Bank of the Philippine Islands

Financial Statements
As at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018

Independent Auditor's Report

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
BPI Building, Ayala Avenue
Makati City

Report on the Audits of the Financial Statements

Our Opinion

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

What we have audited

The financial statements comprise:

- the consolidated and parent statements of condition as at December 31, 2018 and 2017;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2018;
- the consolidated and parent statements of comprehensive income for each of the three years in the period ended December 31, 2018;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2018;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2018; and
- the notes to the consolidated and parent financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

We are independent of the BPI Group and the Parent Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the consolidated and parent financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and parent financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and parent financial statements as a whole, taking into account the structure of the BPI Group and the Parent Bank, the accounting processes and controls, and the industry in which the BPI Group and the Parent Bank operate.

Key audit matters

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

The key audit matter identified in our audit pertains to the impairment losses on loans and advances, which applies to both the BPI Group's and the Parent Bank's financial statements.

Key Audit Matters	How our audit addressed the Key Audit Matters
Impairment losses on loans and advances	
We focused on this account because of the complexity involved in the estimation process, and the significant judgments that management make in ascertaining the provision for loan impairment. The calculation of impairment losses is inherently judgmental for any bank. As of December 31, 2018, the total allowance for impairment for loans and advances amounted to PHP22,902 million for the BPI Group and PHP15,967 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP4,504 million for the BPI Group and PHP3,666 million for the Parent Bank. Refer to Notes 10 and 28 of the financial statements for the details of the impairment losses on loans and advances. Provisions for impairment losses on loans that exceed specific thresholds are individually assessed by the BPI Group and Parent Bank with reference to the estimated future cash repayments and proceeds from the realization of collateral held by the BPI Group and Parent Bank in respect of those loans. If an individually assessed loan is not impaired, it is included in a group of loans with similar risk characteristics and, along with those loans below the specific thresholds noted above, is collectively assessed on a portfolio basis using internal models developed by the BPI Group and Parent Bank.	We assessed the design and tested the operating effectiveness of key controls over loan loss provisioning. These key controls included: • governance over the development, validation and approval of the BPI Group's ECL models to assess compliance with PFRS 9; including continuous re-assessment by the BPI Group that the impairment models are operating in a way which is appropriate for the credit risks in the BPI Group and Parent Bank's loan portfolios; • review and approval of key judgments, assumptions and forward-looking information used in the ECL models; • reconciliations of data from source systems to the detailed ECL model analyses; • controls over the timely identification of deterioration in credit quality of individual loans and advances; and • the review and approval process for the outputs of the impairment models. Our work over the impairment of loans and advances included: • assessment of the methodology applied by the BPI Group and Parent Bank in the development of the ECL models vis-a-vis the requirements of PFRS 9; • testing of key assumptions in the ECL models such as PD, LGD, EAD built from historical data. Our assessment included the involvement of our internal specialist;

Key Audit Matters	**How our audit addressed the Key Audit Matters**
(cont'd.) Key elements in the impairment of loans and advances include: • the identification of credit-impaired loans, and estimation of cash flows (including the expected realizable value of any collateral held) supporting the calculation of individually assessed provisions; and • the application of appropriate impairment models for the collectively assessed accounts. This include the use of key assumptions in the impairment models (i.e., staging of accounts, significant increase in credit risk, forward-looking information), the exposure at default (EAD), the probability of default (PD) and the loss given default (LGD). The BPI Group and Parent Bank adopted on January 1, 2018 the Philippine Financial Reporting Standard (PFRS) 9, *Financial Instruments*, which changed the methodology for loan loss provisioning from incurred loss model to expected credit loss (ECL) model. The estimation of loan loss allowance using the ECL methodology is a more complex process that takes into account forward-looking information reflecting the BPI Group and Parent Bank's view on potential future economic events.	• assessment of the appropriateness of the BPI Group's and Parent Bank's definition of significant increase in credit risk and staging of accounts through analysis of historical trends and past credit behavior of loan portfolios; • independent comparison of economic information used within, and weightings applied to, forward-looking scenarios in the ECL models against available macro-economic data; • testing of the accuracy and completeness of data in the ECL models by comparing them with information obtained from source systems; • recalculation of the collective loan loss allowance for selected portfolios at transition date and end of reporting period using the ECL models adopted by the BPI Group and Parent Bank; • for a sample of individually assessed loans not identified as credit-impaired, performed credit review to test the appropriateness of assigned credit risk ratings using the latest information about the borrowers as obtained by the BPI Group and Parent Bank; and • for a sample of individually assessed loans identified as credit-impaired, examined relevant supporting documents such as the latest financial information of the borrower or valuation of collateral used as a basis in estimating the recoverable amount and measuring the loan loss allowance.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report, but does not include the consolidated and parent financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Zaldy D. Aguirre.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 8, 2019, Makati City
SEC A.N. (individual) as general auditors 1176-AR-2, Category A; effective until June 20, 2021
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 221-755-698
BIR A.N. 08-000745-77-2018, issued on January 29, 2018; effective until January 28, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
February 22, 2019

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2018 and 2017
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2018	2017	**2018**	2017
RESOURCES					
CASH AND OTHER CASH ITEMS	4	**43,536**	35,132	**42,419**	34,160
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	**225,907**	255,948	**202,487**	227,122
DUE FROM OTHER BANKS	4	**12,477**	14,406	**8,615**	10,894
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	**34,323**	18,586	**22,659**	10,504
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	6,7	**16,721**	10,313	**10,346**	8,781
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	**37,206**	-	**30,583**	-
INVESTMENT SECURITIES AT AMORTIZED COST, net	9	**287,571**	-	**267,497**	-
AVAILABLE-FOR-SALE SECURITIES, net	8	**-**	23,313	**-**	10,139
HELD-TO-MATURITY SECURITIES	9	**-**	277,472	**-**	255,382
LOANS AND ADVANCES, net	10	**1,354,896**	1,202,338	**1,125,956**	986,869
ASSETS HELD FOR SALE, net		**3,363**	3,578	**455**	609
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	**16,252**	15,056	**10,146**	9,905
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	12	**5,659**	6,386	**9,942**	9,043
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	**16,582**	17,406	**-**	-
DEFERRED INCOME TAX ASSETS, net	13	**8,536**	8,091	**5,723**	5,180
OTHER ASSETS, net	14	**22,199**	15,880	**16,313**	14,160
Total assets		**2,085,228**	1,903,905	**1,753,141**	1,582,748

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2018 and 2017
(In Millions of Pesos)

	Notes	Consolidated 2018	Consolidated 2017	Parent 2018	Parent 2017
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	15	**1,585,746**	1,562,200	**1,347,207**	1,323,963
DERIVATIVE FINANCIAL LIABILITIES	7	**3,891**	4,788	**3,888**	4,788
BILLS PAYABLE AND OTHER BORROWED FUNDS	16	**166,901**	83,517	**150,880**	70,722
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**3,988**	1,218	**3,988**	1,218
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**6,931**	7,022	**5,354**	5,762
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**9,057**	7,117	**6,875**	4,851
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	**14,056**	14,513	**-**	-
DEFERRED CREDITS AND OTHER LIABILITIES	17	**43,120**	39,979	**35,793**	33,212
Total liabilities		**1,833,690**	1,720,354	**1,553,985**	1,444,516
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	18				
Share capital		**44,961**	39,336	**44,961**	39,336
Share premium		**74,181**	29,771	**74,181**	29,771
Reserves		**4,096**	254	**3,977**	142
Surplus		**127,459**	116,415	**76,958**	73,679
Accumulated other comprehensive loss		**(2,176)**	(5,088)	**(921)**	(4,696)
		248,521	180,688	**199,156**	138,232
NON-CONTROLLING INTERESTS		**3,017**	2,863	**-**	-
Total capital funds		**251,538**	183,551	**199,156**	138,232
Total liabilities and capital funds		**2,085,228**	1,903,905	**1,753,141**	1,582,748

(The notes on pages 1 to 114 are an integral part of these financial statements)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos, Except Per Share Amounts)

		Consolidated			**Parent**		
	Notes	**2018**	2017	2016	**2018**	2017	2016
INTEREST INCOME							
On loans and advances		**69,401**	54,615	47,132	**51,901**	38,752	31,285
On investment securities		**9,616**	9,185	9,220	**8,942**	8,403	8,424
On deposits with BSP and other banks		**1,173**	2,049	1,960	**548**	977	886
		80,190	65,849	58,312	**61,391**	48,132	40,595
INTEREST EXPENSE							
On deposits	15	**21,255**	16,660	15,301	**15,645**	11,413	9,616
On bills payable and other borrowed funds	16	**3,092**	1,150	634	**2,588**	885	406
		24,347	17,810	15,935	**18,233**	12,298	10,022
NET INTEREST INCOME		**55,843**	48,039	42,377	**43,158**	35,834	30,573
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	5,9,10,14	**4,923**	3,795	4,800	**4,279**	3,519	2,930
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		**50,920**	44,244	37,577	**38,879**	32,315	27,643
OTHER INCOME							
Fees and commissions		**8,224**	7,716	7,425	**7,219**	6,224	5,683
Income from foreign exchange trading		**2,128**	2,136	1,748	**1,831**	1,798	1,406
Income attributable to insurance operations	2	**1,223**	1,413	1,360	**-**	-	-
Trading gain on securities		**719**	923	5,192	**258**	754	5,192
Other operating income	19	**10,387**	10,793	8,449	**5,919**	14,171	11,332
		22,681	22,981	24,174	**15,227**	22,947	23,613
OTHER EXPENSES							
Compensation and fringe benefits	21	**15,315**	13,897	13,463	**11,834**	10,691	10,713
Occupancy and equipment-related expenses	11,20	**13,146**	11,344	10,156	**10,570**	9,062	8,172
Other operating expenses	21	**15,141**	13,292	11,322	**11,257**	9,626	8,148
		43,602	38,533	34,941	**33,661**	29,379	27,033
PROFIT BEFORE INCOME TAX		**29,999**	28,692	26,810	**20,445**	25,883	24,223
INCOME TAX EXPENSE	22						
Current		**7,404**	6,418	5,419	**5,793**	4,248	3,777
Deferred	13	**(734)**	(462)	(884)	**(776)**	(462)	(439)
		6,670	5,956	4,535	**5,017**	3,786	3,338
NET INCOME FOR THE YEAR		**23,329**	22,736	22,275	**15,428**	22,097	20,885
Attributable to:							
Equity holders of BPI		**23,078**	22,416	22,050	**15,428**	22,097	20,885
Non-controlling interests		**251**	320	225	**-**	-	-
		23,329	22,736	22,275	**15,428**	22,097	20,885
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	18	**5.35**	5.69	5.60	**3.57**	5.61	5.30

(The notes on pages 1 to 114 are an integral part of these financial statements)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

		Consolidated			Parent		
	Note	**2018**	2017	2016	**2018**	2017	2016
NET INCOME FOR THE YEAR		**23,329**	22,736	22,275	**15,428**	22,097	20,885
OTHER COMPREHENSIVE (LOSS) INCOME	18						
Items that may be subsequently reclassified to profit or loss							
Share in other comprehensive loss of associates		**(1,281)**	(252)	(74)	**-**	-	-
Net change in fair value reserve on investments in debt instruments measured at FVOCI, net of tax effect		**(771)**	-	-	**(461)**	-	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		**(400)**	196	(131)	**-**	-	-
Currency translation differences		**(26)**	126	(113)	**-**	-	-
Net change in fair value reserve on AFS, net of tax effect		**-**	713	543	**-**	449	502
Items that will not be reclassified to profit or loss							
Remeasurements of defined benefit obligation		**612**	(272)	(579)	**431**	(338)	(429)
Share in other comprehensive income (loss) of associates		**596**	(528)	-	**-**	-	-
Net change in fair value reserve on investments in equity instruments measured at FVOCI, net of tax effect		**(19)**	-	-	**320**	-	-
Total other comprehensive (loss) income, net of tax effect		**(1,289)**	(17)	(354)	**290**	111	73
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**22,040**	22,719	21,921	**15,718**	22,208	20,958
Attributable to:							
Equity holders of BPI		**21,878**	22,406	21,736	**15,718**	22,208	20,958
Non-controlling interests		**162**	313	185	**-**	-	-
		22,040	22,719	21,921	**15,718**	22,208	20,958

(The notes on pages 1 to 114 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 18)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance, January 1, 2016	**39,285**	**29,439**	**2,563**	**83,761**	**(4,764)**	**150,284**	**2,446**	**152,730**
Comprehensive income								
Net income for the year	-	-	-	22,050	-	22,050	225	22,275
Other comprehensive loss for the year	-	-	-	-	(314)	(314)	(40)	(354)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,050**	**(314)**	**21,736**	**185**	**21,921**
Transactions with owners								
Exercise of stock option plans	23	152	45	-	-	220	-	220
Cash dividends	-	-	-	(7,087)	-	(7,087)	-	(7,087)
Change in ownership interest in a subsidiary	-	-	-	(19)	-	(19)	(10)	(29)
Other changes in non-controlling interests	-	-	-	-	-	-	(71)	(71)
Total transactions with owners	**23**	**152**	**45**	**(7,106)**	**-**	**(6,886)**	**(81)**	**(6,967)**
Other movement								
Transfer from surplus to reserves	-	-	103	(103)	-	-	-	-
Total other movement	**-**	**-**	**103**	**(103)**	**-**	**-**	-	-
Balance, December 31, 2016	**39,308**	**29,591**	**2,711**	**98,602**	**(5,078)**	**165,134**	**2,550**	**167,684**
Comprehensive income								
Net income for the year	-	-	-	22,416	-	22,416	320	22,736
Other comprehensive loss for the year	-	-	-	-	(10)	(10)	(7)	(17)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,416**	**(10)**	**22,406**	**313**	**22,719**
Transactions with owners								
Exercise of stock option plans	28	180	31	-	-	239	-	239
Cash dividends	-	-	-	(7,091)	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**31**	**(7,091)**	**-**	**(6,852)**	**-**	**(6,852)**
Other movements								
Transfer from surplus to reserves	-	-	90	(90)	-	-	-	-
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-	-	-
Total other movements	**-**	**-**	**(2,488)**	**2,488**	**-**	**-**	**-**	**-**
Balance, December 31, 2017	**39,336**	**29,771**	**254**	**116,415**	**(5,088)**	**180,688**	**2,863**	**183,551**
Impact of PFRS 9 adoption (Note 31)	-	-	-	(62)	4,111	4,049	(8)	4,041
Restated balance, January 1, 2018	**39,336**	**29,771**	**254**	**116,353**	**(977)**	**184,737**	**2,855**	**187,592**
Comprehensive income								
Net income for the year	-	-	-	23,078	-	23,078	251	23,329
Other comprehensive loss for the year	-	-	-	-	(1,200)	(1,200)	(89)	(1,289)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**23,078**	**(1,200)**	**21,878**	**162**	**22,040**
Transactions with owners								
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707	-	49,707
Exercise of stock option plans	38	290	(25)	-	-	303	-	303
Cash dividends	-	-	-	(8,104)	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(25)**	**(8,104)**	**-**	**41,906**	**-**	**41,906**
Other movements								
Transfer from surplus to reserves (Note 18)	-	-	3,867	(3,867)	-	-	-	-
Others	-	-	-	(1)	1	-	-	-
Total other movements	**-**	**-**	**3,867**	**(3,868)**	**1**	**-**	**-**	**-**
Balance, December 31, 2018	**44,961**	**74,181**	**4,096**	**127,459**	**(2,176)**	**248,521**	**3,017**	**251,538**

(The notes on pages 1 to 114 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

	Parent (Note 18)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2016	**39,285**	**29,439**	**2,555**	**42,401**	**(4,880)**	**108,800**
Comprehensive income						
Net income for the year	-	-	-	20,885	-	20,885
Other comprehensive income for the year	-	-	-	-	73	73
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**20,885**	**73**	**20,958**
Transactions with owners						
Exercise of stock option plans	23	152	37	-	-	212
Cash dividends	-	-	-	(7,087)	-	(7,087)
Total transactions with owners	**23**	**152**	**37**	**(7,087)**	**-**	**(6,875)**
Other movements						
Transfer from surplus to reserves	-	-	103	(103)	-	-
Others	-	-	-	(1)	-	(1)
Total other movements	**-**	**-**	**103**	**(104)**	**-**	**(1)**
Balance, December 31, 2016	**39,308**	**29,591**	**2,695**	**56,095**	**(4,807)**	**122,882**
Comprehensive income						
Net income for the year	-	-	-	22,097	-	22,097
Other comprehensive income for the year	-	-	-	-	111	111
Total comprehensive income for the year	**-**	**-**	**-**	**22,097**	**111**	**22,208**
Transactions with owners						
Exercise of stock option plans	28	180	25	-	-	233
Cash dividends	-	-	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**25**	**(7,091)**	**-**	**(6,858)**
Other movement						
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-
Balance, December 31, 2017	**39,336**	**29,771**	**142**	**73,679**	**(4,696)**	**138,232**
Impact of PFRS 9 adoption (Note 31)	-	-	-	(178)	3,485	3,307
Restated balance, January 1, 2018	**39,336**	**29,771**	**142**	**73,501**	**(1,211)**	**141,539**
Comprehensive income						
Net income for the year	-	-	-	15,428	-	15,428
Other comprehensive income for the year	-	-	-	-	290	290
Total comprehensive income for the year	**-**	**-**	**-**	**15,428**	**290**	**15,718**
Transactions with owners						
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707
Exercise of stock option plans	38	290	(32)	-	-	296
Cash dividends	-	-	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(32)**	**(8,104)**	**-**	**41,899**
Other movement						
Transfer from surplus to reserves (Note 18)	-	-	3,867	(3,867)	-	-
Total other movement	**-**	**-**	**3,867**	**(3,867)**	**-**	**-**
Balance, December 31, 2018	**44,961**	**74,181**	**3,977**	**76,958**	**(921)**	**199,156**

