crisis could also lead to the restructuring or breakup of other political and monetary institutions within the European Union. The risk may have been exacerbated by the referendum on membership of the European Union, held in the UK on June 23, 2016, where the UK public voted by a majority in favor of the British government taking the necessary action for the UK to leave the European Union. If the UK or certain states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Bank's business, financial condition and results of operations.

Global economic growth is expected to moderate in 2019 following the steady performance in 2018, as several headwinds pose risks to the outlook. These include the broad ramifications of the trade war between the US and China, tightening conditions on rising interest rates globally, Brexit and geopolitical tensions, e.g., continuing tensions in the Middle East.

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

CONSIDERATIONS RELATING TO THE BDO SERIES 2019-2 CDS

Liquidity of the BDO Series 2019-2 CDs

The Bank intends to list the BDO Series 2019-2 CDs on the PDEx. As such, secondary trading of the BDO Series 2019-2 CDs, including a limited form of market making thereon, would be conducted on the PDEx (through its trading participants) in accordance with the PDEx and BSP rules. The liquidity of the BDO Series 2019-2 CDs will thus depend in part upon the activity of the PDEx trading participants in developing a trading market for the BDO Series 2019-2 CDs and no assurance can be given that an active trading market for the BDO Series 2019-2 CDs will develop or will be maintained throughout the life of the BDO Series 2019-2 CDs.

Furthermore, no assurance can be given on the ability of the CD Holders to sell their BDO Series 2019-2 CDs or the price at which CD Holders may be able to sell their BDO Series 2019-2 CDs. The prevailing price of the BDO Series 2019-2 CDs, like that of any other fixed rate negotiable instrument, may be higher or lower than the original purchase price.

Subject to the "Events of Default" in the Terms and Conditions, the BDO Series 2019-2 CDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an Event of Default, none of the CD Holders may accelerate the BDO Series 2019-2 CDs on behalf of other CD Holders, and a CD Holder may only collect from the Bank to the extent of his holdings in the BDO Series 2019-2 CDs. However, the Bank may, subject to the General Banking Law of 2000, Section 217 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding BDO Series 2019-2 CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

Transfers of the BDO Series 2019-2 CDs

The Bank intends to list the BDO Series 2019-2 CDs in PDEx for secondary market trading. Upon listing of the BDO Series 2019-2 CDs with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines.

Further, these rules and guidelines cover minimum trading lots and record dates. The secondary trading of BDO Series 2019-2 CDs in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other any providers necessary for the completion of such trandes. The PDEx rules and conventions are available in the PDEx website (www.pdex.com.ph).

The BDO Series 2019-2 CDs may not be issued or transferred to (1) the Bank; (2) the subsidiaries or affiliates of the Bank; (3) wholly or majority-owned or controlled entities of such subsidiaries and affiliates of the Bank; (4) non-resident aliens not engaged in trade or business in the Philippines; (5) non-resident foreign corporations; and (6) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time (FATCA), which include: a U.S. citizen (including dual citizen); a U.S. resident alien for U.S. tax purposes; a US partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; or (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; and any other person that is not considered a non-US person under the FATCA. The Registry is authorized to refuse any transfer or transaction in the Registry Book that may be in violation of these restrictions.

As with other securities, the BDO Series 2019-2 CDs may trade at prices higher or lower than the initial offering price due to a number of factors, including but not limited to, the prevailing interest rates, the Bank's operations and financial performance, the overall market performance of debt securities, among others. It is possible that a selling CD Holder would receive sales proceeds lower than the initial investment should the CD Holder decide to sell the BDO Series 2019-2 CDs prior to maturity.

Taxation of the BDO Series 2019-2 CDs

The National Internal Revenue Code of Philippines (the "Tax Code") provides that interest income from deposit substitutes earned by individual citizens of the Philippines, resident aliens and non-resident aliens engaged in trade or business in the Philippines is subject to 20% final withholding tax. The Tax Code and recent BIR issuances, however, also provide for an exemption from the final withholding tax on interest income from long-term deposits or investments earned by the aforementioned individuals where the following conditions concur:

- The investment must be in the form of savings, common or individual trust fund, deposit substitutes, investment management accounts or other forms which must be prescribed by the BSP;
- The investment must be issued by banks only (not by non-bank financial intermediaries and finance companies); and must issued to individual citizens (residents or non-residents), resident aliens, or non-resident aliens engaged in trade or business within the Philippines;
- The investment has a maturity of not less than 5 years;
- The investment must be in denominations of ₱10,000.00 or other denominations as may be prescribed by the BSP;
- The investment should not be pre-terminated by the holder thereof before the fifth year;
- The long-term deposits or investment certificates should be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank; and
- Except those specifically exempted by law or regulation, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

Generally, then, interest income from the BDO Series 2019-2 CDs, issued by the Bank to individual citizens, resident individuals, and non-resident individuals engaged in trade or business in the Philippines, is exempt from income tax. However, should such individual holder of the BDO Series 2019-2 CDs pre-terminate the deposit or investment before the 5th year, a final tax shall be imposed on the entire income already earned by the CD Holder based on the holding period thereof:

Four years to less than five years – 5%
Three years to less than four years – 12%

Less than three years – 20%

BIR Revenue Regulations No. 14-2012 clarifies that transfers or assignments of the BDO Series 2019-2 CDs by a CD Holder described above to another CD Holder is construed as pre-termination solely for tax purposes; and therefore a final tax shall be due on the interest income already earned by the transferor CD Holder. There is therefore no assurance that the secondary trading or transfer of the BDO Series 2019-2 CDs may not be affected given this tax treatment.

As part of the Duterte administration's 10-point socioeconomic agenda, a comprehensive tax policy and administration reform is sought to be implemented. Said tax reform plan proposes significant changes to the tax system that will purportedly reduce tax rates, the impact of which will be compensated by measures that will broaden tax base. Thus, in late 2016, the Department of Finance (DOF) submitted to Congress the first of six packages that make up its comprehensive tax reform plan, commonly known as the Tax Reform for Acceleration and Inclusion (TRAIN) bill. Package One of the TRAIN bill was signed into law in December 2017.

More recently, DOF officials have indicated that the DOF targets to submit Package Four of its tax reform program to Congress before the end of this year. Said package includes, among others, the DOF's proposal to simplify tax rates on investment products in the Philippines. The objective is to help improve services being offered to the public and address the complex tax rates of financial products by standardizing or rationalizing tax rates on deposit investments, dividends and equity. There can be no assurance that the exemption from the final withholding tax on interest income from long-term deposits or investments earned by certain ndividuals or that the graduated rates applicable in case of pre-termination as discussed above in the Taxation section of this circular will be maintained.

Under the terms of the BDO Series 2019-2 CDs, if payments of principal and/or interest in respect of the BDO Series 2019-2 CDs shall be subject to deductions and withholding tax for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines shall be for the account of the CD Holder concerned. In the event that Package Four of the TRAIN bill removes the current exemption or imposes a different rate of tax for instruments such as the BDO Series 2019-2 CDs, CD Holders expected yield may be affected.

Transfers subject to BSP rules and transaction related fees

Transactions on the BDO Series 2019-2 CDs will be subject to the relevant rules of the exchange, including guidelines on minimum trading lots and record dates, all in accordance with guidelines for holding and trading of the BDO Series 2019-2 CDs as may be prescribed by the BSP. Such rules and regulations may include maintaining the minimum denomination for the BDO Series 2019-2 CDs as prescribed by the BSP at all times such that no negotiation or secondary trading may be allowed if the result is that a remaining CD Holder of the BDO Series 2019-2 CDs will hold less than the minimum denomination as prescribed or approved by the BSP.

The trading rules and regulations of the BSP or the exchange or PDEx or its trading participants, and other providers necessary for the completion of such trades may affect the liquidity of the BDO Series 2019-2 CDs such that a holder of BDO Seriese 2019-2 CDs or purchaser of the BDO Series 2019-2 CDs may not be able to readily access the secondary market if the intended transaction size of the BDO Series 2019-2 CDs will be less than the minimum denomination as prescribed or approved by the BSP.

Additionally, any trading or negotiations of the BDO Series 2019-2 CDs may be subject to fees and charges of the exchange or PDEx or its trading participants, and other providers necessary for the completion of such trades.

The BDO Series 2019-2 CDs may not be a suitable investment for all investors.

Each potential investor in the BDO Series 2019-2 CDs must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the BDO Series 2019-2 CDs, the merits and risks of investing in the BDO Series 2019-2 CDs and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the BDO Series 2019-2 CDs and the impact the BDO Series 2019-2 CDs will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the BDO Series 2019-2 CDs, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the BDO Series 2019-2 CDs and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors may purchase BDO Series 2019-2 CDs as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the BDO Series 2019-2 CDs unless it has the expertise (either alone or with a financial adviser) to evaluate how the BDO Series 2019-2 CDs will perform under changing conditions, the resulting effects on the value of the BDO Series 2019-2 CDs and the impact this investment will have on the potential investor's overall investment portfolio.

PDIC Insurance Coverage of the BDO Series 2019-2 CDs

The BDO Series 2019-2 CDs, which are considered bank deposits, are insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in, and subject to PDIC's applicable rules and regulations, as may be amended from time to time, including, without limit, the following:

- Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (₱500,000.00) per depositor.
- PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.
- In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor.
- In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following:
    - i. details or information establishing the right and capacity or the relationship of the entity with the individual/s; or
    - ii. details or information establishing the validity or effectivity of the deposit transfer; or
    - iii. copy of the board resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.
- In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor.
- PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer orthe right and capacity of the transferee or his relationship to the transferor.

TERMS AND CONDITIONS OF THE BDO SERIES 2019-2 CDS

1	**DEFINITIONS**	In these Terms and Conditions and the Contracts (as hereinafter defined):
	"ADVERSE EFFECT"	means any material and adverse effect on: (a) the ability of the Bank to duly perform and observe its obligations and duties under the BDO Series 2019-2 CDs and the Contracts; (b) the condition (financial or otherwise), prospects, results of operations or general affairs of the Bank or the Group; or (c) the legality, validity and enforceability of the Contracts;
	"ANTI-MONEY LAUNDERING LAWS OF THE PHILIPPINES"	means Republic Act No. 9160, as amended by Republic Act No. 9194 and 10167, and BSP Circular Nos. 251, 253, 279, 527, 564, 608, 612, 706 and all other amendatory and implementing laws, regulations, jurisprudence, notices or orders of any Philippine governmental body relating thereto;
	"AUDITORS"	means Punongbayan & Araullo;
	"BANK"	means BDO Unibank, Inc., the issuer of the BDO Series 2019-2 CDs;
	"BDO SERIES 2019-2 MASTER CD"	means the master form representing the BDO Series 2019-2 CDs setting forth the Terms and Conditions;
	"BDO SERIES 2019-2 CDS"	means long-term negotiable certificates of time deposit in the amount of Six Billion Five Hundred Million Pesos (₱6,500,000,000.00) to be issued by the Bank under these Terms and Conditions and pursuant to the authority granted by the BSP to the Bank on 16 August 2019 and the Governing Regulations, represented by a BDO Series 2019-2 Master CD;
	"BIR"	means the Philippine Bureau of Internal Revenue;
	"BSP"	means the Bangko Sentral ng Pilipinas;
	"BUSINESS DAY"	means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Metro Manila and Makati City are required or authorized to be open for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days;
	"CASH SETTLEMENT ACCOUNT"	means an account designated by a CD Holder with a Cash Settlement Bank into which shall be credited the interests, principal and other payments on the BDO Series 2019-2 CDs;

"CASH SETTLEMENT BANK"	means a bank licensed and authorized under the laws of the Philippines and designated by a CD Holder as the bank with which such CD Holder's Cash Settlement Account is maintained, such designation to be made in accordance with the procedures of the Paying Agent;
"CD HOLDER(S)"	means a person who, at any relevant time, appears in the Registry as the registered owner of the BDO Series 2019-2 CDs;
"CLOSED PERIOD"	shall have the meaning set forth in Condition 17;
"CONTRACTS"	means: (a) the Placement Agreement in the agreed form dated on or about 09 September 2019 between the Bank, the Sole Lead Arranger and the Selling Agents; (b) the Registry and Paying Agency Agreement in the agreed form dated on or about 09 September 2019 between the Bank and the Registrar and Paying Agent; (c) the BDO Series 2019-2 Master CD; (d) these Terms and Conditions; and (e) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto;
"EVENT OF DEFAULT"	means an event specified as such under Condition 21 hereof;
"GOVERNING REGULATIONS"	means the General Banking Law of 2000 (Republic Act No. 8791), Section X217 of the Manual of Regulations for Banks, Circular No. 304, Series of 2001 of the BSP, as amended and other related circulars and issuances, as may be amended from time to time;
"GROUP"	means the Bank, its subsidiaries, affiliates and entities controlled by the Bank, taken as a whole, and each of them being a member of the Group;
"INSOLVENCY DEFAULT"	means the acts of bankruptcy referred to under subparagraph (h) of Condition 21, including but not limited to the following: (a) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (b) appointment of a trustee or receiver of all or a substantial portion of the Bank's properties; (c) making of an assignment for the benefit of the Bank's creditors of all or substantially all of its properties; (d) admission in writing of the Bank's inability to pay its debts; or (e) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its properties or assets;
"INTEREST"	means for any Interest Period, the interest payable on the BDO Series 2019-2 CDs at such rate as set out in these Terms and Conditions;

"INTEREST PAYMENT DATE"	means, in respect of the BDO Series 2019-2 CDs, the last day of an Interest Period when payment for Interest in respect of the BDO Series 2019-2 CDs for such series becomes due, as set out in these Terms and Conditions; Provided, that if any Interest Payment Date would otherwise fall on a day which is not a Business Day, the Interest Payment Date shall be deemed the next succeeding Business Day; Provided, further, that if such succeeding Business Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Business Day, in either case, without adjustment to the amount of interest to be paid. For the avoidance of doubt, each Interest Payment Date shall be specified in the BDO Series 2019-2 Master CD;
"INTEREST PERIOD"	means, in respect of the BDO Series 2019-2 CDs, the period commencing on the Issue Date and having a duration of three (3) months and, thereafter, each successive three (3)-month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first (1st) day of the immediately succeeding Interest Period, but in the case of the last Interest Period, it will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the Maturity Date;
"INTEREST RATE"	means the rate equal to the rate fixed on Pricing Date, payable to the CD Holder for the period from and including the relevant Issue Date up to but excluding (a) the Maturity Date (if the Pre-termination Option is not exercised); or (b) the Pre-termination Date (if the Pre-termination Option is exercised);
"ISSUE DATE"	means the date when the BDO Series 2019-2 CDs is issued by the Bank to CD Holders, as the Bank may determine, which shall be such number of Banking Days following the end of the Offer Period as may be determined by the Bank, or such other date as the Bank and the Lead Arranger may agree in writing;
***"ISSUE PRICE*"**	means One Hundred Percent (100.0%) of the nominal principal amount of each BDO CD;
"MATURITY DATE"	means 5.5 years from the Issue Date at which date the BDO Series 2019-2 CDs will be redeemed at their Maturity Value; Provided, that, if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day;
***"MATURITY VALUE*"**	means the Issue Price plus unpaid and accrued applicable interests up to but excluding the Maturity Date;
***"OFFER PERIOD*"**	means the period when the BDO Series 2019-2 CDs shall be offered for sale by the Bank to the public, through the Bank's branches and the Selling Agents to prospective CD Holders, commencing at 12:00 p.m. and ending at 5:00 p.m. on such days or dates as may be

determined by the Bank and the Lead Arranger;

"OFFERING CIRCULAR"	means the Offering Circular (including, for the avoidance of doubt, the consolidated financial statements of the Bank included therein) in preliminary and final forms in respect of the BDO Series 2019-2 CDs (the final form being dated as of the Issue Date), and all amendments, supplements and addenda thereto;
"PAYMENT DATE"	means each date on which payment for interest and/or principal in respect of the BDO Series 2019-2 CDs become due. The date on which a payment in respect of the BDO Series 2019-2 CDs becomes due means the first date on which the CD Holders could claim the interest or principal payment;
"PDEx"	means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with the SEC to operate an exchange and trading market for fixed income securities and a member of the PDS Group;
"PDIC"	means Philippine Deposit Insurance Corporation;
"PLACEMENT AGREEMENT"	means the Placement Agreement in the agreed form dated on or about 09 September 2019 among the Bank, Sole Lead Arranger and Selling Agents, as may be amended or supplemented from time to time;
"PRE-TERMINATION AMOUNT"	means the face value of a the BDO Series 2019-2 CDs, subject of a Pre-termination Option, plus accrued interest covering the accrued and unpaid interest as of but excluding the Pre-termination Date of the BDO Series 2019-2 CDs.
"PRE-TERMINATION DATE"	means, in respect of a series of BDO Series 2019-2 CDs, the Interest Payment Date on which the Bank may exercise its Pre-termination Option following compliance by the Bank with the requirements under Condition 13 of these Terms and Conditions;
"PRE-TERMINATION OPTION"	means the option of the Bank to redeem the BDO Series 2019-2 CDs as a whole, but not in part, on any Interest Payment Date on the basis of events specified in, and in accordance with, Condition 13 of these Terms and Conditions;
"PRICING DATE"	Any day within the Offer Period and prior to the Issue Date, as may be determined by the Issuer in consultation with the Sole Lead Arranger;
"PROHIBITED CD HOLDER(S)"	means persons and entities which are prohibited from purchasing and/or holding any BDO Series 2019-2 CDs of the Bank pursuant to the Governing Regulations, specifically: (1) the Bank; and (2) the

subsidiaries and affiliates of the Bank; (3) wholly or majority-owned or controlled entities of the subsidiaries and affiliates of the Bank; (4) non-resident aliens not engaged in trade or business in the Philippines; (5) non-resident foreign corporations; and (6) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time (FATCA), which include: a U.S. citizen (including dual citizen); a U.S. resident alien for U.S. tax purposes; a US partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; or (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; and any other person that is not considered a non-US person under the FATCA. A "subsidiary" means, at any particular time, a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Bank and/or one or more of its subsidiaries or affiliates. An "affiliate" means, at any particular time, a company at least twenty percent (20%) but not more than fifty percent (50%) of whose issued voting equity share capital is then owned by the Bank. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company;

"PSE"	means the Philippine Stock Exchange, Inc.;
"PURCHASE ADVICE"	means the written advice sent by the Selling Agents (in case of the primary issuance of the BDO Series 2019-2 CDs) or, upon listing of the BDO Series 2019-2 CDs in PDEx, a PDEx Trading Participant (in case of secondary transfers of the BDO Series 2019-2 CDs), to a CD Holder confirming the acceptance of its offer to purchase BDO Series 2019-2 CDs and consequent ownership thereof and stating the details, including the tax status, and summary terms and conditions, of the issue, sale or assignment of BDO Series 2019-2 CDs to such CD Holder;
"REGISTRAR" OR ***"PAYING AGENT"***	means Philippine Depository & Trust Corp. ("PDTC"), or the registrar and paying agent in respect of the BDO Series 2019-2 CDs appointed from time to time under the Registry and Paying Agency Agreement or an agreement supplemental to it and in accordance with the Governing Regulations;
"REGISTRY"	means the electronic registry book of the Registrar containing the official information on the CD Holders and the amount of BDO Series 2019-2 CDs they respectively hold, including all transfers or assignments thereof or any liens or encumbrances thereon;
"REGISTRY CONFIRMATION"	means the written advice sent by the Registrar to the CD Holders, confirming the registration in the name of such CD Holder of the specified amount of BDO Series 2019-2 CDs issued to or purchased by a CD Holder, in the Registry, and setting forth the declarations

		required by the BSP;
	"SEC"	means the Philippine Securities and Exchange Commission and its successor agency/ies;
	"SELLING AGENTS"	means ING Bank N.V., Manila Branch; BDO Unibank, Inc.; and BDO Private Bank, Inc.; and includes their respective successor entities, or the selling agent(s) in respect of the BDO Series 2019-2 CDs appointed from time to time under the Placement Agreement or an agreement supplemental to it;
	"SOLE LEAD ARRANGER"	means ING Bank N.V., Manila Branch ("ING");
	"TAX EXEMPT/TREATY DOCUMENTS"	shall have the meaning set forth in Condition 25; and
	"TERMS AND CONDITIONS"	mean these Terms and Conditions of the BDO Series 2019-2 CDs as may be amended from time to time.
2	**PURPOSE OF ISSUANCE**	The issue will be used to diversify the maturity profile of funding sources and to support the Bank's business expansion plans.
3	**FORM**	The BDO Series 2019-2 CDs shall be scripless and, subject to the payment of fees to the Registrar, registered and lodged with the Registrar in the name of the CD Holders. Once lodged, the BDO Series 2019-2 CDs shall be eligible for electronic transfer in the Registry, without the issuance or cancellation of certificates. The BDO Series 2019-2 CDs shall comply with the provisions of Republic Act No. 8792 or the Electronic Commerce Act, particularly, on the existence of an assurance on the integrity, reliability and authenticity of the BDO Series 2019-2 CDs.
4	**DENOMINATION**	The BDO Series 2019-2 CDs will be in minimum denominations of One Hundred Thousand Pesos (P100,000) and in integral multiples of Fifty Thousand Pesos (P50,000) thereafter, and will likewise be transferable in the secondary market in such minimum denominations as may be in accordance with the requirements of PDEx under the PDEx Rules.
5	**TITLE**	Legal title to the BDO Series 2019-2 CDs shall be evidenced by the Registry, which shall be the official registry and best evidence of ownership and all other information regarding ownership of the BDO Series 2019-2 CDs. Following receipt from the Selling Agents or PDEX Trading Participant of a Purchase Advice evidencing the purchase of BDO Series 2019-2 CDs by the CD Holders, a Registry Confirmation containing a unique transaction reference number will be issued by the Registrar in favor of the said CD Holders in accordance with the Governing Regulations and the Registry and Paying Agency Agreement to evidence the registration of such BDO Series 2019-2 CDs in their names in the Registry.

6	**SEC REGISTRATION AND LISTING**	The BDO Series 2019-2 CDs have not been and will not be registered with the SEC. Since the BDO Series 2019-2 CDs qualify as exempt securities under Section 9.1 (e) of the Philippine Securities Regulation Code, the BDO Series 2019-2 CDs may be sold and offered for sale or distribution in the Philippines without registration. The BDO Series 2019-2 CDs shall be listed by the Bank in the PDEx.
7	**ELIGIBLE CD HOLDERS**	In general, the BDO Series 2019-2 CDs may be issued or transferred to any person of legal age, regardless of nationality or residency, any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, except, in each case, to Prohibited CD Holders.
8	**QUALIFICATION DETERMINATION**	Each Selling Agent (in the case of initial issuances of the BDO Series 2019-2 CDs) or the PDEX Trading Participant (in the case of transfers or assignments of the BDO Series 2019-2 CDs) shall verify the identity and relevant details of each proposed CD Holder and ascertain that said proposed CD Holder is an Eligible CD Holder and is not a Prohibited CD Holder. Proposed CD Holders shall be required to submit any and all information reasonably required by the Selling Agents and/or PDEX Trading Participant in order for the said Selling Agents and/or PDEX Trading Participant, as the case may be, to be able to determine that such proposed CD Holder is an Eligible CD Holder and is not a Prohibited CD Holder. Any question on such determination shall be referred to the Bank.
9	**INTEREST ACCRUAL AND PAYMENT**	The BDO Series 2019-2 CDs will bear interest on its principal from and including the Issue Date up to but excluding: (a) the Maturity Date (if the Pre-termination Option is not exercised); or (b) the Pre-termination Date (if the Pre-termination Option is exercised). Interest shall be payable on each Interest Payment Date. The amount of interest payable in respect of the BDO Series 2019-2 CDs for each Interest Period shall be calculated by the Registrar on a 30/360-day year basis. The determination by the Registrar of the amount of interest payable (in the absence of manifest error) is final and binding upon all parties.
10	**PAYMENT**	The Paying Agent shall pay, or cause to be paid on behalf of the Bank, on or before 12:00 p.m. on the Payment Date the amounts due in respect of the BDO Series 2019-2 CDs through a direct credit of the proper amounts, net of taxes and fees (if any) to the Cash Settlement Banks of the CD Holders, for onward remittance to the Cash Settlement Accounts of the CD Holders with the Cash Settlement Banks.
11	**PRINCIPAL REPAYMENT**	Unless the BDO Series 2019-2 CDs are pre-terminated by the Bank

		on Pre-termination Date (See Condition 13), the BDO Series 2019-2 CDs shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall fall on the immediately succeeding Business Day, without adjustment to interest payable in respect of the BDO Series 2019-2 CDs.
12	**PRETERMINATION BY THE CD HOLDER**	Presentation of the BDO Series 2019-2 CDs to the Bank for termination or redemption before the Maturity Date is not allowed, unless there occurs an event under “Events of Default” in these Terms and Conditions. CD Holders may, however, transfer or assign their BDO Series 2019-2 CDs to another holder who is not a Prohibited CD Holder. Such transfer or assignment shall not be considered a pre-termination, subject to Condition 14.
13	**PRE-TERMINATION BY THE BANK**	Subject to Governing Regulations, the Bank shall have the option (but not the obligation) to pre-terminate the BDO Series 2019-2 CDs as a whole, but not in part, prior to the Maturity Date and on any Interest Payment Date at the Pre-termination Amount, for any cause as may be allowed under the Governing Regulations, including, without limitation if or when: (i) there shall occur at any time during the term of the BDO Series 2019-2 CDs any change in any applicable law, rule or regulation or in the terms and/or interpretation or administration thereof or a new applicable law should be enacted, issued or promulgated which shall result in payments by the Bank becoming subject to additional or increased taxes, other than the taxes and rates of such taxes prevailing on the Issue Date, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank; or (ii) at any time during the term of the BDO Series 2019-2 CDs, long term negotiable certificates of deposit issuances become subject to additional or increased reserves required by the BSP, other than the four percent (4%) statutory regular reserves required in BSP Circular No. 1041, Series of 2019. The Bank may pre-terminate all and not only part of the BDO Series 2019-2 CDs as permitted under this Condition 13 on any Interest Payment Date prior to the Maturity Date by giving notice in writing of its intention to the CD Holders (with copy to the Registrar and Paying Agent) which notice shall state the Interest Payment Date on which such BDO Series 2019-2 CDs are to be redeemed, the redemption price and the manner in which redemption will be effected in two (2) newspapers of general circulation in Metro Manila (one of which shall be the Philippine Daily Inquirer) once a week for two (2) consecutive weeks. Such notice shall be given not more than sixty (60) calendar days nor less than thirty (30) calendar days before the Interest Payment Date, shall be irrevocable and shall oblige the Bank to redeem all of the BDO Series 2019-2 CDs on the Pre-termination Date at their Pre-termination Amount. Any incremental tax that may be due on the interest income already earned under the BDO Series 2019-2 CDs prior to or as a result of the exercise by the Bank of its Pre-termination Option shall be for the account of the Bank. In addition, the Bank shall re-compute its reserve positions retroactively based on the applicable reserve rate(s) for regular time deposits during the period between the Issue Date and the Pre-termination Date.

14	**SECONDARY TRADING**	The BDO Series 2019-2 CDs are freely transferable across tax categories, if and when so allowed under PDEx rules, conventions, and guidelines. All transfers or assignments of the BDO Series 2019-2 CDs shall be coursed through a PDEx Trading Participant, subject to the PDEx Rules. As a condition precedent for any transfer or assignment of the BDO Series 2019-2 CDs, the transferee CD Holder must present to the Registrar, and in such forms as prescribed by the Registrar: (i) the Purchase Advice; (ii) the Registry Confirmations of both the transferor and the transferee (if any); (iii) the Trade-Related Transfer Form or Non-Trade Related Transfer Form, as the case may be; (iv) the Investor Registration Form; (v) Tax Exempt/Treaty Documents, if applicable; (vi) written consent of the transferee CD Holder to be bound by the terms of the BDO Series 2019-2 CDs and the Registry Rules, in the form agreed upon between the Bank and the Registrar; and (vii) such other documents as may be reasonably required by the Registrar. A service charge shall be imposed for any registration of transfer or assignment of the BDO Series 2019-2 CDs, and the Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or assignment of the BDO Series 2019-2 CDs, each for the account of the CD Holder requesting the registration of transfer or assignment of the BDO Series 2019-2 CDs. Subject to Condition 17, payment by the relevant CD Holder of the proper fees, if any, to PDEx and/or the Registrar, a transfer or assignment of BDO Series 2019-2 CDs may generally be done at any time. In case of a transfer or assignment deemed by the Bank as a pre-termination, solely for withholding tax purposes, the transferor CD Holder shall be liable for the resulting tax due on the entire interest income earned on the BDO Series 2019-2 CDs (if any), based on the holding period of such BDO Series 2019-2 CDs by the transferor CD Holder and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it. Thereafter, the interest income of a transferee CD Holder who is an individual shall not be treated as income from long-term deposit or investment certificates, unless the BDO Series 2019-2 CDs has a remaining maturity of at least five years. “Transfers or assignments deemed by the Bank as pre-termination for withholding tax purposes” means any transfer or assignment which: (a) is made by a CD Holder who is a citizen, resident individual, nonresident individual engaged in trade or business in the Philippines, or a trust (subject to certain conditions); (b) under the Governing Regulations, is not considered a pre-termination of the BDO Series 2019-2 CDs; and (c) under relevant tax laws or revenue regulations, will result in the interest income on the BDO Series 2019-2 CDs being subject to the graduated tax rates imposed on long-term deposit or investment certificates on the basis of the holding period of the investment instrument.
15	**TRANSFERABILITY**	All transfers and assignment of, as well as change in title to, the BDO Series 2019-2 CDs shall be recorded in the Registry.

		Settlement in respect of such transfer and assignment of, or change of title to, the BDO Series 2019-2 CDs, including settlement of applicable taxes (subject to Condition 24), if any, arising from such transfers, assignments or change in title, shall be for the account of the transferee and/or transferor CD Holder. Transfers or assignments of the BDO Series 2019-2 CDs made in violation of the restrictions on transfer under these Terms and Conditions shall be null and void and shall not be registered by the Registrar.
16	**PLACE OF REGISTRY AND COMPLIANCE WITH REGISTRY RULES**	The Registry shall be kept at the specified office of the Registrar. To the extent not inconsistent with or contrary to these Terms and Conditions, the registry rules of the Registrar (a copy of which shall be separately provided by the Registrar to the Bank and the CD Holders) shall be observed and complied in the implementation of the functions of the Registrar, including, without limit, transfers of the BDO Series 2019-2 CDs.
17	**CLOSING OF REGISTRY**	The Registrar shall not register any transfer or assignment of the BDO Series 2019-2 CDs for a period of two (2) Business Days preceding the due date for any payment of interest on the BDO Series 2019-2 CDs, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the BDO Series 2019-2 CDs ("Closed Period"), or register the transfer or assignment of any BDO Series 2019-2 CDs previously called for redemption or pre-termination. The Registrar will treat the person in whose name the BDO Series 2019-2 CDs is registered immediately before the closed period as the owner of such BDO Series 2019-2 CDs for the purpose of receiving distributions pursuant to these Terms and Conditions and for all other purposes whatsoever, and the Registrar shall not be affected by any notice to the contrary.
18	**STATUS AND PDIC INSURANCE**	The BDO Series 2019-2 CDs constitute direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions. Claims of all the CD Holders in respect of the BDO Series 2019-2 CDs will at all times rank pari passu without any preference among themselves. The BDO Series 2019-2 CDs shall be at least pari passu with all other present and future unsecured and unsubordinated Peso-denominated obligations of the Bank that by their terms rank equal with the BDO Series 2019-2 CDs, except obligations mandatorily preferred by law. The BDO Series 2019-2 CDs are insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in, and subject to PDIC's applicable rules and regulations, as may be amended from time to time, including, without limit, the following: a. Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (P500,000) per depositor. b. PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.

c. In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor.

d. In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of, entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following:

   1) details or information establishing the right and capacity or the relationship of the entity with the individual/s; or

   2) details or information establishing the validity or effectivity of the deposit transfer; or

   3) copy of the Board Resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.

e. In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor.

f. PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer or the right and capacity of the transferee or his relationship to the transferor.