(The notes on pages 1 to 114 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2018**	2017	2016	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before income tax		**29,999**	28,692	26,810	**20,445**	25,883	24,223
Adjustments for:							
Impairment losses	5,9,10,14	**4,923**	3,795	4,800	**4,271**	3,519	2,930
Depreciation and amortization	11,14	**4,797**	4,255	3,878	**2,916**	2,783	2,541
Share in net income of associates	12	**(700)**	(772)	(814)	**-**	-	-
Dividend and other income	19	**(76)**	(68)	(56)	**(904)**	(9,492)	(6,083)
Share-based compensation	18	**(25)**	31	45	**(32)**	25	37
Interest income		**(80,190)**	(68,053)	(60,297)	**(61,391)**	(49,783)	(42,030)
Interest received		**77,715**	66,816	59,447	**59,960**	48,753	41,369
Interest expense		**24,347**	17,810	15,935	**18,233**	12,298	10,022
Interest paid		**(23,440)**	(17,495)	(15,716)	**(17,494)**	(11,901)	(9,920)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		**(821)**	595	1,316	**(966)**	(353)	2,381
Trading securities		**(2,257)**	9,272	(6,507)	**(236)**	6,498	(4,861)
Loans and advances, net		**(154,077)**	(164,957)	(171,462)	**(140,860)**	(168,485)	(159,101)
Assets held for sale		**655**	313	1,007	**509**	447	1,119
Assets attributable to insurance operations		**465**	(944)	(54)	**-**	-	-
Other assets		**(8,096)**	(3,940)	(2,269)	**(3,761)**	(6,745)	(2,056)
Increase (decrease) in:							
Deposit liabilities		**23,546**	130,900	155,601	**23,244**	139,485	151,093
Due to Bangko Sentral ng Pilipinas and other banks		**2,770**	548	239	**2,770**	548	239
Manager's checks and demand drafts outstanding		**(91)**	(557)	(729)	**(408)**	(131)	(800)
Accrued taxes, interest and other expenses		**1,033**	(51)	947	**562**	(252)	579
Liabilities attributable to insurance operations		**(457)**	146	(281)	**-**	-	-
Derivative financial instruments		**52**	(311)	1,432	**45**	(306)	1,433
Deferred credits and other liabilities		**2,493**	7,550	(3,122)	**2,506**	6,037	(2,692)
Net cash (used in) from operations		**(97,435)**	13,575	10,150	**(90,591)**	(1,172)	10,423
Income taxes paid		**(7,115)**	(6,505)	(5,645)	**(5,560)**	(4,395)	(3,974)
Net cash (used in) from operating activities		**(104,550)**	7,070	4,505	**(96,151)**	(5,567)	6,449

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2018**	2017	2016	**2018**	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Investment securities, net	8,9	**(25,828)**	(7,029)	(5,439)	**(31,400)**	727	(3,559)
Bank premises, furniture, fixtures and equipment, net	11	**(5,048)**	(4,191)	(4,109)	**(2,518)**	(2,018)	(2,543)
Investment properties, net	14	**1**	-	(35)	**12**	-	-
Investment in subsidiaries and associates, net	12	**305**	745	28	**(899)**	(95)	(880)
Assets attributable to insurance operations		**364**	58	(136)	**-**	-	-
Dividends received	18	**76**	68	56	**904**	9,492	6,084
Net cash (used in) from investing activities		**(30,130)**	(10,349)	(9,635)	**(33,901)**	8,106	(898)
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid	17,18	**(7,598)**	(7,089)	(7,082)	**(7,598)**	(7,089)	(7,082)
Proceeds from share issuance	18	**50,035**	207	175	**50,035**	207	175
Increase in bills payable and other borrowed funds	16	**83,384**	21,544	41,032	**80,158**	18,466	39,431
Net cash from financing activities		**125,821**	14,662	34,125	**122,595**	11,584	32,524
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(8,859)**	11,383	28,995	**(7,457)**	14,123	38,075
CASH AND CASH EQUIVALENTS							
January 1	4,5	**322,129**	310,746	281,751	**280,579**	266,456	228,381
December 31		**313,270**	322,129	310,746	**273,122**	280,579	266,456

(The notes on pages 1 to 114 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2018 and 2017 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2018

Note 1 - General Information

Bank of the Philippine Islands ("BPI" or the "Parent Bank") is a domestic commercial bank with an expanded banking license and has its registered office address, which is also its principal place of business, at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2018, the BPI Group has 18,909 employees (2017 - 17,047 employees) and operates 1,056 branches and 3,034 ATMs (2017 - 839 branches and 3,105 ATMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities.

These financial statements have been approved and authorized for issuance by the Board of Directors (BOD) of the Parent Bank on February 20, 2019. There are no material events that occurred subsequent to February 20, 2019 until February 22, 2019.

The consolidated financial statements comprise the financial statements of the Parent Bank and the following subsidiaries:

Subsidiaries	Country of incorporation	Principal activities	% of ownership 2018	2017
BPI Family Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI Capital Corporation	Philippines	Investment house	**100**	100
BPI Direct BanKo, Inc., A Savings Bank	Philippines	Banking	**100**	100
BPI Asset Management and Trust Corporation	Philippines	Trust	**100**	100
BPI International Finance Limited	Hong Kong	Financing	**100**	100
BPI Europe Plc.	England and Wales	Banking (deposit)	**100**	100
BPI Securities Corp.	Philippines	Securities dealer	**100**	100
BPI Payments Holdings Inc.	Philippines	Financing	**100**	100
Filinvest Algo Financial Corp.	Philippines	Financing	**100**	100
BPI Investment Management, Inc.	Philippines	Investment management	**100**	100
Santiago Land Development Corporation	Philippines	Land holding	**100**	100
BPI Operations Management Corp.	Philippines	Operations management	**100**	100
BPI Computer Systems Corp.	Philippines	Business systems service	**100**	100
BPI Forex Corp.	Philippines	Foreign exchange	**100**	100
BPI Express Remittance Corp. USA	USA	Remittance	**100**	100
BPI Remittance Centre (HK) Ltd.	Hong Kong	Remittance	**100**	100
Green Enterprises S. R. L. in Liquidation	Italy	Remittance	**100**	100
First Far - East Development Corporation	Philippines	Real estate	**100**	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	**100**	100
BPI Express Remittance Spain S.A	Spain	Remittance	**100**	100
FEB Speed International	Philippines	Remittance	**100**	100
AF Holdings & Management Corp.	Philippines	Financial management consultancy	**100**	100
Ayala Plans, Inc.	Philippines	Pre-need	**98.67**	98.67
FGU Insurance Corporation	Philippines	Non-life insurance	**94.62**	94.62
BPI Century Tokyo Lease and Finance Corporation	Philippines	Leasing	**51**	51
BPI Century Tokyo Rental Corporation	Philippines	Rental	**51**	51
CityTrust Securities Corporation	Philippines	Securities dealer	**51**	51
BPI/MS Insurance Corporation	Philippines	Non-life insurance	**50.85**	50.85

Note 2 - Assets and Liabilities Attributable to Insurance Operations

Details of assets and liabilities attributable to insurance operations at December 31 are as follows:

	2018	2017
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 4)	**89**	316
Insurance balances receivable, net	**5,596**	5,849
Investment securities		
Financial assets at fair value through profit or loss	**1,788**	-
Financial assets at fair value through OCI	**6,522**	-
Financial assets at amortized cost	**202**	-
Available-for-sale securities	**-**	5,970
Held-to-maturity securities	**-**	2,674
Investment in associates	**167**	167
Accounts receivable and other assets, net	**2,106**	2,286
Land, building and equipment	**112**	144
	16,582	17,406

	2018	2017
	(In Millions of Pesos)	
Liabilities		
Reserves and other balances	**12,909**	13,416
Accounts payable, accrued expenses and other payables	**1,147**	1,097
	14,056	14,513

Details of income attributable to insurance operations before income tax and minority interest for the years ended December 31 are as follows:

	2018	2017	2016
	(In Millions of Pesos)		
Premiums earned and related income	**3,750**	3,624	3,356
Investment and other income	**755**	864	959
	4,505	4,488	4,315
Benefits, claims and maturities	**2,049**	2,006	2,025
Decrease in actuarial reserve liabilities	**(379)**	(524)	(462)
Commissions	**800**	789	726
Management and general expenses	**799**	791	656
Other expenses	**13**	13	10
	3,282	3,075	2,955
Income before income tax and minority interest	**1,223**	1,413	1,360

Note 3 - Business Segments

Operating segments are reported in accordance with the internal reporting provided to the chief executive officer, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the BPI Group meet the definition of a reportable segment under Philippine Financial Reporting Standards (PFRS) 8, *Operating Segments*.

The BPI Group has determined the operating segments based on the nature of the services provided and the different clients/markets served representing a strategic business unit.

The BPI Group's main operating business segments follow:

- Consumer banking - this segment addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. It includes the entire transaction processing and service delivery infrastructure consisting of the BPI, BPI Family Savings Bank and BPI Direct BanKo, Inc., A Savings Bank network of branches and ATMs as well as phone and internet-based banking platforms.

- Corporate banking - this segment addresses both high-end corporations as well as middle market clients. It covers deposit taking and servicing, the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers.

- Investment banking - this segment includes the various business groups operating in the investment markets and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

The performance of the Parent Bank is assessed as a single unit using financial information presented in the separate or Parent only financial statements. Likewise, the chief executive officer assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings. Information on the assets, liabilities and results of operations of the insurance business is fully disclosed in Note 2.

The BPI Group and the Parent Bank mainly derive revenue (more than 90%) within the Philippines, accordingly, no geographical segment is presented.

The segment report forms part of management's assessment of the performance of the segment, among other performance indicators.

There were no changes in the reportable segments during the year. Transactions between the business segments are carried out at arm's length. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the BPI Group's cost of capital.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis. Inter-segment revenues however, are deemed insignificant for financial reporting purposes, thus, not reported in segment analysis below.

The BPI Group's management reporting is based on a measure of operating profit comprising net interest income, impairment charge, fees and commission income, other income and operating expenses.

Segment assets and liabilities comprise majority of operating assets and liabilities, measured in a manner consistent with that shown in the statements of condition, but exclude items such as taxation.

The segment assets, liabilities and results of operations of the reportable segments of the BPI Group as at and for the years ended December 31 are as follows:

	2018			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
	(In Millions of Pesos)			
Net interest income	33,973	11,019	16,148	**61,140**
Impairment charge	1,712	3,206	6	**4,924**
Net interest income after impairment charge	32,261	7,813	16,142	**56,216**
Fees, commissions and other income, net	12,292	3,260	5,280	**20,832**
Total income	44,553	11,073	21,422	**77,048**
Compensation and fringe benefits	12,554	2,132	1,002	**15,688**
Occupancy and equipment - related expenses	8,570	1,977	231	**10,778**
Other operating expenses	14,484	3,006	1,716	**19,206**
Total operating expenses	35,608	7,115	2,949	**45,672**
Operating profit	8,945	3,958	18,473	**31,376**
Share in net income of associates				**700**
Income tax expense				**6,670**
Total assets	534,234	1,113,367	409,797	**2,057,398**
Total liabilities	1,124,800	552,969	137,872	**1,815,641**

	2017			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	28,083	10,195	13,384	51,662
Impairment charge	2,085	1,710	5	3,800
Net interest income after impairment charge	25,998	8,485	13,379	47,862
Fees, commissions and other income, net	12,148	2,657	6,694	21,499
Total income	38,146	11,142	20,073	69,361
Compensation and fringe benefits	9,311	1,335	1,020	11,666
Occupancy and equipment - related expenses	4,242	1,210	125	5,577
Other operating expenses	13,512	2,706	1,652	17,870
Total operating expenses	27,065	5,251	2,797	35,113
Operating profit	11,081	5,891	17,276	34,248
Share in net income of associates				772
Income tax expense				5,956
Total assets	476,749	1,007,058	389,085	1,872,892
Total liabilities	1,063,069	550,367	85,946	1,699,382

	2016			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	29,225	9,724	6,374	45,323
Impairment charge	3,072	1,692	7	4,771
Net interest income after impairment charge	26,153	8,032	6,367	40,552
Fees, commissions and other income, net	10,334	2,446	10,119	22,899
Total income	36,487	10,478	16,486	63,451
Compensation and fringe benefits	9,133	1,279	1,035	11,447
Occupancy and equipment - related expenses	4,146	1,135	55	5,336
Other operating expenses	12,056	1,535	1,477	15,068
Total operating expenses	25,335	3,949	2,567	31,851
Operating profit	11,152	6,529	13,919	31,600
Share in net income of associates				814
Income tax expense				4,535
Total assets	536,231	770,413	386,550	1,693,194
Total liabilities	1,459,741	14,587	61,326	1,535,654

Reconciliation of segment results to consolidated results of operations:

	2018		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
	(In Millions of Pesos)		
Net interest income	**61,140**	(5,297)	**55,843**
Impairment charge	**4,924**	(1)	**4,923**
Net interest income after impairment charge	**56,216**	(5,296)	**50,920**
Fees, commissions and other income, net	**20,832**	1,849	**22,681**
Total income	**77,048**	(3,447)	**73,601**
Compensation and fringe benefits	**15,688**	(373)	**15,315**
Occupancy and equipment - related expenses	**10,778**	2,368	**13,146**
Other operating expenses	**19,206**	(4,065)	**15,141**
Total operating expenses	**45,672**	(2,070)	**43,602**
Operating profit	**31,376**	(1,377)	**29,999**
Share in net income of associates (included in Other income)	**700**	-	**700**
Income tax expense	**6,670**	-	**6,670**
Total assets	**2,057,398**	27,830	**2,085,228**
Total liabilities	**1,815,641**	18,049	**1,833,690**

	2017		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	51,662	(3,623)	48,039
Impairment charge	3,800	(5)	3,795
Net interest income after impairment charge	47,862	(3,618)	44,244
Fees, commissions and other income, net	21,499	1,482	22,981
Total income	69,361	(2,136)	67,225
Compensation and fringe benefits	11,666	2,231	13,897
Occupancy and equipment - related expenses	5,577	5,767	11,344
Other operating expenses	17,870	(4,578)	13,292
Total operating expenses	35,113	3,420	38,533
Operating profit	34,248	(5,556)	28,692
Share in net income of associates (included in Other income)	772	-	772
Income tax expense	5,956	-	5,956
Total assets	1,872,892	31,013	1,903,905
Total liabilities	1,699,382	20,972	1,720,354

	2016		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	45,323	(2,946)	42,377
Impairment charge	4,771	29	4,800
Net interest income after impairment charge	40,552	(2,975)	37,577
Fees, commissions and other income, net	22,899	1,275	24,174
Total income	63,451	(1,700)	61,751
Compensation and fringe benefits	11,447	2,016	13,463
Occupancy and equipment - related expenses	5,336	4,820	10,156
Other operating expenses	15,068	(3,746)	11,322
Total operating expenses	31,851	3,090	34,941
Operating profit	31,600	(4,790)	26,810
Share in net income of associates (included in Other income)	814	-	814
Income tax expense	4,535	-	4,535
Total assets	1,693,194	32,502	1,725,696
Total liabilities	1,535,654	22,358	1,558,012

"Consolidation adjustments/Others" pertain to balances of insurance operations, support units and inter-segment elimination in accordance with the BPI Group's internal reporting.

Note 4 - Cash and Cash Equivalents

The account at December 31 consists of:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Cash and other cash items	**43,536**	35,132	**42,419**	34,160
Due from Bangko Sentral ng Pilipinas (BSP)	**225,907**	255,948	**202,487**	227,122
Due from other banks	**12,477**	14,406	**8,615**	10,894
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	**31,261**	16,327	**19,601**	8,403
Cash and cash equivalents attributable to insurance operations (Note 2)	**89**	316	**-**	-
	313,270	322,129	**273,122**	280,579

Note 5 - Interbank Loans Receivable and Securities Purchased under Agreements to Resell (SPAR)

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
BSP	**24,791**	7,297	**14,000**	-
Other banks	**9,552**	11,309	**8,686**	10,535
	34,343	18,606	**22,686**	10,535
Accrued interest receivable	**30**	21	**23**	10
	34,373	18,627	**22,709**	10,545
Allowance for impairment	**(50)**	(41)	**(50)**	(41)
	34,323	18,586	**22,659**	10,504

As at December 31, 2018, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P31,261 million (2017 - P16,327 million) for BPI Group and P19,601 million (2017 - P8,403 million) for the Parent Bank are classified as cash equivalents in the statements of cash flows (Note 4).

This account is expected to be realized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**34,253**	18,164	**22,589**	10,082
Non-current (over 12 months)	**120**	463	**120**	463
	34,373	18,627	**22,709**	10,545

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The aggregate face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date.