19 REPRESENTATIONS AND WARRANTIES

The Bank hereby represents and warrants to the CD Holders, as follows:

(a) each of the members of the Group is duly incorporated, validly existing and in good standing under the laws of its place of incorporation with full power and authority to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it;

(b) except as otherwise disclosed in the Offering Circular, each of the members of the Group has legal title to all its property in each case free and clear of all liens, encumbrances and defects; and any real property and buildings held under lease by the Group are held by them under valid, subsisting and enforceable leases, except where such a failure would not result in an Adverse Effect;

(c) the Bank has the corporate power under the laws of the Republic of the Philippines and its constitutive documents: (i) to issue the BDO Series 2019-2 CDs and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the Contracts and these Terms and Conditions; (ii) to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business; and (iii) to incur the indebtedness and other obligations provided for in the BDO Series 2019-2 CDs;

(d) the Bank (and, if applicable, any person on whose behalf it may act as agent or in a representative capacity) has and will continue to have full capacity and authority to enter into the Contracts and to carry out the transactions contemplated in the Contracts and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery and performance of the Contracts;

(e) the Contracts have been duly authorised, executed and delivered by the Bank and constitute valid and legally binding obligations of the Bank;

(f) the BDO Series 2019-2 CDs have been duly authorised by the Bank and, when duly executed, authenticated, issued and delivered in accordance with the Registry and Paying Agency Agreement, will constitute valid and legally binding obligations of the Bank, enforceable in accordance with its terms;

(g) the BDO Series 2019-2 CDs constitute the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions, and will at all times rank pari passu and ratably without any preference among themselves and at least pari passu with all other direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, present and future, other than obligations mandatorily preferred by law;

(h) all necessary actions and things required to be taken, fulfilled or done (including without limitation the obtaining of any consent, authorisation, order or license or the making of any filing or registration) for the issue of the BDO Series 2019-2 CDs, the carrying out of the other transactions contemplated by the BDO Series 2019-2 CDs and the Contracts or the compliance by the Bank with the terms of the BDO Series 2019-2 CDs and the Contracts, as the case may be, have been taken, fulfilled or done;

(i) the Bank has obtained the approval of the BSP to issue the BDO Series 2019-2 CDs, which approval has not been revoked, qualified, or restricted, and shall fully, timely, and unconditionally comply with all other terms and conditions imposed by the BSP regarding the issuance of the BDO Series 2019-2 CDs while any portion of the BDO Series 2019-2 CDs remain outstanding;

(j) the Bank has complied with all qualifications and conditions of the Governing Regulations to issue, maintain, service, pay out, redeem, and cancel the BDO Series 2019-2 CDs, including the prohibitions of Section X217 (h) of the Manual of Regulations for Banks, which qualifications and conditions continue to be complied with;

(k) the execution and delivery of the Contracts, the issue of the BDO Series 2019-2 CDs, the carrying out of the other transactions contemplated by the Contracts and these Terms and Conditions and compliance with their terms do not and will not: (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the documents constituting the Bank, or any indenture, trust deed, mortgage or other agreement or instrument to which the Bank or any of the Bank's subsidiaries is a party or by which it or any of its properties is bound; or (ii) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over the Bank, any such subsidiary or any of their properties;

(l) (i) the Offering Circular contains all information with respect to the Group and to the BDO Series 2019-2 CDs which is material in the context of the issue and offering of the BDO Series 2019-2 CDs (including, without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Bank and of the BDO Series 2019-2 CDs, is necessary to enable potential CD Holders and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank and of the rights attaching to the BDO Series 2019-2 CDs); (ii) the statements contained in the Offering Circular relating to the Bank and the Group are in every material respect true, accurate and not misleading; (iii) the opinions and intentions expressed in the Offering Circular with regard to the Bank and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Group or the BDO Series 2019-2 CDs the omission of which would, in the context of the issue and offering of the BDO Series 2019-2 CDs, make any statement in the Offering Circular misleading in any material respect; and (v) all reasonable inquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements;

(m) the Offering Circular accurately describes: (i) accounting policies which the Bank believes to be the most important in the portrayal of the Group's financial condition and results of operations (the "Critical Accounting Policies"); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Bank have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their independent accountants with regards to such disclosure;

(n) each member of the Group maintains systems of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorisations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with financial reporting standards in the Philippines for banks and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorisation; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) each member of the Group has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Bank's consolidated financial statements in accordance with financial reporting standards in the Philippines for banks; and the Bank's current management information and accounting control system has been in operation for at least twelve (12) months during which none of the Bank nor any other member of the Group has experienced any material difficulties with regard to (i) through (v) above;

(o) there are no outstanding guarantees or contingent payment obligations of the Bank in respect of indebtedness of third parties except as described in the Offering Circular; the Bank is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular;

(p) the Offering Circular accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that the Bank believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Bank nor any other member of the Group has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Bank or any other member of the Group, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Bank or any other member of the Group or the availability thereof or the requirements of the Bank or any other member of the Group for capital resources;

(q) all information provided by the Bank to its Auditors required for the purposes of their comfort letters in connection with the offering and sale of the BDO Series 2019-2 CDs has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect;

(r) the Auditors are independent public accountants with respect to the Group, as required by the Philippine Institute of Certified Public Accountants and the applicable rules and regulations thereof;

(s) save as disclosed in the Offering Circular, all transactions by the Bank with its directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available from other parties on an arm's-length basis;

(t) each of the Bank and the other members of the Group: (i) has all licenses, franchises, permits, authorisations, approvals, registrations and orders and other concessions that are necessary to own or lease its other properties and conduct its businesses as described in the Offering Circular; (ii) is conducting its business and operations in compliance with all applicable laws and regulations in each of the jurisdictions in which it conducts business and operations, including, without limitation, all regulations, guidelines and circulars of the BSP, the SEC, the PSE and the BIR; (iii) has complied with, corrected and successfully and effectively implemented, to the satisfaction of the BSP, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Bank; and (iv) is otherwise in compliance with all agreements and other instruments to which it is a party, except where any failure to be in compliance with any of which would not qualify as, or result in, an Adverse Effect;

(u) except as specifically described in the Offering Circular, the Bank and the other members of the Group own or possess (or can acquire on reasonable terms), all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them; and neither the Bank nor any other member of the Group has received notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interests of the Bank or other members of the Group therein; and which infringement or conflict (if the subject of any unfavourable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect;

(v) except as specifically described in the Offering Circular, there are no pending actions, suits or proceedings against or affecting the Bank or any other member of the Group or any of their properties which, if determined adversely would individually or in the aggregate have an Adverse Effect, or affect the ability of the Bank to perform its obligations under the Contracts or the BDO Series 2019-2 CDs, or which are otherwise material in the context of the issue of the BDO Series 2019-2 CDs and, to the best of the Bank's knowledge, no such actions, suits or proceedings are threatened or contemplated;

(w) no event has occurred or circumstance arisen which (whether or not with the giving of notice and/or the passage of time and/or the fulfillment of any other requirement) constitutes an event described under "Events of Default" hereunder;

(x) The Bank and the other members of the Group are in compliance with the Anti-Money Laundering Laws of the Philippines in all material respects;

(y) The Bank is Solvent. As used in this paragraph, the term "Solvent" means, with respect to a particular date, that on such date: (i) the present fair market value (or present fair saleable value) of the assets of the Bank is not less than the total amount required to pay the liabilities of the Bank on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Bank is able to realise upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Bank is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Bank is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Bank is engaged; (v) the Bank will be able to meet its obligations under all its outstanding indebtedness as they fall due; and (vi) the Bank is not a defendant in any civil action that would result in a judgment that the Bank is or would become unable to satisfy; and

(z) The approval of PDEx for the listing of the BDO Series 2019-2 CDs when issued will be in full force and effect unless applicable laws no longer require listing of long-term negotiable certificates of time deposit with an exchange.

These representations and warranties are true and correct as of the Issue Date and shall be deemed repeated with reference to the facts and circumstances then existing on each Interest Payment Date.

20 COVENANTS

The Bank hereby covenants and agrees that during the term of the BDO Series 2019-2 CDs and until payment in full and performance of all its obligations under the BDO Series 2019-2 CDs, it shall act as follows and perform the following obligations:

(a) The Bank shall pay all amounts due under the BDO Series 2019-2 CDs at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the BDO Series 2019-2 CDs;

(b) The Bank shall ensure that it will continue to have the legal and juridical personality to maintain the BDO Series 2019-2 CDs until Maturity Date or full payment of the claims under the BDO Series 2019-2 CDs, whichever is later;

(c) It shall, as soon as practicable, make available copies of its audited financial statements, consisting of the balance sheet of the Bank as of the end of its latest fiscal year and statements of income and retained earnings and of the source and application of funds of the Bank for such fiscal year, such audited financial statements being prepared in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and being certified by an independent certified public accountant of recognized standing in the Philippines; and shall, as soon as practicable, upon written request from a CD Holder, furnish to such requesting CD Holder such updates and information as may be reasonably requested by a CD Holder pertaining to the business, assets, condition, or operations of the Bank, or affecting the Bank's ability to duly perform and observe its obligations and duties under the BDO Series 2019-2 CDs and the Contracts;

(d) It shall, when so requested in writing, provide any and all information reasonably needed by PDEX and Paying Agent and/or Registrar, as the case may be, to enable them to respectively comply with their respective responsibilities and duties under the Governing Regulations, and the Contracts; Provided, that, in the event that the Bank cannot, for any reason, provide the required information, the Bank shall immediately advise the party requesting the same and shall perform such acts as may be necessary to provide for alternative information gathering;

(e) The Bank shall promptly advise the CD Holders through the Registrar and Paying Agent of: (i) any request by any government agency for any information related to the BDO Series 2019-2 CDs; and (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the BDO Series 2019-2 CDs or the initiation of any proceedings for any such purpose and shall use its best efforts to obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the BDO Series 2019-2 CDs at the earliest time possible;

(f) The Bank shall ensure that any documents related to the BDO Series 2019-2 CDs will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

(g) The Bank shall upon written request of a CD Holder execute and deliver to such CD Holders such reports, documents, and other information relating to the business, properties, condition, or operations, financial or otherwise, of the Bank as a CD Holder may from time to time reasonably require;

(h) The Bank shall, as soon as possible and in any event within five (5) Business Days after the occurrence of any default on any of the obligations of the Bank, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under the material agreements of the Bank with any party, including, without limitation the Contracts, serve a written notice to the CD Holders through the Registrar and Paying Agent, of the occurrence of any such default, specifying the details and the steps which the Bank is taking or proposes to take for the purpose of curing such default, including the Bank's estimate of the length of time to correct the same;

(i) It will duly and punctually comply with all reporting, filing and similar requirements imposed by the BSP, the SEC and the PSE or in accordance with any applicable Philippine law and regulations from time to time relating to the BDO Series 2019-2 CDs and the Contracts;

(j) The Bank shall maintain the services of the Auditors and in any event where the Auditors shall cease to be the external auditor of the Bank for any reason, the Bank shall appoint another reputable, responsible and internationally accredited external auditor;

(k) It shall fully and promptly comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations and promptly and satisfactorily take all corrective measures that may be required under BSP audit reports;

(l) It shall use the net proceeds from the BDO Series 2019-2 CDs in accordance with the purpose of issuance provided in the Offering Circular; and

(m) It shall ensure that there shall at all times be a Registrar and Paying Agent for the purposes of the BDO Series 2019-2 CDs, as provided in the Registry and Paying Agency Agreement.

(n) It shall ensure that the BDO Series 2019-2 CDs are listed with PDEx unless applicable laws no longer require listing of long-term negotiable certificates of time deposit with an exchange.

These covenants of the Bank shall survive the issuance of the BDO Series 2019-2 CDs and shall be performed fully and faithfully by the Bank at all times while the BDO Series 2019-2 CDs or any portion thereof remain outstanding.

21 **EVENTS OF DEFAULT**

The Bank shall be considered in default under the BDO Series 2019-2 CDs in case any of the following events shall occur:

(a) The Bank fails to pay any principal and/or interest due on the BDO Series 2019-2 CDs;

(b) Any representation and warranty of the Bank or any certificate or opinion submitted by the Bank in connection with the issuance of the BDO Series 2019-2 CDs is untrue, incorrect, or misleading in any material respect;

(c) The Bank fails to perform or violates its covenants under these Terms and Conditions (other than the payment obligation under paragraph (a) above) or the Contracts, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of fifteen (15) calendar days from notice to the Bank;

(d) The Bank violates any term or condition of any contract, bond, note, debenture, or similar security executed by the Bank with any other bank, financial institution, or other person, corporation, or entity in respect of borrowed moneys in an aggregate amount exceeding Five Hundred Million Pesos (P500,000,000) or its equivalent or, in general, the Bank violates any contract, law, or regulation which: (i) if remediable, is not remedied by the Bank within ten (10) calendar days from such failure; (ii) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; or (iii) will adversely and materially affect the performance by the Bank of its obligations under the BDO Series 2019-2 CDs and pay any amount outstanding on the BDO Series 2019-2 CDs;

(e) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the BDO Series 2019-2 CDs expires or is terminated, revoked or modified and the result thereof is to make the Bank unable to discharge its obligations hereunder or thereunder;

(f) It becomes unlawful for the Bank to perform any of its material obligations under the BDO Series 2019-2 CDs;

(g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Bank or any material portion of its properties or assets;

(h) The Bank becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, including: (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) making of an assignment for the benefit of its creditors of all or substantially all of its properties; (iv) admission in writing of its inability to pay its debts; or (v) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its property or assets (each, an "Insolvency Default");

(i) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of Five Hundred Million Pesos (P500,000,000.00) or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;

(j) Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Bank's assets, singly or in the aggregate, and such writ, warrant, execution or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy; and

(k) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or force majeure, and, provided that, in any such event, there is no Adverse Effect.

22 **EFFECTS OF EVENTS OF DEFAULT**

If any one or more of the Events of Default (other than an Insolvency Default, the effects of which are set forth in Condition 23 hereof) shall have occurred and be continuing after any applicable cure period shall have lapsed, any CD Holder by written notice to the Bank and the Registrar and the Paying Agent stating the Event of Default relied upon, may declare the Bank in default in respect of the BDO Series 2019-2 CDs held by such CD Holder and require the principal amount of the BDO Series 2019-2 CDs held by such CD Holder, and all accrued interests (including any default interest) and other charges due thereon, to be immediately due and payable, and forthwith collect said outstanding principal, accrued interests (including any default interest) and other charges, without prejudice to any other remedies which such CD Holder or the other holders of the BDO Series 2019-2 CDs may be entitled.

In case of an Event of Default under Condition 21 (a), the Bank shall, in addition to the payment of the unpaid amount of principal and accrued interest, pay default interest at the rate of one percent (1%) per month thereon, which shall accrue from the date the amounts payable under these Terms and Conditions became due until the same is fully paid.

Any money delivered to the Paying Agent by the Bank pursuant to an Event of Default shall be applied by the Paying Agent in the order of

		preference as follows: first, to the pro-rata payment to the Registrar and Paying Agent of the costs, expenses, fees, and other charges of collection incurred by it without gross negligence or bad faith; to the payment to the Registrar and Paying Agent of its fees, and other outstanding charges due to it; second, to the pro-rata payment of all outstanding interest owing to the CD Holders, including any default interest as specified in this Condition 22, in the order of maturity of such interest; and third, to the pro-rata payment of the whole amount then due and unpaid on the BDO Series 2019-2 CDs for principal owing to the CD Holders. The Registrar and Paying Agent shall promptly notify the Bank and the CD Holders of any notice received by it on the occurrence of any Event of Default as set forth in these Terms and Conditions according to a process agreed upon by the Registrar and Paying Agent and the Bank attached as Schedule 14 to the Registry and Paying Agency Agreement; Provided, that in case such notice (other than a notice of default under this Condition 22) is received by the Registrar and Paying Agent from a CD Holder, the Registrar and Paying Agent, prior to notifying the remaining CD Holders, shall first advise the Bank of such notice and provide the Bank with an opportunity to refute such claim to the satisfaction of the party alleging the Event of Default within three (3) Business Days from its receipt of the advice from the Registrar and Paying Agent, failing which the Registrar and Paying Agent shall immediately notify the remaining CD Holders; Provided, further, that in case such notice consists of a notice of default under this Condition 22, the Registrar and Paying Agent shall immediately, and in no case more than one (1) Business Day from its receipt of such notice, notify the remaining CD Holders.
23	**REMEDY FOR NON-PAYMENT IN AN INSOLVENCY DEFAULT**	The payment of principal on the BDO Series 2019-2 CDs may be accelerated only in the event of insolvency of the Bank. Recovery of amounts owing in respect of the BDO Series 2019-2 CDs against the Bank is available to any CD Holder only through the institution of proceedings for the insolvency of the Bank.
24	**TAXATION**	If payments of principal and/or interest in respect of the BDO Series 2019-2 CDs shall be subject to deductions and/or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to income, stamp, issue, registration, documentary, value-added or similar tax, or other taxes and duties, including interest and penalties thereon, then such taxes or duties shall be for the account of the CD Holder concerned, and if the Bank shall be required by law or regulation to deduct or withhold such taxes or duties, then the Bank shall make the necessary withholding or deduction for the account of the CD Holder concerned; Provided, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the relevant CD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar in accordance with Condition 25. In case of transfers and assignments deemed by the Bank as a pre-termination for tax purposes (as defined in Condition 14), the transferor CD Holder shall be liable for the resulting tax due on the

		entire interest income earned on the BDO Series 2019-2 CDs (if any), based on the holding period of such BDO Series 2019-2 CDs and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it. Documentary stamp tax for the primary issue of the BDO Series 2019-2 CDs and the documentation, if any, shall be for the Bank's account. As issuer of the BDO Series 2019-2 CDs, the withholding of final tax on the interest due on the BDO Series 2019-2 CDs is the responsibility of the Bank pursuant to Section 57 of the National Internal Revenue Code, as amended, and Section 2.57 of Revenue Regulations No. 2-98, as amended. The Bank shall abide by the terms of the BIR accreditation of the PDS Group Corporate Action Auto-Claim (CAAC) System to the extent of its applicability, and to the extent that it affects information processed by the CAAC system in relation to the Bank's listed issues. Notwithstanding the foregoing, the Bank shall not be liable for the filing of returns and other reportorial requirements, as well as the payment of: (i) gross receipts tax under Section 121 of the National Internal Revenue Code, as amended; and (ii) taxes on the overall income of any CD Holder, whether or not subject to withholding.
25	**CLAIM OF TAX-EXEMPT STATUS**	CD Holders claiming exemption from any applicable tax shall be required to submit documentary proof of its tax-exempt status ("Tax Exempt/Treaty Documents") to the Registrar (who shall forthwith provide copies to the Bank upon request) upon its purchase of the BDO Series 2019-2 CDs, such as, but not limited to: (a) The valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR; (b) A duly notarized declaration warranting its tax-exempt status or entitlement to reduced treaty rates and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; (c) For corporations/banks/trust departments or units of banks holding common or individual trust funds or investment management accounts on behalf of qualified individual investors, a duly notarized declaration warranting its tax-exempt status and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and (d) Such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or required under applicable regulations of the relevant taxing or other authorities. Unless properly provided with satisfactory proof of the tax-exempt status of a CD Holder, the Registrar and Paying Agent may assume

		that such CD Holder is taxable and proceed to apply the tax due on the BDO Series 2019-2 CDs. Notwithstanding the submission of documentary proof of the tax-exempt status of a CD Holder, the Bank may, in its sole and reasonable discretion, determine that such CD Holder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the BDO Series 2019-2 CDs. Any question on such determination shall be referred to the Bank.
26	**REPLACEMENT REGISTRY CONFIRMATIONS**	In case any Registry Confirmation shall be mutilated, destroyed, lost or stolen, the Registrar, upon receipt of a written request in the form specified by the Registrar, shall cause the reprinting and delivery to the CD Holders of the Registry Confirmation, subject to applicable fees. The Registrar and Paying Agent, at its option, may also require from the CD Holders requesting replacement of the Registry Confirmation the payment of a sum sufficient to reimburse the Bank and/or the Registrar and Paying Agent for any tax or other governmental charge connected with the issuance of any such substitute Registry Confirmation and the cost of preparing such Registry Confirmation, and all legal and other expenses incurred by the Registrar and Paying Agent in connection with such issuance.
27	**NOTICES**	Except for a notice to declare an Event of Default which must be personally delivered, any communication shall be given by letter, fax, electronic mail (e-mail) or telephone, and shall be given, in the case of notices to the Bank, to it at: BDO UNIBANK, INC. BDO Corporate Center 7899 Makati Avenue, Makati City Metro Manila, Philippines Telephone no.: (63) 2 840-7142 Fax no.: (63) 2 840-7362 E-mail: reyes.luis@bdo.com.ph Attention: Luis S. Reyes, Jr. Executive Vice President And in the case of notices to the Registrar and Paying Agent to it at: PHILIPPINE DEPOSITORY & TRUST CORP. 29th Floor BDO Equitable Tower 8751 Paseo de Roxas Makati City, Metro Manila Philippines Telephone no.: (632) 884-4425 Fax no.: (632) 241-2071/230- 3346 E-mail: baby_delacruz@pds.com.ph Attention: Josephine Dela Cruz Director – Securities Services Telephone no.: (632) 884-4413 Fax no.: (632) 241-2071/230- 3346 E-mail: peachy.garcia@pds.com.ph Attention: Patricia Camille Garcia

		Registry Officer And in the case of notices to the CD Holders, through publication in two (2) newspapers of general circulation in Metro Manila (one of which shall be the Philippine Daily Inquirer) once a week for two (2) consecutive weeks; or any other address to or mode of service by which written notice has been given to the parties in accordance with this Condition. Such communications will take effect, in the case of a letter, when delivered or, in the case of fax, when dispatched, provided that any communication by fax shall not take effect until 10:00 a.m. on the immediately succeeding Business Day in the place of the recipient, if such communication is received after 5:00 p.m. on a Business Day or is otherwise received on a day which is not a Business Day. Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.
28	**GOVERNING LAW**	These Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.
29	**JURISDICTION**	The courts of Makati City are to have jurisdiction to settle any disputes which may arise out of or in connection with the BDO Series 2019-2 CDs and these Terms and Conditions and accordingly, any legal action or proceedings arising out of or in connection with the BDO Series 2019-2 CDs or these Terms and Conditions (“Proceedings”) may be brought in such courts. The Bank irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each CD Holder and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
30	**AMENDMENT**	Any amendment of these Terms and Conditions is subject to the Governing Regulations.
31	**NON-WAIVER**	The failure of any party at any time or times to require the performance by the other of any provision of the BDO Series 2019-2 CDs or these Terms and Conditions shall not affect the right of such party to require the performance of that or any other provisions and the waiver by any party of a breach under these Terms and Conditions shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself or a waiver of any right under these Terms and Conditions. The remedies herein provided are cumulative in nature and not exclusive of any remedies provided by law.
32	**ABILITY TO FILE SUIT**	Nothing herein shall be deemed to create a partnership or collective venture between the CD Holders. Each CD Holder shall be entitled,

		at its option, to take independent measures with respect to its obligations and rights and privileges under these Terms and Conditions, and it shall not be necessary for the other CD Holders to be joined as a party in any judicial or other proceeding for such purpose.
33	**SEVERABILITY**	If any provision hereunder becomes invalid, illegal or unenforceable under any law, the validity, legality and enforceability of the remaining provisions of these Terms and Conditions shall not be affected or impaired. The parties agree to replace any invalid provision which most closely approximate the intent and effect of the illegal, invalid or enforceable provision.
34	**PRESCRIPTION**	Any action upon the BDO Series 2019-2 CDs shall prescribe ten (10) years from the time the right of action accrues.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust & investments, investment banking, private banking, cash management, leasing and finance, remittance, insurance, rural banking, stock brokerage, retail cash cards and credit card services. The Bank is the product of a merger between BDO and EPCIB, which took effect on May 31, 2007. As of June 30, 2019, according to the statements of condition submitted by banks to the BSP, the Bank ranked as the number one bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital and total trust funds under management. The Bank's consolidated total assets were ₱2.3 trillion, ₱2.7 trillion, ₱3.0 trillion and ₱3.1 trillion as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively, while total capital funds stood at ₱217.6 billion, ₱298.3 billion, ₱328.1 billion ₱350.8 billion, respectively.

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

As of June 30, 2019, the Bank's network consists of 1,360 domestic branches (including 221 ONB branches), 4,379 ATMs (including 224 ONB ATMs), 511 CDMs, and two full-service branches in Hong Kong and Singapore. As of June 30, 2019, the Bank also has 25 remittance and representative offices across Asia, North America, Europe and the Middle East. As of the same date, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 54.47% of the Bank's issued common shares.

As of June 28, 2019 the Bank had a market capitalization on the PSE of approximately ₱612.8 billion. The Bank's consolidated CET1 ratio, Tier 1 capital adequacy ratio and total capital adequacy ratio were 12.7%, 12.9% and 14.3%, respectively, as of June 30, 2019.

HISTORY

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

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

MERGERS AND ACQUISITIONS

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

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

- In October 2002, the Bank assumed 1st e-Bank Corporation's ("1st e-Bank") P10 billion of deposits and other liabilities in exchange for certain assets including 60 branch licenses.
- On August 29, 2003, the Bank acquired Banco Santander Philippines, Inc. ("BSPI") while BDO Capital acquired Santander Investment Securities Philippines, Inc. from Santander Central Hispano, S.A. BSPI was renamed BDO Private Bank, Inc. ("BDO Private Bank") and provided the Bank with an immediate presence in the private banking sector.
- On December 19, 2005, the Bank acquired United Overseas Bank Philippines' ("UOBP") branch banking business and obtained 66 branch licenses.
- On May 31, 2007, the Bank merged with Equitable PCI Bank, Inc. with the Bank as the surviving entity. The merged bank was renamed Banco de Oro – EPCI, Inc. and on February 6, 2008, the Philippine SEC approved the change of name to Banco de Oro Unibank, Inc.
- On October 30, 2007, the Bank acquired American Express Bank Philippines, Inc. ("AEBP"), gaining access to American Express Philippines' U.S. dollar and Peso credit card portfolios as well as the consumer banking services of American Express.
- On August 24, 2009, the Bank purchased 98.81% of the issued and outstanding common shares and 100% of the preferred capital stock of GE Money Bank ("GEMB"), thereby consolidating GEMB's business including 31 branch licenses into the Bank. GEMB was retained as a separate legal entity and adopted the name BDO Elite Savings Bank, Inc. when it amended its Articles of Incorporation with the Philippine SEC on August 12, 2010.
- In July 2012, the Bank completed its acquisition of the banking business of the Rural Bank of San Juan, a rural bank with 30 additional branch licenses.
- On March 25, 2014, BDO completed the acquisition of Citibank Savings, Inc. (now Banco de Oro Savings Bank, Inc.), a savings bank with ten active branches and whose branches were converted on August 24, 2014.
- On June 2, 2014, BDO acquired the trust business of Deutsche Bank AG's Manila Branch comprising trust, fiduciary and investment management activities.
- On August 8, 2014, the Bank acquired the banking business of The Real Bank (A Thrift Bank), Inc., a thrift bank with a deposit base of ₱6.9 billion and 24 branches operating in Metro Manila and Luzon, to transfer the latter's assets and liabilities to the Bank.
- On December 23, 2014, the Bank disclosed that it entered into an agreement to acquire One Network Bank, Inc. ("ONB"), a leading rural bank with 105 branches and micro-banking offices in the Mindanao and Panay areas. The Bangko Sentral ng Pilipinas, in its letter dated March 27, 2015 to BDO Unibank, Inc., approved on March 16, 2015 BDO's acquisition of ONB. On July 20, 2015, the Bank successfully completed its acquisition of ONB.
- On June 9, 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle GPHC, the parent firm of life insurer Generali Pilipinas Life Assurance Company ("GPLAC") and non-life insurer Generali Pilipinas Insurance Company ("GPIC"). On June 30, 2016, the Bank secured final regulatory approval to acquire full interest in GPHC. With effect from July 1, 2016, the operations of GPLAC have been reorganized, and GPHC and GPLAC were renamed BDO Life Assurance Holdings Corp., and BDO Life Assurance Company Inc., respectively.
- On February 11, 2019, the Bank disclosed that its subsidiary, One Network Bank, Inc. (ONB) had signed an agreement with Rural Bank of Pandi Inc. (RBPI) for the acquisition of the latter's banking business in Bulacan. The transaction is still subject to closing conditions and applicable regulatory approvals.

RECENT OFFERS AND CAPITAL RAISING TRANSACTIONS

On April 6, 2015, the Bank issued ₱7.5 billion of long term negotiable certificates of deposit with a rate of 3.75% per annum which will mature on October 6, 2020.

On August 6, 2015, the Bank announced that it entered into a US$500 million three-year syndicated term loan facility with a group of international banks. The facility is intended to be utilized for the refinancing of an existing term loan and for general banking and corporate purposes.

In August 2016, the Bank announced that the Japan Bank for International Cooperation approved a US$50 million “Green” facility for the Bank to relend to environment related undertakings focusing primarily on renewable energy in the Philippines. The “Green” facility intends to bankroll, under the Global action for Reconciling Economic growth and Environmental preservation (GREEN) operations, environment-related projects, which contribute to lessening greenhouse gas emissions.

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

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The 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.

On August 18, 2017, the Bank issued another ₱11.8 billion worth of long term negotiable certificates of deposit with a rate of 3.625% per annum which will mature on February 18, 2023.

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

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

On May 7, 2018, the Bank issued ₱8.2 billion worth of long-term negotiable certificates of deposit with a rate ot 4.375% per annum which will mature on November 7, 2023.

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

On April 12, 2019, the Bank issued ₱7.3 billion worth of long term negotiable certificates of deposit with a rate of 5.375% per annum which will mature on October 12, 2024.

OTHER DEVELOPMENTS

On January 28, 2016, the Bank entered into a joint venture with Mitsubishi Motors Philippines Corporation (“MMPC”), Sojitz Corporation (“SJC”) and JACCS Co., Ltd. (“JACCS”) to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On June 1, 2016, the Bank announced that the Philippine Securities and Exchange Commission approved the incorporation and registration of MMPC Auto Financial Services Corporation (“MAFSC”) as a financing company. MAFSC is the joint venture company between BDO Leasing and Finance, Inc. (“BDOLF”), a subsidiary of the Bank, with MMPC, SJC and JACCS Co. Ltd. to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On March 7, 2019, BDOLF announced that it is selling its 40% equity interest in MAFSC to JACCS, allowing BDOLF to focus more on its core business of equipment leasing and finance and in line with JACCS’ decision to expand its investment in MAFS to accelerate the growth of its overseas business.

On June 14, 2016, the Bank signed an agreement to acquire SB Cards Corp.’s (“SB Cards”) exclusive rights as issuer and acquirer of Diners Club International credit cards in the Philippines. The acquisition, which includes SB Cards’ existing Diners Club portfolio and its cardholder base, was completed on 30 September 2016.

In March 2017, the Bank signed a Memorandum of Understanding with Shinkin Central Bank (SCB) to develop a business cooperation envisioned to benefit the Japanese bank’s SME clients already operating in the Philippines and those eyeing the country as a potential investment destination. The Bank will potentially provide banking services which may include financial facilities, cash management and payment services, foreign exchange and other treasury products to SCB’s diversified SME clients.

In October 2018, the Bank announced that it entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore) ("Osmanthus"), whereby the latter will acquire a 15% stake in the Bank's rural bank subsidiary, One Network Bank Inc. (ONB). The partnership with Osmanthus is seen to further strengthen the Bank's foothold in the microfinance business. On May 16, 2019, the Bank completed its transaction with Osmanthus for the latter's acquisition of its 15% equity stake in ONB.

COMPETITIVE STRENGTHS

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

Leading brand name and banking franchise in the Philippines

The Bank believes that its combination of scale, reach, business mix, product offerings and brand recognition has made it a leading financial institution in the Philippines. According to statements of condition submitted by banks to the BSP, as of June 30, 2019, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank believes it has one of the widest domestic branch networks in the Philippines spanning all major cities across the country with 1,360 domestic branches (including 221 ONB branches). The Bank believes that all of these factors have helped to develop the BDO brand, which covers the Bank's entire range of banking products and financial services under a single brand name, as one of the most well-known in the domestic market. The Bank's premier branding and market dominance are also reflected in leading market shares across most business segments including corporate banking, retail banking, private banking, investment banking, rural banking, remittances and credit cards. The Bank believes that its scale of operations and brand recognition support the continued growth and diversification of its business, network and product mix.

Diversified business model providing full-service operations

The Bank is a full-service universal bank offering a host of industry-leading banking products and services to serve the retail and corporate markets, including lending products (such as loan products tailored to corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, bancassurance, insurance brokerage and stock brokerage services. *See "Subsidiaries and Affiliates"*. The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products that is expected to increase the recurring fee income contribution to the Bank's operating income. For the year ended December 31, 2018, the Bank's other operating income, mainly comprising non-interest income, increased by 5.2% to ₱49.7 billion, from ₱47.2 billion for the year ended December 31, 2017. For the six months ended June 30, 2019, the Bank's other operating income, mainly comprising non-interest income, increased 29.5% to ₱29.5 billion, from ₱22.8 billion for the six months ended June 30, 2018. Moreover, the Bank believes that it has built a stable earnings base, wherein approximately 90% of its income is from recurring sources, rendering it less susceptible to market and industry volatility.

Customer-centric culture complemented by strategic distribution platform

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

To efficiently serve its customers, the Bank's branch network stretches to cover all major cities in the Philippines, with the Bank often establishing multiple branches in general areas it has identified to have greater potential for business. The Bank believes that this extensive domestic distribution network, including strategic locations within SM malls and other high customer traffic areas, allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As of June 30, 2019, the Bank's network consists of 1,360 domestic branches (including 221 ONB branches), 4,379 ATMs (including 224 ONB ATMs), 511 CDMs and two (2) full-service branches in Hong Kong and Singapore. As of June 30, 2019, the Bank also has 25 remittance and representative offices across Asia, North America, Europe and the Middle East. The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low cost deposit base. Its low cost deposit base (comprising demand and savings deposits) increased from ₱1.544 trillion as of December 31, 2017 to ₱1.686 trillion as of December 31, 2018, representing a growth of 9.2%. As of December 31, 2018, 2017, and 2016, 69.7%, 72.8%, and 72.6%, respectively, of the Bank's total deposit base comprised of low cost CASA deposits compared to 68.4% as of December 31, 2015. As of June 30, 2019, the Bank's low cost CASA deposits stood at ₱1.686 trillion which comprised 70.3% of its total deposit base, representing a growth of 2.9% over its low cost CASA deposit base of ₱1.640 trillion as of June 30, 2018. In addition, the Bank also believes that its branch network and premier customer service has allowed it to actively utilize its branches to expand its loan portfolio and transform its non-interest income franchise, mainly through aggressive cross-selling of loan and other fee income related products and customer referrals across branches to increase the recurring fee income contribution to overall operating income, while reducing reliance on trading and foreign exchange related gains.

Scalable infrastructure platform for sustained growth

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

Strong and experienced management team

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

Synergies with controlling shareholder group

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

BUSINESS STRATEGIES

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

Diversified and sustainable earnings stream

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

The Bank will continue to pursue focused loan growth to achieve a more balanced loan portfolio and more effectively manage its concentration risk. While the Bank believes it already maintains a diversified loan portfolio across various market segments, it intends to increase lending to the more profitable and growing consumer and middle-market segments. The Bank also expects to continue to leverage operating synergies with the SM Group to further diversify its earnings stream through product origination capabilities and fee income sources. In addition, to minimize the volatility of the Bank's income sources, the Bank has gradually built its non-interest earnings by generating increased income from its fee-generating services including, among others, asset/wealth management, electronic banking, insurance, credit cards and investment banking. The Bank has been pro-active in transforming its non-interest earnings sources and has implemented relevant strategies such as the consolidation of BDO Life, increasing capabilities in wealth management and leveraging its distribution network to cross-sell fee income related products, which the Bank believes will increase the contribution of recurring fee income to its operating income. The Bank will also seek to more efficiently manage its resources, such as its securities portfolio, to maximize both accrual and trading income.

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

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

Prudent balance sheet management

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

Further develop operating systems, branch infrastructure and advertising efforts

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

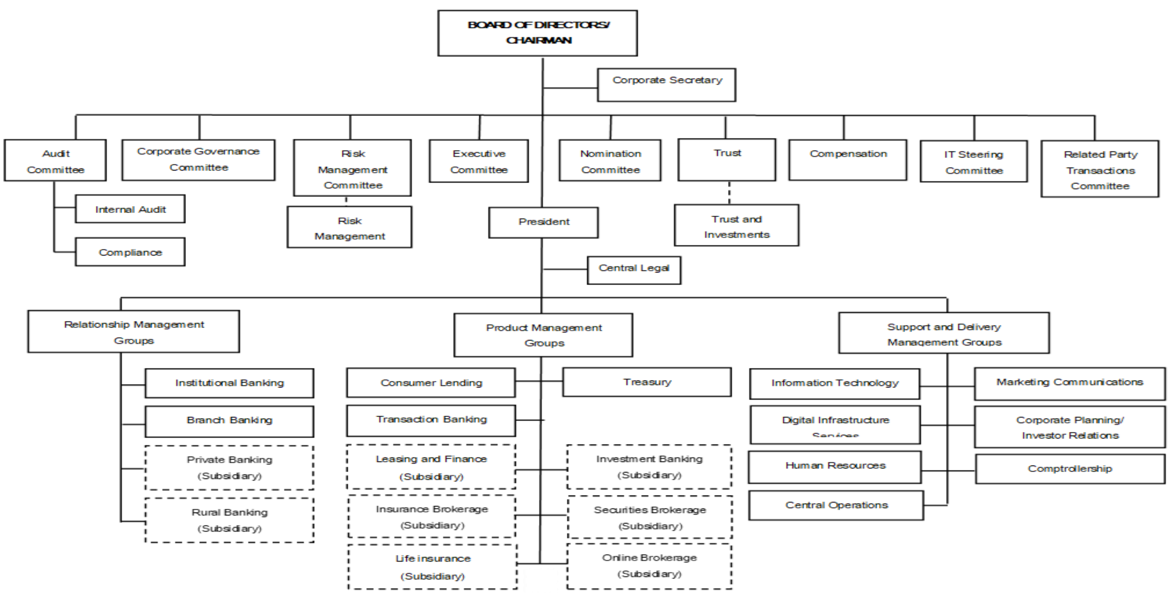
The Bank also intends to maintain its extensive branding campaign to further create customer awareness and market visibility, thus enhancing the potential of its extensive distribution platform across varying media outlets. Accordingly, the Bank intends to implement continuing branch renovations and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

Complement organic growth with mergers/acquisitions

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

ORGANIZATIONAL STRUCTURE

The following chart sets forth the bank's simplified corporate structure, organized by its principal activities as of June 30, 2019.



BUSINESS OF THE BANK

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

RELATIONSHIP MANAGEMENT

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

Institutional Banking Group

The Bank's principal lending business activities are undertaken through the Institutional Banking Group, which is responsible for managing relationships with clients and servicing their loans and other banking requirements. The Institutional Banking Group has the primary responsibility for managing the corporate loan portfolio of the Bank, which accounts for approximately 76.5% of the total loan book as of June 30, 2019, amounting to ₱1.1 trillion, ₱1.4 trillion, ₱1.6 trillion and ₱1.6 trillion, as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively.

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

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

The Institutional Banking Group is composed of Corporate Banking ("Corbank"), Commercial Banking ("Combank"), Financial Institutions and Wholesale Lending and International Desks ("WLID").

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

	As of December 31, (audited) (in ₱ millions)			As of June 30, (unaudited) (in ₱ millions)
	2016	2017	2018	2019
Corporate	680,228	815,786	909,223	954,014
Corporate	622,926	752,771	883,085	924,881
Financial institutions	7,191	10,607	7,250	5,995
Wholesale/international desks	50,111	52,408	18,888	23,138
Commercial	458,709	536,151	649,335	609,284
Total	**1,138,938**	**1,351,936**	**1,558,558**	**1,563,298**

Corporate Banking

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

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

As of December 31, 2016, 2017 and 2018, accounts of large corporate customers represented approximately 45.9%, 46.5% and 45.0%, respectively, of the Bank's total loan portfolio. As of June 30, 2019, corporate loans grew by 6.1% year-on-year to ₱954.0 billion, representing 46.7% of the Bank's total loan portfolio of ₱2.043

trillion. Almost all of Corbank's corporate lending is for projects in the Philippines and most of Corbank's corporate lending is undertaken on a non-syndicated basis.

Commercial Banking

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

As of December 31, 2016, 2017 and 2018, Combank's lending to the middle-market segment accounted for approximately 31.0%, 30.6% and 32.1%, respectively, of the Bank's total loan portfolio. As of June 30, 2019 the Bank's commercial loan portfolio totalled ₱609.3 billion, representing 29.8% of the Bank's total loan portfolio.

Financial Institutions

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

Wholesale Lending and International Desks

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

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

Branch Banking

The Bank's branch network is the primary means of offering deposit services to customers, including CASA and time deposits in Pesos, U.S. dollars and other foreign currencies. The Bank's principal depositors are individuals in the Philippines. As of December 31, 2016, 2017, 2018 and June 30, 2019, total deposits were ₱1.905 trillion, ₱2.121 trillion, ₱2.420 trillion and ₱2.400 trillion, respectively, with Peso deposits representing approximately 79.8%, 81.4%, 82.8% and 83.3%, respectively, of the Bank's deposits and the remainder denominated in foreign currencies, principally U.S. dollars. As of June 30, 2019, the Bank had approximately 10.2 million deposit accounts. As of June 30, 2019, the Bank's branch network comprised of 1,360 domestic branches (including 221 ONB branches) and two foreign branches, with 33 more branch licenses available for redeployment. Each of the Bank's branches is connected and networked to the Bank's IT systems and infrastructure and offers full banking services. The Bank is the first bank in the Philippines to offer extended hours of operations at all of its branches, including weekend hours. The Bank believes its longer banking hours allows it to meet the banking needs of its customers more efficiently.

The Bank provides 24-hour banking services through its 4,379 ATM facilities (including 224 ONB ATMs), which are located in branches and at off-site locations, such as shopping malls. Customers are given access to the ATM facilities through BDO International ATM cards, which are issued to check and savings account holders. The Bank is a member of the Expressnet and Megalink ATM consortia, allowing customers to use ATM terminals operated by other banks in the consortia. Clients can also use ATM terminals worldwide that are part of the Cirrus-Maestro network. Branch Banking manages the entire branch network of the Bank. Branch Banking monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Each branch is subject to monthly spot audits, as well as a more comprehensive annual audit. Each of the Bank's branches has electronic security systems and armed guards. All of these services are provided by independent contractors. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorized limits. The Bank continues to maintain adequate insurance coverage for loss and theft.

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

Hong Kong Branch Operations

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

Singapore Branch Operations

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

Private Banking

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

As of December 31, 2016, 2017, 2018 and June 30, 2019, BDO Private Bank had ₱62.3 billion, ₱64.5 billion, ₱48.8 billion and ₱45.2 billion,in total resources, respectively. Its total Assets Under Management as of December 31, 2016, 2017, 2018 and June 30, 2019 were at ₱350.4 billion, ₱299.5 billion, ₱312.0 billion and ₱347.7 billion, respectively.

As a testament to its pioneering spirit and dominance in the domestic private banking market in terms of market share, performance and recognition, BDO Private Bank's recent awards include Best Private Wealth Management House in the Philippines 2017 (Alpha Southeast Asia; awardee since 2008); Best Private Bank for Asset Management in the Philippines (Euromoney Private Banking Survey 2017); Best Private Bank in the Philippines (Global Finance The World's Best Private Banks); Best Private Bank in the Philippines (The Asset Triple A Private Banking, Wealth Management and Investments Awards 2017); among others.

Rural Banking

Through its rural bank subsidiary, One Network Bank, Inc. ("ONB"), the Bank offers financial products and services including salary loans, deposits, cash management, remittances and bills payments to the unbanked and underserved segments in the provincial areas. In 2018, ONB successfully implemented its Micro, Small and Medium (MSME) roll-out of over 100 sites throughout the country to increase coverage of its target market. ONB has a network of more than 221 branches and banking offices and over 224 automated teller machines (ATMs) across the country.

PRODUCT MANAGEMENT

Product Management is responsible for managing the different product businesses offered to clients. Product Management is composed of Consumer Lending, which is responsible for consumer products and services including the Bank's credit card business; Treasury; Transaction Banking, covering cash management, electronic payments and settlements, and remittances; Investment Banking; Trust and Investments; Leasing and Finance; Life Insurance; Insurance Brokerage; Securities Brokerage; and Online Brokerage.

Consumer Lending

The Bank offers an expanded range of consumer finance products, including residential mortgages, auto loans, personal loans and credit card services. As of December 31, 2016, 2017 and 2018, consumer-related loans comprised approximately 20.3%, 20.5% and 20.8%, respectively, of the Bank's total loans. As of June 30, 2019, BDO's consumer loans increased by 15.1% from ₱386.2 billion as of June 30, 2018 to ₱444.4 billion, contributing 21.8% to BDO's total loan portfolio.

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

	As of December 31, (audited) (in ₱ millions)			As of June 30, (unaudited) (in ₱ millions)
	2016	2017	2018	2019
Credit Cards	46,761	61,621	78,738	84,449
Real Estate	156,403	184,793	216,077	226,203
Auto Loans	65,364	80,327	91,980	97,313
Personal Loans	19,543	19,157	16,773	19,132
Business Loans	13,278	14,587	16,345	17,325
Total	**301,349**	**360,485**	**419,913**	**444,422**

Credit Cards

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

The Bank's credit card business remains the industry's leading card issuer and largest merchant acquirer. As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank had combined cards-in-force of 1,716,497, 1,919,663, 2,123,549 and 2,287,615, respectively, and had a receivable portfolio of ₱46.8 billion, ₱61.6 billion, ₱78.7 billion and ₱84.4 billion, respectively.

The Bank currently offers American Express Centurion cards, American Express International Dollar cards and Corporate cards, American Express Cathay Pacific cards, American Express Peso Platinum, Platinum Mastercard, Platinum Visa, Titanium Mastercard, Union Pay Diamond and Gold cards, BDO Shopmore, Diners Club International, and Gold cards under the brands Mastercard, VISA and JCB. Interest charged on outstanding balances ranges between 2.5% and 3.5% per month. Due to increased competition in the market, annual fees are often waived for the first year for new credit cardholders.

Real Estate Mortgages

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

End-buyer tie-ups with reputable real estate developers largely contributed to the Bank's total home mortgage loan portfolio of ₱156.4 billion, ₱184.8 billion, ₱216.1 billion and ₱226.2 billion, respectively, as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively. Through these tie-ups, the Bank also purchases home loan receivables and wholesale real estate portfolios via its Contract to Sell ("CTS") Receivables Financing Program from developers that indirectly finance sales to their buyers. These loans usually provide full recourse to the developer. These CTS transactions may be converted into regular end-buyer financing by the Bank upon loan application approval by the Bank. All of the Bank's home mortgage loans are secured by a first ranking legal charge over the property. In the case of loans to certain corporate borrowers, the Bank often requires personal guarantees to be given by appropriate officers of the borrower as additional security. Traditionally, the Bank, as well as other lenders, have required home mortgage borrowers to have an equity interest equal to at least 30.0% of the value of the property. Due to an increase in competition in the mortgage industry, however, many borrowers are now able to secure mortgages for certain types of residential property from lenders, including the Bank, with a 20.0% down payment.

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

Auto Loans

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

Continued strategic partnerships with auto dealers remain a competitive advantage of the Bank. As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank's auto loan portfolio stood at ₱65.4 billion, ₱80.3 billion, ₱92.0 billion and ₱97.3 billion, respectively.

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

Personal Loans

The Bank offers unsecured personal loans in amounts from ₱10,000 to ₱1,000,000, although the current average is at ₱257,000. Payment is through a salary deduction for loans to employees of certain corporate customers and post-dated checks, over the counter payments, through electronic channels or automatic debit arrangements for all other customers.

The Bank offers two products: "SuperLite" Installment and salary loans. Introduced in April 2005, the SuperLite Installment is offered to prospective customers who apply on an individual basis, while the Bank offers salary loans through the employees' respective companies. As of December 31, 2016, 2017, 2018 and June 30, 2019, the personal loan portfolio stood at ₱19.5 billion, ₱19.2 billion, ₱16.8 billion and ₱19.1 billion, respectively.

Treasury

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

The Bank believes it is among the top interbank dealers in foreign exchange and government securities in the Philippine financial markets. The Bank has received numerous awards and recognition for its treasury activities, among these are the Best Foreign Exchange Provider in the Philippines for 2017-2018 as awarded by Global Finance, Best FX bank in the 2014 Country Awards for Achievement as awarded by Finance Asia, as well as other awards for its FX activities from Alpha Southeast Asia.

Trading and Investment Securities

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

As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank's net trading and investment securities stood at ₱269.0 billion, ₱332.9 billion, ₱385.2 billion and ₱427.7 billion, respectively, and accounted for 11.6%, 12.5%, 12.7% and 14.0%, respectively, of the Bank's total resources. For the years ended December 31, 2016, 2017, 2018 and for the six months ended June 30, 2019, gross revenues from investment securities stood at ₱8.1 billion, ₱9.7 billion, ₱11.9 billion and ₱7.9 billion, respectively, which represented 7.6%, 7.5%, 8.0% and 9.1%, respectively, of the Bank's total operating income during said periods. As of December 31, 2016, 2017, 2018 and June 30, 2019, approximately 62.8%, 66.9%, 67.6% and 67.9%, respectively, of the Bank's trading and investment securities portfolio were in government securities while the balance was in corporate issue bonds, derivative financial assets and equity securities.

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

	As of December 31, (audited) (in ₱ millions)			**As of June 30, (unaudited) (in ₱ millions)**
	2016	2017	2018	2019
Government bonds	171,661	224,950	261,516	291,344
Other debt securities (1)	75,077	81,432	99,729	109,995
Total debt securities	246,738	306,382	361,245	401,339
Non-debt securities (2)	19,777	24,851	19,303	22,476
Derivative financial assets (3)	6,845	5,024	6,230	5,423
Total (4)	**273,360**	**336,257**	**386,778**	**429,238**

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

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

(3) Derivative financial assets include forwards and swaps.

(4) Gross of allowance.

Derivatives

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

Transaction Banking

The Bank provides a wide range of transaction-based services for both corporate and retail customers through Transaction Banking.

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

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

Cash Management Services and Electronic Banking Services

Cash Management (Corporate)

The Bank offers high value-added cash management solutions to various market segments, namely: large corporations, financial and foreign institutions (including Government financial institutions and Government-owned and controlled corporations), middle-market, SMEs, and MSMEs. The cash management services offered by the Bank to these institutions include collections, disbursements, liquidity management, account services, electronic banking services and retail payment services. The Bank's corporate transactional banking customer base has grown from 77 in 2002 to over 26,000 corporate customers as of June 30, 2019. The Bank believes this growth in customers was the result of the Bank's innovative product offerings including modern payment services as well as solutions that cater to the customers' specific requirements, such as services for receiving payments from retailers and wholesalers through online banking channels, facilitating cashless transactions at the point-of-sale ("POS") terminals and providing safe and efficient services to monitor payments to the customer's suppliers and employees.

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

- The Asian Banker (Best Cash Management Bank for 2011, 2014 - 2018; The Leading Counterparty Bank for 2013; The Best Transaction Bank for 2015-2016)
- Asian Banking and Finance Wholesale Banking Awards (Philippine Domestic Cash Management Bank of the Year for 2012, 2015, 2017-2018; Online Banking Initiative of the Year for 2016; Mobile Banking Initiative of the Year for 2016; Social Media Initiative of the Year for 2016)
- Asiamoney (Best Bank in the Philippines for 2017, Best Local Cash Management Bank in the Philippines as voted by Small-sized Corporates for 2012, 2014; Best Overall Domestic Cash Management Services in the Philippines as voted by Large-sized Corporates for 2014; Best Overall Cross-Border Cash Management Services in the Philippines as voted by Small-sized Corporates for 2014; Best Local Currency Cash Management Services in the Philippines for 2008; Best Bank in the Philippines for the Cash Management Satisfaction Award for 2017)
- The Asset (The Best Transaction Bank in the Philippines for 2012; Rising Star Cash Management Bank for 2009-2011; Best Service Provider – Cash management for 2016; Editors' Triple Star for E-Cash Agad for 2016; Best in Treasury and Working Capital – SMEs, Philippines 2017; Best Service Provider – Cash Management, Philippines for 2017; Best Cash Management House in Philippines for 2018)
- Alpha Southeast Asia (Best Cash Management Bank in the Philippines for 2008-2009, 2015-2018)

Personal Cash Management

Electronic Banking

The Bank provides secure electronic banking channels which allow and make it more convenient for its customers to access their deposit, credit card and other BDO accounts through a complete array of online, mobile banking and phone banking facilities. These channels allow customers to check account balances, monitor and place funds in trust investments, pay bills, transfer funds to other BDO accounts, send money to anyone, buy prepaid mobile reload, reload BDO cash cards, reorder checkbooks, view account transaction history, access and download credit card and checking account electronic statements with images of issued checks for checking accounts anytime from anywhere in the world. The Bank was recognized by Asian Banking and Finance for Best Online Banking Initiative in 2014 and 2015.

Online Banking

Transaction Banking offers internet banking to both individual and corporate clients. Using industry-standard security measures, BDO's Internet Banking allows clients to perform their banking transactions at their own convenience by allowing access to their accounts.

Retail customers can view their account balance, credit card statements, and other accounts such as trust investments online. They can also pay bills, transfer funds to their own or other enrolled accounts, reload a BDO Cash Card, buy load for their prepaid mobile phone account, order checkbooks, execute wire transfers and issue stop payment orders. With mobile internet banking, customers can also access BDO Internet Banking from their mobile phone's web browser for more banking convenience.

Corporate customers can transfer funds and make bulk payments, as well as retail payments through cash card and corporate checks via Corporate Internet Banking. It also provides consolidated information to facilitate liquidation management. An internet facility is also available to process warehouse payable and credit suppliers' accounts on due dates.

Phone Banking

The Bank utilizes interactive voice response service technology to provide retail customers access to their accounts, and make banking transactions such as balance inquiry, bills payment, fund transfers, BDO Cash Card reload, prepaid mobile phone reload and checkbook reorder via a touchtone phone.

Mobile Banking

Utilizing both the convenience and reach of mobile devices, the Bank, via its Mobile Banking (MB) app has taken measures to ensure customers are able to manage their accounts anytime, anywhere. Equipped with a complete array of banking services, the Bank's MB app allows the following: account balance/s and transaction history inquiry; send money; pay bills; reload prepaid mobile number; reload cash card; request checkbook; stop payment (check); enroll additional accounts, billers, and pre-paid mobile number; change password and update customer information. Customers are also alllowed to lock enrolled debit cards, including an option to change one's password.

Automated Teller Machines (ATM)

BDO's ATMs allow customers to withdraw cash, avail of credit card cash advances, check account balances, transfer money, pay bills, top up prepaid phones, reload cash cards, reorder checkbooks, change personal identification numbers ("PIN") and activate Personal Online Banking enrollment at any of the ATM terminals nationwide which, as of June 30,2019, numbered 4,379 ATMs (including 224 ONB ATMs).

Cash Deposit Machine (CDM)

BDO's CDMs allow customers to deposit cash to their account and other BDO accounts through any of the in-branch and offsite locations in key cities and business districts nationwide. CDMs, which can accept up to 200 notes per transaction, allow real-time crediting of deposits. Other card-based transactions include balance inquiry, fund transfer to own and other BDO accounts, bills payment, prepaid mobile reload, PIN change, and Personal Online Banking activation. Cash deposit and payment of bills not requiring enrolment may also be performed without a card.

Retail Cards

BDO offers a variety of prepaid and debit card solutions to enable cashless purchases at POS terminals, cash withdrawals worldwide and online shopping.

BDO Cash Card

BDO Cash Card is a reloadable, PIN-based, electronic value card that allows cardholders to withdraw cash and make payments without opening a BDO deposit account. This card is mainly used by companies for their payroll and by remittance partners for their payouts. Retail customers use it as a family card for household expenses, cash allotment, and everyday micro payment needs. The Bank charges fees for issuing the BDO Cash Card and may also require corporate clients to place amounts on deposit.

As of June 30, 2019, the Bank has over 1.3 million active BDO Cash Cards to more than 4,000 payroll companies and 35 remittance partners, and from retail clients, generating ₱52 billion worth of financial transactions.

BDO ATM Debit Card

The BDO ATM Debit Card is a Peso, US-Dollar or HK Dollar-denominated card linked to a BDO current or savings account. It carries the MasterCard and Visa brands that allow access to cash in over two million Mastercard/Cirrus/Visa/Plus ATMs, cashless sholpping in over 40 million establishments worldwide and e-commerce. It allows balance inquiry, cash withdrawal, bills payment, cash card reload, and checkbook reorder. As of June 30, 2019, the Bank has over 6.9 million active cash cards generating a total of around 188 million transactions amounting to ₱640.6 billion worth of financial transactions.

Smart Money Card

The Smart Money Card is a Bank-issued co-branded card with PayMaya Philippines, Inc. The Smart Money Card allows balance inquiry, bills payment, "Smart/Talk N Text" airtime reload, and wallet-to-wallet transfers using a Smart mobile phone. The card may be used for ATM transactions and for purchases in Mastercard establishments worldwide. It is also used by Smart Trade dealers in the buying and selling of airtime load to Smart retailers nationwide. As of June 30, 2019, the Bank had an active cardholder base of over 300,000 accounts generating about 35 million financial transactions worth ₱80.0 billion. Smart Money facilitates sending of money to Smart's subscribers and encashment in cash servicing centers on top of BDO's network and channels.

Remittances

The remittance function involves purchasing foreign exchange for remittance transactions and delivering remittance payments through the Bank's branch network, BDO Remit counters inside SM malls, partner rural banks, pawnshops and courier services. As of June 30, 2019, the Bank has a wide remittance network consisting of 25 remittance and representative offices (including two full-service branches in Hong Kong and Singapore) worldwide. The Bank's remittance network is complemented by relationships with at least 357 remittance/money transfer tie-ups, 353 accredited foreign and local correspondent banks and at least 14 designated agents.

For the years ended December 31, 2016, 2017 and 2018, the Bank's volume of OFW remittances amounted to US$11.4 billion, US$12.5 billion and US$13.2 billion, respectively, representing a 10.1%, 9.2% and 5.8% increase year-on-year, respectively. In the six months ended June 30, 2019, the Bank's volume of OFW remittances was US$6.8 billion, an increase of 2.5% from its volume of OFW remittances for the six months ended June 30, 2018.

The Bank was recognized by the BSP as the Top Commercial Bank in Generating Remittance from Overseas Filipinos for Years 2008 to 2010, and was given the 2010 Hall of Fame Award, and again from 2013 to 2015. The BSP also named the Bank as Best Performing PhilPaSS Remit Participant since 2011. The Bank also received an award as the Best Bank for Brand Building from MoneyGram in 2011.

As of June 30, 2019, the Bank had an approximately 41.6% market share of total remittance volume, based on BSP data on "Overseas Filipinos' Personal Remittances" information.

The Bank intends to (i) expand its existing international presence by establishing more partnerships and tie-ups with local and international correspondent banks and agents in Europe, the United States, Australia and the Middle East, (ii) rationalize its correspondent banking relationships and (iii) enhance its technology in electronic remittance processing to enable more efficient delivery of remittance services in the industry.

Investment Banking

The Bank provides investment banking services to its corporate clients through its wholly-owned subsidiary BDO Capital. BDO Capital was established to address the capital raising needs of the Bank's larger corporate and institutional accounts, as well as Government-owned and controlled corporations and match these with the investment requirements of the more sophisticated investors including high net worth individuals, fund managers and other institutions. BDO Capital services include:

- Equity and Quasi-Equity Underwriting and Management — BDO Capital underwrites and manages public and private equity and quasi-equity transactions, including initial public offerings, follow-on offerings, rights issues, warrants issuances and tender offers. BDO Capital is also involved in quasi-equity transactions such as hybrid securities issuances and preferred shares issuances;
- Fixed Income Underwriting, Packaging and Syndication — BDO Capital offers clients underwriting services in relation to corporate and government bonds, corporate notes and commercial papers. BDO Capital also offers term loan packaging and syndication services;
- Financial Advisory — BDO Capital provides financial advisory services to companies to support their short-, medium- and long-term objectives. Advisory services comprise, among others, corporate and debt restructuring advice, as well as merger and acquisition advisory services;
- Direct Equity Investment — BDO Capital invests directly in existing and start-up enterprises or offers such investment opportunities to other clients; and
- Securitization — BDO Capital acts as underwriter and selling agent for various asset-backed securities issued by special purpose entities.

BDO Capital was involved in major fundraising exercises for the Government via Retail Treasury Bond Issue and private issuers such as MPCALA Holdings Inc., AC Energy Finance International Ltd., Helios Solar Energy Corp., Bloomberry Resorts and Hotels Inc./Sureste Properties Inc., SMC Global Power Holdings Inc., South Luzon Thermal Energy Corp., SM Prime Holdings Inc., Red Planet Holdings Inc., Esquire Financing Inc., Aboitiz Equity Ventures Inc., Arthaland Corp., Solar Philippines Calatagan Power Corp., and Petron Corporation.

BDO Capital has received several awards from prestigious international publications over the last ten years recognizing its position as one of the leading investment banks in the Philippine equity and debt capital markets. These awards include, among others, Best Investment Bank in the Philippines from 2006 to 2014 and again in 2017, and from 2007 to 2016 and 2018 as awarded by FinanceAsia and Alpha Southeast Asia, respectively; and Best Domestic Investment Bank from 2006 to 2014, Best Corporate and Institutional Bank in the Philippines for 2015 to 2018 and Project Finance Bank of the Year in the Philippines for 2015 and 2017 as awarded by The Asset. For 2016, BDO Capital received Finance Asia's Platinum Awards (Past 20 years) for Best Domestic Investment Bank and Best Domestic Equity House in the Philippines, and Alpha Southeast Asia's 10th Anniversary Awards for the Past 10 Years for Best Investment Bank and M&A House, Best ECM House and Best DCM House in the Philippines. BDO Capital also won numerous awards for Best Equity House and Best Bond House from these various publications from 2006 to 2018. BDO Capital also received the Best Investment Bank in the Philippines award for 2013, 2014, 2017 and 2018 from Global Finance and Top Investment House in the Philippines award for 2016 from Acquisition International. BDO Capital also garnered awards as Best Investment House, Best Equity House, Best Fixed Income House and Best Project Finance House of the Year for 2017 from the Investment House Association of the Philippines. BDO Capital was also conferred the Top Corporate Issue Manager/Arranger Award from 2011 to 2018 by the Philippine Dealing and Exchange Corporation. The Asia Pacific Loan Market Association also awarded BDO Capital as Syndicated Loan House of the Year (Philippines) for 2013 and 2014.

Trust and Investments Group

The Bank provides trust and investment management services through its Trust and Investments Group ("BDO Trust"). For corporate accounts, BDO Trust offers a wide range of products, including employee benefit plans, investment management and advisory services, escrow arrangements, registry/transfer agency services, paying/collection and other collateral agency services. For high net worth clients, BDO Trust provides access to customized portfolios via living trust and investment management accounts.

BDO Trust offers investment opportunities to its retail clients through a selection of Peso and U.S. Dollar-denominated Unit Investment Trust Funds ("UITFs"). UITFs are collective investment schemes that seek to offer returns comparable to those of larger investors. They are professionally managed according to specific investment objectives and invested accordingly in diversified portfolios. A client has the choice of investing directly in the UITFs or through the BDO Easy Investment Plan ("EIP"), a program that facilitates regular investing in selected BDO UITFs. The EIP is an investment scheme that assists individuals in attaining their financial goals and financial wellness through saving and investing.

In accordance with Philippine banking regulations, the Bank's Trust Committee oversees its trust business and approves all of its investment decisions.

The Bank's consolidated trust assets under management reached ₱1.232 trillion as of June 30, 2019, a 19.4% increase from the ₱1.032 trillion managed as of June 30, 2018. The Bank has the largest trust assets business in the Philippines. Similarly, in the UITF business, the Bank also posted the largest fund levels in the industry, at ₱199.2 billion as of June 30, 2019.

BDO Trust's expertise, product offering and competitive investment performance were recently recognized by various international institutions:

- 2015 Best Investment Management Company – Philippines by ***World Finance Magazine (London)***
- 2015 Most Trusted Brand – Investment Fund Category by ***Readers' Digest Asia***
- 2015 Rising Star Retail Fund Administrator - Philippines Category by ***The Asset Magazine***
- 2016 Fund House of the Year for the Philippine Market by ***AsianInvestor Magazine***
- 2016 Best Investment Management Company – Philippines by ***World Finance Magazine (London)***
- 2016 Asset Management Company of the Year – Philippines by ***The Asset Magazine***
- 2016 Impact Investor of the Year – Philippines by ***The Asset Magazine***
- 2017-2018 Fund House of the Year for the Philippine Market by ***Asian Investor Magazine***
- 2016-2018 Best Investment Management Company – Philippines by ***World Finance Magazine (London)***
- 2018 Asset Management Company of the Year – Philippines by ***The Asset Magazine***

In September 2016, BDO Trust also became the first institution in the Philippines to be accredited as Personal Equity and Retirement Account ("PERA") Administrator. PERA is the Philippine version of similar laws covering retirement savings vehicles prevalent and long standing in more developed countries such as IRA and 401K in the United States. PERA establishes the legal and regulatory framework for voluntary personal retirement plans as a means to promote savings mobilization, capital market development and long-term fiscal sustainability. It provides employers with the opportunity to become agents in furthering these objectives and it provides Filipinos a means to supplement their future pension benefits from the Philippine Social Security System and Philippine Government Service Insurance System. BDO Trust also offers the following PERA investment funds: BDO PERA Short Term Fund, BDO PERA Bond Index Fund and BDO PERA Equity Index Fund.

Leasing and Financing

The Bank's leasing and financing entity, BDO Leasing and Finance Inc. ("BDOLF"), provides leasing and financing products to commercial clients. BDOLF's leasing products include direct leases, sale and leaseback arrangements, and dollar-denominated leases, while financing products include amortized commercial loans, floor stock financing, and receivables financing (include installment paper purchases and receivables factoring). Assets financed include automobiles, trucks, office equipment, industrial, agricultural and office machinery, real property, and financial assets such as receivables.

Life Insurance

Through its wholly-owned subsidiary, BDO Life Assurance ("BDO Life"), the Bank offers life protection plans (whole life insurance and term life insurance); fund accumulation plans specifically designed to provide for children's education; savings and retirement plans (endowment and variable life insurance); and group insurance. BDO Life increased its Financial Advisor ("FA") coverage of BDO branches at 92% as of end-2018 from 89% in 2017, allowing it to maintain an annual premium growth of at least 20%. BDO ranks 8th in terms of total premium income, and ranks 3rd in terms of traditional life protection.

Insurance Brokerage

The Bank has a wholly-owned insurance broker, BDO Insurance Brokers, Inc. that offers a diverse portfolio of reputable and financially-sound insurance partners, thus giving customers flexible options that match their needs and financial capabilities. For the years ended December 31, 2016, 2017, 2018, and for the six months ended June 30, 2019, ₱8.7 billion, ₱9.4 billion, ₱10.1 billion and ₱4.5 billion, respectively, of gross insurance premiums were arranged by BDOI. While BDOI has the technical capability to evaluate insurance risks, it does not underwrite or absorb insurance risks. The Bank has a bancassurance license from the BSP which permits the Bank to market and sell both life and non-life insurance products through its branch network. BDO Insurance is the leader in the industry in terms of commissions earned.

Securities Brokerage

Through its subsidiary, BDO Securities Corporation ("BSC"), the Bank engages in the stock brokerage business and deals in securities and related-activities. BDO Securities is a trading participant in the Philippine Stock Exchange ("PSE").