The range of average interest rates (%) of interbank loans receivable and SPAR for the years ended December 31 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Peso-denominated	**2.65 - 5.40**	2.96 - 3.07	**3.12 - 7.37**	3.04 - 3.35
US dollar-denominated	**1.50 - 2.34**	0.73 - 1.04	**1.50 - 2.34**	0.73 - 1.04

Note 6 - Financial Assets at Fair Value through Profit or Loss (FVTPL)

The account at December 31 consists of:

		Consolidated		Parent	
	Note	**2018**	2017	**2018**	2017
		(In Millions of Pesos)			
Debt securities					
Government securities		**8,953**	4,973	**5,515**	3,806
Commercial papers of private companies		**3,497**	29	**800**	-
Listed equity securities		**238**	330	**-**	-
Derivative financial assets	7	**4,033**	4,981	**4,031**	4,975
		16,721	10,313	**10,346**	8,781

Financial assets at FVTPL are classified as current as of December 31, 2018 and 2017.

Note 7 - Derivative Financial Instruments

Derivatives held by the BPI Group for non-hedging purposes mainly consist of the following:

- Foreign exchange forwards represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate on maturity.

- Foreign exchange swaps refer to spot purchase or sale of one currency against another with an offsetting agreement to sell or purchase the same currency at an agreed forward rate in the future.

- Interest rate swaps refer to agreement to exchange fixed rate versus floating interest payments (or vice versa) on a reference notional amount over an agreed period of time.

- Cross currency swaps refer to an exchange of notional amounts on two currencies at a given exchange rate where the parties on the transaction agree to pay a stated interest rate on the received notional amount and accept a stated interest rate on the delivered notional amount, payable and receivable or net settled (non-deliverable swaps) periodically over the term of the transaction.

The BPI Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the BPI Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statements of condition. They do not necessarily represent the amounts of future cash flows involved or the current fair values of the instruments and therefore are not indicative of the BPI Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The contract/notional amount and fair values of derivative financial instruments held for trading as at December 31 are set out below:

Consolidated

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2018	2017	**2018**	2017	**2018**	2017
			(In Millions of Pesos)			
Foreign exchange derivatives						
Currency swaps	**100,711**	153,784	**1,077**	2,312	**830**	2,117
Currency forwards	**72,917**	179,999	**250**	1,153	**219**	1,290
Interest rate derivatives						
Interest rate swap	**244,715**	206,493	**2,702**	1,478	**2,839**	1,377
Interest rate futures	**554**	-	**-**	-	**3**	-
Warrants	**9,149**	-	**4**	-	**-**	-
Credit default swaps	**-**	499	**-**	-	**-**	4
Embedded credit derivatives (PAS 39)	**-**	8,688	**-**	38	**-**	-
	428,046	549,463	**4,033**	4,981	**3,891**	4,788

Parent

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2018	2017	**2018**	2017	**2018**	2017
			(In Millions of Pesos)			
Foreign exchange derivatives						
Currency swaps	**100,711**	153,784	**1,077**	2,312	**827**	2,117
Currency forwards	**72,917**	179,999	**250**	1,153	**219**	1,290
Interest rate derivatives						
Interest rate swap	**244,715**	206,493	**2,702**	1,478	**2,839**	1,377
Interest rate futures	**554**	-	**-**	-	**3**	-
Warrants	**9,149**	-	**2**	-	**-**	-
Credit default swaps	**-**	499	**-**	-	**-**	4
Embedded credit derivatives (PAS 39)	**-**	8,688	**-**	32	**-**	-
	428,046	549,463	**4,031**	4,975	**3,888**	4,788

Note 8 - Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

Details of the account at December 31, 2018 are as follows:

PFRS 9		
	Consolidated	**Parent**
	(In Millions of Pesos)	
Debt securities		
Government securities	**32,718**	**27,814**
Commercial papers of private companies	**2,695**	**2,090**
	35,413	**29,904**
Accrued interest receivable	**118**	**89**
	35,531	**29,993**
Equity securities		
Listed	**1,129**	**406**
Unlisted	**546**	**184**
	1,675	**590**
	37,206	**30,583**

Financial assets previously classified as available-for-sale (AFS) as at December 31, 2017 are as follows:

PAS 39		
	Consolidated	Parent
	(In Millions of Pesos)	
Debt securities		
Government securities	14,406	5,420
Commercial papers of private companies	4,742	4,193
	19,148	9,613
Accrued interest receivable	70	56
	19,218	9,669
Equity securities		
Listed	3,755	447
Unlisted	661	232
	4,416	679
Allowance for impairment	(321)	(209)
	23,313	10,139

In previous years, the BPI Group reclassified certain available-for-sale securities to held-to-maturity category. The reclassification was triggered by management's change in intention over the securities in light of volatile market prices due to rising interest rates. Until December 31, 2017, under PAS 39, fair value losses recognized in other comprehensive income at the dates of reclassification were amortized over the remaining lives of the instruments using the effective interest rate method.

The relevant balances relating to the reclassified available-for-sale securities as at December 31, 2017 are summarized as follows:

Date of reclassification	Amount reclassified	Fair value loss at reclassification date	Unamortized fair value loss
		(In Millions of Pesos)	
November 11, 2015	P6.9 billion	505	468
January 9, 2014	P63.5 billion	4,534	3,064
November 12, 2008	P9.2 billion	1,757	13

The net change in fair value reserve that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P759 million net loss for the year ended December 31, 2017. There are no other gains or losses recognized in profit or loss apart from the amortization of fair value loss on securities.

Upon adoption of PFRS 9, these securities are carried at amortized cost consistent with the business model of the BPI Group. Consequently, the cumulative loss previously recognized in other comprehensive income is adjusted against the carrying amount of the securities to establish their amortized cost on January 1, 2018 (transition date).

The account is expected to be realized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**27,910**	13,288	**23,074**	1,991
Non-current (over 12 months)	**9,296**	10,346	**7,509**	8,357
	37,206	23,634	**30,583**	10,348

The range of average effective interest rates (%) of financial assets at FVOCI (2017 - AFS) for the years ended December 31 follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Peso-denominated	**1.18 - 4.20**	0.53 - 0.85	**1.65 - 5.43**	1.15 - 2.28
Foreign currency-denominated	**2.09 - 2.85**	2.10 - 2.26	**2.33 - 2.85**	2.10 - 2.31

Interest income from debt instruments recognized in the statements of income for the year ended December 31, 2018 amounts to P278 million (2017 - P200 million; 2016 - P467 million) and P160 million (2017 - P323 million; 2016 - P442 million) for the BPI Group and Parent Bank, respectively.

Dividend income from equity instruments recognized in the statements of income for the year ended December 31, 2018 amounts to P64 million (2017 - P53 million; 2016 - P55 million) and P41 million (2017 - P26 million; 2016 - P17 million) for the BPI Group and Parent Bank, respectively.

Note 9 - Investment Securities at Amortized cost, net

Details of the account as at December 31, 2018 are as follows:

PFRS 9		
	Consolidated	Parent
	(In Millions of Pesos)	
Government securities	**196,957**	**180,044**
Commercial papers of private companies	**86,826**	**83,964**
	283,783	**264,008**
Accrued interest receivable	**3,790**	**3,491**
	287,573	**267,499**
Allowance for impairment	**(2)**	**(2)**
	287,571	**267,497**

Investment securities previously classified as held-to-maturity (HTM) as at December 31, 2017 are as follows:

PAS 39		
	Consolidated	Parent
	(In Millions of Pesos)	
Government securities	206,098	186,816
Commercial papers of private companies	67,584	65,138
	273,682	251,954
Accrued interest receivable	3,790	3,428
	277,472	255,382

HTM investments were neither past due nor impaired as at December 31, 2017.

The account is expected to be realized as follows (amounts gross of allowance for impairment):

	Consolidated		Parent	
	2018	2017	**2018**	2017
		(In Millions of Pesos)		
Current (within 12 months)	**30,159**	13,182	**28,038**	11,849
Non-current (over 12 months)	**257,414**	264,290	**239,461**	243,533
	287,573	277,472	**267,499**	255,382

The range of average effective interest rates (%)for the years ended December 31 follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Peso-denominated	**3.53 - 3.90**	3.46 - 3.65	**3.55 - 3.93**	3.42 - 3.61
Foreign currency-denominated	**2.80 - 3.16**	2.78 - 2.93	**2.84 - 3.19**	2.80 - 2.96

Interest income from these investment securities recognized in the statements of income for the year ended December 31, 2018 amounts to P9,035 million (2017 - P8,631 million; 2016 - P8,576 million) and P8,514 million (2017 - P7,912 million; 2016 - P7,830 million) for the BPI Group and Parent Bank, respectively.

Note 10 - Loans and Advances, net

Details of this account at December 31 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Corporate loans		(In Millions of Pesos)		
Large corporate customers	**1,043,855**	913,529	**1,019,626**	891,551
Small and medium enterprise	**87,998**	85,324	**62,058**	56,358
Retail loans				
Credit cards	**60,843**	49,142	**59,228**	47,829
Real estate mortgages	**126,088**	115,772	**12**	22
Auto loans	**51,845**	53,343	**-**	-
Others	**5,145**	4,707	**14**	4,106
	1,375,774	1,221,817	**1,140,938**	999,866
Accrued interest receivable	**8,454**	5,458	**5,963**	4,070
Unearned discount/income	**(6,430)**	(4,274)	**(4,978)**	(3,154)
	1,377,798	1,223,001	**1,141,923**	1,000,782
Allowance for impairment	**(22,902)**	(20,663)	**(15,967)**	(13,913)
	1,354,896	1,202,338	**1,125,956**	986,869

There were no changes in the classification and measurement of loans and advances from PAS 39 to PFRS 9.

Loans and advances aggregating P31,520 million (2017 - P280 million) are used as security for bills payable (Note 16) of the Parent Bank.

Loans and advances include amounts due from related parties (Note 26).

Following the adoption of PFRS 9 on January 1, 2018, the BPI Group has recognized expected credit loss (ECL) provisions (included in Miscellaneous liabilities in Note 17) on undrawn loan commitments. Details are shown below:

	Consolidated			Parent		
	Corporate	Retail	**Total**	Corporate	Retail	**Total**
	(In Millions of Pesos)					
Undrawn committed credit facility	117,640	118,264	**235,904**	117,640	115,841	**233,481**
ECL provisions	(65)	(688)	**(753)**	(65)	(658)	**(723)**
	117,575	117,576	**235,151**	117,575	115,183	**232,758**

Loans and advances are expected to be realized as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**554,183**	521,688	**515,723**	489,240
Non-current (over 12 months)	**823,615**	701,313	**626,200**	511,542
	1,377,798	1,223,001	**1,141,923**	1,000,782

The BPI Group, through BPI Century Tokyo Lease and Finance Corporation, mainly leases out vehicle and equipment under various finance lease agreements which typically run for a non-cancellable period of two to five years. The lease contracts generally include a lessee's option to purchase the leased asset after the lease period at a price that generally lies between 5% to 20% of the fair value of the asset at the inception of the lease. In the event that the residual value of the leased asset exceeds the guaranteed deposit liability at the end of the lease term, the BPI Group receives additional payment from the lessee prior to the transfer of the leased asset. On the other hand, the BPI Group sets up a liability to the lessee for any excess of the guaranteed deposit liability over residual value of the leased asset.

Details of finance lease receivables (included in "Corporate loans" category above) arising from lease contracts are as follows:

	Consolidated	
	2018	2017
	(In Millions of Pesos)	
Total future minimum lease collections	**11,203**	9,102
Unearned finance income	**(1,321)**	(1,003)
Present value of future minimum lease collections	**9,882**	8,099
Allowance for impairment	**(304)**	(251)
	9,578	7,848

Details of future gross minimum lease payments receivable follow:

	Consolidated	
	2018	2017
	(In Millions of Pesos)	
Not later than one year	**4,299**	3,371
Later than one year but not later than five years	**6,270**	5,323
More than five years	**634**	408
	11,203	9,102
Unearned finance income	**(1,321)**	(1,003)
	9,882	8,099

There are no contingent rents arising from lease contracts outstanding at December 31, 2018 and 2017.

The range of average interest rates (%) of loans and advances for the years ended December 31 follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Commercial loans				
Peso-denominated loans	**4.11 - 5.52**	3.97 - 4.19	**3.98 - 5.44**	3.76 - 4.02
Foreign currency-denominated loans	**3.61 - 4.86**	2.94 - 3.36	**3.61 - 4.86**	2.94 - 3.36
Real estate mortgages	**6.61 - 6.97**	6.60 - 7.09	**7.04 - 8.00**	6.67 - 8.00
Auto loans	**7.46 - 10.93**	9.27 - 9.41	**-**	-

Relevant information for BSP prudential reporting

Details of the loans and advances portfolio of the BPI Group at December 31 are as follows:

a) Concentration as to industry/economic sector (in %)

	Consolidated		Parent	
	2018	2017	**2018**	2017
Real estate, renting and other related activities	**23.08**	22.59	**16.00**	15.46
Manufacturing	**16.28**	16.23	**19.26**	19.41
Wholesale and retail trade	**12.56**	11.50	**14.16**	12.96
Consumer	**8.16**	8.78	**5.08**	5.30
Financial institutions	**6.09**	7.56	**7.28**	9.11
Agriculture and forestry	**2.74**	3.31	**3.26**	3.98
Others	**31.09**	30.03	**34.96**	33.78
	100.00	100.00	**100.00**	100.00

b) As to collateral

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**220,587**	195,432	**97,170**	79,768
Chattel mortgage	**54,731**	64,420	**9**	168
Others	**172,503**	313,441	**168,260**	305,296
	447,821	573,293	**265,439**	385,232
Unsecured loans	**921,523**	644,250	**870,521**	611,480
	1,369,344	1,217,543	**1,135,960**	996,712

Other collaterals include hold-out deposits, mortgage trust indentures, government and corporate securities and bonds, quedan/warehouse receipts, standby letters of credit, trust receipts, and deposit substitutes.

Non-performing loans net of allowance for credit losses are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Non-performing loans (NPL)	**25,391**	16,255	**12,985**	8,038
Accounts with specific allowance for credit losses	**(12,597)**	(10,479)	**(8,861)**	(5,395)
Net NPL	**12,794**	5,776	**4,124**	2,643

BSP Circular 941 *Amendments to Regulations on Past Due and Non-Performing Loans* states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Note 11 - Bank Premises, Furniture, Fixtures and Equipment, net

The movement analysis of the account is shown below:

Consolidated

	2018				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2018	3,023	9,591	15,278	5,502	**33,394**
Additions	-	1,443	2,052	1,875	**5,370**
Disposals	(1)	(145)	(840)	(1,765)	**(2,751)**
Transfers	6	-	6	(32)	**(20)**
December 31, 2018	**3,028**	**10,889**	**16,496**	**5,580**	**35,993**
Accumulated depreciation					
January 1, 2018	-	4,849	11,749	1,739	**18,337**
Depreciation	-	479	1,831	1,269	**3,579**
Amortization	-	276	-	-	**276**
Disposals	-	(93)	(541)	(1,800)	**(2,434)**
Transfers	-	-	1	(18)	**(17)**
December 31, 2018	**-**	**5,511**	**13,040**	**1,190**	**19,741**
Net book value, December 31, 2018	**3,028**	**5,378**	**3,456**	**4,390**	**16,252**

	2017				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2017	3,075	6,910	14,357	4,852	29,194
Additions	-	1,354	1,770	2,387	5,511
Disposals	(65)	(189)	(848)	(1,734)	(2,836)
Transfers	13	1,798	(2)	-	1,809
December 31, 2017	3,023	9,873	15,277	5,505	33,678
Accumulated depreciation					
January 1, 2017	-	3,110	10,687	1,588	15,385
Depreciation	-	309	1,600	1,125	3,034
Amortization	-	284	-	-	284
Disposals	-	(111)	(537)	(971)	(1,619)
Transfers	-	1,540	(2)	-	1,538
December 31, 2017	-	5,132	11,748	1,742	18,622
Net book value, December 31, 2017	3,023	4,741	3,529	3,763	15,056

<u>Parent</u>

	2018			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2018	2,661	8,582	13,850	**25,093**
Additions	(1)	1,178	1,590	**2,767**
Disposals	-	(145)	(732)	**(877)**
Transfers	17	-	-	**17**
December 31, 2018	**2,677**	**9,615**	**14,708**	**27,000**
Accumulated depreciation				
January 1, 2018	-	4,492	10,696	**15,188**
Depreciation	-	439	1,634	**2,073**
Amortization	-	203	-	**203**
Disposals	-	(94)	(516)	**(610)**
December 31, 2018	**-**	**5,040**	**11,814**	**16,854**
Net book value, December 31, 2018	**2,677**	**4,575**	**2,894**	**10,146**

	2017			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2017	2,660	6,047	13,156	21,863
Additions	-	1,023	1,452	2,475
Disposals	-	(78)	(757)	(835)
Transfers	-	1,823	-	1,823
December 31, 2017	2,660	8,815	13,851	25,326
Accumulated depreciation				
January 1, 2017	-	2,722	9,746	12,468
Depreciation	-	270	1,437	1,707
Amortization	-	233	-	233
Disposals	-	(41)	(487)	(528)
Transfers	-	1,541	-	1,541
December 31, 2017	-	4,725	10,696	15,421
Net book value, December 31, 2017	2,660	4,090	3,155	9,905

Depreciation is included in "Occupancy and equipment-related expenses" category in the statements of income.