Online Brokerage

The Bank offers online trading services for local stocks to individual investors through BDO Nomura Securities, Inc., a joint venture between BDO Unibank and Nomura Holdings of Japan. In 2018, BDO Nomura launched a new platform, duly certified by the PSE, that connects seamlessly with client accounts, offering real time deposit and withdrawal facilities, thus allowing clients to respond to market movements quickly. The business also aims to provide stock brokerage services to institutional clients overseas and eventually provide a platform to connect Filipino investors to the international stock markets.

SUPPORT AND DELIVERY MANAGEMENT

Support and Delivery Management ensures that the Bank's operational needs are efficiently met, the Bank's processes aligned with its business objectives and its vision and corporate strategies realized. It is composed of the following: Information Technology, Comptrollership, Human Resources, Marketing Communications, Investor Relations and Corporate Planning, Digital Infrastructure Services and Central Operations. Also functionally grouped under Support and Delivery Management are Risk Management as well as Internal Audit and Compliance, both of which report to their respective Board-level committees, namely, the Risk Management Committee and the Audit Committee.

Information Technology

The Bank's IT Group is responsible for the proper and efficient functioning of the Bank's IT systems and infrastructure. It is organized into two separate but interdependent groups:

- IT Development ("ITD") which is responsible for providing and maintaining the application systems used by the Bank to support its operations and business plans using its resources and specialized knowledge on business-functional requirements, and
- IT Operations ("ITO") which handles the Bank's network, data center, and other parts of the IT infrastructure and provides technical support and applications support.

Comptrollership Group

The Bank's Comptrollership Group is primarily responsible for developing and maintaining an integrated financial information and control system within the framework of generally accepted accounting principles and applicable regulatory policies, managing all accounting operations of the Bank and its subsidiaries, and providing senior management with information necessary for planning, directing and controlling group operations.

Human Resources Group

The Bank's Human Resources Group is responsible for the formulation, development and implementation of corporate-wide human resources strategies, policies, procedures and programs covering recruitment and selection, talent management, manpower planning, training, performance management, organization development, compensation and employee benefits and services.

Marketing Communications Group

The Bank's Marketing Communications Group is responsible for the oversight of the Bank's corporate affairs and public relations functions, as well as the development & implementation of institutional advertising campaigns. It is also responsible for managing the bank's enterprise-wide loyalty program (BDO Rewards) campaigns, while providing marketing services support to the various business groups and subsidiaries. The Marketing Communications Group likewise serves as gatekeepers of the BDO branding standards, and provides a similar governance function for the emerging digital marketing area.

Investor Relations and Corporate Planning Group

The Bank's Investor Relations Office aims to provide the investor community with continuing access to information relating to the Bank's financial performance. It also provides the Bank's management with information on relevant developments in the financial markets that may be utilized by the Bank in formulating its long- and short-term plans. It also oversees all corporate communication with analysts, investors and stockholders.

Digital Infrastructure Services Group

The Digital Infrastructure Services Group is responsible for the creation, management and governance of a strategic and enterprise-wide infrastructure for a customer data consolidation platform aligned with the bank's digital strategies. The unit maintains enterprise solutions revolving around the consolidated customer data for bankwide consumption. This includes the Big Data management, Biometrics and Customer Information File systems.

Central Operations Group

The Bank's Central Operations Group is responsible for providing backroom support functions to various business groups in the areas of cash and check clearing operations, commercial and consumer loans account services, trade finance transaction processing services, corporate cash management services, electronic channels' transaction reconciliation and settlement, call center services, card production and checking account statement rendition, and inter-bank funds transfer transactions. It also provides procurement and logistics supply management, premises management, physical security, safety and investigation, physical and digital document storage and retrieval and general services. As a major service delivery group, the Bank's Central

Operations Group ensures that backroom processes are responsive to the customer commitments of the customer-facing business units and that transaction processing systems and other support services are efficiently administered and continuously improved. Further, it is responsible for ensuring that operational risks in its various areas of coverage are properly managed.

Customer Contact Center

BDO Customer Contact Center was established in June 2001 to provide customer service assistance to the Bank's retail customers, specializing in deposits, consumer loans, credit cards, remittance and other retail products. The Center also supports the Bank's acquiring business and its electronic banking services.

The Customer Contact Center operates 24 hours a day, seven days a week, with over 872 personnel who are equipped with a customer relationship management system which allows them to deliver personalized customer service and conduct precise cross-selling initiatives. It also enables customer service officers to build customer contact data, which helps them manage and respond to customers' needs more effectively and efficiently.

The Contact Center has two disaster recovery sites located in Makati and Alabang which began operations in March 2011 and April 2018, respectively.

BDO Customer Contact Center's average monthly volume from January to June 2019 was 659,895/month for customer calls and 46,074/month for e-mails and fax correspondence, comprising correspondences from BDO customers and the general public.

CORPORATE SOCIAL RESPONSIBILITY

The Bank manifests and demonstrates its responsibility to society in various ways. In aspiring to be a world-class company, impact to society and the environment is an important element in the way the Bank conducts its business. The Bank puts great importance in instilling the core value of community involvement among its employees through its employee volunteerism program. Going beyond local host communities, the Bank has taken on its role of contributing to national development by pursuing certain social initiatives with partner development institutions, including Gawad Kalinga, the International Federation of Red Cross and Red Crescent Societies, Philippine National Red Cross, UN Habitat, CFC ANKOP-Tekton Foundation, National Housing Authority, Habitat for Humanity (which provides housing and resettlement projects for typhoon victims and informal settlers); the Center for Agriculture and Rural Development-Mutually Reinforcing Institutions, Development Institute (which provides education, livelihood and capacity-building activities for micro-finance practitioners); Worldwide Fund for Nature and Philippine Business for Social Progress (which promotes environmental awareness).

EMPLOYEES

As of June 30, 2019, the Bank employed a total of 37,169 people, 17,610 of whom were engaged in a professional managerial capacity and classified as Bank officers.

Bank staff employees, other than those expressly excluded in the Collective Bargaining Agreement ("CBA"), are represented by Banco De Oro Employees Association (the "Union"), an affiliate of the Associated Labor Unions (ALU). The Bank's CBA is in effect for a period of five years from November 1, 2015 to October 31, 2020 in so far as the representation aspect is concerned. Negotiation on the economic provisions for the period November 1, 2018 to October 31, 2020 was signed on December 21, 2018. Ratification for the National Capital Region (NCR) was conducted on December 14, 2018 with overwhelming acceptance from the Union members while the ratification in provincial areas was completed on January 2019. The Bank's latest CBA was signed on January 13, 2016 and was unanimously accepted and ratified by its members.

The Bank has not suffered any strikes since it started operations, and the management of the Bank considers its relations with its employees and the Union to be good.

The average age of the Bank's officers and employees is 33 years, and the average Bank-wide tenure is seven years. The mandatory retirement age for the Bank is 60 years.

The aggregate compensation paid to employees by the Bank for the years ended December 31, 2016, 2017, 2018 and for the six months ended June 30, 2019 were ₱24.7 billion, ₱27.4 billion, ₱30.4 billion and ₱15.9 billion, respectively.

The Bank maintains a tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As of December 31, 2018, the fair value of the retirement plan assets of the Bank was ₱24.1 billion and the net present value of the obligation was at ₱28.6 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit liability of ₱4.5 billion of 2018.

Employee Insurance

The Bank provides its employees with Group Life Insurance coverage from BDO Life and CHUBB Insurance (formerly ACE Insurance) for Group Personal Accident Insurance coverage for accidental death and dismemberment in line with good business practice and in accordance with Philippine standards. Insurance premium payments for these policies are paid entirely by the Bank.

LEGAL PROCEEDINGS

Details of material proceedings involving the Bank are set out in Note 27.1 of the notes to the audited financial statements included in this Prospectus. In addition, the Bank may be subject to various legal proceedings and claims that arise in the ordinary course of its operations.

The Bank also believes that it has all material permits and licenses necessary for its business and that these are valid and subsisting.

PEACE Bonds

On October 18, 2001, the Bureau of Treasury ("BTr"), through an auction, offered ten-year zero coupon treasury bonds, called the Poverty Eradication and Alleviation Certificates Bonds ("PEACe Bonds"), to Government Securities Eligible Dealers. Rizal Commercial Banking Corporation ("RCBC") won the bid in the same year and was awarded approximately ₱35 billion worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including 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 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 ten years after the auction, the Commissioner of Internal Revenue, upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT.

October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and Bureau of Internal Revenue ("BIR") from withholding or collecting the 20% final withholding tax, 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 ("TRO") which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount be placed in escrow by the petitioning banks.

On August 16, 2016, the Supreme Court ordered the Bureau of Treasury to immediately release and pay each of the bondholders the amount of ₱4.966 billion, representing the 20% final withholding tax 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 and admit 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 ₱4.966 billion 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 ins 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 Bank entered into a Settlement Agreement with the Republic of the Philippines, (acting through the Bureau of Treasury) to settle all claims and put closure to the Peace Bonds case. Under the terms of the Settlement Agreement;

1. The Bureau of Treasury paid the Bank the 20% final withholding tax withheld on the PEACe bonds (amounting to ₱690 million), plus interest of 4% per annum from October 19, 2011 to April 10, 2017 (₱151 million).
2. The payment was made in the form of 3-Year Retail Treasury Bonds, with interest of 4.25 % per annum.

The 3-Year Retail Treasury Bonds settlement was recognized by the Parent Bank as part of financial assets at FVTPL. The interest was recognized as part of Others under Interest Income account in the 2017 statement of income.

Applicability of RR 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 ("RR 4-2011") regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and foreign currency deposit unit / expanded foreign currency deposit unit or offshore banking unit.

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

On 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.

On March 27, 2019, the Supreme Court ordered Respondents to file their Comment on the Petition.

The case remains pending as of June 30, 2019.

First e-Bank

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting Philippine Deposit Insurance Corporation ("PDIC") to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with BDO Unibank, Inc. wherein consideration of the assumption by BDO Unibank of FeB's liabilities in the maximum amount of ₱10.0 billion. PDIC will provide BDO Unibank ₱10.0 billion of Financial Assistance and PDIC will receive FeB's assets to recover said financial assistance.

About ₱5.0 billion of the financial assistance was released to BDO Unibank and the remaining ₱5.0 billion was deposited in escrow with BDO Trust and Investments Group ("BDO-TIG") in accordance with the escrow agreement dated October 23, 2002 entered into by BDO Unibank, PDIC, and BDO-TIG. In August 2016, PDIC authorized the release of a total amount of ₱4.650 million from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of ₱1.224 billion remains in escrow, which includes: (i) ₱602 million, which covers assets BDO Unibank still considers capable of delivery worth ₱214 million and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon. Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against BDO, which case was raffled to RTC Makati City Branch 60. On October 14, 2016, BDO filed its Answer to the Complaint affirming that it has assumed ₱10.0 billion in liabilities of FeB and is thus entitled to release of the remaining escrow of ₱1.224 billion.

In a judgment dated May 31, 2018, RTC Makati dismissed the complaint, granted BDO's counterclaim and ordered BDO-TIG to immediately release the remaining escrow amount plus interests, to BDO. PDIC filed a Motion for Reconsideration but the same was denied by RTC Makati. PDIC then filed a Notice of Appeal. Case is still pending before the Court of Appeals.

ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following information should be read together with the Bank's financial statements included in this Offering Circular.

FUNDING

Sources of Funding

Deposits, bills payable and capital are the main fund sources of the Bank. The following table sets forth an analysis of the Bank's principal funding sources and the average cost of each funding source.

	Audited as of December 31						**Unaudited as of June 30**	
	2016		**2017**		**2018**		**2019**	
	Amount	**Ave Cost**	**Amount**	**Ave Cost**	**Amount**	**Ave Cost**	**Amount**	**Ave Cost**
	(in ₱ millions, except Average Cost, which is in % terms)							
By Type								
Demand	114,284	0.1	134,931	0.1	179,944	0.1	190,520	0.2
Savings	1,267,983	0.3	1,409,256	0.3	1,505,680	0.3	1,495,834	0.3
Time	522,937	1.9	576,825	2.0	734,341	3.0	713,204	4.6
	1,905,204	**0.8**	**2,121,012**	**0.7**	**2,419,965**	**1.1**	**2,399,558**	**1.5**

	Audited as of December 31						Unaudited as of June 30	
	2016		2017		2018		2019	
	Amount	Ave Cost	Amount	Ave Cost	Amount	Ave Cost	Amount	Ave Cost
By currency								
Philippine Peso	1,521,183	0.7	1,725,829	0.6	2,003,582	1.1	1,997,892	1.7
Foreign currency	384,021	1.1	395,183	1.1	416,383	1.0	401,666	1.0
Total deposits	**1,905,204**	**0.8**	**2,121,012**	**0.7**	**2,419,965**	**1.1**	**2,399,558**	**1.5**
Borrowings								
Philippine Peso	34,409	2.6	34,221	3.4	35,866	3.8	61,595	5.2
Foreign currency	76,177	2.7	106,293	2.4	117,787	3.0	115,175	3.2
Total borrowings ..	**110,586**	**2.6**	**140,514**	**2.6**	**153,653**	**3.2**	**176,770**	**4.0**
Total	**2,015,790**	**0.9**	**2,261,526**	**0.8**	**2,573,618**	**1.2**	**2,576,328**	**1.7**

Note:

(1) Average cost of funding represents total interest expense for the period, divided by the average daily liability for the respective period, expressed as a percentage.

(2) For the purposes of this table, "borrowings" consists of bills payable and subordinated notes payable.

Deposits continue to be the Bank's main funding source, accounting for 94.5%, 93.8%, 94.0% and 93.1% of total funding sources as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively. The Bank's deposits grew at an annual compounded average rate of 14.3% from December 31, 2008 to December 31, 2018, reaching ₱1.9 trillion as of December 31, 2016, ₱2.1 trillion as of December 31, 2017 and ₱2.4 trillion as of December 31, 2018. This historical growth was driven by increased marketing efforts by the Bank's branches and the Bank's mergers and acquisitions. As of June 30, 2019, total deposits increased to ₱2.4 trillion, approximately 83.3% of which were denominated in Pesos and mostly in tenors of less than one year, while approximately 16.7% were denominated in foreign currencies, predominantly U.S. dollars. The Bank's foreign currency deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As of December 31, 2016, 2017, 2018 and June 30, 2019, the Bank's foreign currency deposits made up 20.2%, 18.6%, 17.2% and 16.7%, respectively, of its total deposits.

As of December 31, 2016, 2017, 2018 and June 30, 2019, approximately 72.6%, 72.8%, 69.7% and 70.3%, respectively, of the Bank's outstanding deposits were in the form of demand and savings deposits.

The Bank also sources funds through borrowings from local and foreign banks, deposit substitutes and rediscounting facilities booked under bills payable. Bills payable also includes funding from specialized lending programs amounting to ₱8.7 billion, ₱4.7 billion, ₱3.0 billlion and nil, respectively, as of December 31, 2016, 2017, 2018 and June 30, 2019.

As of December 31, 2016, 2017 and 2018, the Bank's total bills payable amounted to ₱100.6 billion, ₱130.5 billion and ₱143.6 billion, respectively. Approximately 24.2%, 18.5% and 18.0%, respectively, of bills payable were denominated in Pesos as of December 31, 2016, 2017 and 2018. As of June 30, 2019, the Bank's total bills payable amounted to ₱166.7 billion, of which 36.9% were denominated in Pesos.

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for liquidity management purposes. Interbank borrowings are typically of short-term duration of between one day and a few weeks and have historically accounted for a relatively minor portion of the Bank's total funding requirements. The Bank is generally a net lender in the interbank call loan market and funds sourced from net interbank borrowings are minimal and generally of short duration.

The Bank's subordinated notes payable amounted to ₱10.0 billion as of December 31, 2016, 2017, 2018 and June 30, 2019.

The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity by participation in the interbank market in the Philippines. The Bank is a member of the PDIC, which insures all deposit accounts by a depositor maintained in the same right and capacity for up to a maximum of ₱500,000 per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

Capital Raising Transactions

Issuance of Global Depositary Receipts

On various dates in 2006, Primebridge Holdings, Inc. ("Primebridge"), a stockholder owning 22.1% of the Bank's total outstanding shares as of December 31, 2005, offered and sold in aggregate 9,399,700 GDRs with each GDR representing 20 shares of the Bank's common stock. The GDRs constitute an offering in the U.S. only to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1993 (the "Securities Act") and an offering outside the United States in reliance on Regulation S under the Securities Act. The offered price for each GDR was US$12.70 on January 25, 2006 and February 14, 2006; and US$14.55 on May 15, 2006. The GDRs were listed and traded at the London Stock Exchange. As part of the offering, Primebridge, while remaining as the registered holder of the Bank shares underlying the GDRs, transferred all rights and interests in the Bank's shares underlying the GDRs to the depository on behalf of the holders of the GDRs and the latter were entitled to receive dividends paid on the shares. However, GDR holders had no voting rights or other direct rights of a shareholder with respect to the Bank's shares.

As of December 31, 2006, 4,724,214 GDRs issued, covering shares originally held by Primebridge, were converted into 94,484,280 shares of the Bank. As of December 31, 2012, 9,600 GDRs equivalent to 192,000 shares of the Bank remained unconverted. On May 13, 2013, the Bank terminated its GDR program in the London Stock Exchange.

Long Term Negotiable Certificates of Deposit

Pursuant to a BSP approval dated January 5, 2005, the Bank issued on June 1, 2005 a total of ₱2.1 billion worth of Floating Rate Long-Term Negotiable Certificates of Deposit which matured on June 2, 2010. The Bank was among the first, if not the first, domestic bank to offer this product. Subsequently, on November 23, 2005, the Bank offered to the public ₱2.9 billion worth of Fixed Rate Long-Term Negotiable Certificates of Deposit which matured on November 24, 2010. Another tranche of Long-Term Negotiable Certificates of Deposit was issued by the Bank in October 2006. The Certificates of Deposit amounted to ₱5 billion and became due in November 2011.

On October 15, 2012, the Bank issued a total of ₱5 billion worth of Fixed Rate Long-Term Negotiable Certificates of Deposit which will mature in October 2019. On March 25, 2013, the Bank issued another ₱5 billion worth of Long Term Negotiable Certificates of Deposit at an effective interest rate of 3.80% which will mature on September 25, 2018. On September 12, 2013, the Bank issued another ₱5 billion worth of Long Term Negotiable Certificates of Deposit at an effective interest rate of 3.50% which will mature on September 12, 2020. The Certificates of Deposit were issued to support the Bank's medium-term growth objectives and help lengthen the maturity profile of its deposit base. On November 4, 2013, the BSP approved the Bank's issuance of ₱5 billion Long-Term Negotiable Certificates of Deposit. The BDO LTNCDs, which will mature on June 11, 2019, were issued on December 11, 2013 at an effective rate of 3.125% per annum. On April 6, 2015, the Bank issued another ₱7.5 billion worth of long term negotiable certificates of deposit with a rate of 3.75% per annum which will mature on October 6, 2020. On August 18, 2017, the Bank issued another ₱11.8 billion worth of long term negotiable certificates of deposit with a rate of 3.625% per annum which will mature on February 18, 2023. On May 7, 2018, the Bank issued ₱8.2 billion worth of long term negotiable certificates of deposit with a rate of 4.375% per annum which will mature on November 7, 2023. On April 12, 2019, the Bank issued ₱7.3 billion worth of long term negotiable certificates of deposit with a rate of 5.375% per annum which will mature on October 12, 2024.

Unsecured Subordinated Notes Eligible as Lower Tier 2 Capital

On November 21, 2007, the Bank issued ₱10 billion unsecured subordinated notes eligible as Lower Tier 2 Capital due in 2017, callable with step-up in 2012 pursuant to the authority granted by the BSP to the Bank on October 8, 2007 and BSP Circular No. 280 Series of 2001, as amended. The issuance was approved by the Board in its special meeting held on June 1, 2007. On November 21, 2012, the Bank exercised its option to redeem the notes.

On May 20, 2008, the Bank issued another tranche of ₱10 billion unsecured subordinated notes eligible as Lower Tier 2 Capital due in 2018, callable with step-up in 2013 pursuant to the authority granted by the BSP to the Bank on April 3, 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the Board in its special meeting held on February 23, 2008. On May 31, 2013, the Bank exercised its option to redeem the notes.

On March 20, 2009, the Bank issued the third tranche of unsecured subordinated notes with a face value of ₱3.0 billion qualifying as Lower Tier 2 Capital due in 2019, callable with step-up in 2014 pursuant to the authority granted by the BSP to the Bank on April 3, 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the Board in its special meeting held on January 31, 2009. The Bank exercised its option to redeem the notes on March 21, 2014, the optional redemption date.

On June 27, 2011, the Bank issued the fourth tranche of unsecured subordinated notes with a face value ₱8.5 billion qualifying as Tier 2 Capital due in 2021, callable but with no step-up in 2016 pursuant to the authority granted by the BSP to the Bank on April 7, 2011 and BSP Circular No. 280 Series of 2001, as amended. The Tier 2 Notes were priced at 6.50% p.a. and were to mature on September 27, 2021. The Bank exercised its early redemption option and redeemed the Notes on September 27, 2013.

On October 7, 2011, the Bank issued the fifth tranche of unsecured subordinated notes with a face value ₱6.5 billion qualifying as Tier 2 Capital due in 2022, callable but with no step-up in 2016 pursuant to the authority granted by the BSP to the Bank on April 7, 2011 and BSP Circular No. 280 Series of 2001, as amended. The Tier 2 Notes were priced at 6.375% p.a. and were to mature on January 7, 2022. The Bank exercised its early redemption option and redeemed the Notes on October 7, 2013.

On December 10, 2014, the Bank issued ₱10.0 billion of unsecured subordinated notes qualifying as Tier 2 Capital due in 2025, callable in 2020 pursuant to the authority granted by the BSP to the Bank on October 2, 2014. The Tier 2 Notes were priced at 5.1875% p.a. and will mature on March 10, 2025.

Dollar-Denominated Senior Note Issuance

On October 22, 2010, the Bank issued Senior Notes with a face value of US$300 million at a price of 99.632%. The Senior Notes, which will mature on April 22, 2016, bear a fixed interest rate of 3.875% per annum, with an effective rate of 3.95% per annum, and are payable semi-annually every April 22 and October 22 starting in 2011. The net proceeds from the issuance are in support of the Bank's business expansion plans and for general banking and relending activities.

On February 16, 2012, the Bank issued Senior Notes with a face value of US$300 million at a price of 99.448%. The Senior Notes mature on February 16, 2017 and bear a fixed interest rate of 4.50% per annum, with an effective rate of 4.625% per annum. The Senior Notes are payable semi-annually every August 16 and February 16 starting in August 2012. The net proceeds from the issuance are for general funding and relending purposes.

On December 7, 2012, the Bank established a US$2 billion Medium Term Note Program ("MTN Program"). On October 24, 2016, the Bank issued Senior Notes under its MTN Programme with a face value of US$300 million at a price of 99.977%. The Senior Notes will mature on October 24, 2021 and bear a fixed interest rate of 2.625% per annum. The Senior Notes are payable semi-annually every April 24 and October 24, starting in April 2017. The net proceeds from the issuance are for general corporate purposes.

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

Syndicated Term Loan

On August 6, 2015, the Bank announced that it has entered into a US$500 million three-year syndicated term loan facility with a group of international banks. The facility was for the refinancing of an existing term loan and for general banking and corporate purposes.

Green Bond

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

Fixed Rate Bond

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

Capital-Raising Program

On April 26, 2010, the Bank also undertook a US$250 million capital-raising program with the International Finance Corporation ("IFC"), IFC Capitalization (Equity) Fund, L.P. and foreign institutional investors to support the Bank's medium-term growth objectives and build a buffer for anticipated Basel III requirements. Subsequent to these capital-raising activities, the Bank's total capital adequacy ratio rose to 13.8% as of December 31, 2010 from 12.2% as of December 31, 2009.

On July 4, 2012, the Bank successfully completed its rights offering of common shares where a total of 895,218,832 Rights Shares were issued at a price of ₱48.60. The Offer, which raised gross proceeds of ₱43.5 billion (equivalent to over US$1 billion), further strengthened the Bank's CET1 Capital.

For its acquisition of 99.59% of the total issued and outstanding capital stock of ONB, on July 20, 2015, the Bank undertook a share swap transaction where the Bank crossed, in favor of the selling shareholders of ONB, and issued an equal number of new shares from its unissued capital stock to Sybase Equity Investments Corp. in exchange for 64,499,890 common shares of the Bank. The acquisition resulted in recognition of additional paid-in capital amounting to ₱6.0 billion.

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The 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.

LIQUIDITY

Pursuant to regulations of the BSP, universal and commercial banks are required to maintain a reserve of 16% of Peso demand deposits and deposit substitutes. The required reserves shall be kept in the form of deposits placed in the bank's demand deposit accounts with the BSP. On the FCDU side, the Bank is required to maintain at least 30% of deposit liabilities in liquid assets. The Bank has complied with the reserve requirements for both the Peso and FCDU books.

As of December 31, 2016, 2017 and 2018, the Bank's liquid assets amounted to ₱780.0 billion, ₱844.0 billion and ₱919.6 billion, equal to 33.5%, 31.6% and 30.4%, respectively, of the Bank's total assets. As of June 30, 2019, the Bank's liquid assets were ₱937.3 billion, representing 30.6% of total assets. Liquid assets include cash and other cash items, due from BSP, due from other banks, interbank loan receivables and investment securities. The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	Audited As of December 31			Unaudited As of June 30
	2016	**2017**	**2018**	**2019**
Liquidity Position				
Liquid Assets....................................	780,035	843,980	919,621	937,285
Financial Ratios				
Liquid Assets-to-Total Assets	33.5	31.6	30.4	30.6
Liquid Assets-to-Total Deposits	40.9	39.8	38.0	39.1
Net Loans-to-Total Deposits	76.4	81.3	82.4	84.0

LENDING

As of December 31, 2016, 2017 and 2018, the Bank's total loan portfolio (net of unearned interest or discount) on a consolidated basis amounted to ₱1.5 trillion, ₱1.8 trillion, and ₱2.0 trillion, respectively, representing approximately 63.7%, 65.8%, and 66.8%, respectively, of its total assets as of those dates. As of June 30, 2019, the Bank's total gross loan portfolio, on a consolidated basis, amounted to ₱2.0 trillion, representing approximately 66.7% of its total assets as of that date. The Bank's gross loan portfolio grew at a compounded annual growth rate of 17.8% from December 31, 2008 to December 31, 2018, primarily as a result of acquisitions and mergers and the Bank's efforts to expand its client base and encourage loan utilization of existing clients while managing credit quality, minimizing funding risk and maintaining an appropriate asset mix.

	Audited As of December 31			Unaudited As of June 30
	2016	**2017**	**2018**	**2019**
Large Corporates	680,228	815,786	909,223	954,014
Mid-Market	458,709	536,151	649,335	609,284
Consumer	301,349	360,485	419,913	444,421
Others	41,717	42,467	41,591	35,331
Total	**1,482,004**	**1,754,888**	**2,020,062**	**2,043,050**

Industry Concentration

Financial and insurance activities; wholesale and retail trade, repair of motor vehicles and motorcycles; real estate activities; activities of households; electricity, gas, steam and air-conditioning supply; and manufacturing represent the largest sectors of the Bank's loan portfolio, representing 14.5%, 13.6%, 12.0%, 11.6%, 11.0% and 10.6%, respectively, of the Bank's loan portfolio as of December 31, 2018. These sectors represented 11.2%, 13.5%, 12.9%, 10.0%, 11.5% and 10.6%, respectively, of the Bank's loan portfolio as of December 31, 2017. As of June 30, 2019, these sectors represented 14.1%, 13.7%, 12.5%, 12.4%, 10.7% and 10.5% of the Bank's loan portfolio.

Under guidelines established by the BSP, the BSP considers that concentration of credit exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. BSP regulations require banks to allocate 25% of their loanable funds for agricultural credit in general, of which at least 10% shall be made available for agrarian reform credit. In the absence of qualified borrowers, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. As with most banks in the Philippines, the Bank is not in strict compliance with this standard.

The following table sets forth an analysis of the Bank's loan portfolio (net of unearned interest or discount) by economic activity, as defined and categorized by the BSP:

	Audited As of December 31,						Unaudited As of June 30,	
	2016		**2017**		**2018**		**2019**	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)							
Agriculture, Forestry and Fishing	14,054	0.9	13,007	0.7	13,861	0.7	13,561	0.7
Mining and Quarrying	9,632	0.6	25,054	1.4	23,830	1.2	23,592	1.2
Manufacturing	191,720	12.9	186,779	10.6	215,108	10.6	215,305	10.5
Electricity, Gas, Steam and Air-conditioning Supply	137,381	9.3	200,952	11.5	222,305	11.0	218,669	10.7

	2016		Audited As of December 31, 2017		2018		Unaudited As of June 30, 2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)							
Water supply, Sewerage, Waste Management and Remediation Activities	12,278	0.8	11,813	0.7	12,567	0.6	12,477	0.6
Construction	29,856	2.0	36,605	2.1	47,797	2.4	59,757	2.9
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycle	206,205	13.9	237,104	13.5	274,443	13.6	279,149	13.7
Transportation and Storage	99,871	6.7	112,307	6.4	114,023	5.6	102,466	5.0
Accommodation and Food Services Activities	43,837	3.0	41,662	2.4	31,465	1.6	32,906	1.6
Information and Communication	27,334	1.8	38,707	2.2	32,530	1.6	28,455	1.4
Financial and Insurance Activities	150,735	10.2	195,923	11.2	292,871	14.5	288,496	14.1
Real Estate Activities	205,376	13.9	227,050	12.9	242,836	12.0	256,310	12.5
Professional, Scientific and Technical Services	11,042	0.7	10,782	0.6	10,980	0.5	10,394	0.5
Administrative and Support Services	8,662	0.6	9,204	0.5	9,517	0.5	9,803	0.5
Public Administrative and Defense; Compulsary Social Security	535	0.0	703	0.0	640	0.0	1,182	0.1
Education	10,840	0.7	13,614	0.8	5,960	0.3	22,968	1.1
Human Health and Social Work Activities	16,282	1.1	16,461	0.9	9,092	0.5	8,976	0.4
Arts, Entertainment and Recreation	54,401	3.7	68,853	3.9	76,366	3.8	74,679	3.7
Other Service Activities	124,661	8.4	134,046	7.6	149,592	7.4	130,627	6.4
Activities of Private Household as Employers and Unfidfferentiated Goods and Services and Producing Activities of Households for Own Use	127,236	8.6	175,196	10.0	234,238	11.6	253,267	12.4
Activities of Extraterritorial Organizations and Bodies	66	0.0	66	0.0	41	0.0	11	0.0
Total	**1,482,004**	**100.0**	**1,754,888**	**100.0**	**2,020,062**	**100.0**	**2,043,050**	**100.0**

The Bank maintains a flexible policy towards its exposure to various industries, in principle avoiding exposure of more than 20% to a particular industrial sub-sector of the economy, and 30% in the case of the manufacturing sub-sector. The distribution of the Bank's loan portfolio by industry is also subject to seasonal fluctuations.

Maturity

The following table sets forth an analysis of the Bank's loans by maturity:

Loans by Maturity	**Audited As of December 31**						**Unaudited As of June 30**	
	2016		**2017**		**2018**		**2019**	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In ₱ millions, except percentages)							
Due within one year	481,382	32.5	482,201	27.5	586,394	29.0	575,446	28.2
Due within one to five years	239,059	16.1	257,864	14.7	266,661	13.2	263,097	12.9
Due beyond five years	761,563	51.4	1,014,823	57.8	1,167,007	57.8	1,204,507	59.0
Total	**1,482,004**	**100.0**	**1,754,888**	**100.0**	**2,020,062**	**100.0**	**2,043,050**	**100.0**

Loan Currencies

As of December 31, 2016, 2017, 2018 and June 30, 2019, 87.3%, 86.2%, 86.8% and 88.3%, respectively, of the Bank's loan portfolio were denominated in Pesos and 12.7%, 13.8%, 13.2% and 11.7%, respectively, were denominated in foreign currency, a substantial proportion of which was denominated in U.S. dollars.

Loans by Currency	**Audited As of December 31**						**Unaudited As of June 30**	
	2016		**2017**		**2018**		**2019**	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In ₱ millions, except percentages)							
Peso	1,293,842	87.3	1,513,164	86.2	1,752,797	86.8	1,803,956	88.3
Foreign								
USD	182,074	12.3	234,366	13.4	257,482	12.7	228,752	11.2
Yen	906	0.1	1,008	0.0	786	0.1	691	0.0
Other Foreign Currency	5,182	0.3	6,350	0.4	8,997	0.4	9,651	0.5
Total	**1,482,004**	**100.0**	**1,754,888**	**100.0**	**2,020,062**	**100.0**	**2,043,050**	**100.0**

Interest Rates

As of June 30, 2019, a substantial portion of the Bank's total loan portfolio was on a floating interest basis. Loan pricing is set by the Bank's asset and liability committee on a weekly basis, and is driven by market factors, the Bank's funding position and the credit risk associated with the relevant borrower. The Bank sets interest rates for Peso-denominated loans based on the Bloomberg Valuation ("BVAL") rate and for U.S. dollar-denominated loans based on the U.S. dollar London Interbank Offer Rate. The margins on these interest rates, which range from 1% to 5%, are determined by reference to the credit risk of the relevant borrower.