In 2018, the Parent Bank realized a gain of P969 million (Note 19) from the disposal of certain properties.

Note 12 - Investments in Subsidiaries and Associates, net

This account at December 31 consists of investments in shares of stock:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**5,659**	6,386	**-**	-
Investments at cost method	**-**	-	**9,942**	9,043
	5,659	6,386	**9,942**	9,043

Investments in associates accounted for using the equity method in the consolidated statements of condition follow:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Acquisition cost	
		2018	2017	**2018**	2017
		(in %)		(In Millions of Pesos)	
BPI-Philamlife Assurance Corporation	Philippines	**47.67**	47.67	**371**	371
AF Payments, Inc. (AFPI)	Philippines	**20.00**	20.00	**750**	690
National Reinsurance Corporation of the Philippines*	Philippines	**13.69**	13.69	**204**	204
Beacon Property Ventures, Inc.	Philippines	**20.00**	20.00	**72**	72
CityTrust Realty Corporation	Philippines	**40.00**	40.00	**2**	2
Global Payments Asia-Pacific Philippines, Incorporated	Philippines	**49.00**	49.00	**1,342**	1,342
				2,741	2,681

**The Parent Bank has a significant influence due to its representation on the governing body of National Reinsurance Corporation of the Philippines*

Details and movements of investments in associates accounted for using the equity method in the consolidated financial statements follow:

	2018	2017
	(In Millions of Pesos)	
Acquisition cost		
At January 1	**2,681**	2,589
Additions	**60**	100
Return of capital	**-**	(8)
At December 31	**2,741**	2,681
Accumulated equity in net income		
At January 1	**3,239**	2,989
Share in net income for the year	**700**	772
Dividends received	**(675)**	(522)
At December 31	**3,264**	3,239
Accumulated share in other comprehensive income (loss)		
At January 1	**466**	1,240
Share in other comprehensive loss for the year	**(672)**	(774)
At December 31	**(206)**	466
Allowance for impairment	**(140)**	-
	5,659	6,386

AFPI is an associate of BPI Payments Holdings Inc., a subsidiary of the Parent Bank. In 2018, the BPI Group recognized an allowance for impairment on its investment in AFPI in view of the latter's recurring losses.

No associate is deemed individually significant for financial reporting purposes. Accordingly, the relevant unaudited financial information of associates as at and for the years ended December 31 has been aggregated as follows:

	2018	2017
	(In Millions of Pesos)	
Total assets	**122,616**	125,471
Total liabilities	**105,960**	107,209
Total revenues	**18,618**	33,538
Total net income	**1,425**	1,486

The details of equity investments accounted for using the cost method in the separate financial statements of the Parent Bank follow:

	Acquisition cost		Allowance for impairment		Carrying value	
	2018	2017	**2018**	2017	**2018**	2017
	(In Millions of Pesos)					
Subsidiaries						
BPI Europe Plc.	**1,910**	1,910	**-**	-	**1,910**	1,910
BPI Asset Management and Trust Corporation (BPI AMTC)	**1,502**	600	**-**	-	**1,502**	600
BPI Direct BanKo, Inc., A Savings Bank	**1,009**	1,009	**-**	-	**1,009**	1,009
Ayala Plans, Inc.	**863**	863	**-**	-	**863**	863
BPI Capital Corporation	**623**	623	**-**	-	**623**	623
BPI Payments Holdings Inc. (BPHI)	**503**	443	**(299)**	-	**204**	443
BPI Century Tokyo Lease and Finance Corporation	**329**	329	**-**	-	**329**	329
FGU Insurance Corporation	**303**	303	**-**	-	**303**	303
BPI Forex Corp.	**195**	195	**-**	-	**195**	195
BPI Express Remittance Corp. USA	**191**	191	**-**	-	**191**	191
BPI Family Savings Bank, Inc.	**150**	150	**-**	-	**150**	150
BPI Remittance Centre (HK) Ltd. (BERK HK)	**132**	-	**-**	-	**132**	-
First Far-East Development Corporation	**91**	91	**-**	-	**91**	91
Green Enterprises S.R.L. in Liquidation	**54**	54	**-**	-	**54**	54
FEB Stock Brokers, Inc.	**25**	25	**-**	-	**25**	25
BPI Computer Systems Corp.	**23**	23	**-**	-	**23**	23
BPI Express Remittance Spain S.A	**26**	26	**-**	-	**26**	26
Others	**321**	321	**-**	(104)	**321**	217
Associates	**1,991**	1,991	**-**	-	**1,991**	1,991
	10,241	9,147	**(299)**	(104)	**9,942**	9,043

No non-controlling interest arising from investments in subsidiaries is deemed material to the BPI Group.

In 2018, the Parent Bank made an additional capital infusion to BPHI amounting to P60 million (2017 - P103 million). Likewise, the Parent Bank in 2018, recognized impairment loss of P299 million on its investment in BPHI due financial losses incurred by BPHI's associate, AFPI, as disclosed above.

On October 17, 2018, the Parent Bank made additional investment to BPI AMTC via transfer of contractual customer relationships (included in "Intangible assets" in Note 14) valued at P902 million.

On November 21, 2018, BPI International Finance Limited (included in "Others" subsidiaries in the table above) distributed its shares in BERC HK valued at P132 million as a property dividend to the Parent Bank. BERK HK became an immediate subsidiary of the Parent Bank following the property dividend declaration.

The Parent Bank reversed in 2018 previously recognized impairment loss of P104 million on its investments in other smaller subsidiaries due to improvement in the investees' operations.

Note 13 - Deferred Income Taxes

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for credit and impairment losses	**7,833**	7,286	**5,329**	4,736
Pension liability	**661**	738	**454**	683
Provisions	**329**	328	**248**	254
Net operating loss carry over (NOLCO)	**-**	129	**-**	-
Others	**225**	160	**195**	34
Total deferred income tax assets	**9,048**	8,641	**6,226**	5,707
Deferred income tax liabilities				
Unrealized gain on property appraisal	**(491)**	(507)	**(491)**	(507)
Others	**(21)**	(43)	**(12)**	(20)
Total deferred income tax liabilities	**(512)**	(550)	**(503)**	(527)
Deferred income tax assets, net	**8,536**	8,091	**5,723**	5,180

Movements in net deferred income tax assets are summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**8,091**	7,543	**5,180**	4,571
Amounts recognized in statements of income	**734**	462	**776**	462
Amounts recognized in other comprehensive income	**(289)**	86	**(233)**	147
At December 31	**8,536**	8,091	**5,723**	5,180

Details of deferred income tax items recognized in the statements of income are as follows:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Allowance for impairment	**(547)**	(443)	(377)	**(593)**	(563)	(57)
Provisions	**(1)**	(27)	(301)	**6**	(9)	(245)
Pension	**68**	174	(52)	**9**	(65)	36
NOLCO	**129**	(66)	-	**-**	-	-
Others	**(383)**	(100)	(154)	**(198)**	175	(173)
	(734)	(462)	(884)	**(776)**	(462)	(439)

Details of the outstanding NOLCO at December 31 are as follows:

Year of Incurrence	Year of Expiration	Consolidated 2018	Consolidated 2017	Parent 2018	Parent 2017
		(In Millions of Pesos)			
2017	2020	**69**	69	**-**	-
2016	2019	**202**	202	**-**	-
2015	2018	**197**	197	**-**	-
2014	2017	**-**	361	**-**	-
		468	829	**-**	-
Used portion/ expired during the year		**(468)**	(361)	**-**	-
NOLCO not recognized		**-**	(37)	**-**	-
		-	431	**-**	-
Tax rate		**30%**	30%	**30%**	30%
Deferred income tax asset on NOLCO		**-**	129	**-**	-

Note 14 - Other Assets, net

The account at December 31 consists of the following:

	Consolidated 2018	Consolidated 2017	**Parent** 2018	Parent 2017
	(In Millions of Pesos)			
Sundry debits	**3,392**	945	**3,292**	939
Intangible assets	**3,070**	2,454	**2,416**	2,413
Accounts receivable	**2,761**	2,781	**2,509**	5,233
Residual value of equipment for lease	**2,601**	2,242	**-**	-
Prepaid expenses	**1,343**	1,530	**1,007**	1,166
Rental deposits	**671**	563	**573**	484
Accrued trust and other fees	**540**	1,158	**131**	726
Creditable withholding tax	**408**	416	**79**	92
Investment properties	**129**	135	**118**	135
Miscellaneous assets	**8,108**	4,504	**6,853**	3,673
	23,023	16,728	**16,978**	14,861
Allowance for impairment	**(824)**	(848)	**(665)**	(701)
	22,199	15,880	**16,313**	14,160

Sundry debits pertain to float items arising from timing differences in recording transactions which are expected to clear within seven days.

Investment properties have aggregate fair value of P1,786 million as at December 31, 2018 (2017 - P1,281 million). The fair value of investment property is determined on the basis of valuation performed by duly accredited appraisers. The property valuation was determined mainly using the market data approach (Level 2).

All investment properties generate rental income. Income from investment properties (included in "Rental income" in Note 19) recognized in the statements of income amounts to P83 million in 2018 (2017 - P16 million; 2016 - P243 million). Direct operating expenses (including repairs and maintenance) arising from these investment properties amount to P6 million in 2018 (2017 - P12 million; 2016 - P190 million).

The allowance for impairment as at December 31, 2018 and 2017 mainly pertains to accounts receivable. The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**848**	1,190	**701**	990
Provision for (reversal of) impairment losses	**89**	(295)	**(69)**	(240)
Transfer/reallocation	**(34)**	-	**110**	-
Write-off	**(79)**	(47)	**(77)**	(49)
At December 31	**824**	848	**665**	701

Other assets are expected to be realized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**17,143**	11,524	**14,434**	11,996
Non-current (over 12 months)	**5,880**	5,204	**2,544**	2,865
	23,023	16,728	**16,978**	14,861

Note 15 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Demand	**256,279**	252,238	**245,620**	241,100
Savings	**883,650**	860,612	**778,246**	751,351
Time	**445,817**	449,350	**323,341**	331,512
	1,585,746	1,562,200	**1,347,207**	1,323,963

Deposit liabilities include amounts due to related parties (Note 26).

Deposit liabilities are expected to be settled as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**602,031**	818,811	**534,119**	726,560
Non-current (over 12 months)	**983,715**	743,389	**813,088**	597,403
	1,585,746	1,562,200	**1,347,207**	1,323,963

In 2017, the Parent Bank issued the first tranche of long-term negotiable certificates of deposit (LTNCD) amounting to P12.2 billion from the P30-billion facility approved by the BSP. The LTNCDs pay interest on a quarterly basis at a rate 3.7% per annum and carry a tenor of 5.5 years maturing on May 24, 2023. The proceeds from the LTNCD issuance is included in "Time deposits" category.

Related interest expense on deposit liabilities is presented below:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Demand	**687**	616	557	**630**	557	514
Savings	**7,384**	6,723	6,774	**6,061**	5,489	5,497
Time	**13,184**	9,321	7,970	**8,954**	5,367	3,605
	21,255	16,660	15,301	**15,645**	11,413	9,616

Under existing BSP regulations, the BPI Group should comply with a simplified minimum reserve requirement on statutory/legal and liquidity reserves. Further, BSP requires all reserves be kept at the central bank. The reserve requirement ratio imposed on universal and commercial banks decreased to 18% from 20% effective June 1, 2018 under BSP Circular No. 1004. The BPI Group is in full compliance with the simplified reserve requirement as at December 31, 2018 and 2017.

The required statutory/legal and liquidity reserves as reported to BSP at December 31 follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Required reserves (included in Due from BSP)	**214,196**	233,509	**195,883**	215,088

Note 16 - Bills Payable and Other Borrowed Funds

The account at December 31 consists of:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Bills payable				
Local banks	**58,810**	37,064	**46,761**	25,810
Foreign banks	**51,813**	46,453	**47,841**	44,912
Other borrowed funds	**56,278**	-	**56,278**	-
	166,901	83,517	**150,880**	70,722

Bills payable

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and BSP which were relent to customers of the BPI Group in accordance with the financing programs of LBP, DBP and BSP and credit balances of settlement bank accounts. The average payment term of these bills payable is 0.39 years and 0.95 years for 2018 and 2017, respectively. Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 10).

The range of average interest rates (%) of bills payable for the years ended December 31 follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Private firms and local banks - Peso-denominated	**2.75 - 7.35**	3.22 - 4.10	**2.75 - 5.06**	4.26 - 4.66
Foreign banks - Foreign currency-denominated	**1.32 - 4.20**	1.69 - 1.82	**1.32 - 3.26**	1.69 - 1.82

Other borrowed funds

On September 19, 2018, the BOD of the Parent Bank approved the establishment of a Peso Bond and Commercial Paper Program in the aggregate amount of up to P50,000 million. On December 6, 2018, the Parent Bank issued P25,000 million with a coupon of 6.7970% per annum, payable quarterly to mature on March 6, 2020.

Likewise on June 21, 2018, the Parent Bank has established a Medium Term Note Programme in the aggregate amount of up to US$2,000 million. Under this Programme, the Parent Bank issued on September 4, 2018 US$600 million in 5-year Senior Unsecured Fixed Rate Reg S Notes with a coupon of 4.25% to mature on September 4, 2023.

The proceeds from the above debt issuances are presented above as “Other borrowed funds”.

Interest expense for the years ended December 31 is summarized as follows:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Bills payable	**2,517**	1,150	634	**2,013**	885	406
Other borrowed funds	**575**	-	-	**575**	-	-
	3,092	1,150	634	**2,588**	885	406

Bills payable and other borrowed funds are expected to be settled as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(in millions of pesos)			
Current (within 12 months)	**99,381**	63,671	**84,086**	50,877
Non-current (over 12 months)	**67,520**	19,846	**66,794**	19,845
	166,901	83,517	**150,880**	70,722

The movement in bills payable and other borrowed funds is summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**83,517**	61,973	**70,722**	52,257
Additions	**706,779**	365,417	**651,065**	331,286
Maturities	**(623,196)**	(344,043)	**(570,594)**	(313,005)
Amortization of discount	**121**	71	**120**	71
Exchange differences	**(320)**	99	**(433)**	113
At December 31	**166,901**	83,517	**150,880**	70,722

Note 17 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Bills purchased - contra	**12,872**	12,505	**12,862**	12,499
Accounts payable	**8,096**	5,534	**5,635**	3,339
Dividends payable	**4,053**	3,546	**4,052**	3,545
Deposits on lease contracts	**2,438**	2,136	**-**	-
Outstanding acceptances	**2,394**	2,992	**2,394**	2,992
Withholding tax payable	**674**	599	**514**	459
Due to the Treasurer of the Philippines	**650**	636	**575**	562
Other deferred credits	**810**	418	**67**	83
Miscellaneous liabilities	**11,133**	11,613	**9,694**	9,733
	43,120	39,979	**35,793**	33,212

Bills purchased - contra represents liabilities arising from the outright purchases of checks due for clearing as a means of immediate financing offered by the BPI Group to its clients.

Miscellaneous liabilities include pension liability, insurance, allowance for impairment of undrawn committed credit facilities and other employee-related payables.

The account is expected to be settled as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**41,343**	36,192	**34,753**	31,375
Non-current (over 12 months)	**1,777**	3,787	**1,040**	1,837
	43,120	39,979	**35,793**	33,212

Note 18 - Capital Funds

a) Share capital

Details of authorized share capital of the Parent Bank follow:

	2018	2017	2016
	(In Millions of Pesos, except par value per share)		
Authorized capital (at P10 par value per share)			
Common shares	**49,000**	49,000	49,000
Preferred A shares	**600**	600	600
	49,600	49,600	49,600

Details of outstanding common shares follow:

	2018	2017	2016
	(In Number of Shares)		
Issued common shares			
At January 1	**3,939,412,661**	3,937,043,603	3,932,220,179
Issuance of shares during the year	**563,036,840**	2,369,058	4,823,424
At December 31	**4,502,449,501**	3,939,412,661	3,937,043,603
Subscribed common shares	**6,341,738**	5,785,721	6,213,433

On April 25, 2018, BPI completed its P50 billion stock rights offer, which paved the way for the issuance of 558,659,210 new common shares at P89.50 per share. The new shares were issued to shareholders as of record date April 6, 2018, at a ratio of 1:7.0594, or 1 new common share for every 7 shares held, or 14.2% of BPI's outstanding common shares. These new shares were listed on the Philippine Stock Exchange (PSE) on May 4, 2018.

BPI's shares are listed and traded in the PSE since October 12, 1971. On February 10, 2014, additional 370,370,370 common shares were listed as a result of the stock rights offer.

As at December 31, 2018, 2017 and 2016, the Parent Bank has 12,588, 11,488, and 11,596 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2018, 2017 and 2016.

b) Reserves

The account consists of:

	Consolidated			**Parent**		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
General loan loss provision (GLLP)	**3,867**	-	-	**3,867**	-	-
Executive stock option plan amortization	**105**	130	100	**76**	108	84
Reserve for trust business	**90**	90	2,577	**-**	-	2,577
Reserve for self-insurance	**34**	34	34	**34**	34	34
	4,096	254	2,711	**3,977**	142	2,695

In 2018, the BSP issued Circular 1011 which mandates among others, banks to set up GLLP equal to 1% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Under the said Circular, if the PFRS 9 loan loss provision is lower than the required GLLP, the deficiency shall be recognized as an appropriation of retained earnings or surplus. Accordingly, the BPI Group appropriated P3,867 million representing the excess of GLLP over PFRS 9 loan loss provision out of surplus earnings to meet the requirement of the BSP.

In compliance with existing BSP regulations, 10% of the Parent Bank's income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business reaches 20% of the Parent Bank's regulatory net worth. Starting 2017, the 10% appropriation is based on the income of BPI AMTC following its spin-off.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of personnel and third parties.

Details of and movements in reserves for the years ended December 31 follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Surplus reserves						
At January 1	**254**	2,711	2,563	**142**	2,695	2,555
Transfer from surplus to reserves	**3,867**	90	103	**3,867**	-	-
Stock option plan	**(25)**	31	45	**(32)**	25	37
Transfer from reserves to surplus	**-**	(2,578)	-	**-**	(2,578)	103
At December 31	**4,096**	254	2,711	**3,977**	142	2,695

The BOD of the Parent Bank approved to grant the Executive Stock Option Plan (ESOP) and Executive Stock Purchase Plan (ESPP) to qualified beneficiaries/participants up to the following number of shares for future distribution:

Date	Approved ESOP shares	Approved ESPP shares
December 11, 2018	4,168,000	11,500,000
December 13, 2017	3,560,000	7,500,000
December 14, 2016	3,560,000	4,500,000
December 18, 2015	3,575,000	8,000,000

The ESOP has a three-year vesting period from grant date while the ESPP has a five-year payment period.

The exercise price for ESOP is equal to the volume weighted average of BPI share price for the 30-trading days immediately prior to the grant date. The weighted average fair value of options granted determined using the Black-Scholes valuation model was P6.50, P17.41 and P13.83 for the years ended December 31, 2018, 2017 and 2016, respectively.

Movements in the number of share options under the ESOP are summarized as follows:

	2018	2017	2016
At January 1	**11,338,333**	9,100,000	9,225,000
Granted	**3,480,000**	3,485,000	-
Exercised	**(2,786,665)**	(746,667)	(16,667)
Cancelled	**(258,334)**	(500,000)	(108,333)
At December 31	**11,773,334**	11,338,333	9,100,000
Exercisable	**5,120,000**	6,745,000	3,033,333

The impact of ESOP is not considered material to the financial statements, thus, the disclosures were limited only to the information mentioned above.

The subscription price for ESPP is equivalent to 15% below the volume weighted average of BPI share price for the 30-trading days immediately prior to the grant date. The subscription dates for ESPP were on January 7, 2019, February 15, 2017, and January 25, 2016.

c) Accumulated other comprehensive loss

Details of and movements in the account follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	**(3,125)**	(3,838)	(4,381)	**(3,275)**	(3,724)	(4,226)
Effect of PFRS 9 adoption	**3, 125**	-	-	**3,275**		
Unrealized fair value loss before tax	**-**	264	(507)	**-**	23	(133)
Amount recycled to profit or loss	**-**	447	1,072	**-**	424	623
Deferred income tax effect	**-**	2	(22)	**-**	2	12
At December 31	**-**	(3,125)	(3,838)	**-**	(3,275)	(3,724)
Fair value reserve on financial assets at FVOCI						
Effect of PFRS 9 adoption	**757**	-	-	**210**	-	-
Unrealized fair value loss before tax	**(364)**	-	-	**(12)**	-	-
Amount recycled to profit or loss	**(390)**	-	-	**(128)**	-	-
Deferred income tax effect	**(36)**	-	-	**(1)**	-	-
At December 31	**(33)**	-	-	**69**	-	-
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	**45**	(158)	(67)	**-**	-	-
Effect of PFRS 9 adoption	**229**	-	-	**-**		
Share in other comprehensive income (loss) for the year, before tax	**(316)**	175	(108)	**-**	-	-
Deferred income tax effect	**6**	28	17	**-**	-	-
At December 31	**(36)**	45	(158)	**-**	-	-
Share in other comprehensive income of associates						
At January 1	**479**	1,259	1,333	**-**	-	-
Share in other comprehensive loss for the year	**(685)**	(780)	(74)	**-**	-	-
At December 31	**(206)**	479	1,259	**-**	-	-
Translation adjustment on foreign operations						
At January 1	**(678)**	(804)	(691)	**-**	-	-
Translation differences	**(26)**	126	(113)	**-**	-	-
At December 31	**(704)**	(678)	(804)	**-**	-	-
Remeasurements of defined benefit obligation, net						
At January 1	**(1,809)**	(1,537)	(958)	**(1,421)**	(1,083)	(654)
Actuarial gains (losses) for the year	**877**	(387)	(827)	**616**	(358)	(613)
Deferred income tax effect	**(265)**	115	248	**(185)**	20	184
At December 31	**(1,197)**	(1,809)	(1,537)	**(990)**	(1,421)	(1,083)
	(2,176)	(5,088)	(5,078)	**(921)**	(4,696)	(4,807)

d) Dividend declarations

Cash dividends declared by the BOD of the Parent Bank in the years 2016 to 2018 follow:

	Amount of dividends	
Date declared	Per share	Total (in millions of pesos)
June 15, 2016	0.90	3,543
December 14, 2016	0.90	3,543
June 15, 2017	0.90	3,545
December 15, 2017	0.90	3,546
June 20, 2018	0.90	4,052
December 19, 2018	0.90	4,052

e) Earnings per share (EPS)

The calculation of EPS is shown below:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos, except earnings per share amounts)					
a) Net income attributable to equity holders of the Parent Bank	**23,078**	22,416	22,050	**15,428**	22,097	20,885
b) Weighted average number of common shares outstanding during the year	**4,316**	3,939	3,937	**4,316**	3,939	3,937
c) Basic EPS (a/b)	**5.35**	5.69	5.60	**3.57**	5.61	5.30

The basic and diluted EPS are the same for the years presented as the impact of stock options outstanding is not significant to the calculation of weighted average number of common shares.

Note 19 - Other Operating Income

Details of other operating income follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Credit card income	**3,197**	2,953	1,423	**3,126**	2,894	1,412
Trust and asset management fees	**2,818**	3,516	3,376	**-**	190	2,202
Rental income	**1,898**	1,672	1,660	**254**	219	328
Gain on sale of assets	**1,243**	1,204	668	**658**	302	299
Dividend income	**76**	68	56	**904**	9,492	6,083
Others	**1,155**	1,380	1,266	**977**	1,074	1,008
	10,387	10,793	8,449	**5,919**	14,171	11,332

Dividend income recognized by the Parent Bank substantially pertains to dividend distributions of subsidiaries.

Other income includes recoveries on charged-off assets and revenues from service arrangements with customers and related parties.

Note 20 - Leases

The BPI Group and the Parent Bank (as lessee) have various lease agreements which mainly pertain to branch premises that are renewable under certain terms and conditions. The rentals (included in Occupancy and equipment-related expenses) under these lease contracts are as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2018	**1,809**	**1,503**
2017	1,495	1,211
2016	1,337	1,097

The future minimum lease payments under non-cancellable operating leases of the BPI Group are as follows:

	2018	2017
	(In Millions of Pesos)	
No later than 1 year	**107**	90
Later than 1 year but no later than 5 years	**214**	186
More than 5 years	**57**	69
	378	345

Note 21 - Operating Expenses

Details of compensation and fringe benefits expenses follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
			(In Millions of Pesos)			
Salaries and wages	**12,624**	11,642	11,332	**9,702**	8,891	8,998
Retirement expense (Note 24)	**755**	720	755	**608**	574	602
Other employee benefit expenses	**1,936**	1,535	1,376	**1,524**	1,226	1,113
	15,315	13,897	13,463	**11,834**	10,691	10,713

Details of other operating expenses follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
			(In Millions of Pesos)			
Insurance	**4,105**	3,940	3,426	**2,789**	2,448	2,160
Advertising	**1,310**	1,215	1,144	**1,123**	1,002	955
Travel and communication	**1,002**	902	812	**825**	748	687
Taxes and licenses	**791**	714	620	**539**	491	369
Management and other professional fees	**606**	501	495	**626**	419	424
Office supplies	**592**	328	324	**490**	267	271
Supervision and examination fees	**587**	542	606	**441**	401	526
Litigation expenses	**526**	598	512	**255**	348	279
Amortization expense	**293**	296	312	**11**	289	308
Shared expenses	**-**	-	-	**26**	16	12
Others	**5,329**	4,256	3,071	**4,132**	3,197	2,157
	15,141	13,292	11,322	**11,257**	9,626	8,148

Other expenses mainly include fees and incentives paid to agents, outsourcing fees, freight charges and other business expense such as those incurred in staff meetings, donations, periodicals and magazines.

Note 22 - Income Taxes

A reconciliation between the income tax expense at the statutory tax rate and the effective income tax for the years ended December 31 follows:

	Consolidated					
	2018		2017		2016	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**9,000**	**30.00**	8,608	30.00	8,043	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(517)**	**(1.72)**	(696)	(2.42)	(764)	(2.85)
Tax-exempt income	**(1,582)**	**(5.27)**	(4,350)	(15.16)	(3,942)	(14.70)
Others, net	**(231)**	**(0.77)**	2,394	8.34	1,198	4.47
Effective income tax	**6,670**	**22.24**	5,956	20.76	4,535	16.92

	Parent					
	2018		2017		2016	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**6,134**	**30.00**	7,765	30.00	7,267	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(519)**	**(2.54)**	(606)	(2.34)	(669)	(2.76)
Tax-exempt income	**(495)**	**(2.42)**	(2,907)	(11.23)	(2,577)	(10.64)
Others, net	**(103)**	**(0.50)**	(466)	(1.80)	(683)	(2.82)
Effective income tax	**5,017**	**24.54**	3,786	14.63	3,338	13.78

Note 23 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2018	2017	**2018**	2017
Return on average equity	**10.21**	12.75	**8.50**	16.81
Return on average assets	**1.20**	1.27	**0.96**	1.54
Net interest margin	**3.11**	2.91	**2.87**	2.65

Note 24 - Retirement Plans

The BPI Group maintains both defined benefit and defined contribution retirement plans. Assets of both retirement plans are held in trust and governed by local regulations and practices in the Philippines. The key terms of these pension plans are discussed below.

a) Defined benefit retirement plan

BPI Group (excluding insurance operations)

BPI has a unified plan which covers all subsidiaries except insurance entities. Under this plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

The net defined benefit cost and contributions to be paid by the entities within the BPI Group are determined by an independent actuary.

Non-life insurance subsidiary

BPI/MS has a separate trusteed defined benefit plan. Under the plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 175% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered as least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service.

Death or disability benefit for all employees of the non-life insurance subsidiary shall be determined on the same basis as in normal or voluntary retirement as the case may be.

Following are the amounts recognized based on recent actuarial valuations:

(a) Pension liability as at December 31 recognized in the statements of condition

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Present value of defined benefit obligation	**10,892**	12,718	**9,171**	10,508
Fair value of plan assets	**(9,851)**	(10,710)	**(8,195)**	(9,003)
Pension liability recognized in the statements of condition	**1,041**	2,008	**976**	1,505

Pension liability is shown as part of "Miscellaneous liabilities" within Deferred credits and other liabilities (Note 17).

The movements in plan assets are summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**10,710**	10,084	**9,003**	8,543
Contributions	**781**	685	**627**	542
Interest income	**616**	525	**513**	445
Benefit payments	**(1,206)**	(1,051)	**(1,072)**	(840)
Remeasurement - return on plan assets	**(1,050)**	467	**(876)**	443
Transfer to defined contribution plan	**-**	-	**-**	(130)
At December 31	**9,851**	10,710	**8,195**	9,003

The carrying values of the plan assets represent their fair value as at December 31, 2018 and 2017.

The plan assets are comprised of the following:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Debt securities	**3,054**	3,786	**2,540**	3,183
Equity securities	**4,630**	4,763	**3,852**	4,003
Others	**2,167**	2,161	**1,803**	1,817
	9,851	10,710	**8,195**	9,003

The plan assets of the unified retirement plan include investment in BPI's common shares with aggregate fair value of P451 million at December 31, 2018 (2017 - P510 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movements in the present value of defined benefit obligation are summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**12,718**	11,952	**10,508**	9,905
Interest cost	**712**	607	**582**	501
Current service cost	**659**	619	**539**	507
Remeasurement - change in assumptions and experience adjustment	**(1,991)**	587	**(1,386)**	561
Benefit payments	**(1,206)**	(1,051)	**(1,072)**	(840)
Transfers to defined contribution plan	**-**	-	**-**	(130)
Other movements	**-**	4	**-**	4
At December 31	**10,892**	12,718	**9,171**	10,508

The BPI Group has no other transactions with the plan other than the regular funding contributions.

(b) Expense recognized in the statements of income

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Current service cost	**659**	619	649	**539**	507	535
Net interest cost	**96**	82	76	**69**	56	53
Settlement loss	**-**	9	163	**-**	9	123
Past service cost	**-**	(5)	(197)	**-**	(5)	(162)
	755	705	691	**608**	567	549

The principal assumptions used for the actuarial valuations of the unified plan are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Discount rate	**8.66%**	5.87%	**8.66%**	5.84%
Future salary increases	**5.00%**	5.00%	**5.00%**	5.00%

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the BPI Group to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the BPI Group. However, the BPI Group believes that due to the long-term nature of the pension liability and the strength of the BPI Group itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the BPI Group's long term strategy to manage the plan efficiently.

The BPI Group ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The BPI Group's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustor, as necessary to better ensure the appropriate asset-liability matching.

The BPI Group contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary engaged by management. The expected contributions for the year ending December 31, 2019 for the BPI Group and the Parent Bank amount to P659 million and P539 million, respectively. The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2018 is 8 years (2017 - 8 years).

The projected maturity analysis of retirement benefit payments as at December 31 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Up to one year	**1,310**	383	**1,076**	317
More than 1 year to 5 years	**3,632**	4,905	**3,036**	3,863
More than 5 years to 10 years	**7,437**	6,398	**6,388**	5,531
More than 10 years to 15 years	**11,116**	8,844	**9,310**	7,333
More than 15 years to 20 years	**8,014**	7,507	**6,869**	6,189
Over 20 years	**27,103**	16,150	**21,193**	12,326

The sensitivity of the defined benefit obligation as at December 31 to changes in the weighted principal assumptions follows:

Consolidated

2018

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 3.34%	Increase by 3.57%
Salary growth rate	1.0%	Increase by 7.59%	Decrease by 6.73%

2017

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 3.90%	Increase by 4.18%
Salary growth rate	1.0%	Increase by 7.66%	Decrease by 6.81%

Parent

2018

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 3.90%	Increase by 4.17%
Salary growth rate	1.0%	Increase by 8.86%	Decrease by 7.86%

2017

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 3.92%	Increase by 4.21%
Salary growth rate	1.0%	Increase by 7.71%	Decrease by 6.86%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statements of condition.

b) Defined contribution retirement plan

All non-unionized employees hired on or after the January 1, 2016 are automatically under the new defined contribution plan. Employees hired prior to the effective date shall have the option to elect to become members of the new defined contribution plan.

Under the normal or late retirement, employees are entitled to a benefit equal to the total of the following amounts:

- The higher between (a) cumulative fund balance equivalent to 8% of the basic monthly salary and (b) the minimum legal retirement benefit under the Labor Code
- Employee contributions fund

The defined contribution retirement plan has a defined benefit minimum guarantee equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of Republic Act ("RA") No. 7641.

Accordingly, the liability for the defined benefit minimum guarantee is actuarially calculated similar to the defined benefit plan.

The funding status of the defined contribution plan is shown below:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Fair value of plan assets	**1,254**	916	**930**	707
Present value of defined benefit obligation	**(298)**	(239)	**(219)**	(172)
	956	677	**711**	535
Effect of asset ceiling	**956**	677	**711**	535
	-	-	**-**	-

The movements in the present value of the defined benefit obligation follow:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**239**	235	**172**	192
Interest cost	**15**	12	**10**	10
Current service cost	**48**	43	**31**	29
Benefit payments	**(20)**	3	**(18)**	-
Transfer to the Plan	**-**	-	**-**	(36)
Remeasurement - change in assumptions and experience adjustment	**16**	(54)	**24**	(23)
At December 31	**298**	239	**219**	172

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**916**	660	**707**	536
Contribution paid by employer	**183**	152	**139**	116
Interest income	**62**	40	**48**	32
Benefit payments	**(20)**	-	**(18)**	-
Transfer to the plan	**-**	-	**54**	(36)
Remeasurement - return on plan assets	**113**	64	**-**	59
At December 31	**1,254**	916	**930**	707

Total retirement expense for the year ended December 31, 2018 under the defined contribution plan for the BPI Group and Parent Bank is P43 million (2017 - P39 million) and P27 million (2017 - P26 million).
The components of plan assets of the defined contributions as at December 31, 2018 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Debt securities	**966**	707	**716**	545
Equity securities	**213**	155	**214**	120
Others	**75**	54	**-**	42
	1,254	916	**930**	707

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 19 years (2017 - 20 years).

Note 25 - Asset Management Business

At December 31, 2018, the net asset value of trust and fund assets managed by the BPI Group through BPI AMTC amounts to P591 billion (2017 - P591 billion).

As required by the General Banking Act, BPI AMTC has deposited government securities with the BSP valued at P349 million (2017 - P306 million).