The Bank's pricing policy with respect to its interest-bearing liabilities is also handled by the Assets and Liabilities Committee (ALCO) during its weekly meetings. CASA deposits typically pay no interest for deposits falling below a minimum maintaining balance. The basic rate of regular Peso savings account deposits that are above the minimum threshold is 0.25% per annum.

The Bank actively manages interest rate risk by monitoring current market interest rates and assessing the impact of changes in interest rates on the Bank's net interest income. *See "Risk Management — Interest Rate Risk Management"*.

Size and Concentration of Loans

The BSP imposes a limit on the size of a bank's financial exposure to any single person or group of connected persons to 25% of the bank's net worth (the "Single Borrower 's Limit" or "SBL"). This limit does not apply to the following loans: (a) those secured by obligations of the BSP or of the Government; (b) those fully guaranteed by the Government as to the payment of principal and interest; (c) those secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted credit rating agencies; (d) those to the extent covered by the hold-out or assignment of deposits maintained in the lending bank and held in the Philippines; (e) those under letters of credit to the extent covered by margin deposits; and (f) those which the Monetary Board may, from time to time, specify as non-risk items. As of June 30, 2019, the Bank's SBL was ₱86.7 billion. The Bank has complied with this SBL for all of its loans.

As of December 31, 2016, 2017 and 2018, the Bank's ten largest borrowers accounted for ₱201.4 billion, ₱241.8 billion and ₱263.8 billion, respectively, or 13.5%, 13.8% and 13.1% of the Bank's outstanding loan portfolio of ₱1,482.0 billion, ₱1,754.9 billion and ₱2,020.1 billion (excluding interbank loans). As of June 30, 2019, the Bank's ten largest borrowers accounted for ₱266.2 billion, or 13.0%, of the Bank's loan portfolio.

The following sets forth a breakdown of total loans by principal amount as of June 30, 2019:

Principal amount of loans (in Pesos)	Percentage
Less than 5,000,000	22.3%
5,000,001 to 10,000,000	4.0%
10,000,001 to 15,000,000	2.1%
More than 15,000,000	71.6%
Total	**100.0%**

Secured and Unsecured Loans

The Bank principally focuses on cash flows in assessing the creditworthiness of borrowers. However, it will secondarily seek to minimize credit risk with respect to a loan by requiring borrowers to pledge or mortgage collateral to secure the payment of loans. Where it has determined that collateralization of a loan is desirable, the Bank's policy is to secure the full amount of the loan. As of December 31, 2016, 2017, 2018 and June 30, 2019, approximately 27.8%, 28.2%, 26.0% and 25.1%, respectively, of total loans were extended on a secured basis. Approximately 47.8%, 52.7%, 55.6% and 57.2%, respectively, of these secured loans are backed by real estate mortgages for each period.

The Bank's general policy with respect to securing loans is to over secure. With respect to loans secured by real estate mortgages, in accordance with BSP guidelines, the Bank's policy is that the maximum value of such loans should not be in excess of 80% of the assessed value of the property provided as security for such loans. The Bank appraises real estate collateral using internal appraisers, but utilizes external appraisers for loans that are syndicated or involve sharing of collateral among lenders.

Credit Rating / Scoring System

The Bank has credit rating/scoring systems in place to assess the credit risk associated with a prospective or existing loan account for both the corporate and consumer lending business. The Bank's credit rating system uses a combination of quantitative and qualitative factors, which generally assess the financial position of the borrower.

For all loans of ₱50.0 million or more for corporate borrowers and loans of ₱35.0 million or more for the Bank's middle-market borrowers, the Risk Management Group ("RMG") will conduct the credit risk review directly. For those not within their coverage, the credit rating is conducted by the assigned Institutional Banking Group account officer. The Bank updates the rating of an existing loan account at least once a year, which is normally the credit renewal date. However, the Bank may adjust the credit rating within a shorter period if there are identified factors which could affect the borrower's credit quality, or the Bank becomes aware of any adverse development with respect to the borrower or secured collateral.

For the SME borrowers with loan facilities of ₱10.0 million and below, a Credit Scoring System is used to evaluate creditworthiness. It consists of factors related to both customer and collateral.

On the other hand, Application and Behavior scoring models are adopted for the consumer loans unsecured portfolio, namely Credit Card and Personal Loans. The scoring models are used for adjudication of new loan applications as well as in account management such as credit line increases and renewal. Pre-qualification scorecards are likewise used to mine the existing Bank depositors and SM Advantage customers for credit card issuance.

Credit Approval Process

Before the Bank approves any extension of credit, the Bank first identifies the needs of the prospective borrower, analyzes the appropriateness of the exposure and evaluates any inherent risks. The Bank assigns an account officer to every prospective borrower to start the credit approval process. The account officer identifies the borrowing requirements of the client and assists in the preparation of the loan application together with the required documentary support. The account officer further determines whether a property appraisal is warranted and, if so, is involved in overseeing the appraisal process. The account officer also conducts bank checking and credit reviews of the prospective borrower with the assistance of the credit support units. For borrowers from the middle-market segments, the account officer will pay particular attention to validating the borrower's financial position from different information sources. For transactional lending, the account officer may focus more on the size and quality of cash flows from the transaction, and less on the financial position of the borrower itself.

The Executive Committee, which includes the Bank's Chairperson, Vice Chairman, the President, a Bank Director and the head of RMG, undertakes the analysis and evaluation of the credit proposal based on the recommendations of the senior credit officers. The Executive Committee deliberates on the viability of the credit proposal in general, but, more particularly, on the appropriateness of the credit extension and risks involved.

Credit Monitoring and Review Process

Pursuant to the BSP's Manual of Regulations for Banks (the "Manual"), the Bank is required to establish a system of identifying and monitoring existing or potential problem loans and other risk assets and of evaluating credit policies with regard to prevailing circumstances and emerging portfolio trends. In compliance with this requirement, the Bank has established credit support units under the RMG to review and monitor individual accounts within a particular portfolio to identify existing and potential areas of deterioration and assess the risks involved. In addition, the credit support units evaluate the degree to which a particular lending unit is complying with existing credit management policies.

The evaluation of the individual loan accounts culminates in the classification of the account. The classification indicates the degree or gravity of the perceived problems of the account reviewed. The reviewed loan accounts are classified in accordance with the standard classifications set forth in the Manual.

The review and recommended classification of a loan account are sent for comments to the assigned account officer and thereafter forwarded to the applicable unit head and respective heads of Corbank and Combank for further review. Either the Bank's President, Vice Chairman or RMG head may give final approval of a loan account's classification.

The Bank and its subsidiaries will, from time to time and in the ordinary course of business, enter into loans with directors, officers, stockholders and their related interests ("DOSRI"). All such loans are on commercial, arm's length terms. The General Banking Law (Republic Act No. 8791) and BSP regulations require that the total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed 100% of the Bank's net worth or 15% of the Bank's total loan portfolio, whichever is lower. The amount of any loan to a DOSRI of the Bank, of which 70% must be secured, may not exceed the aggregate amount of their unencumbered deposits with the Bank and the book value of their paid-in capital investments in the Bank. The Bank is required to report the level of DOSRI loans to the BSP on a weekly basis.

As of December 31, 2016, 2017 and 2018, DOSRI loans accounted for ₱23.2 billion, ₱55.8 billion and ₱54.2 billion, respectively, or approximately 1.6%, 3.2% and 2.7%, respectively, of the Bank's total loans. As of June 30, 2019, DOSRI loans accounted for ₱44.0 billion or approximately 2.2% of the Bank's total loans. Of those amounts, ₱21.8 billion, ₱37.1 billion, ₱34.3 billion and ₱24.8 billion (which includes secured non-risk loans not subject to SBL ceiling), respectively, were accounted for by the SM Group as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively.

Loan Loss Provisioning

The Bank classifies loans as non-performing in accordance with the guidelines of the BSP, which require banks to classify their loan portfolios based on perceived levels of risk to encourage timely and adequate management action to maintain the quality of their loan portfolios. These classifications are then used to determine the minimum levels of allowances for loan losses which banks are required to maintain.

For corporate and commercial loans, the Bank classifies non-performing loans based on four different categories established by the BSP, which correspond to levels of risk:

- “Loans especially mentioned” are loans which the Bank believes have potential weaknesses that deserve management’s close attention, and which deficiencies, if left uncorrected, could affect repayment;
- “Substandard” loans are those which the Bank believes involve a substantial and unreasonable degree of risk to the Bank;
- “Doubtful” loans are those for which the Bank believes collection in full, either according to their terms or through liquidation, is highly improbable, and substantial loss is probable; and
- “Loss” loans are those which the Bank believes are impossible to collect or are worthless.

The appropriate classification is generally made once payments on a loan are in arrears for more than 90 days, but may be made earlier when the loan is not yet past due under certain circumstances, including where there is defective documentation with respect to the loan. Once interest on a loan is past due for 90 days, the Bank will create a provision in respect of the interest accrued during the 90-day period and classify the entire principal outstanding under such loan as past due, and it may initiate calling on all loans outstanding to that borrower as due and demandable.

The RMG monitors compliance with BSP regulations with regard to loan loss provisioning. The Bank reviews its risk assets on a portfolio basis at least annually and, since June 2004, by account on a monthly basis in accordance with prescribed policy guidelines and the relevant BSP categorization.

The following is a summary of the risk classification of the Parent Bank’s aggregate loan portfolio (as a percentage of total outstanding loans):

	Audited As of December 31						Unaudited As of June 30	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)							
Loans especially mentioned	7,247	0.5	5,369	0.3	2,291	0.1	4,618	0.2
Sub-standard	11,076	0.8	12,118	0.7	6,880	0.4	9,604	0.5
Doubtful	5,097	0.3	5,580	0.4	3,926	0.2	4,150	0.2
Loss	8,322	0.6	8,445	0.5	10,677	0.5	10,841	0.6
Total classified	31,742	2.2	31,512	1.9	23,774	1.2	29,213	1.5
Unclassified	1,387,489	97.8	1,660,212	98.1	1,931,102	98.8	1,944,444	98.5
Total	**1,419,231**	**100.0**	**1,691,724**	**100.0**	**1,954,876**	**100.0**	**1,973,657**	**100.0**

The Bank’s allowance for loan impairments is made up of a specific component and a general unallocated component. For corporate loans, the specific component is based on the Bank’s classification of individual loans as described above. The general component represents a blanket reserve required by the BSP, equivalent to 1% of the outstanding balance of unclassified loans other than restructured loans less non-risk loans, and 5% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured non-risk loans.

The Board has discretion as to how frequently it writes off its classified loans, provided that these are made against provisions for probable losses or against current operations. Prior BSP approval is required to write off a DOSRI loan account.

Past-due accounts of both Corbank and Combank are initially placed on a “watch list” for closer monitoring and supervision. Past-due loans are then referred to the Bank’s Remedial Management Unit if the Bank has determined (i) such loans to be uncollectible, (ii) to terminate its relationship with the borrower or (iii) recovery of such loans will require special management.

Remedial Management

The Remedial Management Unit directly supervises the management of past due loans that are referred to it. For problem loans management, the Bank has two specialized remedial management units to handle corporate/commercial loans and consumer loans. A problem account is assigned to an account officer who evaluates, determines and proposes the appropriate remedial recourse available to the Bank. Commercial solutions instituted include restructuring, payment arrangements, reduction of loan to serviceable level via sale of collateral and/or unencumbered assets or dacion en pago (payment in kind). In case a commercial solution ceases to be feasible, the Bank undertakes legal action, through its legal department, for either foreclosure of loan collateral or criminal/civil collection suits.

Foreclosed assets and assets conveyed to the Bank via dacion en pago goes to Bank's ROPA Management Team which monitors redemption, possession and consolidation of acquired properties. From past due loans, acquired assets are classified as ROPA. Eventually, an acquired property goes up for sale signaling end of the remedial process.

Taking into account cash or non-cash payments that can be derived from the borrower, account officers review and continually assess impaired values of each problem account. Furthermore, they compute for the present value of an account's expected/potential collection to determine any impairment in value. The impaired value is then compared with the credit classification and booked provision. Any adjustment, if necessary, is made accordingly.

All remedial actions require approval of the Bank's Management Credit Committee or Executive Committee depending on the amount of obligation and/or complexity of remedial action. Disposition of the Bank's acquired assets, likewise requires approval of the Executive Committee.

Non-Performing Loans (NPL) and ROPA

The table below sets forth details of the Bank's NPLs, non-accruing loans, ROPA, non-performing assets (as described below), restructured loans and write-offs for loan losses for the specified periods:

	As of December 31,			As of June 30,
	2016	**2017**	**2018**	**2019**
	(in ₱ millions, except ratios, which are in percentages)			
Gross non-performing loans [(1)]	17,943	19,648	19,977	23,809
Net non-performing loans [(1)]	5,906	8,108	6,569	8,151
Total loans [(1)]	1,561,681	1,800,872	2,078,462	2,061,562
Gross non-performing loans to total loans (%)[(1)]	1.1	1.1	1.0	1.2
Net non-performing loans to total loans (%) [(1)]	0.4	0.5	0.3	0.4
Non-performing loans [(2)]	18,775	20,439	20,832	24,651
Total loans	1,482,004	1,754,888	2,020,062	2,043,050
Total non-performing loans to total loans – excluding interbank loans (%) [(3)]	1.3	1.2	1.0	1.2
Total non-performing loans to total loans – including interbank loans (%) [(4)]	1.2	1.1	1.0	1.2
ROPA – net	7,770	9,835	11,102	13,627
Non-performing assets [(5)]	29,116	32,414	33,844	40,208
Non-performing assets as percentage of total resources (%)	1.3	1.2	1.1	0.0

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	(in ₱ millions, except ratios, which are in percentages)			
Allowance for impairment of assets	28,733	32,030	40,051	42,156
Allowance for loan impairments (6)	26,161	29,889	38,141	40,226
Allowance for ROPA impairments	2,571	2,140	1,910	1,930
Allowances for loan impairments as % of total non-performing loans (NPL coverage)	139.3	146.2	183.1	163.2
Allowance for impairment of assets as a % of non-performing assets (%)	98.7	98.8	118.3	104.8
Total restructured loans	1,743	1,686	1,824	1,805
Current	170	144	113	111
Past due	1,521	1,490	1,659	1,642
In-Litigation	52	52	52	52
Restructured loans as % of total loans	0.1	0.1	0.1	0.1
Loans written off	3,313	2,162	2,324	1,008

(1) Per BSP Circular 941
(2) Excludes Receivable from SPVs
(3) Total non-performing loans divided by total loans excluding interbank loans
(4) Total non-performing loans divided by total loans including interbank loans
(5) Non-performing assets comprised of ROPA (gross) and non-performing loans
(6) Starting December 31, 2018, includes amount of appropriation to surplus reserves for general loan loss portfolio

The Bank classifies loans as past due upon the occurrence of certain non-payment events, and then reclassifies such loans as “non-accruing” or “non-performing” upon continuing non-payment or payment default, in accordance with BSP guidelines. In the case of loans requiring repayment of principal at maturity or scheduled payment of principal or interest due quarterly (or longer), failure to make such payment on the due date triggers non-performing classification. In the case of loans requiring payment of principal or interest on a monthly basis, continued failure to make payment for three months from the due date triggers non-performing classification.

As of June 30, 2019, the Bank’s ten largest NPLs amounted to ₱7.3 billion or approximately 0.4% of the Bank’s total loans.

Sectoral Analysis of Non-Performing Loans

The following table sets forth, as of the dates indicated, the Bank’s gross NPLs by the respective borrowers’ industry or economic activity and a percentage of the Bank’s gross NPLs:

	Audited						Unaudited	
	As of December 31,						As of June 30,	
Industry Classifications	**2016**		**2017**		**2018**		**2019**	
	Amount	%	Amount	%	Amount	%	Amount	%
Agriculture, Forestry and Fishing	862	4.6	809	4.0	1,009	4.8	1,004	4.1
Mining and Quarrying	15	0.1	29	0.1	37	0.2	47	0.2
Manufacturing	4,745	25.3	3,963	19.4	3,941	18.9	7,046	28.6
Electricity, Gas, Steam and Air-conditioning Supply	25	0.1	30	0.1	25	0.1	25	0.1

Industry Classifications	Audited As of December 31, 2016		2017		2018		Unaudited As of June 30, 2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Water supply, Sewerage, Waste Management and Remediation Activities	20	0.1	9	0.0	2	0.0	2	0.0
Construction	244	1.3	295	1.4	343	1.6	398	1.6
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycle	2,642	14.1	2,340	11.4	3,299	15.8	3,142	12.7
Transportation and Storage	122	0.6	125	0.6	159	0.8	201	0.8
Accommodation and Food Services Activities	76	0.4	197	1.0	199	1.0	127	0.5
Information and Communication	104	0.6	296	1.4	272	1.3	273	1.1
Financial and Insurance Activities	132	0.7	78	0.4	73	0.4	83	0.3
Real Estate Activities	487	2.6	512	2.5	240	1.2	255	1.0
Professional, Scientific and Technical Services	137	0.7	130	0.6	107	0.5	158	0.6
Administrative and Support Services	227	1.2	583	2.9	547	2.6	542	2.2
Public Administrative and Defense; Compulsary Social Security	14	0.1	20	0.1	6	0.0	87	0.4
Education	451	2.4	553	2.7	1,871	9.0	1,231	5.0
Human Health and Social Work Activities	78	0.4	85	0.4	35	0.2	95	0.4
Arts, Entertainment and Recreation	5	0.0	48	0.2	41	0.2	3	0.0
Other Service Activities	3,548	18.9	4,635	22.7	2,892	13.9	3,343	13.6
Activities of Private Household as Employers and Unfidfferentiated Goods and Services and Producing Activities of Households for Own Use	4,837	25.8	5,700	27.9	5,733	27.5	6,589	26.8
Activities of Extraterritorial Organizations and Bodies	2	0.0	1	0.0	1	0.0	1	0.0
Total	**18,775**	**100.0**	**20,438**	**100.0**	**20,832**	**100.0**	**24,651**	**100.0**

Loans that are subsequently foreclosed or transferred to the Bank's ROPA account are removed from the non-perfroming category. Accrued interest arising from a loan account is classified according to the classification of the corresponding loan account. In accordance with BSP guidelines, loans and other assets in litigation are classified as non-performing assets. The Bank's non-performing assets principally comprise ROPA nd NPLs.

Foreclosure and Disposal of Assets

The Bank's preferred strategy for managing its exposure to non-performing loans that are secured is to restructure the payment terms of such loans. The Bank will only foreclose on a non-performing loan if restructuring is not feasible or practical, or if the borrower cannot or will not repay the loan on acceptable terms. In the case of larger loans, the Bank may also consider accepting a dacion en pago arrangement.

In the six months ended June 30, 2019, the Bank sold ₱1.0 billion of acquired assets in ROPA. The Bank had a net ROPA of ₱7.8 billion, ₱9.8 billion and ₱11.1 billion, as of December 31, 2016, 2017 and 2018, respectively, consisting of various real estate properties and shares of stock in several companies. As of June

30, 2019, the Bank's net ROPA amounted to ₱11.7 billion, or 14.6% higher than the ₱10.2 billion as of June 30, 2018.

Under the current regulations, the Bank is required to conduct impairment testing on its acquired assets, which becomes the basis for the provisioning levels. The Bank's valuation reserves on ROPA amounted to ₱2.6 billion, ₱2.1 billion, ₱1.9 billion and ₱1.9 billion, as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively.

Subsidiaries and Affiliates

BDO's diverse subsidiaries and investments in allied undertakings provide an extensive range of banking and other financial services. The table below shows selected subsidiaries and associates of the Bank as of June 30, 2019:

Philippine Subsidiaries	**% Interest Held**
BDO Capital & Investment Corporation	99.88%
BDO Insurance Brokers, Inc.	100%
BDO Private Bank, Inc.	100%
BDO Strategic Holdings, Inc.	100%
BDO Securities Corporation	99.88%
BDO Nomura Securities, Inc. (formerly PCIB Securities, Inc.)	51%
BDO Leasing and Finance, Inc.	88.54%
Equimark – NFC Development Corp.	60%
One Network Bank, Inc. ("ONB")	84.87%
BDO Life (formerly Generali Pilipinas Life Assurance Company, Inc.)	100%
Foreign Subsidiaries	**% Interest Held**
BDO Remit (USA), Inc.	100%
Express Padala (Hongkong) Ltd.	100%
BDORO Europe Ltd.	100%
BDO Remit (Canada) Ltd	100%
BDO Remit (Japan) Ltd	100%
Associates	**% Interest Held**
SM Keppel Land, Inc.	50%
Taal Land, Inc.	33.33%
NorthPine Land Incorporated	20%
NLEX Corporation	11.7%
MMPC Auto Financial Services Corporation	34.97%

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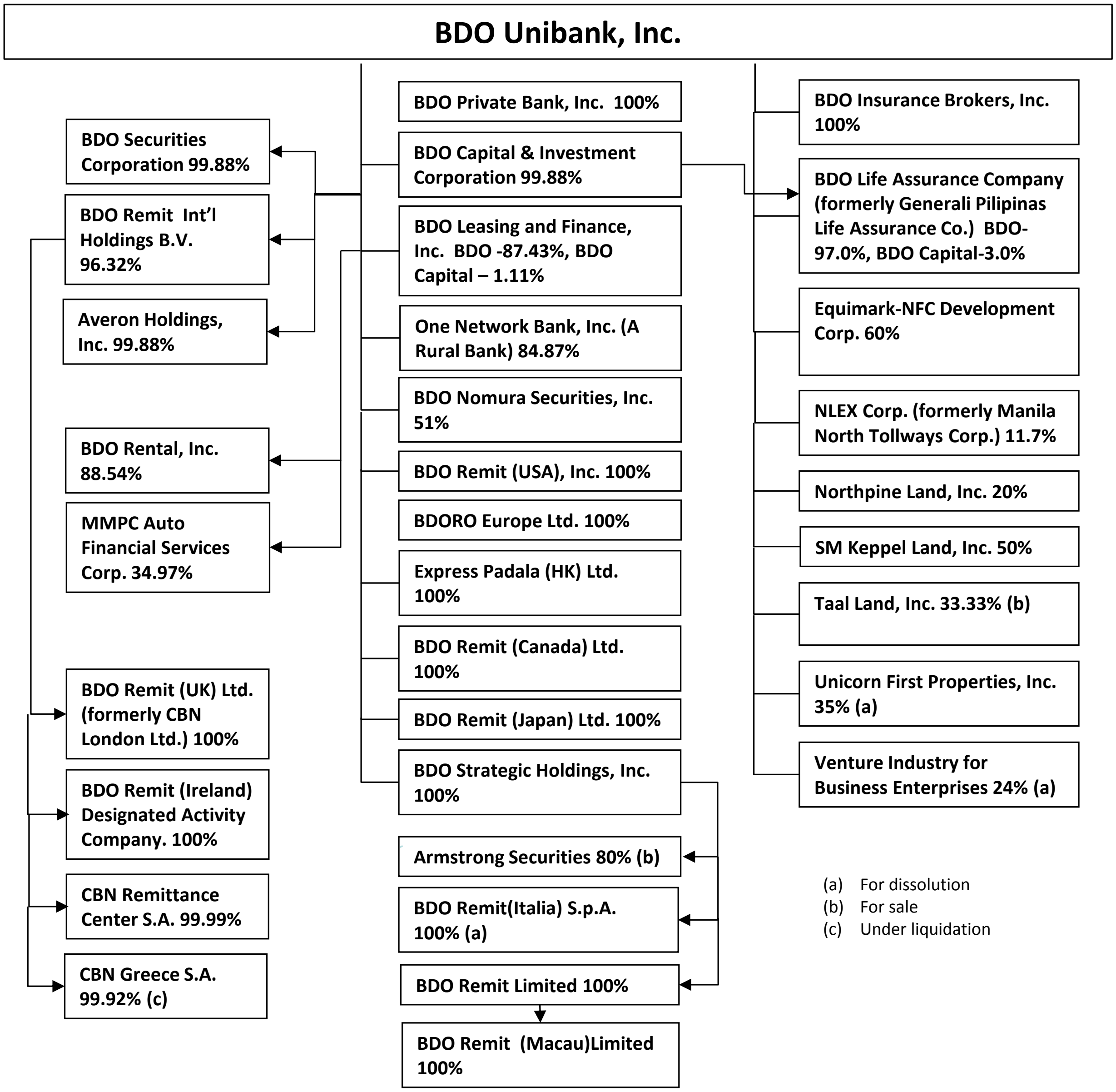
* For dissolution

An organizational chart of BDO's operating subsidiaries and associates as of June 30, 2019 appears below.



SUBSIDIARIES

BDO Capital & Investment Corporation

BDO Capital & Investment Corporation is the Bank's investment banking arm that started operations in March 1999. *See "Business — Product Management — Investment Banking"*.

BDO Insurance Brokers, Inc.

BDO Insurance Brokers, Inc., a wholly-owned insurance broker of the Bank, began commercial operations in September 1997 as an insurance intermediary for the Bank, its customers, and the Bank's affiliates, including the SM Group. *See "Business — Product Management — Insurance Brokerage"*

BDO Private Bank, Inc.

BDO Private Bank, Inc., a wholly-owned commercial bank subsidiary of the Bank was acquired on August 29, 2003. *See "Business — Relationship Management — Private Banking"*.

BDO Strategic Holdings, Inc.

BDO Strategic Holdings, Inc. ("BDOSHI"), formerly, EBC Investments, Inc. ("EBCII") is a domestic corporation licensed to operate as a holding company. BDOSHI, which is wholly owned by the Bank, owns three offshore remittance companies.

BDO Securities Corporation

BDO Securities Corporation, ("BSC") was incorporated in the Philippines on September 25, 1995. *See "Business — Product Management — Stock Brokerage"*

BDO Leasing and Finance, Inc.

BDO Leasing and Finance, Inc. was incorporated in 1981 and was listed in the PSE on January 6, 1997. *See "Business — Product Management — Leasing and Financing"*.

Equimark-NFC Development Corporation

Equimark-NFC Development Corp. is 60% owned by the bank and 40% owned by China Non-ferrous Metals Industry. The company has a joint venture project with Avida Land, an Ayala subsidiary, involving two residential condominium towers in Makati City.

One Network Bank, Inc.

One Network Bank, Inc. ("ONB") is 84.87% owned by the Bank. *See "Business — Relationship Management — Rural Banking"*.

BDO Nomura Securities, Inc. (formerly PCIB Securities, Inc.)

PCIB Securities, Inc., a wholly-owned subsidiary, was incorporated in the Philippines on June 29, 1994 and was licensed by the SEC primarily to engage as dealer in the business of offering, buying, selling, dealing or trading of securities of all kinds for its own account and as a broker in the purchases, sales or other transactions relating to all kinds of securities of any person, corporation or entity.

On June 29, 2015, the Bank announced that it signed a definitive agreement with Nomura Holdings, Inc. ("Nomura") for a joint investment in PCIB Securities, Inc. The joint venture, which will initially provide online trading services for local stocks to individual investors, will eventually expand its services to include cross-border investment opportunities to a broader range of investors. On January 27, 2016, PCIB Securities, Inc. executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (Nomura Singapore), a wholly-owned subsidiary of Nomura, for the issuance of 336,274 common shares of PCIB Securities, Inc. to Nomura Singapore at ₱370.34 per share. The joint venture was renamed "BDO Nomura Securities, Inc.", with the goal of becoming one of the premier securities brokerage firms in the Philippines by providing online trading services for local stocks to individual investors. The business also aims to provide stock brokerage services to institutional clients overseas and to eventually provide a platform to connect Filipino investors to the international stock markets. The Bank holds a 51% stake in the company while Nomura owns 49%. On October 24, 2016, BDO Nomura Securities, Inc. launched its online trading platform. *See "Business — Product Management — Online Trading"*.

BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company)

In March 1999, the Bank established Generali Holding, a joint venture holding company with Generali, Jerneh Asia Berhad ("Jerneh Asia") and Vantage Equities, Inc., to enter into life and general insurance businesses. Generali is one of the largest insurance groups in the world, while Jerneh Asia is a member of the Kuok Group of Companies, one of the largest corporate conglomerates in Malaysia, providing a wide range of general, marine and medical insurance products. Subsequently, BDO Capital acquired the 10% holdings of Vantage Equities, Inc. in Generali Holding. Generali Holding is effectively 40% owned by the Bank and 60% by Generali Asia, which, in turn, is 60% owned by Generali and 40% owned by Jerneh Asia.

Generali Pilipinas Life Assurance Company, Inc. ("Generali Assurance") and Generali Pilipinas Insurance Company, Inc. ("Generali Insurance") were both incorporated in July 1999 as wholly-owned subsidiaries of Generali Holding and were subsequently launched in March 2000 to serve as the operating companies for life and general insurance, respectively. Generali Assurance and Generali Insurance are among the largest capitalized insurers in the Philippine insurance industry and are positioned to provide the Bank with an opportunity to become a one-stop financial shop, providing a wide range of insurance products and services through its branches.

On June 9, 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle Generali Pilipinas Holdings Company Inc. ("GPHC"), the parent firm of life insurer Generali Pilipinas Life Assurance Company ("GPLAC") and non-life insurer Generali Pilipinas Insurance Company ("GPIC"). On June 30, 2016, the Bank took full control of GPHC and GPLAC which were subsequently renamed BDO Life Assurance Holdings Corp. and BDO Life Assurance Company Inc., respectively.. On September 30, 2016, the Bank acquired full interest in GPHC.

By assuming full control of the GPHC insurance operations, the Bank is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market and allow it to adapt more readily to the demands of its target markets. GPLAC was renamed BDO Life Assurance Company, Inc. *See "Business — Product Management — Life Insurance"*.

BDO Remit (USA), Inc.

BDO Remit (USA), Inc., a wholly-owned subsidiary, was incorporated in California on February 15, 1991. It offers a full range of remittance services to the Philippines through its offices in West Covina, Los Angeles and San Francisco, and its agents in California and other states.

Express Padala (Hongkong) Ltd.

Express Padala (Hongkong) Ltd. provides remittance services to the Philippines from Hong Kong. It is wholly-owned by the Bank.

BDORO Europe Ltd.

BDORO Europe Ltd., a wholly owned subsidiary, was formed in London and registered with the Companies House on May 30, 2012. It is now in the process of completing the documents to support its application for a banking license in the United Kingdom. While waiting for the authorization process to be completed and with the acquisition of a real estate property in London, it will initially operate as a property lessor but will eventually provide commercial banking services to the Filipino communities in UK and Europe.

BDO Remit (Canada) Ltd.

BDO Remit (Canada) Ltd., a wholly-owned subsidiary, was incorporated on June 23, 2014 with licenses in British Columbia and Ontario. The company, which is registered as a money service business, will primarily provide remittance services to individual and corporate clients in Canada for credit/payment to their beneficiaries in the Philippines.

BDO Remit (Japan) Ltd.

BDO Remit (Japan) Ltd., a wholly-owned subsidiary, was incorporated in Tokyo, Japan on August 18, 2014. The license to operate as a fund transfer business company was granted by Kanto Financial Bureau (FSA) on December 2, 2015. Its remittance office, located at Zenken Plaza II, 1F & 2F, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo, Japan, started operations on April 1, 2016 and offers a full range of remittance services to Overseas Filipino Workers in Japan.

ASSOCIATES

SM Keppel Land, Inc.

SM Keppel Land, Inc. is approximately 50% owned by the Bank and 50% owned by the Keppel Group of Singapore. It is a private corporation which owns approximately two hectares of land in the Ortigas district where SM Keppel operates a five-storey retail podium geared towards upper market lifestyle shopping.

NLEX Corporation

NLEX Corporation, where the Bank has an 11.7% ownership, is the builder and concessionaire of the North Luzon Expressway, and is involved in all aspects of tollway operations – from toll collection to traffic management and from motorists' assistance to roadway maintenance. The company's other shareholders are Metro Pacific Tollways Development Corporation, Egis Projects S.A. of France, reputedly the world's biggest tollways operator; Leighton Asia Ltd. of Australia, a civil works specialist with an extensive track record in toll road construction; and Philippine National Construction Corporation, the state-owned company that holds the franchise for the operation of the expressway.

Taal Land, Inc.

Taal Land, Inc. is 33% owned by the Bank. It owns 25% of Jaka Tagaytay, developer of the Splendido resort.

NorthPine Land, Inc.

NorthPine Land Incorporated, where the Bank holds a 20% interest, is a real estate company involved in horizontal development targeting the middle-income to high-end housing market. Current projects are located in Cavite, Laguna and Rizal. The other shareholders of the company are Hong Kong Land, Inc., San Miguel Properties, Inc. and Metrobank.

OTHER COMPANIES IN THE BDO GROUP

BDO Remit Limited

BDO Remit Limited ("BDO Remit"), a wholly-owned subsidiary of BDOSHI, was incorporated on September 15, 2004 as BDO Remittance until it changed to its current legal name on August 3, 2009. It offers specialized remittance services to cater to the needs of Filipino workers and migrants in Hong Kong who regularly send money to the Philippines. With its growing network in Hong Kong, BDO Remit offers secure, reliable and convenient remittance service to the Philippines through its offices in Worldwide Plaza and in Tsuen Wan and through its agents in more than 60 other locations all over Hong Kong.

BDO REMIT (ITALIA) SPA

BDO Remit (Italia) SpA, is a company incorporated as a joint stock or limited liability corporation (Societa per Azioni - SpA). It was established under its former name EBC Interlink S.p.A. in Milan, Italy on April 23, 1996. The corporate name was changed to Express Padala (Italia) SpA on January 1, 2000 during the merger between then Equitable Bank and PCIBank. Subsequently, with BDO's acquisition of EPCIB, the remittance company name was changed to BDO Remittance (Italia) SpA on April 28, 2008 and to BDO Remit (Italia) SpA on July 29, 2009.

BDO Remit (Macau) Limited

BDO Remit (Macau) Ltd., a wholly-owned subsidiary of BDO Remit, was incorporated on December 18, 1997 initially under the name of PCI Express Padala. On May 6, 2010, it was incorporated under its current legal name, BDO Remit (Macau) Ltd. The subsidiary office extended its presence by opening its second branch last August 17, 2010. To date, the two offices located in China Plaza offer a full range of remittance services to Overseas Filipino Workers in Macau.

BDO Rental, Inc.

BDO Rental, Inc., a wholly-owned subsidiary of BDO Leasing, was incorporated on March 10, 2005. Licensed to engage in renting and leasing equipment (except finance lease), it started commercial operations on June 30, 2005.

Armstrong Securities, Inc.

Armstrong Securities, Inc. ("ASI") is 80% owned by BDOSHI which is a wholly-owned subsidiary of the Bank. ASI is licensed by the SEC as a dealer in securities and is an accredited trading participant of the PSE.

Averon Holdings Corporation

Averon Holdings Corporation is a holding company engaged primarily in the leasing business. Its building located in 6780 Ayala Avenue, Makati City, whose accreditation from the Philippine Economic Zone Authority (PEZA) allows locators to enjoy certain incentives, currently counts some business process outsourcing (BPO) companies among its tenants.

BDO Remit International Holdings B.V. (formerly CBN Grupo International Holdings B.V.)

BDO Remit International Holdings B.V. is a remittance company based in Europe which was incorporated in the Netherlands on October 10, 2007. Operating in UK, Ireland, Spain and Greece, CBN Grupo offers door-to-door delivery, bank to bank deposit, Smart Money and BDO Cash Cards and pick up anywhere services.

On June 27, 2015, the Bank's Board of Directors authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued its shares to BDO Capital, which made the latter the owner of approximately 96% of the outstanding capital stock of CBN Grupo. CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered thereafter with The Netherlands Chamber of Commerce on October 24, 2016.

MMPC Auto Financial Services Corporation

MMPC Auto Financial Services Corporation is a joint venture of BDO Leasing and Finance, Inc. ("BDOLF"), a subsidiary of the Bank, with Mitsubishi Motors Philippines Corporation ("MMPC"), Sojitz Corporation ("SJC") and JACCS Co. Ltd. ("JACCS"), and was incorporated to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On March 7, 2019, BDOLF annnounced that it is selling its 40% equity interest in MAFSC to JACCS, allowing BDOLF to focus more on its core business of equipment leasing and finance and in line with JACCS' decision to expand its investment in MAFS as part of JACCS' strategy to accelerate the growth of its overseas business.

RISK MANAGEMENT

The Bank is exposed to risks that are particular to its lending and trading businesses and the environment within which it operates. The Bank's goal with respect to risk management is to ensure that it identifies, measures, controls and monitors the various risks that arise from its business activities, and that it strictly adheres to the policies and procedures which are established to address these risks.

To manage the financial risks of holding financial assets and liabilities, the Bank operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, market (foreign exchange, interest rate, price, and credit risks) and operational risks. The Bank's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Bank's statements of financial position to optimize the risk-reward balance and maximize return on the Bank's capital. The Bank's Risk Management Committee ("RMC") has overall responsibility for the Bank's risk management systems and sets risks management policies across the full range of risks to which the Bank is exposed. Specifically, the Bank's RMC places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Within the Bank's overall risk management system is the ALCO, which is responsible for managing the Bank's statement of financial position, including its 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.

Separately, the Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control and monitor the over-all risk profile of the Bank's activities across the different risk areas (i.e., credit, market, liquidity, and operational) to optimize the risk-reward balance and maximize return on capital.

In the performance of its function, the RMG observes the following framework:

- It is responsible for policy formulation in coordination with the relevant businesses/functions and ensures that proper approval for the manuals/policies is obtained from the appropriate body.
- It then disseminates the approved policies to the relevant businesses/functions after which, pertinent authorities are delegated down to the businesses/functions to guide them in the conduct of their businesses/functions. The RMG then performs compliance monitoring and review to ensure approved policies are adhered to.
- It is responsible for clarifying interpretations of risk policies/guidelines raised by the Business Heads/Units.
- When adverse trends are observed in the account/portfolio, the RMG is responsible for flagging these trends and ensuring relevant policies for problem accounts/portfolio management are properly applied.
- The RMG is responsible for the direct management of accounts in the Bank's non-performing loans/property-related items in litigations portfolio and ensures that appropriate strategies are formulated to maximize collection and/or recovery of these assets.
- It is also responsible for regular review and monitoring of accounts under its supervision and ensuring that the account's loan classification is assessed timely and accurately.

Liquidity Risk Management

Liquidity risk is the risk that there could be insufficient funds available to repay depositors, to fulfill commitments to lend, or to meet any other liquidity commitments. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to meet funding requirements, 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 Bank's principal source of liquidity is comprised of ₱44.7 billion of cash and ₱2,272.3 billion of short-term deposits with maturities of less than one year as of June 30, 2019. In addition to regulatory reserves, the Bank maintains what it believes to be a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that can be converted to cash quickly. Of a net portfolio of trading and investment securities of ₱269.0 billion, ₱332.9 billion, ₱385.2 billion and ₱427.7 billion, respectively, as of December 31, 2016, 2017, 2018 and June 30, 2019, ₱60.7 billion, ₱30.5 billion, ₱70.6 billion and ₱78.2 billion, respectively, comprised trading and investment securities with remaining maturities of one year or less. The Bank also uses the interbank market as a means of maintaining a sufficient level of liquid assets. It had interbank loan receivables of ₱73.4 billion, ₱37.7 billion, ₱49.3 billion and ₱62.9 billion as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively. In addition, the Bank manages liquidity by maintaining a loan portfolio with a sufficient proportion of short-term loans. As of June 30, 2019, ₱667.7 billion, or 31.5%, of the Bank's loans and other receivables comprised loans with remaining maturities of one year or less, including past-due loans.

Interest Rate Risk Management

A critical element of the Bank's risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Bank's net interest income. The Bank prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities or anticipated repricing dates, and other applicable behavioral assumptions. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The following table sets forth the interest rate gap position for the Bank's operations as of June 30, 2019:

	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
			(in ₱ millions)			
Resources:						
Cash and other cash items................................	-	-	-	-	44,718	44,718
Due from BSP/other banks...............................	100,321	2,059	10	-	267,883	370,274
Trading and investment securities	7,689	63,627	192,930	136,480	26,941	427,667
Loans and other receivables	963,256	270,917	660,615	225,132	-	2,119,920
Other resources...............	-	-	-	-	102,707	102,707
Total Resources	**1,071,266**	**336,603**	**853,555**	**361,612**	**442,250**	**3,065,286**
Liabilities and Equity:						
Deposit liabilities..............	576,137	56,309	66,821	25,666	1,674,626	2,399,558
Bills payable and subordinated debt............	48,911	16,370	102,821	8,071	597	176,770
Insurance contract liabilities…………………..	(375)	(1,125)	826	25,105	11,725	36,156
Other liabilities.................	614	1,100	3,617	7	96,628	101,966
Total Liabilities	625,288	72,653	174,085	58,849	1,783,576	2,714,450
Equity	-	-	-	-	350,836	350,836
Total Liabilities and Equity	**625,288**	**72,653**	**174,085**	**58,849**	**2,134,411**	**3,065,286**
On-book gap	445,978	263,950	679,469	302,764	(1,692,162)	-

	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
			(in ₱ millions)			
Cumulative on-book gap	445,978	709,929	1,389,398	1,692,162	-	-

(1) *Customer deposits maturing in one month reflect Philippine market characteristic of large numbers of short-term deposits that are generally re-deposited.*

Credit Risk Management

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the RMG. 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 the Bank'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.

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

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

Market Risk Management

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

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

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

- Earnings-at-risk — The RMG computes the earnings-at-risk based on a percentage of projected annual net interest income.

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

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

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

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

Foreign Exchange Risk Management

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

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

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

As of June 30, 2019, the Bank's net foreign exchange exposure was negative US$0.65 million inclusive of the foreign exchange position of the Bank's subsidiaries.

MANAGEMENT, EMPLOYEES AND SHAREHOLDERS

EMPLOYEES

As at June 30, 2019, the Bank employed a total of 37,169 people, 17,610 of whom were engaged in a professional managerial capacity and classified as Bank officers.

Bank staff employees, other than those expressly excluded in the Collective Bargaining Agreement (“CBA”), are represented by the Banco De Oro Employees Association (the “Union”), an affiliate of the Associated Labor Unions (ALU). The Bank’s CBA is in effect for a period of five years from November 1, 2015 to October 31, 2020 in so far as the representation aspect is concerned. Negotiation on the economic provisions for the period November 1, 2018 to October 31, 2020 was signed on December 21, 2018. Ratification for the National Capital Region (NCR) was conducted on December 14, 2018 with overwhelming acceptance from the Union members, while the ratification in provincial areas was completed in January 2019. The Bank’s latest CBA was signed on January 13, 2016 and was unanimously accepted and ratified by its members.

The Bank has not suffered any strikes since it started operations, and the management of the Bank considers its relations with its employees and the Union to be good.

The average age of the Bank’s officers and employees is 33 years, and the average Bank-wide tenure is seven years. The mandatory retirement age for the Bank is 60 years.

The aggregate compensation paid to employees by the Bank for the years ended December 31, 2016, 2017, 2018 and for the six months ended June 30, 2019 were ₱24.7 billion, ₱27.4 billion, ₱30.4 billion and ₱15.9 billion, respectively.

The Bank maintains a tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As at December 31, 2018, the fair value of the retirement plan assets of the Bank was ₱24.1 billion and the present value of the obligation was at ₱28.6 billion. After expenses and contributions made relative to the Bank’s retirement fund, the Bank recognized a retirement benefit liability of ₱4.5 billion for the year.

MANAGEMENT

BOARD OF DIRECTORS

The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Bank. It is also responsible for the proper administration and management of the Bank’s trust business.

The following table sets forth the persons who served as a Director of the Bank as of June 30, 2019:

Name	Position	No. of Years as Director
Teresita T. Sy	Chairperson	41
Jesus A. Jacinto, Jr.	Vice Chairman	22
Christopher A. Bell-Knight	Director	first term: 5; 2nd term: 5
Jose F. Buenaventura	Independent Director	5
Jones M. Castro, Jr.	Lead Independent Director	6
Dioscoro I. Ramos	IndependentDirector	3
George T. Barcelon	Independent Director	elected April 22, 2019
Josefina N. Tan	Director	first term: 4; second term: 11
Nestor V. Tan	Director/President and CEO	20
Vicente S. Perez, Jr.	Independent Director	elected April 22, 2019
Gilberto C. Teodoro, Jr.	Independent Director	4

Teresita T. Sy, Filipino, has been a member of the Board of Directors of BDO Unibank, Inc. since 1977, and currently serves as the Chairperson of the Board. Concurrently, she serves as Chairperson and/or Director of various subsidiaries and affiliates of BDO: BDO Private Bank, Inc., BDO Leasing & Finance, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). Ms. Sy also serves as Advisor to the Board of Directors of One Network Bank, Inc. (A Rural Bank of BDO).

Ms. Sy is the Vice Chairperson of SM Investments Corporation (PLC) and Advisor to the Board of SM Prime Holdings, Inc. She also sits as Chairperson of the Board of SM Retail, Inc.

Jesus A. Jacinto, Jr., Filipino, was elected to the Board of Directors of BDO Unibank Inc. on May 25, 1996 and has since been Vice Chairman of the Board. He is concurrently the Chairman and President of BDO Insurance Brokers, Inc. He also heads Jaces Corp. as Chairman and President; and Janil Realty, Inc. and JAJ Holdings, Inc., as President. Formerly, he was Director and Executive Vice President of CityTrust Banking Corp.; Director of CityTrust Investments Phil. and CityTrust Finance Corp.; and Vice President and Managing Partner of Citibank N.A.

Nestor V. Tan, Filipino, is the President and CEO of BDO Unibank, Inc. He was elected to the Board of Directors on June 27, 1998. He concurrently holds the chairmanship of the following Bank subsidiaries: BDO Strategic Holdings, Inc. and One Network Bank, Inc. (A Rural Bank of BDO). He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Leasing and Finance, Inc. , BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.), BDO Private Bank, Inc., BDO Remit (USA), Inc., and SM Keppel Land, Inc. He is a Trustee of BDO Foundation, Inc.,and Chairman of the Board of Trustees of the De La Salle University and a Director of the Asian School of Business & Technology. He is also the Chairman of Bancnet, the operator of the electronic payment system, InstaPay, and the ATM switching utility for Philippine banks. He previously served as President and Director of the Bankers Association of the Philippines, in addition to being the Chairman and director of Philippine Dealing System Holding Corporation. Prior to joining BDO Unibank, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them Mellon Bank (now BNY Mellon) in Pittsburgh, PA; Bankers Trust Company (now Deutsche Bank) in New York; and the Barclays Group in New York and London.

George T. Barcelon, Filipino, was elected Independent Director of the Bank on April 22, 2019. He is the visionary behind Integrated Computer Systems, Inc. (ICS), one of the Top 1000 companies based in the Philippines, dedicated to providing effective IT Solutions for small- to large-scale businesses and institutions. For 40 years, ICS has provided its customers with technological expertise and quality services. As the president of a company with 400 employees whose success depends on uncompromising leadership, imagination and careful quality control. Mr. Barcelon seeks to promote the values of integrity, commitment and service quality, the cornerstones upon which ICS was built. Mr Barcelon is currently the Chairman of the Philippine Chamber of Commerce and Industry (PCCI). He is also a member of the Rotary Club of Makati and a board member of the Cardinal Medical Charities Foundation, Inc.

Christopher A. Bell-Knight, Canadian, was elected to the Board of Directors of BDO Unibank, Inc. on July 27, 2013. Until his election as Director, Mr. Bell-Knight had been acting as Advisor to the Board of BDO Unibank for more than two years. He had also previously served as Director of BDO Unibank from May 2005 until September 2010. He was an Independent Director of Dumaguete City Development Bank Philippines from March 2007 to March 2013, and concurrently serves as an Advisor to the Board. He was formerly a Director of Solidbank Corp. and Vice President and Country Head of the Bank of Nova Scotia. He has had over 40 years of banking experience in England, Canada, and Asia of which thirty-five (35) years were spent in credit and marketing. Mr. Bell-Knight is an Associate of the Chartered Institute of Bankers – British, an Associate of the Institute of Canadian Bankers, and a Fellow of the Institute of Corporate Directors.

Jose F. Buenaventura, Filipino, was elected Independent Director of BDO Unibank on April 19, 2013. Since 1976, he has been a Senior Partner of the Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Offices. He is President and Director of Consolidated Coconut Corporation and Director and Corporate

Secretary of 2B3C Foundation, Inc. and Peter Paul Philippines Corporation. He sits on the Boards of Directors of the following companies: BDO Securities Corporation (Independent Director), Eximious Holdings, Inc., Cebu Air, Inc. , GROW, Inc., GROW Holdings, Inc., Hicap Properties Corporation, Himap Properties Corporation, La Concha Land Investments Corporation, Philippine First Insurance Co., Inc., PhilPlans First, Inc., Techzone Philippines, Inc., Total Consolidated Asset Management, Inc., and Turner Entertainment Manila, Inc.

Jones M. Castro, Jr., Filipino and American, has been an Independent Director of the Bank since April 20, 2012. Mr. Castro has 45 years of banking expertise, with 39 years of international banking experience. From 2009 to 2011, Mr. Castro was the Area Head for South and Southeast Asia of the Wells Fargo Bank, San Francisco. As Area Head, Mr. Castro managed 12 countries, 11 overseas offices, 102 team members and US$3 billion in loans. From 2006 to 2009, Mr. Castro was Regional Head for Latin America, including the Caribbean, of Wachovia Bank, Miami, and managed 25 countries, three overseas offices, 30 team members and a US$1.8 billion loan portfolio. From 2005 to 2006, he was Executive Vice President and International Banking Group Head of the Union Bank of California, San Francisco. From 1990 to 1994, he was Senior Vice President – Controller of Bank of California, San Francisco, and from 1994 to 1997, he was its Senior Vice President of Strategic Planning. Mr. Castro is currently Executive Vice Chairman and Trustee of PhilDev USA and PhilDev S & T, Director of AI Wave Computing, Inc., Adviser of Wave Computing, Inc., and is a Fellow at the Institute of Corporate Directors.

Vicente S. Perez, Jr., Filipino, was elected Independent Director of the Bank on April 22, 2019. He is currently an Independent Director of BDO leasing and Finance, Inc. (BDOLF). He was elected to the Board of Directors of BDOLF on April 7, 2017. He is an independent Director of BDO Capital & Investment Corporation and DoubleDragon Properties Corp. He is also a Non-Executive Director of Singapore technologies Telemedia Pte, Ltd. and STT Communications Ltd. Mr Perez is currently the Chairman of Alternergy and SolarPacific, Philippine renewable power companies in wind, hydro and solar. He was Philippine Energy Secretary from 2001 to 2005. Mr. Perez briefly served in early 2001 as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments. He was Vice Chairman of the National Renewable Energy Board. He is a member of the advisory boards of Bhutan Foundation, the Yale Center for Business & Environment, Geneva-based Pictet Clean Energy Fund, and bio-energy company Roxas Holdings, Inc. Mr Perez is Chairman of the National Advisory Council of WWF-Philippines, a Trustee of WWF-China and a board member of WWF – US.he was a 2005 World Fellow at Yale University where he lectured an MBA class on renewable power at the Yale School of Management.

Dioscoro I. Ramos, Filipino, was elected to the Board of Directors of the Bank in January 2016. Since 2011, Mr. Ramos has been the Chief Investment Officer of RY& S Investments Ltd., Hong Kong. A CPA, he was Head of Asia Financials Investment Research of Goldman Sachs Asia, LLC, Hong Kong from 1994 to 2011 and appointed Managing Director in 1998 and Partner in 2006. Prior to this, he was with Mellon Bank, N.A. with postings in Pittsburgh, Philadelphia, New York, and Hong Kong.

Josefina N. Tan, Filipino, was Director of Banco de Oro Universal Bank (now BDO Unibank, Inc.) from February 3, 2001 to August 2005. She then became a Director of Equitable PCI Bank, Inc. from September 2005 until its merger with BDO Unibank in May 2007. Ms. Tan was re-elected to the Board of Directors of BDO Unibank on July 27, 2007. Concurrently, she is Board Adviser of BDO Private Bank, Inc. She is also the Chairperson of the Board of Miriam College and a Trustee of the Development Center for Finance and the Laura Vicuña Foundation. She served as President and Director of BDO Private Bank, Inc. from August 29, 2003 to April 17, 2017. She was also Executive Vice President of the former Far East Bank & Trust Co.; Director and President of FEB Leasing & Finance Corp.; Executive Director and Trustee of FEB Foundation, Inc.; and Executive Vice President of FEB Investments, Inc. until 2000.

Gilberto C. Teodoro, Jr., Filipino, was elected Independent Director of BDO on April 25, 2014. He is the Chairman of Sagittarius Mines, Inc. and Indophil Resources Philippines, Inc. He was formerly Chairman of Suricon Resources Corporation and PNP Foundation, Inc. He is also a member of the Board of Directors of Philippine Geothermal Production Company, Inc., Alphaland Corporation, and Canlubang Sugar Estate. He served as Secretary of National Defense from 2007 to 2009 and was a member of the Philippine House of Representatives from 1998 to 2007. He continues to advise the public sector agencies and is currently the Chairman of the Philippine Air Force Multi-Sectoral Governance Council and sits in a similar one of the Philippine Navy. He is a recipient of the Philippine Legion of Honor with t he rank of Grand Commander. He is well-trained in litigation and was involved in a wide range of issues -- constitutional, corporate, criminal, civil, and administrative -- and in pro-bono work to assist various indigent litigants from 1990 to 1997. He placed first in the Philippine Bar Examinations of 1989 and was admitted to the State Bar of New York.

The following table shows the shareholdings of each current Director in the Bank as of June 30, 2019.

Name	No. of Shares	% of Total Shares
Teresita T. Sy	394,947	0.01%
Jesus A. Jacinto, Jr.	35,502	0.00%
Nestor V. Tan	11,871,794	0.27%
Christopher A. Bell-Knight	123	0.00%
George T. Barcelon (Independent Director)	1,001	0.00%
Jose F. Buenaventura (Independent Director)	1	0.00%
Jones M. Castro, Jr. (Independent Director)	1	0.00%
Vicente S. Perez, Jr. (Independent Director)	5,000	0.00%
Dioscoro I. Ramos (Independent Director)	181,880	0.00%
Josefina N. Tan	596,458	0.01%
Gilberto C. Teodoro, Jr. (Independent Director)	1	0.00%

The aggregate compensation paid by the Bank to its Directors for the years ended December 31, 2016, 2017, 2018 and for the six months ended June 30, 2019 were ₱31.5 million, ₱33.8 million, ₱31.9 million and ₱20.9 million, respectively.

Loans from the Bank to Directors was nil as of December 31, 2016, 2017, 2018 and June 30, 2019. All loans to Directors are made on arm's length commercial terms.

SENIOR MANAGEMENT

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Bank. They are responsible for the implementation of the policies set by the Board of Directors. The following is a list of the Bank's key officers:

Name	Position
Nestor V. Tan	President, CEO and Director
Walter C. Wassmer	Head, Institutional Banking Group
Rolando C. Tanchanco	Head, Consumer Lending Group
Jaime C. Yu	Head, Branch Banking Group
Joseph Albert L. Gotuaco	Head, Central Operations Group
Dalmacio D. Martin	Treasurer
Roberto E. Lapid.	President, BDO Leasing and Finance, Inc.
Eduardo V. Francisco	President, BDO Capital & Investment Corporation
Rafael G. Ayuste	Head, Trust and Investments Group
Albert S. Yeo	President, BDO Private Bank, Inc.
Maria Ophelia L. Camina	Director and Treasurer, BDO Nomura Securities, Inc.
Maria Cecilia G. Fonacier	Head, Marketing Communications Group
Alvin C. Go	Head, Legal Services Group
Edwin Romualdo G. Reyes	Head, Transaction Banking Group
Maria Theresa L. Tan	General Manager, BDO Insurance Brokers, Inc.
Renato A. Vergel de Dios	President and CEO, BDO Life Assurance Company, Inc.

Name	Position
Jesus Antonio S. Itchon……………………....	President, One Network Bank (A Rural Bank of BDO)
Frederic Mark S. Gomez…………………….	Head, Information Technology Group
Myla R. Untalan………………………………	Head, Digital Infrastructure Services Group
Evelyn L. Villanueva	Head, Risk Management Group
Luis S. Reyes, Jr.	Head, Investor Relations and Corporate Planning
Estrellita V. Ong	Head, Internal Audit Group
Federico P. Tancongco	Chief Compliance Officer
Lucy Co Dy	Comptroller
Evelyn C. Salagubang	Head of Recruitment, Human Resources Group
Grace C. Palomar……………………………..	Head of Training and Organization Development, Human Resources Group
Sixto S. Gaddi………………………………..	Head of Workforce Management and Services, Human Resources Group

INVOLVEMENT IN LEGAL PROCEEDINGS

The Bank is not aware of any of the following events having occurred during the past five years up to the date of this Offering Circular that are material to an evaluation of the ability or integrity of any Director, nominee for election as Director, Senior Management, underwriter or controlling person of the Bank:

(a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(b) any conviction by final judgment, including the nature of the offence, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(c) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;

(d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated; and

(e) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

CORPORATE GOVERNANCE

As part of its increasing focus on corporate governance, the Bank established a number of Board committees.

The Executive Committee. The Executive Committee acts on behalf of the Board as the main approving body for Bank exposures, particularly for the approval/confirmation of credit proposals, investments and disposal of acquired assets and other projects or initiatives to enhance the Bank's operating and service delivery capabilities.. It meets at least once a week. The committee is chaired by Teresita T. Sy. Its other members are Nestor V. Tan, Jesus A. Jacinto, Jr., Josefina N. Tan, Antonio N. Cotoco, Guia C. Lim and Edmundo S. Soriano.

Board Audit Committee. The Audit Committee provides oversight of the internal and external audit functions. It is vested by the Board with the following authority: a) Review and approve the audit scope and frequency, and the annual internal audit plan; b) Provide oversight on the Internal Audit Department and appointment of the Chief Internal Auditor as well as the Bank's independent external auditor, the terms and conditions of its engagement and removal of which only the independent and nonexecutive directors should decide; c) Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system, including financial, operational and compliance controls and risk management annually; d) Receive and review reports of internal and external auditors, the Chief Compliance Officer, and regulatory agencies, where applicable, and shall address all issues and concerns from auditors expeditiously and effectively by ensuring that management is taking appropriate corrective actions in a timely manner and take appropriate corrective actions in addressing control and compliance issues with regulatory agencies; e) Review the Bank's quarterly, semi-annual, and annual financial statements before submission to the Board and ensure that no revisions to the Bank's financial statements are implemented for reasons other than mandated changes in accounting practices; f) Review and update the Audit Committee Charter at least annually, investigate any matter within its term of reference and provide mechanisms for reporting of improprieties and malpractices, independent investigation, follow-up action and subsequent resolution of complaints; g) Ensure that the internal auditors shall have free and full access to all the company's records, properties and personnel relevant to the internal audit activity. The internal audit activity shall be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results. The committee is chaired by Jose F. Buenaventura. Its other members are Jones M. Castro, Jr. and Vicente S. Perez, Jr. with Corazon S. de la Paz-Bernardo, Christopher A. Bell-Knight and Jesus A. Jacinto, Jr. as advisors.

Compensation Committee. The Compensation Committee provides oversight on directors' compensation and remuneration of senior management consistent with the Bank's culture and strategy, effectively aligned with prudent risk taking and commensurate with corporate and individual performance. It also ensures consistency of the compensation policies and practices across the Group. It meets at least once annually. The committee is chaired by Gilberto C. Teodoro, Jr.. Its other members are Jesus A. Jacinto, Jr., Josefina N. Tan and Teresita T. Sy.

Corporate Governance Committee. The Corporate Governance Committee is primarily tasked to assist the Board in formulating the policies and overseeing the implementation of the corporate governance practices of the Bank and its subsidiaries and affiliates. Annually, it conducts the performance self-evaluation of the Board of Directors, its committees, executive management and peer evaluation of directors using the Revised Board of Directors and Peer Evaluation Survey forms. It also oversees the implementation of the Directors Orientation and Continuing Education Policy. The committee is chaired by Gilberto C. Teodoro, Jr. Its other members are Jones M. Castro, Jr. and Vicente S. Perez, Jr..

Nominations Committee. The Nomination Committee leads the process for identifying and makes recommendations to the Board on, candidates for appointment as Directors of the bank as well as those other positions requiring appointment by the Board of Directors, giving full consideration to succession planning and the leadership needs of the Group. In particular, this process includes the profiling of the skills and competencies of the currently serving directors, the gaps in skills and competencies identified and the search for candidates who are aligned with the Bank's directions to fill the gaps. It also makes recommendations to the Board on the composition and chairmanship of the various committees. It keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and makes recommendations to the Board with regard to any changes. The committee is chaired by Vicente S. Perez, Jr. Its other members are Jose F. Buenaventura and Gilberto C. Teodoro, Jr.

Risk Management Committee. The Risk Management Committee is responsible for the development of the Bank's risk policies, defines the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses when they occur. It oversees the implementation and review of the risk management plan on an integrated enterprise-wide basis, system of limits of management's discretionary authority delegated by the Board and takes immediate corrective actions when breached. It is also responsible for reassessing the continued relevance, comprehensiveness and effectiveness of the risk management plan, and revises it when needed. The committee is chaired by Jones M. Castro, Jr., with Nestor V. Tan and Dioscoro I. Ramos as members and Christopher A. Bell-Knight as advisor.

Trust Committee. The Trust Committee reviews and approves transactions between trust and/or fiduciary accounts, to accept and close trust and other fiduciary accounts, and to approve the investment, reinvestment and disposition of funds or property. It evaluates trust and other fiduciary accounts at least once a year. In addition, it also reviews the Trust and Investment Group's overall performance, profile of funds and accountabilities under its management, industry position, and the risk management reports. It also approves offering of new products and services, establishment and renewal of lines and limits with financial institutions, and investment outlets and counterparties. The committee is chaired by Dioscoro I. Ramos. Its other members are Christopher A. Bell-Knight, Josefina N. Tan, Nestor V. Tan and Rafael G. Ayuste, Jr.

Information Technology (IT) Steering Committee. The IT Steering Committee provides oversight and governance over the Bank's IT functions including approvals of information technology-related policies and practices of the Bank and applicable guidelines. It informs the Board of both internal and external IT-related developments and activities, potential challenges and risks, progress versus strategic objectives and major IT projects. It approves and endorses to the Board IT-related best practices, strategic plans, policies and procedures. The committee is chaired by George T. Barcelon. Its other members are, Nestor V. Tan and Frederic Mark S. Gomez.

Related Party Transactions Committee. The Related Party Transactions Committee assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Bank and its stakeholders. It ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote on the Annual Stockholders' meeting the Bank's significant transactions with related parties. The committee is chaired by George T. Barcelon. Its other members are Jones M. Castro, Jr. and Jose F. Buenaventura, with Jesus A. Jacinto, Jr. as advisor.

In 2015, the Bank was among the recipients of the inaugural ASEAN Corporate Governance Awards Top 50 ASEAN Publicly Listed Companies, a recognition given to companies that seriously upholds good corporate governance. Corporate Governance Asia also recognized and included the Bank in its list of Asia's Best CSR, Best Investor Relations Company and Best Environmental Responsibility in its 6th Asian Excellence Awards held in June 2016.

PRINCIPAL SHAREHOLDERS

There has been no material change regarding control of the Bank and its relationsfhip with the SM Group since December 31, 2018, the date of its last audited financial statements. The following table shows the principal shareholders of the Bank, holding at least 5% of the outstanding common shares, as shown in the Bank's share register as at June 30, 2019:

Name of Shareholder	No. of Shares	% of Total Shares
SM Investments Corporation	1,750,930,649	40.00%
Multi-Realty Development Corporation	291,513,036	6.66%
Sybase Equity Investments Corporation	240,010,292	5.48%
TOTAL PRINCIPAL SHAREHOLDERS	**2,282,453,977**	**52.14%**

Other than as specified above, the Bank is not aware of any other person or group of persons, directly or indirectly, with interests of 5% or more of the issued capital stock of the Bank.

The following table contains a summary of the effective holdings of the SM Group as at June 30, 2019:

Name of Shareholder	No. of Shares	% of Total Shares
SM Investments Corporation	1,750,930,649	40.00%
Multi-Realty Development Corporation	291,513,036	6.66%
Sybase Equity Investments Corporation	240,010,292	5.48%
SM Prime Holdings, Inc. (formerly SM Land)	90,024,395	2.06%
Sub-total SM Group corporations	**2,372,478,372**	**54.20%**
Sub-total Sy family members	**1,987,581**	**0.05%**
Other Affiliated Entities	**9,855,661**	**0.23%**
TOTAL SM GROUP	**2,384,321,614**	**54.47%**

PHILIPPINE TAXATION

Following is a general description of certain Philippine tax aspects of investment by prospective CD Holders. This discussion is based upon Philippine tax laws, in particular the Tax Code, its implementing regulations and rulings in effect at the date of this Offering Circular. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to the prospective CD Holders.

The tax treatment of a prospective CD Holder may vary depending on such CD Holder's particular situation and certain prospective CD Holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a prospective CD Holder.

This general description does not purport to be a comprehensive description of the Philippine tax aspects of investment in the BDO Series 2019-2 CDs and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing the BDO Series 2019-2 CDs under applicable tax laws of other jurisdictions and the specific tax consequence in light of particular situations of acquiring, owning, holding and disposing the BDO Series 2019-2 CDs in such other jurisdictions.

EACH PROSPECTIVE CD HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH CD HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE BDO SERIES 2019-2 CDs, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic while the term "domestic" when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

TAXATION OF INTEREST INCOME

The BDO Series 2019-2 CDs will be, under current interpretation of the Tax Code, treated as a long-term investment, in particular, as a deposit substitute instrument. Interest income thus earned by the CD Holders shall be taxed as described in the following sections.

Interest income earned by individuals

As a general rule, interest income from deposit substitutes earned by individual citizens of the Philippines, resident aliens and non-resident aliens engaged in trade or business in the Philippines is subject to a final withholding tax at the rate of 20%. The Tax Code and recent BIR issuances, however, provide that long-term deposits or investment certificates earned by the abovementioned individuals are exempt from the 20% final withholding tax where the following requirements are complied with. Specifically, the long-term deposit or investment –

(1) Must be issued to individual citizens (resident or non-resident), resident aliens, or non-resident aliens engaged in trade or business within the Philippines;

(2) Must be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank;

(3) Must be in the form of savings, common or individual trust fund, deposit substitutes, investment management accounts or other forms which must be prescribed by the BSP;

(4) Must be issued by banks only (not by non-bank financial intermediaries and finance companies);

(5) Must have a maturity of not less than five years;

(6) Must be in denominations of ₱10,000 or other denominations as may be prescribed by the

BSP; and

(7) Should not be pre-terminated by the original investor thereof before the fifth year.