Note 26 - Related Party Transactions

In the normal course of business, the Parent Bank transacts with related parties consisting of its subsidiaries and associates. Likewise, the BPI Group has transactions with Ayala Corporation (AC) and subsidiaries (Ayala Group), on an arm's length basis. AC is a significant stockholder of BPI as at reporting date.

The Parent Bank has a Board-level Related Party Transaction Committee that vets and endorses all significant related party transactions, including those involving directors, officers, stockholders and their related interests (DOSRI), for which the latter shall require final Board approval. The Committee consists of three directors, majority of whom are independent directors including the Chairman, and two non-voting members from management, namely, the Chief Audit Executive and the Chief Compliance Officer.

Transactions with related parties have terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market.

A summary of significant related party transactions and outstanding balances as at and for the years ended December 31 is shown below (transactions with subsidiaries have been eliminated in the consolidated financial statements):

Consolidated

	2018		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**(81)**	**53**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 3.87% to 8.25% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	**190**	**387**	
Ayala Group	**5,026**	**32,579**	
Other related parties	**159**	**461**	
	5,294	**33,480**	
Deposits from:			
Subsidiaries	**373**	**8,722**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.31% Savings - 0.62% to 0.68% Time - 2.61% to 4.37%
Associates	**38**	**417**	
Ayala Group	**12,263**	**16,804**	
Key management personnel	**162**	**543**	
	12,836	**26,486**	

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	59	134	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	152	197	
Ayala Group	(609)	27,553	
Key management personnel	-	-	
Other related parties	(592)	302	
	(990)	28,186	
Deposits from:			
Subsidiaries	1,111	8,349	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.25% Savings - 0.70% to 0.79% Time - 2.15% to 2.22%
Associates	(469)	379	
Ayala Group	(7,665)	4,541	
Key management personnel	(959)	381	
	(7,982)	13,650	

	2016		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	3	75	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	45	45	
Ayala Group	(1,034)	28,162	
Key management personnel	-	-	
Other related parties	(552)	894	
	(1,538)	29,176	
Deposits from:			
Subsidiaries	146	7,238	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.27% Savings - 0.81% Time - 2.13% to 2.26%
Associates	135	848	
Ayala Group	845	12,206	
Key management personnel	(545)	1,340	
	581	21,632	

Parent

	2018		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**(81)**	**53**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 3.87% to 8.25% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	**190**	**387**	
Ayala Group	**5,026**	**32,579**	
Key management personnel	**-**	**-**	
Other related parties	**159**	**461**	
	5,294	**33,480**	
Deposits from:			
Subsidiaries	**388**	**8,631**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.30% Savings - 0.58% to 0.64% Time - 2.33 to 4.67%
Associates	**55**	**414**	
Ayala Group	**10,446**	**14,974**	
Key management personnel	**103**	**463**	
	10,992	**24,482**	

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	59	134	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	152	197	
Ayala Group	(609)	27,553	
Key management personnel	-	-	
Other related parties	(592)	302	
	(990)	28,186	
Deposits from:			
Subsidiaries	1,098	8,243	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.24% Savings - 0.66% to 0.75% Time - 1.68% to 1.80%
Associates	(482)	359	
Ayala Group	(7,452)	4,528	
Key management personnel	(772)	360	
	(7,608)	13,490	

	2016		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	3	75	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	45	45	
Ayala Group	(1,034)	28,162	
Key management personnel	-	-	
Other related parties	(552)	894	
	(1,538)	29,176	
Deposits from:			
Subsidiaries	141	7,145	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.25% Savings - 0.76% to 0.77% Time - 1.43% to 1.48%
Associates	130	841	
Ayala Group	1,231	11,980	
Key management personnel	(641)	1,132	
	861	21,098	

The aggregate amounts included in the determination of income before income tax (prior to elimination) that resulted from transactions with each class of related parties are as follows:

Consolidated

	2018	2017	2016
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**84**	39	43
Associates	**14**	-	-
Ayala Group	**1,346**	966	790
Other related parties	**20**	15	31
	1,464	1,020	864
Other income			
Subsidiaries	**1,801**	1,485	946
Associates	**1,222**	977	885
Ayala Group	**203**	247	66
	3,226	2,709	1,897
Interest expense			
Subsidiaries	**84**	38	41
Associates	**2**	1	8
Ayala Group	**119**	21	74
Key management personnel	**3**	1	15
	208	61	138
Other expenses			
Subsidiaries	**1,698**	1,371	836
Associates	**51**	34	36
Ayala Group	**501**	319	269
	2,250	1,724	1,141
Retirement benefits			
Key management personnel	**47**	44	44
Salaries, allowances and other short-term benefits			
Key management personnel	**800**	744	749
Directors' remuneration	**93**	87	77

Parent

	2018	2017	2016
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**1**	3	2
Associates	**14**	-	-
Ayala Group	**1,346**	966	790
Other related parties	**20**	15	31
	1,381	984	823
Other income			
Subsidiaries	**1,620**	1,433	893
Associates	**1,035**	977	777
Ayala Group	**137**	155	-
	2,792	2,565	1,670
Interest expense			
Subsidiaries	**84**	34	39
Associates	**2**	1	8
Ayala Group	**98**	20	65
Key management personnel	**3**	1	14
	187	56	126
Other expenses			
Subsidiaries	**145**	27	21
Ayala Group	**501**	319	259
	646	346	280
Retirement benefits			
Key management personnel	**40**	37	37
Salaries, allowances and other short-term benefits			
Key management personnel	**697**	629	604
Directors' remuneration	**77**	73	67

Other income mainly consists of rental income and revenue from service arrangements with related parties.

Other expenses mainly consist of rental expenses and management fees.

Details of DOSRI loans are as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
		(In Millions of Pesos)		
Outstanding DOSRI loans	**8,248**	4,376	**8,248**	4,335

	In percentages (%)			
	Consolidated		**Parent**	
	2018	2017	**2018**	2017
% to total outstanding loans and advances	**0.60**	0.36	**0.73**	0.44
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	**21.51**	29.63	**21.51**	29.85
Past due DOSRI loans	**-**	0.03	**-**	0.03
Non-performing DOSRI loans	**-**	0.02	**-**	0.02

The BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans. At December 31, 2018 and 2017.

As at December 31, 2018, allowance for credit losses amounting to P40 million (2017 - P139 million) have been recognized against receivables from related parties.

Note 27 - Critical Accounting Estimates and Judgments

The BPI Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

A. Critical accounting estimates

(i) Measurement of the expected credit loss for loans and advances under PFRS 9

The measurement of the expected credit loss (ECL) for loans and advances is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Forward-looking scenarios

Three distinct macroeconomic scenarios (baseline, upside and downside) are considered in the BPI Group's estimation of expected credit losses in Stage 1 and Stage 2. These scenarios are based on assumptions supported by economic theories and historical experience. The downside scenario reflects a negative macroeconomic event occurring within the first 12 months, with conditions deteriorating for up to two years, followed by a recovery for the remainder of the period. This scenario is grounded in historical experience and assumes a monetary policy response that returns the economy to a long-run, sustainable growth rate within the forecast period. The probability of each scenario is determined using expert judgment and recession probability tools provided by reputable external service providers. The baseline case incorporates the BPI Group's outlook for the domestic and global economy. The best and worst case scenarios take into account certain adjustments that will lead to a more positive or negative economic outcome.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes is likewise considered, if material.

The most significant period-end assumptions used for the ECL estimate are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

At December 31, 2018

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	7.0	6.4	7.3	7.3	4.1	-1.2
Inflation Rate (%)	4.1	3.2	3.5	2.7	6.1	8.8
PDST-R2 5Y (%)	7.0	6.7	6.7	6.4	8.1	10.7
US Treasury 5Y (%)	3.2	2.4	2.7	2.2	6.0	3.7
Exchange Rate	54.638	57.796	53.620	52.812	55.829	66.661

At January 1, 2018

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	6.5	6.7	7.7	7.9	2.0	-6.4
Inflation Rate (%)	2.8	2.6	2.1	2.0	9.6	23.6
PDST-R2 5Y (%)	5.0	6.7	4.9	6.2	18.5	36.2
US Treasury 5Y (%)	2.7	4.3	2.5	3.8	8.1	8.2
Exchange Rate	53.231	53.861	48.831	48.133	65.470	146.286

Sensitivity analysis

The loan portfolios have different sensitivities to movements in macroeconomic variables, so the above three scenarios have varying impact on the expected credit losses of BPI Group's portfolios. The allowance for impairment is calculated as the weighted average of expected credit losses under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P1,850 million from the baseline scenario as of December 31, 2018.

Transfers between stages

Transfers from Stage 1 and Stage 2 are based on the assessment of significant increase in credit risk ('SICR') from initial recognition, as described in Note 31.3.2.2. The impact of moving from 12 months expected credit losses to lifetime expected credit losses, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in expected credit losses. Assuming all Stage 2 accounts are considered as Stage 1, allowance for impairment would have decreased by P1,436 million as at December 31, 2018.

(ii) Impairment of loans and advances under PAS 39

The BPI Group reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the BPI Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows of individually impaired accounts and the estimated impairment for collectively assessed accounts differs by +/- 5%, impairment provision for the year ended December 31, 2017 would be an estimated P466 million higher or lower.

(iii) Fair value of derivatives and other financial instruments (Notes 7 and 28.4)

The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the BOD before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments. The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

(iv) Pension liability on defined benefit plan (Note 24)

The BPI Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate and future salary increases. The BPI Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. The present value of the defined benefit obligations of the BPI Group at December 31, 2018 and 2017 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the BPI Group's assumptions are reflected as remeasurements in other comprehensive income. The BPI Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The sensitivity analysis on key assumptions is disclosed in Note 24.

(v) Useful lives of bank premises, furniture, fixtures and equipment (Note 11)

The BPI Group determines the estimated useful lives of its bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The BPI Group annually reviews the estimated useful lives of bank premises, furniture, fixtures and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the carrying values of bank premises, furniture, fixtures and equipment.

(vi) Impairment of investments subsidiaries and associates (Note 12)

Impairment assessment on investments in subsidiaries (at the Parent Bank's level) and associates (at the BPI Group level) is performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is computed based on the higher of the asset's fair value less cost to sell or value-in-use. Recoverable amounts are estimated for individual nonfinancial assets or, if it is not possible, for the cash-generating unit to which the nonfinancial asset belongs.

The carrying values of its investments in subsidiaries and associates and the related allowance for impairment losses are disclosed in Note 12.

B. Critical accounting judgments

(i) Classification of investment securities (Note 9)

The BPI Group follows the guidance of PFRS 9 starting January 1, 2018 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The BPI Group determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The BPI Group determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

Prior to January 1, 2018, the BPI Group followed the guidance of PAS 39 in classifying its financial assets. Key judgment was applied particularly in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity at amortized cost. In making this judgment, the BPI Group has assessed its intention and ability to hold such investments to maturity.

(ii) Realization of deferred income tax assets (Note 13)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax assets will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 28 - Financial Risk Management

The BOD carries out its risk management function through the Risk Management Committee (RMC) of the BOD. The RMC is tasked with nurturing a culture of risk management across the enterprise. The RMC sets the risk appetite; proposes and approves risk management policies, frameworks, and guidelines; and regularly reviews risk management structures, metrics, limits, and issues across the BPI Group, in order to meet and comply with regulatory and international standards on risk measurement and management.

At the management level, the Risk Management Office (RMO) is headed by the Chief Risk Officer (CRO). The CRO is ultimately responsible in leading the formulation of risk management policies and methodologies in alignment with the overall business strategy of BPI, ensuring that risks are prudently and rationally undertaken and within its risk appetite, as well as commensurate and disciplined to maximize returns on shareholders' capital. Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience. BPI's risk managers regularly monitor key risk indicators and report exposures against carefully established financial and business risk metrics and limits approved by the RMC. Finally, independent reviews are regularly conducted by the Internal Audit group and regulatory examiners to ensure that risk controls and mitigants are in place and functioning effectively as intended.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely negative to be avoided. Risk-taking actions present opportunities if risks are fully identified and accounted, deliberately taken, and are kept within prudent and rationalized limits.

The most important financial risks that the BPI Group manages are credit risk, liquidity risk and market risk.

28.1 Credit risk

The BPI Group takes on exposure to credit risk, which is the risk that may arise if a borrower or counterparty fails to meet its obligations in accordance with agreed terms. Credit risk is the single largest risk for the BPI Group's business; management therefore carefully manages its exposure to credit risk as governed by relevant regulatory requirements and international benchmarks.

Credit risk may also arise due to substantial exposures to a particular counterparty which the BPI Group manages by adopting proper risk controls and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The most evident source of credit risk is loans and advances; however, other sources of credit risk exist throughout the activities of the BPI Group, including in credit-related activities recorded in the banking, investment securities in the trading books and off-balance sheet transactions.

28.1.1 Credit risk management

The Credit Policy and Risk Management division supports the Credit Committees in coordination with various business lending and operations units in managing credit risk, and reports are regularly provided to Senior Management and the Board of Directors. A rigorous control framework is applied in the determination of ECL models. The BPI Group has policies and procedures that govern the calculation of ECL. All ECL models are regularly reviewed by the Risk Management Office to ensure that necessary controls are in place and the models are applied accordingly.

The review and validation are performed by groups that are independent of the team that prepares the calculations, e.g., Risk Models Validation and Internal Auditors. Expert judgements on measurement methodologies and assumptions are reviewed by a group of internal experts from various functions.

The BPI Group employs a range of policies and practices to mitigate credit risk. The BPI Group monitors its portfolio based on different segmentation to reflect the acceptable level of diversification and concentration. Credit concentration arises from substantial exposures to particular counterparties. Concentration risk in credit portfolios is inherent in banking and cannot be totally eliminated. However, said risk may be reduced by adopting proper risk control and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The BPI Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when deemed necessary. Limits on large exposures and credit concentration are approved by the BOD through the RMC.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the BPI Group's market transactions on any single day. For certain securities, the introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

The BPI Group employs a range of policies and practices to mitigate credit risk. Some of these specific control and risk mitigation measures are outlined below:

(a) Collateral or guarantees

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The BPI Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The BPI Group assesses the valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The common collateral types for loans and advances are:

- Mortgages over physical properties (e.g., real estate and personal);
- Mortgages over financial assets (e.g., guarantees); and
- Margin agreement for derivatives, for which the BPI Group has also entered into master netting agreements

In order to minimize credit loss, the BPI Group seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

The BPI Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collaterals held by the BPI Group since the prior period.

(b) Derivatives

The BPI Group maintains market limits on net open derivative positions (i.e., the difference between purchase and sale contracts). Credit risk is limited to the net current fair value of instruments, which in relation to derivatives is only a portion of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments (except where the BPI Group requires margin deposits from counterparties).

(c) Master netting arrangements

The BPI Group further restricts its exposure to credit losses by entering into master netting arrangements with certain counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts (asset position) is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The BPI Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Credit-related commitments

Documentary and commercial letters of credit - which are written undertakings by the BPI Group on behalf of a customer authorizing a third party to draw drafts on the BPI Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

28.1.2 Credit risk rating

The BPI Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The BPI Group use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. In addition, the models enable expert judgement from the Credit Review Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The BPI Group has put in place a credit classification system to promptly identify deteriorating exposures and to determine the appropriate credit losses. Classification is being done on the basis of BPI Group's existing internal credit risk rating system, credit models or determined using reputable external rating agencies. The following are the considerations observed by the BPI Group in classifying its exposures:

- *Standard monitoring* refers to accounts which do not have a greater-than-normal risk and do not possess the characteristics of special monitoring and defaulted loans. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.
- *Special monitoring* are accounts which need closer and frequent monitoring to prevent any further deterioration of the credit. The counterparty is assessed to be vulnerable to highly vulnerable and its capacity to meet its financial obligations is dependent upon favorable business, financial, and economic conditions.
- *Default* refers to accounts which exhibit probable to severe weaknesses wherein possibility of non-repayment of loan obligation is ranging from high to extremely high severity.

The mapping of internal credit risk ratings (CRRs) with the BPI Group's standard account classification is shown below:

i. Corporate (including cross-border loans) and SMEs loans

The BPI Group's internal credit risk rating system comprises a 30-scale rating with eighteen (18) 'pass' rating levels for large corporate accounts; 14-scale rating system with ten (10) 'pass' rating grades for SME; and 26-scale rating system with thirteen (13) pass ratings for cross-border accounts mapped based on reputable external rating agency.

The BPI Group uses the following set of classification:

Classifications	Large Corporate loans	Cross-Border Loans	SME Loans
Standard monitoring	AAA to B- or unrated and based on prescribed days past due (dpd) threshold	Investment Grade (IG) or Non-IG with no SICR; or based on prescribed dpd threshold	AAA to B- or unrated and based on prescribed dpd threshold
Special monitoring	CCC to C or based on prescribed dpd threshold	Non-IG with SICR but assessed to be non-impaired; based on prescribed dpd threshold	CCC to C or based on prescribed dpd threshold
Default	Adversely Classified Accounts (ACA) or based on prescribed dpd threshold or Item in Litigation (IL)	Default, with objective evidence of impairment; or based on prescribed dpd threshold	ACA or based on prescribed dpd threshold or IL

ii. Retail loans

The BPI Group uses automated scoring models to assess the level of risk for retail accounts. Behavioral indicators are considered in conjunction with other forward-looking information (e.g., industry forecast) to assess the level of risk of a loan. After the date of initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score which is mapped to a PD.