The exemption of interest income from long-term investments by the aforementioned individuals is dependent on full compliance with the above requisites, otherwise a final tax of 20% shall be imposed or, if the investment is pre-terminated before maturity, a final tax shall be imposed on the entire income already earned by the holder of the long-term investment at the following rates, on the basis of the holding period of the instrument:

Four years to less than five years – 5%

Three years to less than four years – 12%

Less than three years – 20%

Accordingly, CD Holders who are individual citizens, resident aliens and non-resident aliens engaged in trade and business in the Philippines and who shall hold on to the BDO Series 2019-2 CDs for at least five years shall be exempt from the 20% final withholding tax. Under BIR Revenue Regulations No. 14-2012, transfers or assignments of long-term deposits or investment certificates, such as the BDO Series 2019-2 CDs by the aforesaid individual holders, are considered pre-termination solely for tax purposes. Accordingly, a final tax shall be due on the interest income already earned by the transferor CD Holder (depending on the holding period of such BDO Series 2019-2 CDs), which shall be borne by the CD Holder.

Interest income received by non-resident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25%. However, such tax rate may be reduced under an applicable tax treaty.

Except those specifically exempted by law or regulation, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

Interest income earned by corporations

Under the present interpretation of the applicable tax laws, instruments similar to or such as the BDO Series 2019-2 CDs will be treated as deposit substitutes as such term is defined under the Tax Code. Accordingly, interest income earned by domestic and resident foreign corporations from the BDO Series 2019-2 CDs shall be subject to a final withholding tax of 20% of such interest income.

On the other hand, interest income received by a non-resident foreign corporation shall generally be subject to 30% final withholding tax effective 1 January 2009. This rate may also be reduced under an applicable tax treaty.

Interest income earned by trusts

A trust is generally taxed in the same way as an individual pursuant to the Tax Code which provides that the tax imposed upon individuals shall apply to the income of any kind of property held in trust (except qualifying employee's trust considered tax-exempt). Accordingly, since trusts are, for tax purposes, treated as an individual, interest income earned by trusts may be exempt from the 20% final withholding tax if the conditions on tax exemption of long-term investments discussed above are complied with.

The above rule applies, however, only where the trust is irrevocable. In the case of revocable trusts, interest income from investments made by revocable trusts may be exempt from the 20% final withholding tax only upon satisfaction of the following conditions:

(1) The grantor / trustor is an individual;

(2) The instrument in which the revocable trust invests in qualifies as a long-term deposit or investment certificate; and

(3) The conditions for tax exemption of interest income from long-term investments discussed above are complied with.

Revenue Memorandum Circular No. 7-2015 reiterates the tax treatment of interest income derived from Long-Term Deposit or Investment Certificates as described in Revenue Regulations No. 14-2012 and clarified in Revenue Memorandum Circular Nos. 77-2012 and 81-2012. For interest income derived by individuals investing in common or individual trust funds or investment management accounts to be exempt from income tax, the following additional characteristics/conditions must all be present:

(1) The investment of the individual investor in the common or individual trust fund or investment management account must be held/managed by the bank for at least five (5) years. The term “bank” refers to banks duly licensed as such by the BSP;

(2) The underlying investments of the common or individual trust account or investment management accounts must comply with the requirements of Section 22(FF) of the Tax Code, as well as the requirements above; and

(3) The common or individual trust or investment management account must hold on to such underlying investment for at least five (5) years.

The BIR has also issued Revenue Memorandum Circular No. 8-2014 (RMC 8-2014) which applies to exemptions from withholding tax in general. Under BIR RMC 8-2014, taxpayers claiming exemption from withholding taxes shall be required by the concerned withholding agent to submit a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of related income. If the taxpayer fails to submit the said proof of tax exemption, he or she shall be subjected to the payment of appropriate withholding taxes due on the transaction.

While the income from the BDO Series 2019-2 CDs may be considered tax exempt under BIR Revenue Regulation No. 14-2012 (RR 14-2012) (although no categorical ruling has been issued by the BIR to this effect), there is no assurance that the BIR will not issue clarificatory regulations making RMC 8-2014 applicable to long term deposit or investment certificates. In such an event, it may be difficult for qualified individual CD Holders to avail of the tax-exempt nature of the BDO Series 2019-2 CDs in accordance with RR 14-2012. In such an event, the Bank may be compelled to apply the prescribed rates of withholding tax and proceed withhold the necessary tax due on the BDO Series 2019-2 CDs based on current BSP rules.

Tax-exempt persons

All sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission to the Registrar by the CD Holder claiming the exemption of reasonable evidence of such exemption to the Registrar.

DOCUMENTARY STAMP TAXES

The Tax Code imposes a documentary stamp tax on all bonds, loan agreements and promissory notes at the rate of ₱1.50 on every ₱200, or fractional part thereof, of the face value of such securities. The Bank has undertaken to pay the documentary stamp tax on the issuance of the BDO Series 2019-2 CDs.

There is currently no documentary stamp tax due on a subsequent sale or disposition of the BDO Series 2019-2 CDs.

TAXATION ON GAINS OR LOSSES UPON THE SALE OR OTHER DISPOSITION OF THE BDO SERIES 2019-2 CDS

A CD Holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of the BDO Series 2019-2 CDs in an amount equal to the difference between the amount realized from such disposition and such CD Holder’s base cost in the LTNCD. Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) will not be subject to income tax. Since the BDO Series 2019-2 CDs have a maturity of more than five years from the date of issuance, any gain realized by a CD Holder from the sale of the BDO Series 2019-2 CDs will not be subject to Philippine income tax.

VALUE-ADDED TAX AND GROSS RECEIPTS TAX

At issuance, no Value-Added Tax (“VAT”) shall be imposable upon the BDO Series 2019-2 CDs. Subsequent transfers shall similarly be free of VAT, unless the CD Holder is a dealer in securities. In that instance, the CD Holder shall be liable to pay 12% VAT on the gross income derived from the trading of the BDO Series 2019-2 CDs.

Under Republic Act No. 9238, services rendered in the Philippines by, among others, banks, non-bank financial intermediaries, quasi-banks, finance companies, and other financial intermediaries not performing quasi-banking functions (excluding insurance companies) are exempted from the coverage of the VAT. The exemption, which took effect retroactively on 1 January 2004, reverts to the application of the gross receipts tax ("GRT") regime on services rendered by banks, non-bank financial intermediaries, quasi-banks, finance companies, and other financial intermediaries not performing quasi-banking functions (excluding insurance companies). Rates of GRT shall be as follows:

(1) Banks and Non-Bank Financial Intermediaries Performing Quasi-Banking Functions:

(a) On interest, commission and discounts from lending activities as well as income from financial leasing, on the basis of the remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less – 5%

Maturity period is more than five years – 1%

(b) On dividends and equity shares in net income of subsidiaries – 0%

(c) On royalties, rentals of real or personal property, profits from exchange and all other items treated as gross income under the Tax Code – 7%

(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments – 7%

(2) Other Non-Bank Financial Intermediaries:

(a) On interest, commission, discounts and all other items treated as gross income under the Tax Code – 5%

(b) On interest, commission and discounts from lending activities as well as income from financial leasing, on the basis of the remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less – 5%

Maturity period is more than five years – 1%

ESTATE AND DONOR'S TAX

The transfer of the BDO Series 2019-2 CDs by a decedent to his heirs, whether or not such decedent was residing in the Philippines, will be subject to an estate tax which is levied on the net estate of the deceased at the flat rate of 6% based on the value of the net estate.

CD Holders, whether or not citizens or residents of the Philippines, will be subject to donor's tax upon the donation of the BDO Series 2019-2 CDs at a flat rate of 6% of the net gifts, if the net gifts made during the calendar year exceed ₱250,000.

The estate tax, as well as the donor's tax in respect of the BDO Series 2019-2 CDs, shall not be collected if: (a) the deceased at the time of his death or donation was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

TAXATION OUTSIDE THE PHILIPPINES

The tax treatment of non-resident CD Holders in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Offering Circular does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines

PHILIPPINE BANKING INDUSTRY

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks and cooperative banks.

Based on BSP data as of June 30, 2019, the commercial banking sector, comprising universal and commercial banks, consisted of 46 banks, of which 21 were universal banks and 25 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 25 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 18 were branches of foreign banks.

Commercial banks are organized primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, receive deposits, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly-listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with capital loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for small and medium-sized enterprises and individuals. As at June 30, 2019, there were 51 thrift banks.

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As at June 30, 2019, there were 457 rural and cooperative banks.

Specialized government banks are organized to serve a particular purpose. The existing specialized banks are the Development Bank of the Philippines (“DBP”), Land Bank of the Philippines (“LBP”), and Al-Amanah Islamic Investment Bank of the Philippines (“AAIIB”). DBP was organized primarily to provide banking services catering to the medium- and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small- and medium-sized enterprises. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends – the liberalization of the industry, and mergers and consolidation.

Foreign bank entry was liberalized in 1994, by virtue of RA 7721 (An Act Liberalizing The Entry And Scope of Operations of Foreign Banks in the Philippines and for Other Purposes), allowing foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority.

In 2014, Republic Act No. 10641 (An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose RA 7721) was enacted, granting power to the Monetary Board to authorize foreign banks to acquire up to 100% of the voting stock of one domestic bank. Any foreign bank which invested up to 60% of the voting stock of a domestic bank prior to the effectivity of RA 10641, may further acquire voting shares in such domestic bank to the extent necessary for it to own 100% of the voting stock thereof.

Pursuant to RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system though any one of the following modes of entry: (a) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. The BSP has since offered various incentives to merging or consolidating banks, the most recent of which is Memorandum No. M-2016-023 dated 21 December 2016. Based on BSP data, since the first package of incentives took effect in September 1998, there have been at least 49 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies show that they were not enough to pose a threat to the overall competition levels in the industry since market share is still well dispersed among the remaining players.

The following table sets out a comparison, based on consolidated quarterly reports filed with the Philippine SEC, of the five leading private domestic commercial banks in the Philippines as at June 30, 2019:

Name	Market Capitalization[1]	Total Capital[2]	Total Resources[2]	Loans and Receivables-net[2]	Customer deposits[2]	No. of Branches[3]
			(in ₱ millions)			
BDO Unibank, Inc.	612,813	350,836	3,065,286	2,119,920	2,399,558	1,362
Metropolitan Bank & Trust Co.	283,576	305,189	2,278,162	1,446,905	1,623,554	957
Bank of the Philippine Islands	353,795	263,142	2,134,745	1,383,066	1,658,450	1,092
Philippine National Bank	61,520	136,003	1,087,424	658,479	775,120	712
China Banking Corp.	73,728	90,416	908,221	538,187	750,137	621

Notes:
1 Market Capitalization as at June 28, 2019.
2 Financial data taken from each bank's respective financial statements as at 30 June 2019. Includes interests in subsidiaries and allied undertakings.
3 Number of branches was provided by each of the respective banks as at 30 June 2019.

According to a quarterly Senior Bank Loan Officers' Survey conducted by BSP, local banks implemented stricter credit standards on commercial real estate loans in the first quarter of 2019. The net tightening of overall credit standards for commercial real estate loans was attributed by the banks to stricter oversight of banks' real estate exposure along with banks' reduced tolerance for risk. In particular, banks reported wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, shortened loan maturities, and increased use of interest rate floors.[1]

The BSP issued Circular No. 839 Series of 2014 dated 27 June 2014 which adopts a prudential real estate stress test (REST) limit for U/KBs, TBs on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST limits which shall be complied with at all times by UBs/KBs are 6% of Common Equity Tier 1 (CET1) capital ratio and 10% of risk based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For TBs, the prudential REST limits which shall be complied with at all times are 6% of CET1 capital, for TBs that are subsidiaries of UBs/KBs, 6% of Tier 1 capital, for stand-alone TBs, and 10% of risk-based capital adequacy ratio for all TBs.

On 29 October 2014, the BSP issued Circular No. 854 which increased the minimum capital requirement for all bank categories, namely, universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

Bank Category/Network Size	Existing Minimum Capitalization	Reviewed Minimum Capitalization
Universal Banks	₱ 4.95 billion**	
Head Office only		₱ 3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
Commercial Banks	2.40 billion**	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion
Thrift Banks		
Head Office in:		
Metro Manila	1.00 billion**	
Cebu and Davao cities	500 million**	
Other Areas	250 million**	
Head Office in the National Capital Region (NCR)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
Rural and Cooperative Banks		
Head Office in:		
Metro Manila	100 million**	
Cebu and Davao cities	50 million**	

[1] http://www.bsp.gov.ph/publications/media.asp?id=5006&yr=2019

Bank Category/Network Size	Existing Minimum Capitalization	Reviewed Minimum Capitalization
Other cities	25 million**	
1st to 4th class municipalities	10 million**	
5th to 6th class municipalities	5 million**	
Head Office in NCR		
Head Office only		50 million
Up to 10 branches*		75 million
11 to 50 branches*		100 million
More than 50 branches*		200 million
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		
Head Office only		20 million
Up to 10 branches*		30 million
11 to 50 branches*		40 million
More than 50 branches*		80 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		
Head Office only		10 million
Up to 10 branches*		15 million
11 to 50 branches*		20 million
More than 50 branches*		40 million

* Inclusive of Head Office
** With no distinction for network size

BANKING REGULATION AND SUPERVISION

The following description is a summary of certain sector specific laws and regulations in the Philippines which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations may not be exhaustive, and are intended to provide a general background and information to the investors, and are not intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

General

The New Central Banking Act of 1993 (Republic Act No. 7653) and the General Banking Law of 2000 (Republic Act No. 8791) vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board of the BSP.

The MORB is the principal source of rules and regulations that must be complied with by banks in the Philippines. The MORB contains regulations applicable to universal banks, commercial banks, thrift banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organization, management and administration, deposit and borrowing operations, loans, treasury and money market operations, and trust and other fiduciary functions. Supplementing the Manual are rules and regulations disseminated through various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The MORB and other Regulations are principally implemented by the Supervision and Examination Sector (the "SES") of the BSP. The SES is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government banks and their subsidiaries and affiliates, non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under the Savings and Loan Association Act (Republic Act No. 3779), and pawnshops under the Pawnshop Regulation Act (Presidential Decree No. 114).

PERMITTED ACTIVITIES

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100.0% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100.0% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorized by the General Banking Law and the MORB, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business. Financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings (applicable only to universal banks), or both.

Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage/securities dealership and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank. Net worth is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP.

REGULATIONS

The MORB and various BSP regulations impose the following restrictions on commercial, universal and savings banks.

Minimum Capitalization

Under BSP Circular No. 854 dated 29 October 2014, universal banks with more than 100 branches, such as the Bank, are required to have capital accounts of at least ₱20.0 billion. Commercial banks with more than 100 branches are required to have capital accounts of at least ₱15.0 billion, while thrift banks with a head office in Metro Manila and with more than 50 branches are required to have capital accounts of at least ₱2.0 billion. These minimum levels of capitalization may be changed by the Monetary Board of the BSP from time to time.

For the purposes of these requirements, the MORB provides that capital shall be the combined capital accounts or net worth and shall refer to the combined total of the unimpaired paid-in capital, surplus (including paid-in surplus), and undivided profits, net of: (a) such unbooked valuation reserves and other capital adjustments as may be required by the BSP; (b) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank; (c) total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries; (d) total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the BSP; (e) deferred income tax; (f) appraisal increment reserve (revaluation reserve) as a result of appreciation or increase in the book value of bank assets; (g) equity investment of a bank in another bank or enterprise (foreign or domestic) if the other bank or enterprise has a reciprocal equity investment in the investing bank, in which case, the investment of the bank or the reciprocal investment of the other bank or enterprise, whichever is lower; and (h) in the case of rural banks, the Government counterpart equity, except those arising from conversion of arrears under the BSP rehabilitation programme.

Capital Adequacy Requirements

Basel II (the Revised International Convergence of Capital Measurement and Capital Standards) was issued on 26 June 2004 by the Basel Committee on Banking Supervision, an international committee of banking supervisory authorities, to replace Basel I, which was issued in 1988 and amended in 1996. On 2 June 2006, the Monetary Board of the BSP approved the guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II, for implementation on 1 July 2007. On 16 December 2010 and on 13 January 2011, the Basel Committee issued its most recent guidelines on Basel III, a series of amendments to the Basel II framework.

The Basel Committee's package of reforms includes increasing the minimum common equity (or equivalent) requirement from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments). The total Tier I capital requirement will increase from 4% to 6%. In addition, banks will be required to maintain, in the form of common equity (or its equivalent), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity (or equivalent) requirement to 7%, the total Tier 1 requirement to 8.5%, and the total capital requirement (which remains unchanged at 8%, before the additional buffer) to 10.5%.

If there is excess credit growth in any given country resulting in a system-wide buildup of risk, a countercyclical buffer within a range of 0% to 2.5% of common equity (or other fully loss absorbing capital) is to be applied as an extension of the capital conservation buffer. The BSP is set to specify further capital requirements for Systemically Important Financial Institutions ("SIFI's") in due time. These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a SIFI.

The Basel III regulations also include more stringent definitions of Tier 1 capital and Tier 2 capital instruments relating to their ability to absorb losses, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.

The impact of these reforms, if implemented fully per the Basel Committee's guidance, will be to increase the minimum quantity and quality of capital which the Bank will be obliged to maintain. The reforms are expected to be implemented beginning in 1 January 2014.

To align with the international standards, the BSP has adopted the BCBS' eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 issued on 10 January 2011.

On 15 January 2013, the BSP published Circular No. 781, and on 6 December 2018, Circular 1024, which prescribed the implementing guidelines on the risk-based capital adequacy framework and the adoption of a countercyclical capital buffer, in accordance with the Basel III standards. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be not less than 10% on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 capital ratio of 6.0% and 7.5%, respectively. A capital conversion buffer of 2.5% and a countercyclical capital buffer of 0%, subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant, but not to exceed 2.5%,shall also apply. Any increase to the countercyclical buffer shall have a preannouncement period of twelve months, while any reductions on such buffer are to take effect immediately.

On 15 February 2013, BSP Circular No. 786 was issued, which prescribed risk disclosure requirements on loss absorbency features of capital instruments. Later, through BSP Memorandum No. M-2013-008, the BSP clarified that such requirements apply in relation to all prospective investors.

BSP Circular No. 826, which was passed on 14 February 2014, amended BSP Circular No. 786 by providing for separate provisions for capital instruments marketed, sold, and/or distributed in the Philippines, and capital investments issued offshore. Through the aforementioned issuances, the BSP aimed to uphold investor protection through enhanced disclosure and transparency through the following requirements imposed upon the banks/quasi-banks for Additional Tier 1 and Tier 2 capital investments issued or to be issued in the Philippines: (i) subjecting investors to a client suitability test, (ii) providing the appropriate risk disclosure statement for the issuance of the capital instruments; (iii) securing written certifications from the investors; and (iv) making these available to the BSP, as may be required. For offshore issuances of Additional Tier 1 and Tier 2 capital investments, the risk disclosure requirements will be governed by the applicable rules and regulations of the country where the instruments were issued. However, for the subsequent sale and/or distribution of Additional Tier 1 and Tier 2 capital instruments in the Philippines originally issued overseas, the risk disclosure requirements for issuance in the Philippines will apply.

On 29 October 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Bank under Basel III". Under the Circular, the BSP adopts policy measures for domestic systematically important banks ("D-SIBs"), which are essentially aligned with the documents issued by the BCBS on global systematically important banks and D-SIBs. The policy aims to reduce the probability of failure of D-SIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of D-SIBs on the domestic/real economy. This is an added effort to further strengthen the domestic financial market and to remove the possibility that publicly funded bailouts will be required in the future to save the D-SIBs from insolvency.

The categories for D-SIBs are measured in terms of the domestic bank's or financial institution's size interconnectedness, substitutability or financial institution infrastructure and its complexity. Banks that are identified as D-SIBs are required to have higher loss absorbency ("HLA"). The HLA requirement for D-SIBs is to be met with CET1 capital and is in addition to the capital conservation buffer requirement under BSP Circular No. 781, and the countercyclical capital buffer under BSP Circular No. 1024..

D-SIBs shall be initially allocated into two buckets with different level of HLA requirements ranging from 1.5% to 2.5% of risk-weighted assets, depending on their degree of systemic importance. An initial empty bucket shall be added on top of the highest-numbered populated bucket to provide incentives for banks to avoid becoming more systematically important. If the empty bucket becomes populated in the future, a new empty bucket shall be added with a required higher additional loss absorbency level which shall increase in increments of 1.0% of risk-weighted assets. Under BSP Circular No. 1024, the BSP provided for sample total CET1 capital requirements for D-SIBs when the countercyclical capital buffer at 0% and at 2.5%. It further provided for restrictions on distributions, dependent on bucket, and countercyclical capital buffer rate.

The magnitude of additional loss absorbency for the higher populated bucket (Score Range of A-B) shall be 2.5% of risk-weighted assets at all times, with the initial empty bucket (Score Range of B-C) at 3.5% of risk-weighted assets. The magnitude of additional loss absorbency for the lower bucket (Cut off point – A) shall be 1.5% of risk-weighted assets. The new regulations on D-SIBs apply on a consolidated basis to all universal and commercial banks, including branches of foreign banks established under Republic Act No. 7721. Submission of data requirements for identification of D-SIBs took effect starting with 2014 data, while compliance with the additional HLA requirements shall be phased-in from 1 January 2017 with full implementation by 1 January 2019.

On 9 June 2015, the BSP issued Circular No. 881, or the “Implementing Guidelines on the Basel III Leverage Ratio Framework.” Under the Circular, the BSP sets forth guidelines for a supplementary measure to the risk-based capital requirements in order to control the build-up of leverage in the banking sector. The Basel III leverage ratio is defined as Tier 1 Capital divided by a BSP-prescribed Exposure Measure. On both a solo and consolidated basis, this ratio should not be less than 5% for universal and commercial banks, as well as their subsidiary banks/quasi-banks. The monitoring period for the Leverage Ratio is from 31 December 2014 to 31 December 2016. On 22 January 2018, however, the BSP issued Circular No. 990, which extended the monitoring period up to 30 June 2018. By 1 July 2018, the leverage ratio became a Pillar 1 requirement.

On 10 March 2016, the BSP issued Circular No. 905, or the “Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards.” Under the circular, the BSP adopted liquidity standards consistent with the Basel III framework. Banks are now required to maintain, over a 30-calendar day horizon, an adequate level of unencumbered high quality liquid assets (HQLAs) that consist of cash or assets that can be converted into cash at little or no loss of value in private markets, to offset the net cash outflows it could encounter under a liquidity stress scenario. Banks are also required to publicly disclose information related to the Liquidity Coverage Ratio, which is the ratio of HQLAs to total net cash outflows. Mandatory compliance with these minimum requirements commenced on 1 January 2018 as well. The prescribed minimum was set at 90% for 2018, and rose to the minimum required level of 100% on 1 January 2019.

On 6 June 2018, the BSP issued Circular No. 1007, which imposed a net stable funding ratio (“NSFR”) framework on all universal and commercial banks, including their subsidiary banks and quasi-banks, on both a solo and consolidated basis. The NSFR framework seeks to limit overreliance on short-term wholesale funding and to promote enhanced assessment of funding risk across all on- and off- balance sheet accounts. Said covered entities are required to maintain an NSFR, defined as available stable funding divided by required stable funding, of at least 100% at all times. This must be reported in a single currency. Actual implementation began on 1 January 2019, pursuant to BSP Circular No. 1034 issued on 15 March 2019.

On 15 March 2019, the BSP issued Circular No. 1035, which approved among others, the extension of the observation period of the minimum Basel III Liquidity Coverage Ratio (LCR) requirement to 31 December 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (U/KBs), and the adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period. The said circular also introduced amendments to the LCR framework and amendments in the formula of the Minimum Liquidity Ratio.

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

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

As of 26 July 2019, BSP Circular No. 1041 (2019), requires universal / commercial banks (including the Bank) are required to maintain regular reserves of (a) 16% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad, effective 26 July 2019, (b) 4.0% against long-term negotiable certificate of time deposits ("LTNCDs"), (c) 0% against deposit substitutes evidenced by repo agreements, inter-bank call loans (Sec. 315), and basic deposit accounts (as defined in Sec. X222 of the MORB), and (d) 6.0% against bonds.

Liquidity reserves are no longer required pursuant to BSP Circular No. 753 issued in 2012.

Regulations on Minimum Leverage Ratio Requirement

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure). On 9 June 2015, the BSP issued Circular No. 881 on the implementing guidelines, which provide for a monitoring period up to end-2016 during which banks are required to submit periodic reports.

In January 2018, the Monetary Board approved the adoption of a minimum leverage ratio requirement for universal banks, commercial banks and their subsidiary banks and quasi-banks. Beginning on July 1, 2018, covered institutions must maintain a leverage ratio of no lower than 5%. The leverage ratio is a non-risk based measure, which serves as a backstop to the Capital Adequacy Ratio ("CAR").

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 25% of the net worth of such bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board of the BSP from time to time. Pursuant to BSP Circular No. 425 (2004), as amended by BSP Circular No. 779 (2013), the applicable ceiling is 25.0%.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower, which includes outstanding loans and other credit accommodations, deferred LCs less margin deposits, and guarantees. Except as specifically provided in the MORB, total credit commitment is determined on a credit risk-weighted basis consistent with existing regulations. Other credit accommodations refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments.

Among the items excluded from determining the loan limit are: (a) loans and other credit accommodations secured by obligations of the BSP or of the Government, (b) loans and other credit accommodations fully guaranteed by the Government as to payment of principal and interest, (c) loans and other credit accommodations secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies, (d) loans and other credit accommodations to the extent covered by hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines, (e) loans, credit accommodations and acceptances under LCs to the extent covered by margin deposits and (f) other loans or credit accommodations which the Monetary Board of the BSP may from time to time specify as non-risk items.

Trust Regulation

The MORB contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the MORB. The Bank may, under its Articles, accept and manage trust funds and properties and carry on the business of a trust corporation.

Regulations on Competition

Republic Act No. 10667 (the Philippine Competition Act) was signed into law on 21 July 2015 and took effect on 8 August 2015. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry, and all commercial economic activities. To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (the PCC), an independent quasi-judicial agency with five commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitions, and mergers and acquisitions which have the object or effect of substantially preventing, restricting, or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

On 31 May 2016, the PCC issued the implementing rules and regulations of the Philippine Competition Act (IRR). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1.0 billion; and (b) the value of the transaction exceeds ₱1.0 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1.0 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1.0 billion.

On 1 March 2018, PCC issued Memorandum Circular 18-001, which increased the Size of Transaction and Size of Party Thresholds to ₱2.0 billion and ₱5.0 billion, respectively. PCC Policy Statement No. 18-01 provides that beginning 1 March 2019, the notification thresholds will be indexed based on the official estimates of the Philippine Statistics Authority of the nominal Gross Domestic Product of the previous calendar Year. Pursuant to PCC Advisory 2019-011, the Size of Transaction and Size of Party Thresholds were increased to ₱2.2 billion and ₱5.6 billion, respectively, effective 1 March 2019.

Violations of the Philippine Competition Act and its IRR have severe consequences. Under the Philippine Competition Act and its IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1 to 5% of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50.0 million but not more than ₱250.0 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of up to ₱100.0 million for the first offense and not less than ₱100.0 million but not more than ₱250.0 million for the second offense, may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (Rules) which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

Regulations Governing the Derivatives Activities of Banks

In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks. Furthermore, Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk weighted assets for banks that will engage in derivatives activities as end-users for hedging purposes and/or under limited-use authority.

In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives shall be subject to margin requirements pursuant to the policy framework adopted by the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in time of stress. Variation margin requirements are being phased in from 1 September 2016 to 1 March 2017 while initial margin requirements are being phased in from 1 September 2017 to 1 September 2020. As an initial step, banks and quasi-banks should make a determination of the transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements.

Foreign Currency Deposit System

A FCDU is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorized to operate an expanded FCDU. Thrift banks with a net worth or combined capital accounts of at least ₱ 325.0 million if they are located in Metro Manila, and ₱ 52.0 million if they are located outside Metro Manila, may be authorized to operate FCDUs.

In general, FCDUs of such banks may, in any acceptable foreign currency (a) accept deposits and trust accounts from residents and non-residents; (b) deposit with foreign banks abroad, offshore banking units (“OBUs”) and other FCDUs/Expanded FCDU (“EFCDUs”); (c) invest in foreign currency-denominated debt instruments; (d) grant foreign currency loans as may be allowed by the BSP; (e) borrow from other FCDUs/EFCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings; (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs; (g) engage in securities lending activities as lender, subject to conditions; (h) engage in repurchase agreements involving foreign currency denominated government securities; (i) purchase foreign currency denominated securities under resale agreements from other banks’ FCDU/EFCDU, non-resident financial institutions and OBUs; (j) issue Hybrid Tier 1 (“HT1”) capital instruments subject to the requirements under existing regulations; and (k) engage in USD-denominated repurchase agreements with the BSP. In addition to the foregoing, commercial banks and universal banks may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading; (b) on request/instruction from its foreign correspondent banks. Provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU: (i) issue LCs for a non-resident importer in favor of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the letter of credit, and (iii) make payment to the order of the non-resident exporter; (c) engage in direct purchase of export bills of resident exporters subject to conditions; and (d) invest in foreign currency denominated structured products issued by banks and special purpose vehicles (“SPVs”) of high credit quality, subject to the provisions of the MORB. FCDUs are required to maintain a 100.0% cover for their foreign currency liabilities, except for USD-denominated repurchase agreements with the BSP, and at least 30.0% of the cover requirement for foreign currency liabilities shall be in the form of liquid assets. The 100.0% asset cover and 30.0% to be held in the form of liquid assets shall be unencumbered, except as otherwise provided in the Manual of Regulations for Foreign Exchange Transactions. FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign exchange cover. In 2017, BSP Circular No. 946 was issued providing that, effective 1 January 2018, the liquid asset cover requirement for FCDU/EFCDU liabilities shall be 0% for universal and commercial banks, and 30.0% for thrift, rural, and cooperative banks.

Lending Policies, Secured and Unsecured Lending

Banks are generally required to ascertain the purpose of a proposed loan, and the proceeds of the loan are to be used for that purpose only. Under existing regulations, commercial and universal banks are generally prohibited from extending loans and other credit accommodations against real estate in an amount exceeding 60.0% of the appraised value of the real estate security, plus 60.0% of the appraisal value of the insured improvements, except for (i) residential loans in an amount not exceeding ₱ 3.5 million; (ii) housing loans extended by or guaranteed under the Government's "National Shelter Programme", which shall be allowed a maximum value of 70.0% of the appraisal value of the insured improvements; and (iii) subject to certain conditions, loans for house-building and subdivision development for low- and middle-income families and other housing loans, which shall be allowed a maximum value of 80.0% of the appraised value of the real estate security. Similarly, loans and other credit accommodations on security of chattels and intangible properties shall not exceed 75.0% of the appraisal value of the security.

On 29 October 2014, the BSP issued BSP Circular No. 855 regarding guidelines on sound credit risk management practices, including the amendment on provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. According to the BSP, "this principle-based definition creates greater flexibility in accepting a broader range of assets as possible collateral." Under the new rules, however, the maximum collateral value for real estate collateral is set at 60.0% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, "the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed" according to the BSP.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value (LTV) ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20.0% under current industry practice). Under the enhanced guidelines of the BSP, however, the bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any lending should be only for a time period essential for completion of the operations to be financed.

On 27 June 2014, the BSP issued BSP Circular No. 839 adopting a prudential real estate stress test (REST) limit for universal, commercial, and thrift banks on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines a macroprudential overlay of a severe test scenario, the principal of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Real estate exposures are those defined in Memorandum No M-2012-046 and include other real estate property of the banks such as those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale. For purposes of the circular, a stress test will be undertaken on a bank's Real Estate Exposure and other real estate property under an assumed write-off rate of 25%.

For universal and commercial banks, the prudential REST limits are 6% of Common Equity Tier 1 (CET 1) capital ratio and 10% of risk-based capital adequacy ratio, on a solo and consolidated basis under the prescribed write-off rate.

Mandatory Lending Requirements

BSP regulations currently provide that commercial banks should set aside 25.0% of loanable funds for loans to the agricultural sector in general, with 10.0% of such funds being made available exclusively to agrarian reform beneficiaries. Loanable funds are defined to include the net increase in a bank's funds from 20 April 2010 in accordance to Subsections X341.6 and X341.7of the MORB. Alternatively, banks can buy Government securities which proceeds shall be used for lending to the agriculture and agrarian reform sectors, open special deposit accounts with accredited rural financial institutions, provide rediscounting on eligible agriculture, fisheries and agrarian credits, and provide lending for construction and upgrading of infrastructure including farm-to-market roads. The BSP shall impose administrative sanctions and penalties of 0.5% of the total amount of its non-compliance and under-compliance.

Republic Act ("Rep. Act") No. 9501 provides that for a period of 10 years from 17 June 2008, all lending institutions shall set aside at least 8.0% for loans to micro and small enterprises and at least 2.0% for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter and make it available for lending to such enterprises. Investments in Government securities will not satisfy such obligation.