Classifications	Credit cards	Personal, auto and housing loans	SEME
Standard monitoring	Current to 29 dpd	Current to 30 dpd	Current to 7 dpd
Special monitoring	30 to 89 dpd	31 to 90 dpd	Not applicable
Default	90 dpd and up or IL	>90, IL, Loss	8 dpd and up

iii. Treasury and other investment debt securities

Investments in high grade securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. The level of credit risk for treasury and other investment debt securities and their associated probability of default (PD) are determined using reputable external ratings and/or available and reliable qualitative and quantitative information. In the absence of credit ratings, a comparable issuer or guarantor rating is used. Should there be a change in the credit rating of the chosen comparable, evaluation is made to ascertain whether the rating change is applicable to the security being assessed for impairment.

Classifications	Credit Risk Grade following S&P or its equivalent
Standard monitoring	IG (AAA to BBB-)
Special monitoring	Non-IG (BB+ to C)
Default	Default (D)

iv. Other financial assets at amortized cost

For other financial assets (accounts receivable, accrued interest and fees receivable, sales contract receivable, rental deposits), the BPI Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

28.1.3 Maximum exposure to credit risk

Credit risk exposures relating to loans and advances are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Corporate and SME loans, net	**1,122,610**	986,332	**1,074,782**	938,337
Retail loans, net	**232,286**	216,006	**51,174**	48,532
	1,354,896	1,202,338	**1,125,956**	986,869

The carrying amount of loans and advances above also represents the BPI Group's maximum exposure to credit risk. The following tables contain an analysis of the credit risk exposure of each financial instrument for which an ECL allowance is recognized.

Credit quality of loans and advances, net

Consolidated

Corporate and SME loans

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring	1,034,673	23,243	-	1,057,916	937,103
Special monitoring	48,392	16,077	-	64,469	52,765
Default	-	-	13,564	13,564	8,877
Gross carrying amount	**1,083,065**	**39,320**	**13,564**	**1,135,949**	998,745
Loss allowance	(5,768)	(1,843)	(5,728)	(13,339)	(12,413)
Carrying amount	**1,077,297**	**37,477**	**7,836**	**1,122,610**	986,332

Retail loans

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring	217,645	8,531	-	226,176	209,621
Special monitoring	1,002	5,727	-	6,729	6,598
Default	-	-	8,944	8,944	8,037
Gross carrying amount	**218,647**	**14,258**	**8,944**	**241,849**	224,256
Loss allowance	(4,114)	(1,405)	(4,044)	(9,563)	(8,250)
Carrying amount	**214,533**	**12,853**	**4,900**	**232,286**	216,006

Undrawn committed credit facilities

	2018			
	ECL Staging			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	(In Millions of Pesos)			
Credit grade				
Standard monitoring	232,257	74	-	232,331
Special monitoring	3,246	264	-	3,510
Default	-	-	63	63
Gross carrying amount	**235,503**	**338**	**63**	**235,904**
Loss allowance	(710)	(30)	(13)	(753)
Carrying amount	**234,793**	**308**	**50**	**235,151**

Parent

Corporate and SME loans

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring	995,540	22,727	-	1,018,267	896,166
Special monitoring	43,147	14,737	-	57,884	46,122
Default	-	-	9,772	9,772	6,538
Gross carrying amount	**1,038,687**	**37,464**	**9,772**	**1,085,923**	948,826
Loss allowance	(5,108)	(1,734)	(4,299)	(11,141)	(10,489)
Carrying amount	**1,033,579**	**35,730**	**5,473**	**1,074,782**	938,337

Retail loans

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring	51,886	338	-	52,224	48,223
Special monitoring	203	935	-	1,138	1,089
Default	-	-	2,638	2,638	2,645
Gross carrying amount	**52,089**	**1,273**	**2,638**	**56,000**	51,956
Loss allowance	(1,839)	(482)	(2,505)	(4,826)	(3,424)
Carrying amount	**50,250**	**791**	**133**	**51,174**	48,532

Undrawn committed credit facilities

	2018			
	ECL Staging			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	(In Millions of Pesos)			
Credit grade				
Standard monitoring	229,849	69	-	229,918
Special monitoring	3,242	258	-	3,500
Default	-	-	63	63
Gross carrying amount	**233,091**	**327**	**63**	**233,481**
Loss allowance	(682)	(28)	(13)	(723)
Carrying amount	**232,409**	**299**	**50**	**232,758**

The tables below present the gross amount of loans and advances that were Stage 2 accounts (PFRS 9) and past due but not impaired (PAS 39).

Consolidated

	2018 (PFRS 9)			2017 (PAS 39)		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			In Millions of Pesos)		
Current	35,632	5,697	**41,329**	-	-	-
Past due up to 30 days	175	2,834	**3,009**	645	507	1,152
Past due 31 - 90 days	3,513	5,727	**9,240**	348	1,446	1,794
Past due 91 - 180 days	-	-	**-**	913	7	920
Over 180 days	-	-	**-**	375	-	1,475
	39,320	**14,258**	**53,578**	2,281	1,960	5,341

Parent

	2018 (PFRS 9)			2017 (PAS 39)		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			(In Millions of Pesos)		
Current	34,696	241	**34,937**	-	-	-
Past due up to 30 days	47	97	**144**	392	63	455
Past due 31 - 90 days	2,721	935	**3,656**	149	1,006	1,155
Past due 91 - 180 days	-	-	**-**	391	-	391
Over 180 days	-	-	**-**	118	-	118
	37,464	**1,273**	**38,737**	1,050	1,069	2,119

Treasury and other investment securities

Credit risk exposures relating to treasury and other investment securities are as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
		(In Millions of Pesos)		
Due from BSP	**225,907**	255,948	**202,487**	227,122
Due from other banks	**12,477**	14,406	**8,615**	10,894
Interbank loans receivable and SPAR	**34,323**	18,586	**22,659**	10,504
Financial assets at FVTPL	**16,483**	9,983	**10,346**	8,781
Financial assets at FVOCI	**35,531**	-	**29,993**	-
Investment securities at amortized cost	**287,571**	-	**267,497**	-
Available-for-sale - debt securities	**-**	19,218	**-**	9,669
Held-to-maturity securities	**-**	277,472	**-**	255,382
	612,292	595,613	**541,597**	522,352

Credit quality of treasury and other investment securities

Consolidated

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring					
Due from BSP	225,907	-	-	225,907	255,948
Due from other banks	12,480	-	-	12,480	14,406
Interbank loans receivable and SPAR	34,306	-	-	34,306	18,627
Financial assets at FVTPL	16,483	-	-	16,483	9,983
Financial assets at FVOCI	35,531	-	-	35,531	-
Investment securities at amortized cost	287,573	-	-	287,573	-
Available-for-sale - debt securities	-	-	-	-	19,218
Held-to-maturity securities	-	-	-	-	277,472
Default					
Interbank loans receivable and SPAR	-	-	67	67	-
Gross carrying amount	**612,280**	**-**	**67**	**612,347**	595,654
Loss allowance	(5)	-	(50)	(55)	(41)
Carrying amount	**612,275**	**-**	**17**	**612,292**	595,613

Parent

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring					
Due from BSP	202,487	-	-	202,487	227,122
Due from other banks	8,615	-	-	8,615	10,894
Interbank loans receivable and SPAR	22,642	-	-	22,642	10,545
Financial assets at FVTPL	10,346	-	-	10,346	8,781
Financial assets at FVOCI	29,993	-	-	29,993	-
Investment securities at amortized cost	267,499	-	-	267,499	-
Available-for-sale - debt securities	-	-	-	-	9,669
Held-to-maturity securities	-	-	-	-	255,382
Default					
Interbank loans receivable and SPAR	-	-	67	67	-
Gross carrying amount	**541,582**	**-**	**67**	**541,649**	522,393
Loss allowance	(2)	-	(50)	**(52)**	(41)
Carrying amount	**541,580**	**-**	**17**	**541,597**	522,352

Other financial assets

Other financial assets that are exposed to credit risk are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Other financial assets				
Accounts receivable, net	**1,916**	2,030	**1,315**	4,618
Other accrued interest and fees receivable	**671**	634	**573**	598
Sales contracts receivable, net	**541**	279	**360**	279
Rental deposits	**360**	563	**131**	484
Others, net	**2,179**	1,170	**2,047**	1,172
	5,667	4,676	**4,426**	7,151

The carrying amounts of the above financial assets represent the BPI Group's maximum exposure to credit risk.

The BPI Group's other financial assets (shown under Other assets, net) generally arise from transactions with various unrated counterparties with good credit standing. The BPI Group the applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss methodology for other financial assets.

To measure the expected credit losses, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 36 month before December 31, 2018 or January 1, 2018 and corresponding historical credit losses experienced within these periods. The impact of forward-looking variables on macroeconomic factors is considered insignificant in calculating ECL provisions for other financial assets.

Off-balance sheet items

Credit risk exposures relating to off-balance sheet items are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Undrawn loan commitments	**300,721**	160,030	**295,744**	157,338
Unused letters of credit	**22,064**	17,971	**22,064**	17,971
Others	**685**	1,189	**685**	1,189
	323,470	179,190	**318,493**	176,498

28.1.4 Credit impaired loans and advances

The BPI Group closely monitors collaterals held for financial assets considered to be credit-impaired, as it becomes more likely that the BPI Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Consolidated

	2018 (PFRS 9)			2017 (PAS 39)
	Gross exposure	Impairment allowance	Carrying amount	Gross exposure
	(In Millions of Pesos)			
Credit-impaired assets				
Corporate and SME loans	13,564	5,728	7,836	9,191
Retail loans	8,944	4,044	4,900	2,040
Total credit-impaired assets	**22,508**	**9,772**	**12,736**	11,231
Fair value of collateral	**12,611**			6,444

Parent

	2018 (PFRS 9)			2017 (PAS 39)
	Gross exposure	Impairment allowance	Carrying amount	Gross exposure
	(In Millions of Pesos)			
Credit-impaired assets				
Corporate and SME loans	9,772	4,299	5,473	6,630
Retail loans	2,638	2,505	133	1,936
Total credit-impaired assets	**12,410**	**6,804**	**5,606**	8,566
Fair value of collateral	**7,704**			6,252

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2018, the BPI Group's foreclosed collaterals have carrying amount of P3,363 million (2017 - P3,578 million). The related foreclosed collaterals have aggregate fair value of P9,859 million (2017 - P9,864 million). Foreclosed collaterals include real estate (land, building, and improvements), auto and chattel. Repossessed properties are sold as soon as practicable and are classified as Assets held for sale in the statements of condition.

28.1.5 Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Foreign exchange translations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following tables summarize the changes in the loss allowance for loans and advances between the beginning and the end of the annual period:

Consolidated

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,905	1,136	4,372	12,413
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(1,344)	1,661	1,701	2,018
Transfer in (out of) Stage 2	161	(661)	161	(339)
Transfer in (out of) Stage 3	-	-	(3)	(3)
New financial assets originated	3,761	-	-	3,761
Financial assets derecognized during the period	(1,951)	(250)	(515)	(2,716)
Changes in model assumptions	(1,782)	(49)	331	(1,500)
	(1,155)	701	1,675	1,221
Write-offs and other movements	18	6	(319)	(295)
Loss allowance, at December 31, 2018	5,768	1,843	5,728	13,339

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	3,148	1,188	3,925	8,261
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(686)	983	1,866	2,163
Transfer in (out of) Stage 2	36	(509)	392	(81)
Transfer in (out of) Stage 3	18	42	(337)	(277)
New financial assets originated	861	-	-	861
Financial assets derecognized during the period	(145)	(95)	(661)	(901)
Changes in model assumptions	1,085	(210)	643	1,518
	1,169	211	1,903	3,283
Write-offs and other movements	(203)	6	(1,784)	(1,981)
Loss allowance, at December 31, 2018	4,114	1,405	4,044	9,563

Parent

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,332	1,029	3,128	10,489
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(1,053)	1,575	1,223	1,745
Transfer in (out of) Stage 2	133	(621)	104	(384)
Transfer in (out of) Stage 3	-	-	-	-
New financial assets originated	3,286	-	-	3,286
Financial assets derecognized during the period	(1,824)	(213)	(311)	(2,348)
Changes in models assumptions	(1,783)	(42)	388	(1,437)
	(1,241)	699	1,404	862
Write-offs and other movements	17	6	(233)	(210)
Loss allowance, at December 31, 2018	5,108	1,734	4,299	11,141

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	929	205	2,290	3,424
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(309)	413	1,255	1,359
Transfer in (out of) Stage 2	16	(119)	194	91
Transfer in (out of) Stage 3	1	1	(22)	(20)
New financial assets originated	137	-	-	137
Financial assets derecognized during the period	(41)	(20)	(496)	(557)
Changes in models assumptions	1,106	2	686	1,794
	910	277	1,617	2,804
Write-offs and other movements	-	-	(1,402)	(1,402)
Loss allowance, at December 31, 2018	1,839	482	2,505	4,826

In 2018, the BPI Group's corporate loan portfolio expanded by 15% consistent with its organic loan growth strategy resulting to an increase in loss allowance.

The reconciliation of allowance for impairment by class at December 31, 2017 follows:

	Consolidated			Parent		
PAS 39	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			In Millions of Pesos)		
At January 1	10,968	7,708	18,676	8,890	2,838	11,728
Provision for (reversal of) impairment losses	1,765	2,552	4,317	1,896	1,984	3,880
Write-off and other movements	(320)	(2,010)	(2,330)	(297)	(1,398)	(1,695)
	12,413	8,250	20,663	10,489	3,424	13,913

No movement analysis of allowance for impairment for treasury and other investment debt securities and other financial assets subject to impairment as the related loss allowance is deemed insignificant for financial reporting purposes.

Write-off policy

The BPI Group writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the BPI Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The BPI Group may write-off financial assets that are still subject to enforcement activity. The write-off of loans is approved by the BOD in compliance with the BSP requirements. Loans written-off in 2018 are fully covered with allowance.

28.1.6 Concentrations of risks of financial assets with credit risk exposure

The BPI Group's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

Consolidated

PFRS 9	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	225,907	-	-	-	-	-	**225,907**
Due from other banks	12,480	-	-	-	-	(3)	**12,477**
Interbank loans receivable and SPAR	34,373	-	-	-	-	(50)	**34,323**
Financial assets at FVTPL	4,682	99	3	3	11,696	-	**16,483**
Financial assets at FVOCI	2,411	-	52	-	33,068	-	**35,531**
Investment securities at amortized cost, net	65,164	680	4,714	1,777	215,238	(2)	**287,571**
Loans and advances, net	85,441	110,627	226,604	317,595	637,531	(22,902)	**1,354,896**
Other financial assets	-	-	-	-	6,225	(558)	**5,667**
At December 31, 2018	**430,458**	**111,406**	**231,373**	**319,375**	**903,758**	**(23,515)**	**1,972,855**

PAS 39	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	255,948	-	-	-	-	-	255,948
Due from other banks	14,406	-	-	-	-	-	14,406
Interbank loans receivable and SPAR	18,586	-	-	-	-	-	18,586
Financial assets at FVTPL							
Derivative financial assets	4,786	10	155	-	24	-	4,975
Trading securities - debt securities	-	-	1	28	4,973		5,002
Available-for-sale securities	4,672	-	90	103	14,353	-	19,218
Held-to-maturity securities	52,583	704	3,911	1,657	218,617	-	277,472
Loans and advances, net	92,472	107,355	198,550	276,262	548,362	(20,663)	1,202,338
Other financial assets	-	-	-	-	5,233	(557)	4,676
At December 31, 2017	443,453	108,069	202,707	278,050	791,562	(21,220)	1,802,621

Parent

PFRS 9	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	202,487	-	-	-	-	-	**202,487**
Due from other banks	8,615	-	-	-	-	-	**8,615**
Interbank loans receivable and SPAR	22,709	-	-	-	-	(50)	**22,659**
Financial assets at FVTPL	4,679	99	2	-	5,566	-	**10,346**
Financial assets at FVOCI	1,952	-	52	-	27,989	-	**29,993**
Investment securities at amortized cost, net	63,541	-	4,487	1,777	197,694	(2)	**267,497**
Loans and advances, net	83,098	57,991	219,927	182,685	598,222	(15,967)	**1,125,956**
Other financial assets	-	-	-	-	4,816	(390)	**4,426**
At December 31, 2018	**387,081**	**58,090**	**224,468**	**184,462**	**834,287**	**(16,409)**	**1,671,979**

PAS 39	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	227,122	-	-	-	-	-	227,122
Due from other banks	10,894	-	-	-	-	-	10,894
Interbank loans receivable and SPAR	10,504	-	-	-	-	-	10,504
Financial assets at FVTPL							
Derivative financial assets	4,786	10	155	-	24	-	4,975
Trading securities - debt securities	-	-	-	-	3,806	-	3,806
Available-for-sale securities	4,157	-	50	-	5,462	-	9,669
Held-to-maturity securities	50,717	-	3,838	1,657	199,170	-	255,382
Loans and advances, net	91,123	52,184	194,294	154,682	508,499	(13,913)	986,869
Other financial assets	-	-	-	-	7,563	(412)	7,151
At December 31, 2017	399,303	52,194	198,337	156,339	724,524	(14,325)	1,516,372

Financial assets at FVTPL, financial assets at FVOCI (2017 - available-for-sale) and investments securities at amortized cost (2017 - held-to-maturity securities) under "Others" category include local and US treasury bills. Likewise, Loans and advances under the same category pertain to loans granted to borrowers belonging to various industry sectors.