In addition, branches or agencies of commercial banks located within certain geographical groupings outside Metro Manila must lend at least 75.0% of total deposits, net of required reserves and total cash in vault, at such branches to businesses in their locality. This policy is deemed to be complied with if, in the relevant geographical grouping, the bank's total lending for the financing of agricultural and export industries constitutes 60.0% of its deposits. However, for the purposes of compliance with this requirement, loans granted at the head office or other offices to customers in that area may be assigned to the branch in the geographic area in which the customer is located.

With the enactment of Barangay Micro Business Enterprises ("BMBEs") Act or Rep. Act No. 9178, private banking and other financial institutions were encouraged to lend to BMBEs. Among the incentives of the law is that all loans granted to BMBEs shall be considered as part of alternative compliance to the rules on reservation of funds for the agricultural sector and small- and medium-sized enterprises.

Banks may be allowed to report compliance on a group-wide basis (i.e. on a parent-subsidiary consolidated basis), so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group, provided that the subsidiary bank(s) is at least majority-owned by the parent bank, and provided further that the parent bank shall be held responsible for the compliance of the group.

Under the Agri-Agra Reform Credit Act, or Rep. Act No. 10000, all banks are required to set aside at least 25.0% of their total loanable funds for agriculture and fisheries credit in general, of which at least ten percent (10.0%) of the loanable funds should be made available for agrarian reform beneficiaries mentioned in the law. Non-compliance is subject to administrative sanctions and penalties imposed by the BSP.

Qualifications of Directors and Officers

On 22 August 2017, BSP issued Circular No. 969, providing for revisions to guidelines in strengthening corporate governance in BSP-supervised financial institutions. The BSP, through such circular, aimed to align its existing regulations with the Code of Corporate Governance for Publicly-listed Companies issued by the SEC. Pursuant to such Circular, directors have the burden of proving that they possess all the minimum qualifications and none of the disqualifications listed in the MORB. Such director must submit proof to the BSP of his qualification. An elected director must be fit and proper for the position, taking into consideration his integrity/probity, physical/mental fitness, educational/financial literacy/training, and other competencies relevant to the job. Each director must also have attended a seminar on corporate governance, subject to certain exemptions. Members of the board of directors may not be appointed as corporate secretary or chief compliance officer of the institution.

Certain persons are permanently disqualified from acting as bank directors, including (a) persons who have been convicted by final judgment of a court for offenses involving dishonesty, such as but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, and others; (b) persons who have been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years; (c) persons who have been convicted by final judgement of the court for violation of banking laws, rules, and regulations; (d) persons who have been judicially declared insolvent, spendthrift, or incapacitated to contract; (e) directors, officers, or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board; (f) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; and (g) directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

BSP Circular No. 969 further provided for the composition of the Board of Directors. At least one-third but not less than 2 members of the Board must be independent directors, rounded up to the nearest whole number. Non-Filipino citizens are allowed to become members of the Board to the extent of the foreign participation in the equity of the institution.

Loans to DOSRI

The amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI, of which at least 70.0% must be secured, should not exceed an amount equivalent to their unencumbered deposits and book value of their paid-in capital contribution in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of the bank's combined capital accounts or 15.0% of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0% of the aggregate ceiling or of their outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit guarantees and guarantees every week.

Under BSP Circular No. 914, loans, other accommodations and guarantees granted by a bank to its DOSRI for purpose of project finance shall be exempted from the 30.0% unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential control in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

Valuation Reserves for Credit Losses Against Loans

As a general rule, banking regulations define past due accounts of a bank as referring to all accounts in a bank's loan portfolio, all receivable components of trading account securities, and other receivables that are not paid at maturity. In the case of loans or receivables payable in instalments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment	Minimum Number of Installments in Arrears
Monthly	3
Quarterly	1
Semestral	1
Annually	1

However, when the total amount of arrears reaches 20.0% of the total outstanding balance of the loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of instalments in arrears.

BSP regulations allow loans and advances to be written-off as bad debts only if it can be justified to be uncollectible. The board of directors of the bank has discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to the bank's directors, officers, stockholders and their related interests.

In accordance with BSP Circular No. 941 dated 20 January 2017, loans, investments, receivables, or any financial asset, including restructured loans, as a general rule shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSP-supervised financial institutions may provide a cure period on a credit product-specific basis, not to exceed 30 calendar days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays.

The observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness(es), and the BSP-supervised financial institutions are mandated to regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed 10 calendar days. Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies and shall incorporate well-defined criteria under which credit exposure may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies. Policies shall define and establish the reasonable period of time within which to write off loans already classified as "loss". BSP regulations allow loans and advances to be written-off as bad debts only if it can be justified to be uncollectible. The board of directors of the bank has discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to the DOSRI.

On 26 January 2003, the SPV Act came into force. The SPV Act provides the legal framework for the creation of private management companies that will acquire non-performing loans, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. Congress passed the SPV Act's implementing rules and regulations on 19 March 2003 and they came into force on 12 April 2003. On 24 April 2006, the Philippine president signed into law an amendment to the SPV Act, extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after the amended SPV Act takes effect or until 14 November 2007. The amendatory law also extended the tax exemption and fee privileges of SPVs to those transactions that occur up to 14 May 2008. The extension expired on 14 July 2008.

On 29 October 2014, the BSP issued BSP Circular No. 855 on "Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions. The Circular, which was further enhanced by Circular No. 1046 (2019), prescribes, among others, guidelines in setting up of allowance for credit losses.

Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses shall also be set up as follows: (i) 5.0% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1.0% of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws and regulations.

Restrictions on Branch Opening

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board of the BSP, to use any or all of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch should be opened within six months from the date of approval (extendible for another six-month period, upon the presentation of justification therefor). Branching policy and guidelines under the MORB were amended by BSP Circular No. 759, issued on 30 May 2012, providing, among others that banks may establish as many branches as its Qualifying Capital can support taking into account any approved but unopened branch/es outstanding at the time of application. Approved branches shall be opened within one year from the date of approval thereof, subject to extension on a case-to-case basis, but in no case to exceed three years, while approved while approved Other Banking Offices ("OBOs") shall be opened within one year from date of approval thereof, which shall not be subject to any extension. Requirements for opening of branches / OBOs were also rationalized.

Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks were allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Parañaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. Note, however, that under BSP Circular No. 728 (2011), the restrictions on establishment of branches have been fully lifted as of 1 July 2014, subject to certain requirements. BSP Circular No. 759 liberalized its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank. It permitted a bank to establish as many branches as its qualifying capital can support in accordance with existing rules. In BSP Circular No. 987 Series of 2017, the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the MORB. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Under the first phase, second-tier universal and commercial banks with capital accounts of at least ₱ 10 billion and thrift banks with capital of at least ₱ 3 billion that have less than 200 branches in restricted areas as of December 2010 were allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalization approach, which started on 1 July 2014 wherein branching in the restricted areas was opened up to all banks except rural and cooperative banks that are not allowed to establish branches in Metro Manila. Currently, in accordance with BSP Circular No. 932 (2016), as a general rule, all banks, including rural and cooperative banks, are allowed to establish branches anywhere in the Philippines, including in cities previously considered as restricted areas.

BSP Circular No. 728 provides that under the first phase, second-tier universal and commercial banks with capital accounts of at least ₱10.00 billion and thrift banks with capital of at least ₱3.00 billion that have less than 200 branches in restricted areas as of December 2010 would be allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalization approach started on 1 July 2014 wherein branching in the restricted areas will be opened up to all banks except rural and cooperative banks that are not allowed to establish branches in Metro Manila.

At present, pursuant to BSP Circular No. 932 (2016), all banks, including rural and cooperative banks, as a general rule are now allowed to establish branches anywhere in the Philippines, including in cities previously considered as restricted areas.

Branches of microfinance-orientated banks, microfinance-orientated branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under the Barangay Micro Business Enterprises Act of 2002 (R.A. No. 9178) may be established anywhere upon the fulfilment of certain conditions.

Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of the bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa (EMV) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. As of 1 January 2017, all cards issued and card-accepting devices should now be EMV-compliant. Prior to full compliance, failure on the part of the BSFI to submit and implement their EMV migration plan shall be subject to additional enforcement actions. . However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSP-supervised financial institutions are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offense and will subject these institutions to monetary sanctions provided under relevant provision of the MORB.

On 22 February 2019, the BSP issued Circular No. 1033, Series of 2019, which amended the MORB on electronic banking services and other electronic operations. The amendments mainly take into account the developments in electronic payment and financial service (EPFS).

Anti-Money Laundering Law

The AMLA was passed on 29 September 2001 and was amended on 23 March 2003. Under its provisions, as amended, certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Insurance Commission, are required to submit a “covered” transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱ 0.5 million within one banking day.

Rep. Act. 10167 has expanded the coverage of the AMLC to enable inquiries into so-called “related accounts,” defined as: “funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)." the high threshold level for covered transactions, the coverage of "covered institutions" and the existing Bank Secrecy Law, the amendments to the AMLA were signed into law on 7 March 2003 under Rep. Act No. 9194. The amendments included the following: (i) lowering the threshold for covered transactions from ₱ 4.0 million to ₱ 500,000; (ii) authorizing the BSP to inquire or examine any deposit or investment with any banking institution without court order in the course of a periodic or special It also addressed concerns such as examination; and (iii) removing the provision prohibiting the retroactivity of the law.

These institutions are also required to submit a “suspicious” transaction report if there is reasonable ground to believe that any amounts processed are the proceeds of money laundering activities.

BSP Circular No. 495 (2005) as amended by BSP Circular No. 527 (2006) requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank’s attention, transactions and/or accounts that qualify either as “covered transactions” or “suspicious transactions” as defined under the Anti-Money Laundering Act.

These transactions are reported to the AMLC created under the law within ten banking days of discovery of that transaction by the covered institution. The Court of Appeals, upon application by the AMLC, has the authority to issue freeze orders on any accounts which is suspected as being used for money laundering to be frozen. BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the Anti-Money Laundering Risk Rating System (ARRS), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient Board of Directors and senior management oversight; (b) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the Board of Directors; (c) robust internal controls and audit; and (d) effective implementation.

Institutions that are subject to the Act are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for at least five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In 2012, two amendments to the Philippines' AML regime came into effect, R.A. No. 10167 and R.A. No. 10168. R.A. No. 10167 amended Section 10 of the AMLA, which require that a petition to the Court of Appeals for an order to freeze accounts be verified. Furthermore, the Court of Appeals has to act on the petition within a period of 24 hours of filing. The affected depositor's remedy, then, is to file a motion to lift, which the Court of Appeals must resolve within the 20-day freeze period.

Section 11 of the AMLA was likewise amended. Section 11 now provides that the AMLC is authorised to examine bank accounts "upon order of any competent court based on an *ex parte* application". However, the same provision sets out additional instances when no court application is required.

Further to the above, an order to examine bank accounts receives the same treatment by the Court of Appeals as an order to freeze accounts. Now, the Court of Appeals is compelled to act on such applications within 24 hours of filing.

Also, R.A. No. 10167 has expanded the coverage of AMLC to enable inquiries into so-called "related accounts," defined as: "funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)."

R.A. No. 10168 defined the crime of financing of terrorism, in accordance with the state policy to protect life, liberty and property from acts of terrorism. The offense is committed by one who "directly or indirectly, wilfully and without lawful excuse, possesses, provides, collects, or uses property or funds or makes available property, funds or financial services or other related services, by any means, with the unlawful and wilful intention that they should be used or with the knowledge that they are to be used, in full and in part: (a) to carry out or facilitate the commission of any terrorist act; (b) by a terrorist organization, association, or group, or (c) by an individual terrorist." BSP Circular No. 950 (2017) was issued in order to effectively implement this law and the revised IRR of the AMLA that took effect on 7 January 2017. The amendments emphasized the importance of a sound money laundering/terrorism financing risk assessment in banks.

The AMLC plays a central role in the enforcement of this law as the AMLC, *motu propio* or at the request of the Anti-Terrorism Council, is authorized to investigate in order for it to ascertain that there is probable cause that the financing of terrorism is being conducted, planned or facilitated. When the AMLC is satisfied that funds are for terrorist funding, it can issue an *ex parte* order to freeze, without delay, funds which it has "determined to be related to financing of terrorism or acts of terrorism" or, where there is probable cause to believe that funds are to be used in connection with terrorist activities.

BSP Circular No. 706 dated 5 January 2012, is the Updated AML Rules and Regulations ("UARR") that was issued for the purpose of consolidating all existing BSP circulars, circular letters and other issuances related to AML. The UARR applies to all covered institutions supervised and regulated by the BSP including Banks, Offshore banking units, quasi banks, trust entities, non-stock savings and loan associations, pawnshops, foreign exchange dealers, money changers and remittance agents, electronic money issuers including their subsidiaries and affiliates wherever they may be located. In addition to the usual provisions on customer identification/KYC, covered and suspicious transaction reporting and record keeping and retention requirements that are found in the AMLA-RIRR, the UARR emphasizes the incorporation of a sound risk management system to ensure that risks associated with money laundering and terrorist financing are identified, assessed, monitored, mitigated and controlled by covered institutions. A sound risk management system includes adequate and active Board and Senior Management oversight, acceptable policies and procedures embodied in a Money Laundering and Terrorist Financing Prevention Program ("MLPP"), appropriate monitoring and Management Information System and comprehensive internal controls and audit.

UARR further provides that any violations of existing provisions thereof shall constitute a major violation that may subject the bank, its directors, officers and staff to enforcement actions such as monetary and non-monetary penalties. The enforcement actions shall may be imposed on the basis of the overall assessment of a covered institution's AML compliance system, and if found to be grossly inadequate, such may be considered as unsafe and unsound banking practice that may warrant initiation of prompt corrective action.

BSP Circular No. 495 (2005) as amended by BSP Circular No. 527 (2006) requires all universal and commercial banks to adopt an electronic or manual system of flagging, monitoring and reporting of transactions that qualify as suspicious transactions, regardless of amount or that will raise a "red flag" for purposes of conducting further verification or investigation, or transactions involving amounts below the threshold to facilitate the process of aggregating them for purposes of future reporting of such transactions to the AMLC when their aggregated amounts breach the threshold.

BSP Memorandum No. M2012-017 (April 2012) adopted the AML Risk Rating System ("ARRS"), an internal rating system that aims to understand whether the risk management policies and practices as well as internal controls of Banks and NBFIs to prevent money laundering and terrorist financing are in place, well disseminated and effectively implemented.

ARRS is an effective supervisory tool that undertakes to ensure that all covered institutions as defined under Circular No. 706 are assessed in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on entities exhibiting inefficiencies in Board of Directors and Senior Management oversight and monitoring, inadequacies in their AML framework, weaknesses in internal controls and audit and defective implementation of internal policies and procedures. Under ARRS, each institution is rated based on the following factors: (i) efficient Board of Directors and senior management oversight; (ii) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the Board of Directors; (iii) robust internal controls and audit; and (iv) effective implementation.

Covered institutions are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for at least five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

On 15 February 2013, Republic Act No. 10365 was approved. This amendment expanded the coverage of the AMLA, which now talks about "covered persons, natural or juridical." Additions to the enumeration of covered persons include jewellery dealers for transactions in excess of one million Pesos (₱ 1,000,000); company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organize funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities.

In 2016, the AMLC approved the Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP Circular No. 950 which further expanded "covered persons" to include company service providers, people who manage their client's money, security or other assets, manage bank or securities accounts, organize funds for the creation, operation, or management of companies, create, operate, or manage entities or relationships, or who buy and sell business entities.

On 19 July 2017, a further amendment to the AMLA was signed into law. Rep. Act No. 10927 amends the AMLA to include casinos under its coverage. The measure sets the threshold amount at ₱ 5,000,000.00, as against the usual ₱ 500,000.00, that would require casinos to report suspicious transactions to the AMLC. This amendment was one of the recommendations of the Financial Action Task Force (FATF), a global anti-money laundering and anti-terrorism watchdog.

In 2018, the AMLC issued Resolution Nos. 149 and 191, which provided guidelines on the digitization of customer records and on identifying beneficial ownership, respectively. Section 3 of Resolution No. 149 provides the specific duties of covered persons which Bangko Sentral-supervised financial institutions (BSFIs) should observe in digitizing its customers' records and ensuring the security and integrity of the customers' records database. Non-compliance with the guidelines is considered a grave violation of the AMLC's Rules on Imposition of Administrative Sanctions (RIAS). Resolution No. 191, on the other hand, requires BSFIs to: 1) update their Money Laundering and Terrorist Financing Prevention Program (MTPP), 2) identify and record the beneficial ownership information of all existing customers, within 6 months and 1 year, respectively, from its date of effectivity.

On 27 November 2018, the 2018 Implementing Rules and Regulations of the AMLA took effect. This incorporated the amendments under Republic Act No. 10972, which included casinos as covered persons. However, implementation by casinos of AMLA will continue to be governed by the existing Casino Implementing Rules and Regulations. These implementing rules and regulations feature new rules on the

AMLC's coordination with law enforcement agencies, beneficial ownership, customer due diligence, and national risk management and assessment, among others.

Further Liberalization of Foreign Banks

On 15 July 2014, President Benigno Aquino, III signed into law Republic Act No. 10641 or "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721" ("Rep. Act No. 10641"). Under Rep. Act No. 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorized to do banking business in the Philippines under Rep. Act No. 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under Rep. Act No. 10641 shall have the same branching privileges as domestic banks of the same category.

Among the key amendments of the law were the removal of the ranking requirement for foreign banks and the addition of the applicant banks being widely owned and publicly listed in the country of its origin. In addition, the law now allows authorized foreign banks to participate in the bidding and foreclosure sales of mortgaged real property (including lands) as well as to avail of the enforcement and other proceedings and even take possession (but not title) to such mortgaged property for a period of five years. The foreign bank must, however, transfer its rights over the mortgaged property to a qualified Philippine national within the period of five years.

Under Rep. Act No. 10641, the Monetary Board was authorized to issue such rules and regulations as may be needed to implement the provisions of Rep. Act No. 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of Rep. Act No. 10641 and on 2 November 2014, the BSP issued Circular No. 858, amending the relevant provisions of the MORB, accordingly.

In the exercise of the authority to approve entry applications, under Rep. Act No. 10641, the Monetary Board shall adopt such measures as may be necessary to ensure that the control of at least 60.0% of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos. Based on BSP Circular No. 858, such measures may include (a) suspension of entry of additional foreign bank subsidiaries and branches; and (b) suspension of license upgrade or conversion to subsidiary of existing foreign bank branches. Other measures may also be implemented by the Monetary Board, provided that such measures (a) shall be consistent with Republic Act No. 7721, as amended by Republic Act No. 10641, and (b) shall consider vested rights and non-impairment of contracts.

Related Party Transactions

On 1 December 2015, the BSP announced that it approved guidelines strengthening oversight and control standards for managing related party transactions. This was further strengthened through the issuance of BSP Circular No. 969. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher degree of standards should be applied to protect the interest of all stakeholders. It is emphasized that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the MORB, a universal or commercial bank which is part of a conglomerate shall constitute a Related Party Transactions Committee ("RPT Committee"), composed of at least three members of the Board of Directors, two of whom must be independent directors, including the chairperson. The committee may not contain non-executive directors, and independent directors must always comprise a majority of the Committee. The RPT Committee has the duty to ensure that all related parties are continuously identified, related party transactions are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice-versa) are captured. It is also responsible for evaluating all material related party transactions to ensure that these are not undertaken on more favorable economic terms, and for ensuring that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the institution's related party transaction exposures. The RPT Committee must also prepare a report to the board on a regular basis, on the status and aggregate exposures to each related party, as well as to all related parties. Lastly, they are tasked with overseeing the implementation of the system for identifying, monitoring, measuring, controlling, and reporting related party transactions, including the periodic review of related party transaction policies and procedures.

Other Regulations

In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates shall be used.

On 14 August 2015, the BSP issued Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Under the Circular, banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.

The BSP also issued Circular No. 891 on 9 November 2015 amending the sales and marketing guidelines for derivatives under the MORB. Under the Circular, banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitization structures, and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank's standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees.

On 18 August 2016, the BSP issued Circular No. 920 allowing for the creation of the Personal Management Trust (PMT), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third-party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual's financial affairs. Upon the effectivity of the circular, all Living Trust Accounts (LTAs) were discontinued and all those that remained valid were automatically considered as PMT.

On 7 September 2016, the BSP issued Circular No. 924, amending the MORB in view of the clearing of checks via electronic presentment, which shall be implemented by the Philippine Clearing House Corporation (PCHC). On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information shall be required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.

On 26 June 2017, the BSP amended the MORB again through Circular No. 963, series of 2017. The issuance instituted governance processes in accordance with the BSP's expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must be comply with those standards prescribed by the BSP, and those banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provides that banks have until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision, with its full implementation slated for 1 January 2018.

On 3 November 2017, the BSP issued Circular No. 981, amending the guidelines on liquidity risk management and the related amendments to the MORB. Among the highlights of the said changes were the additional guidelines relative to Foreign Currency Management, Intraday Liquidity Management, Intragroup Liquidity Management, Collateral Management, Liquidity Stress Testing, Contingency Funding Plans, Factors to Consider in Developing a Funding Strategy, and Factors to Consider in Developing Cash Flow Projections. Banks shall have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that they complete a gap analysis of the requirements of the said BSP Circular vis-a-vis their existing risk management systems by 31 March 2018.

On 6 November 2017, in line with BSP's adoption of the NRPS framework consistent with its regulations on risk management, the BSP issued Circular No. 980, which requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management and effective and efficient interoperability. The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. Under this framework, sound governance shall be performed by a payment system management body ("PSMB"), which is duly recognized and overseen by BSP. In the absence of a PSMB, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by BSP.

On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management ("ISRM") of BSFIs in view of the rapidly evolving technology and cyber- threat landscape in which they operate. The amendments highlight the role of the BSFIs' board and senior management in spearheading sound information security governance and strong security culture within their respective networks. Likewise, BSFIs are mandated to manage information security risks and exposures within acceptable levels through a dynamic interplay of people, policies, processes, and technologies following a continuing cycle (i.e. identify, prevent, detect, respond, recover and test phases). The new guidelines also recognize that BSFIs are at varying levels of cyber-maturity and cyber-risk exposures which may render certain requirements restrictive and costly vis-à-vis expected benefits. Thus, the IT profile classification has been expanded from two to three, namely: "Complex," "Moderate" and "Simple" to provide greater flexibility in complying with the requirements.

On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of DSIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.

On 1 February 2018, BSP issued Circular No. 992, which set out the framework for banks to offer a basic deposit account to promote account ownership among the unbanked. The minimum key features of the account include: simplified KYC requirements; an opening amount of less than ₱100.00; no minimum maintaining balance; and no dormancy charges. To prevent misuse of the basic deposit account, its maximum balance is set at ₱50,000.00. As an incentive for banks, the basic deposit account is granted a preferential 0.00% reserve requirement which lowers their account maintenance cost.

On 1 March 2018, the BSP issued Circular No. 998, clarifying the guidelines on the basic security deposit requirements. The circular provides that, as security for the faithful performance of its trust and other fiduciary duties, the basic security deposit shall be at least one percent of the book value of the total trust, other fiduciary and investment management assets, and at no time shall be less than ₽ 500,000.00; further, as security for the faithful performance of its investment management activities, the basic security deposit shall be at least one percent of the book value of the total investment management assets, and at no time less than ₱500,000.00. The Circular also prescribes the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, and amends the compliance period to require banks, that are authorized to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis, as well as, at the time of withdrawal, replacement or redemption of the government securities deposited with the BSP within the quarter period.

On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:

(1) The bank must have a CAMELS composite rating of at least “3” and a “Management” rating of not lower than “3”.
(2) The bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
(3) The bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
(4) The bonds issued are enrolled and/or traded in a market which is organized in accordance with the SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank’s listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, shall be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option are allowed or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provide that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:

(1) in preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of PAS 28.

(2) In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

(3) banks shall recognize adequate and timely allowance for credit losses at all times. In this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP Manual.

PROCEDURE

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular, the Terms and Conditions included herein, and the related Contracts regarding the offer, maintenance, trade and settlement of the BDO Series 2019-2 CDs. Prospective CD Holders should read this entire Offering Circular, the Terms and Conditions, and the related Contracts fully and carefully. In case of any inconsistency between this summary and the more detailed information in this Offering Circular, then the more detailed portions and/or Terms and Conditions, and/or the Contracts, as the case may be, shall at all times prevail.

OFFERING PROCEDURES

Pursuant to the Issue Arrangement and Placement Agreement, and Registry and Paying Agency Agreement (the "Agreements") entered into by the Bank with the relevant counterparties, the BDO Series 2019-2 CDs shall be offered for sale through the Sole Lead Arranger, as defined in the Terms and Conditions, and Selling Agents.

The Sole Lead Arranger is required to comply with all laws, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the BDO Series 2019-2 CDs and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Sole Lead Arranger in connection therewith. The Sole Lead Arranger is a third-party in relation to the Bank, such that, (i) it has no subsidiary/affiliate relationship with the Bank; (ii) it is not related in any manner to the Bank as would undermine the objective conduct of due diligence on the Bank. The Registrar and Paying Agent is likewise a third-party in relation to the Bank, such that, (i) it has no subsidiary/affiliate relationship with the Bank; (ii) it is not related in any manner to the Bank as would undermine its independence.

The following is a summary of the procedures to be adopted among the parties and the prospective CD Holders and is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular and the Contracts.

Prior to the Offer Period

The Bank shall enter into the Registry and Paying Agency Agreement with the Registrar, and the Issue Arrangement and Placement Agreement with the Sole Lead Arranger, as defined in the Terms and Conditions, and Selling Agents.

The Offer Period

During the relevant Offer Period, the Bank, through the Sole Lead Arranger and Selling Agents, shall solicit subscriptions to the BDO Series 2019-2 CDs from Eligible CD Holders. Prospective CD Holders will be required to complete an application to purchase (the "Application to Purchase") which shall be provided by the Sole Lead Arranger and the Selling Agents, and submit the duly executed Applications to Purchase and other documentary requirements to the Selling Agents from whom the Applications to Purchase were obtained on or before 5:00 p.m. on the last day of the Offer Period. There shall be no limitation on the number of BDO Series 2019-2 CDs that a prospective CD Holder may apply for, although the BDO Series 2019-2 CDs will be issued in minimum denominations of ₱100,000.00 and in integral multiples of ₱50,000.00 thereafter.

Only duly executed Applications to Purchase which are accompanied by check payments drawn against any bank in Metro Manila acceptable to the Sole Lead Arranger and payable to the Bank, or are covered by appropriate debit instructions, covering the purchase price for the BDO Series 2019-2 CDs applied for, shall be accepted by the Sole Lead Arranger or Selling Agents. Such acceptance will likewise be contingent on the submission of other documentary requirements prescribed by the Sole Lead Arranger, including, without limitation, evidence of the prospective CD Holder's tax status. Completion of the Application to Purchase shall involve an instruction and authority by the prospective CD Holder to the Selling Agents to execute any application form or other documents and generally do all such other things and acts as the Bank or the Selling Agents may consider necessary or desirable to effect registration of the BDO Series 2019-2 CDs in the name of the prospective CD Holder.

The Allocation Period

The Bank, together with the Sole Lead Arranger, reserves the right to accept, reject, scale down or reallocate any BDO Series 2019-2 CDs applied for. The Bank, in consultation with the Sole Lead Arranger, shall indicate or cause to be indicated in writing its acceptance of all Applications to Purchase which are not rejected together with the date of acceptance and, where the amount of BDO Series 2019-2 CDs applied for is scaled down, the amount thereof accepted. Applications to Purchase, which the Bank fails to reject or scale down within the period agreed upon with the Sole Lead Arranger, shall be considered accepted by the Bank. The Bank shall, in consultation with the Sole Lead Arranger, likewise indicate or cause to be indicated in writing its rejection of the pertinent Applications to Purchase indicating, if practicable, its reasons for rejection. Applications to Purchase in respect of which check payments are dishonored upon presentment or which do not comply with the terms of the Offer or which are deficient in any material information required therein, shall be rejected.

In the event an Application to Purchase is rejected or the amount of the BDO Series 20191-1 CDs applied for is scaled down, the Selling Agent concerned shall notify the prospective CD Holders concerned that their Application to Purchase has been rejected or scaled down and that they are entitled to a refund of their payments in full (in case of a rejection) or in a proportionate sum (in case of a scale down), in either case without any interest whatsoever. Refunds, in whole or in part, of payments for any Applications to Purchase which are not accepted or which are scaled down shall be made available for pick-up at the office of the Selling Agent who notified the said prospective CD Holder of the rejection or scaling down of its Application to Purchase within 5 Business Days from the Issue Date. Refund checks, which remain unclaimed after 15 Business Days from the Issue Date, shall then be mailed at the risk of the prospective CD Holder to the address specified by such prospective CD Holder in his Application to Purchase.

Issue Date

The Applications to Purchase, upon acceptance by the Bank, shall ipso facto constitute duly executed purchase agreements covering the BDO Series 2019-2 CDs purchased thereunder, valid and binding on the prospective CD Holders concerned and the Bank. As such, they may not be unilaterally revoked or cancelled by the prospective CD Holder, in full or in part (except to the extent provided in the Terms and Conditions of the BDO Series 2019-2 CDs, as well as the terms indicated in the Applications to Purchase), and the rights and privileges pertaining thereto are non-transferable, until after the issuance of the Registry Confirmation by the Registrar.

At least 2 Business Days prior to the Issue Date, the relevant Selling Agent shall issue a written advice ("Purchase Advice") to successful prospective CD Holders confirming the acceptance of their offer to purchase BDO Series 2019-2 CDs and consequent ownership thereof and stating the details, as well as a summary of the terms and conditions of the sale of BDO Series 2019-2 CDs. The Selling Agents shall secure an acknowledgment from each CD Holder on its receipt of said Purchase Advice.

The Registrar shall, within 7 Business Days from the Issue Date, issue and deliver an original copy of the Registry Confirmation to the CD Holder at their mailing addresses as indicated in the Final Sales Report submitted by the CD Holder's Selling Agent, in accordance with the terms of the Registry and Paying Agency Agreement.

Transactions in the secondary market

All secondary trading of the BDO Series 2019-2 CDs shall be coursed through the trading participants of PDEx for execution in the PDEx trading platform and in accordance with the PDEx trading rules. Transfers will be subject to the payment by the CD Holder of fees to the trading participants or applicable fees in connection with trading on PDEx and the Registrar.Transfers shall be subject to the procedures of the BSP, the Registrar and Paying Agent and PDEx, including, but not limited to, the guidelines on minimum trading lots, minimum denominations and record dates, among others.

Subject to Condition 15 of the Terms and Conditions, a transfer or assignment of BDO Series 2019-2 CDs may generally be done at any time. However, that a transfer of BDO Series 2019-2 CDs which will result in a change in the tax treatment of the interest income due thereon (including a transfer or assignment which is treated by the Bank as a pre-termination solely for withholding tax purposes) and which is sought to be made on a day other than an Interest Payment Date shall further be subject to Condition 14 of the Terms and Conditions.

The following documents, in form and substance acceptable to the Registrar, must be presented to the Registrar to register any transfer or assignment of BDO Series 2019-2 CDs:

- copies of the Purchase Advice which shall be issued by the PDEx Trading Participant concerned to such transferee CD Holder to evidence the transfer or assignment of such BDO Series 2019-2 CDs;
- the relevant Trade-Related Transfer Form or Non-Trade Related Transfer Form, as the case may be, duly accomplished and endorsed by the PDEx Trading Participant;
- the Written Consent of the Transferee CD Holder;
- the Investor Registration Form;
- Tax Exempt/Treaty Documents, if applicable; and
- such other documents as may be reasonably required by the Registrar.

Transfers or assignments of the BDO Series 2019-2 CDs made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar and Paying Agent.

Payment of interest and principal

The Paying Agent shall, pay or cause to be paid on behalf of the Bank on or before 12:00 p.m. on each relevant Payment Date the amounts due in respect of the BDO Series 2019-2 CDs through a direct credit of the proper amounts, net of taxes and fees (if any) to the account of the designated Cash Settlement Banks of the CD Holders for onward remittance to the CD Holders.

Schedule of Registry Fees

The Registrar shall be entitled to charge the CD Holders and/or their counterparties such fees as the Registrar shall prescribe in connection with the services that the Registrar shall perform such as, but not limited to, the opening and maintaining of accounts, the maintenance of records of the CD Holders in the Registry, the issuance, cancellation and replacement of any Registry Confirmation and transfers of the BDO Series 2019-2 CDs, which fees may be deducted from the interest payments due to the relevant CD Holders. The Registry will charge the following fees to the CD Holders:

Fees charged for secondary market transactions

- ₱100 transfer fee (for each of the transferee and transferor CD Holders)
- ₱100 account opening fee for each new securities account
- Account maintenance fee of 0.03% p.a. will be deducted on each interest payment date
- Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDSClear System if so duly authorized by a CD Holder

Other fees

- ₱200 will be charged for each application of a certification request of holding
- ₱50 will be charged for each statement requested outside of the quarterly statements of account released
- Replacement Registry Confirmations may likewise be issued, subject to the fulfillment of certain terms and conditions, for ₱50

In the event that the Registrar is prohibited by law or regulation to charge the CD Holders and/or their counterparties such fees in connection with its services, the Bank and the Registrar shall agree on such other arrangements in order for the Registrar to be fully compensated for the services it performs pursuant to the Registry and Paying Agency Agreement executed between them.