28.2 Market risk

The BPI Group is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the RMO guided by policies and procedures approved by the RMC and confirmed by the Executive Committee/BOD.

Market risk management

Market risk management is incumbent on the BOD through the RMC. Market risk management in BPI covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the BPI Group's market risk exposures are managed by the RMO, headed by the Parent Bank's CRO who reports directly to the RMC. In addition, the Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The BPI Group reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the BPI Group's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the BPI Group's retail and commercial banking assets and liabilities.

The BPI Group has exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities. Derivatives while used to hedge open exposures to mitigate price risk inherent in the BPI Group's portfolios do not qualify as accounting hedges.

Value-at-Risk (VaR) measurement is an integral part of the BPI Group's market risk control system. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR. In order to ensure model soundness, the VaR is periodically subject to model validation and back testing. VaR is supplemented by other risk metrics and measurements that would provide preliminary signals to Treasury and to the management to assess the vulnerability of Bank's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the BPI Group's goals, objectives, risk appetite, and strategies.

Stress tests indicate the potential losses that could arise in extreme conditions that would have detrimental effect to the Bank's positions. The Bank periodically performs stress testing (price risk and liquidity risk) to assess the Bank's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the Bank's preparedness in the event of real stress. Results of stress tests are reviewed by Senior Management and by the RMC.

The average daily VaR for the trading portfolios are as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Local fixed-income	**33**	48	**25**	38
Foreign fixed-income	**168**	47	**154**	37
Foreign exchange	**44**	51	**9**	11
Derivatives	**95**	67	**95**	67
Equity securities	**28**	14	**-**	-
Mutual fund	**7**	3	**-**	-
	375	230	**283**	153

28.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates. It arises on financial instruments that are denominated in a foreign currency.

As at reporting date, the BPI Group is mainly exposed to movements of US Dollar (USD) against the Philippine Peso.

The table below summarizes the BPI Group's exposure to foreign currency exchange rate risk at December 31.

Consolidated

	2018 (PFRS 9)			2017 (PAS 39)		
	USD	Others*	Total	USD	Others*	Total
			(In Millions of Pesos)			
As at December 31, 2018						
Financial Assets						
Cash and other cash items	2,742	752	**3,494**	2,328	304	2,632
Due from other banks	6,749	2,620	**9,369**	9,620	2,496	12,116
Interbank loans receivable and SPAR	6,639	146	**6,785**	10,047	175	10,222
Financial assets at FVTPL	8,491	119	**8,610**	2,687	383	3,070
Financial assets at FVOCI - debt securities	25,385	172	**25,557**	-	-	-
Investment securities at amortized cost	127,260	1,507	**128,767**	-	-	-
Available-for-sale - debt securities	-	-	**-**	7,933	827	8,760
Held-to-maturity securities	-	-	**-**	109,117	1,702	110,819
Loans and advances, net	145,995	4,970	**150,965**	136,100	4,431	140,531
Others financial assets	1,230	106	**1,336**	504	105	609
Total financial assets	**324,491**	**10,392**	**334,883**	278,336	10,423	288,759
Financial Liabilities						
Deposit liabilities	241,547	6,692	**248,239**	238,610	6,892	245,502
Derivative financial liabilities	1,967	118	**2,085**	1,429	285	1,714
Bills payable	82,692	458	**83,150**	46,820	585	47,405
Due to BSP and other banks	1,250	-	**1,250**	578	-	578
Manager's checks and demand drafts outstanding	87	61	**148**	469	5	474
Other financial liabilities Accounts payable	119	3	**122**	201	1	202
Total financial liabilities	**327,662**	**7,332**	**334,994**	288,107	7,768	295,875
Net on-balance sheet position	**(3,171)**	**3,060**	**(111)**	(9,771)	2,655	(7,116)

"Others" category includes financial instruments denominated in JPY, EUR and GBP.

Parent

	2018 (PFRS 9)			2017 (PAS 39)		
	USD	**Others***	**Total**	**USD**	**Others***	**Total**
			(In Millions of Pesos)			
As at December 31, 2018						
Financial Assets						
Cash and other cash items	2,552	751	**3,303**	2,128	299	2,427
Due from other banks	4,874	2,269	**7,143**	7,238	-	7,238
Interbank loans receivable and SPAR	5,260	-	**5,260**	8,240	-	8,240
Financial assets at FVTPL	5,144	119	**5,263**	2,687	383	3,070
Financial assets at FVOCI - debt securities	25,132	172	**25,304**	-	-	-
Investment securities at amortized cost	117,143	220	**117,363**	-	-	-
Available-for-sale - debt securities	-	-	**-**	5,250	827	6,077
Held-to-maturity securities	-	-	**-**	99,360	412	99,772
Loans and advances, net	144,486	4,787	**149,273**	134,977	3,841	138,818
Others financial assets	1,220	90	**1,310**	491	79	570
Total financial assets	**305,811**	**8,408**	**314,219**	260,371	5,841	266,212
Financial Liabilities						
Deposit liabilities	227,621	6,442	**234,063**	225,244	6,637	231,881
Derivative financial liabilities	1,967	115	**2,082**	1,429	285	1,714
Bills payable	79,178	-	**79,178**	43,562	-	43,562
Due to BSP and other banks	1,250	-	**1,250**	578	-	578
Manager's checks and demand drafts outstanding	81	61	**142**	461	5	466
Other financial liabilities	20,947	1,500	**22,447**			
Accounts payable	117	2	**119**	198	1	199
Total financial liabilities	**331,161**	**8,120**	**339,281**	271,472	6,928	278,400
Net on-balance sheet position	**(25,350)**	**288**	**(25,062)**	(11,101)	(1,087)	(12,188)

"Others" category includes financial instruments denominated in JPY, EUR and GBP.

Presented below is a sensitivity analysis demonstrating the impact on pre-tax income of reasonably possible change in the exchange rate between US Dollar and Philippine Peso. The fluctuation rate is based on the historical movement of US Dollar year on year.

		Effect on pre-tax income (in millions of pesos)	
Year	Change in currency	Consolidated	Parent
2018	**+/- 1.92%**	**-/+ 71**	**-/+ 95**
2017	+/- 1.17%	-/+ 114	-/+ 130

28.2.2 Interest rate risk

Interest rate risk is the risk that cash flows or fair value of a financial instruments will fluctuate due to movements in market interest rates. Interest rate risk in the banking book arises from the BPI Group's core banking activities. The BPI Group is subject to re-pricing risk arising from financial assets and liabilities that have different maturities and are re-priced taking into account the prevailing market interest rates.

The BPI Group employs two methods to measure the potential impact of interest rate risk in Group's financial positions - (i) one that focuses on the economic value of the banking book, and (ii) one that focuses on net interest earnings. The RMC sets limits on the two interest rate risk metrics which are monitored monthly by the Market Risk Division of the RMO.

Balance Sheet Value-at-Risk (BSVaR)

The BSVaR is a metric to measure the impact of interest rate movements on the economic value of banking book. The BSVaR is founded on re-pricing gaps, or the difference between the amounts of rate-sensitive financial assets and liabilities. The BSVaR, therefore, estimates the "riskiness of the balance sheet" and compares the degree of risk taking activity in the banking books from one period to the next. The BSVaR assumes a static balance sheet, i.e., there will be no new transactions moving forward and no portfolio rebalancing will be undertaken in response to future changes in market rates. In consideration of the static framework and the fact that incomes from the banking book is accrued rather than generated from marking-to-market, the probable loss that is estimated by the BSVaR is not realized in accounting income.

Prescribed limits for the BPI Group and each legal entity are based on estimated equity duration, assumed movement of market rates (in basis points) and estimated equity value. As at December 31, the average BSVaR, computed on a monthly basis, for the banking or non-trading book are as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
BSVaR	**15,507**	10,586	**13,483**	9,310

Earnings-at-Risk (EaR)

The EaR is a metric that measures the potential deterioration in the BPI Group's net interest income due to changes in interest rates. The BPI Group's earnings are affected when movements in borrowing and lending rates are not perfectly synchronized, which create a gap due to such mismatch. Based on the banking book positions as at particular valuation dates, the BPI Group projects interest inflows from its financial assets, and interest outflows on its financial liabilities, in the next 12 months. Net interest income - the difference between interest receipts and payments - is projected in this exercise. On a group level, the BPI Group is positively gapped hence increase in rates becomes beneficial to the BPI Group. As of December 31, 2018, the net interest income impact of movement in interest rates amounts to P806 million (2017 - P406 million).

The table below summarizes the BPI Group's exposure to interest rate risk, categorized by the earlier of contractual repricing or maturity dates.

Consolidated

PFRS 9	Repricing Up to 1 year	Repricing Over 1 up to 3 years	Repricing Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2018					
Financial Assets					
Cash and other cash items	-	-	-	43,536	**43,536**
Due from BSP	-	-	-	225,907	**225,907**
Due from other banks	-	-	-	12,477	**12,477**
Interbank loans receivable and SPAR	-	-	-	34,323	**34,323**
Financial assets at FVTPL	70	1,172	1,125	14,116	**16,483**
Financial assets at FVOCI	-	-	-	35,531	**35,531**
Investment securities at amortized cost	-	1	-	287,570	**287,571**
Loans and advances, net	828,847	130,082	270,105	125,862	**1,354,896**
Other financial assets	-	-	-	5,667	**5,667**
Total financial assets	**828,917**	**131,255**	**271,230**	**784,989**	**2,016,391**
Financial Liabilities					
Deposit liabilities	602,032	831,505	152,209	-	**1,585,746**
Derivative financial liabilities	43	1,204	1,279	1,365	**3,891**
Bills payable and other borrowed funds	20,915	10,516	-	135,470	**166,901**
Due to BSP and other banks	-	-	-	3,988	**3,988**
Manager's checks and demand drafts outstanding	-	-	-	6,931	**6,931**
Other financial liabilities	-	-	-	19,313	**19,313**
Total financial liabilities	**622,990**	**843,225**	**153,488**	**167,067**	**1,786,770**
Total interest gap	**205,927**	**(711,970)**	**117,742**	**617,922**	**229,661**

PAS 39	Repricing Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2017					
Financial Assets					
Cash and other cash items	-	-	-	35,132	35,132
Due from BSP	-	-	-	255,948	255,948
Due from other banks	-	-	-	14,406	14,406
Interbank loans receivable and SPAR	-	-	-	18,586	18,586
Financial assets at FVTPL					
Derivative financial assets	73	327	1,110	3,465	4,975
Trading securities - debt securities	-	-	-	5,002	5,002
Available-for-sale - debt securities	1,991	245	-	16,982	19,218
Held-to-maturity securities	-	1	-	277,471	277,472
Loans and advances, net	744,317	79,649	267,120	111,252	1,202,338
Other financial assets	-	-	-	4,676	4,676
Total financial assets	746,381	80,222	268,230	742,920	1,837,753
Financial Liabilities					
Deposit liabilities	818,811	556,700	186,689	-	1,562,200
Derivative financial liabilities	46	263	1,072	3,407	4,788
Bills payable	-	19,846	-	63,671	83,517
Due to BSP and other banks	-	-	-	1,218	1,218
Manager's checks and demand drafts outstanding	-	-	-	7,022	7,022
Other financial liabilities	-	-	-	15,461	15,461
Total financial liabilities	818,857	576,809	187,761	90,779	1,674,206
Total interest gap	(72,476)	(496,587)	80,469	652,141	163,547

Parent

PFRS 9	Repricing Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2018					
Financial Assets					
Cash and other cash items	-	-	-	42,419	**42,419**
Due from BSP	-	-	-	202,487	**202,487**
Due from other banks	-	-	-	8,615	**8,615**
Interbank loans receivable and SPAR	-	-	-	22,659	**22,659**
Financial assets at FVTPL	70	1,172	1,125	7,979	**10,346**
Financial assets at FVOCI	-	-	-	29,993	**29,993**
Investment securities at amortized cost	-	1	-	267,496	**267,497**
Loans and advances, net	757,320	81,133	224,477	63,026	**1,125,956**
Other financial assets	-	-	-	4,426	**4,426**
Total financial assets	**757,390**	**82,306**	**225,602**	**649,100**	**1,714,398**
Financial Liabilities					
Deposit liabilities	534,119	708,636	104,452	-	**1,347,207**
Derivative financial liabilities	43	1,204	1,279	1,362	**3,888**
Bills payable and other borrowed funds	20,915	10,516	-	119,449	**150,880**
Due to BSP and other banks	-	-	-	3,988	**3,988**
Manager's checks and demand drafts outstanding	-	-	-	5,354	**5,354**
Other financial liabilities	-	-	-	13,408	**13,408**
Total financial liabilities	**555,077**	**720,356**	**105,731**	**143,561**	**1,524,725**
Total interest gap	**202,313**	**(638,050)**	**119,871**	**505,539**	**189,673**

PAS 39	Repricing Up to 1 year	Repricing Over 1 up to 3 years	Repricing Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2017					
Financial Assets					
Cash and other cash items	-	-	-	34,160	34,160
Due from BSP	-	-	-	227,122	227,122
Due from other banks	-	-	-	10,894	10,894
Interbank loans receivable and SPAR	-	-	-	10,504	10,504
Financial assets at FVTPL					
Derivative financial assets	73	327	1,110	3,465	4,975
Trading securities - debt securities	-	-	-	3,806	3,806
Available-for-sale - debt securities	1,991	245	-	7,433	9,669
Held-to-maturity securities	-	1	-	255,381	255,382
Loans and advances, net	679,036	37,490	216,993	53,350	986,869
Other financial assets	-	-	-	7,151	7,151
Total financial assets	681,100	38,063	218,103	613,266	1,550,532
Financial Liabilities					
Deposit liabilities	726,560	494,304	103,099	-	1,323,963
Derivative financial liabilities	46	263	1,072	3,407	4,788
Bills payable	-	19,846	-	50,876	70,722
Due to BSP and other banks	-	-	-	1,218	1,218
Manager's checks and demand drafts outstanding	-	-	-	5,762	5,762
Other financial liabilities	-	-	-	11,118	11,118
Total financial liabilities	726,606	514,413	104,171	72,381	1,417,571
Total interest gap	(45,506)	(476,350)	113,932	540,885	132,961

28.3 Liquidity risk

Liquidity risk is the risk that the BPI Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The BPI Group's liquidity profile is observed and monitored through its metric, the Minimum Cumulative Liquidity Gap (MCLG). The MCLG is the smallest net cumulative cash inflow (if positive) or the largest net cumulative cash outflow (if negative) over the next three (3) months. The MCLG indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the BPI Group. A red flag is immediately raised and reported to management and the RMC when the MCLG level projected over the next 3 months is about to breach the RMC-prescribed MCLG limit.

28.3.1 Liquidity risk management process

The BPI Group's liquidity management process, as carried out within the BPI Group and monitored by the RMC includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or as borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity gaps against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Performing periodic liquidity stress testing on the BPI Group's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities (Notes 28.3.3 and 28.3.4) and the expected collection date of the financial assets.

The BPI Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit.

28.3.2 Funding approach

Sources of liquidity are regularly reviewed by the BPI Group to maintain a wide diversification by currency, geography, counterparty, product and term.

28.3.3 Non-derivative cash flows

The tables below present the maturity profile of non-derivative financial instruments based on undiscounted cash flows, including interest, which the BPI Group uses to manage the inherent liquidity risk. The maturity analysis is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

Consolidated

PFRS 9	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2018				
Financial Assets				
Cash and other cash items	43,536	-	-	**43,536**
Due from BSP	225,923	-	-	**225,923**
Due from other banks	12,477	-	-	**12,477**
Interbank loans receivable and SPAR	35,028	12	135	**35,175**
Financial assets at FVTPL	8,740	1,231	4,170	**14,141**
Financial assets at FVOCI	29,154	1,601	7,730	**38,485**
Investment securities at amortized cost	42,442	59,550	251,643	**353,635**
Loans and advances, net	580,825	205,331	604,684	**1,390,840**
Other financial assets	5,667	-	-	**5,667**
Total financial assets	**983,792**	**267,725**	**868,362**	**2,119,879**
Financial Liabilities				
Deposit liabilities	923,895	878,739	195,585	**1,998,219**
Bills payable and other borrowed funds	97,507	77,117	475	**175,099**
Due to BSP and other banks	3,988	-	-	**3,988**
Manager’s checks and demand drafts outstanding	6,931	-	-	**6,931**
Other financial liabilities	19,313	-	-	**19,313**
Total financial liabilities	**1,051,634**	**955,856**	**196,060**	**2,203,550**
Total maturity gap	**(67,842)**	**(688,131)**	**672,302**	**(83,671)**

PAS 39	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2017				
Financial Assets				
Cash and other cash items	35,132	-	-	35,132
Due from BSP	255,965	-	-	255,965
Due from other banks	14,406	-	-	14,406
Interbank loans receivable and SPAR	19,457	217	306	19,980
Financial assets at FVTPL				
Trading securities - debt securities	1,959	601	3,140	5,700
Available-for-sale - debt securities	10,489	2,931	7,734	21,154
Held-to-maturity securities	29,157	58,551	260,276	347,984
Loans and advances, net	661,461	179,426	532,172	1,373,059
Other financial assets	4,676	-	-	4,676
Total financial assets	1,032,702	241,726	803,628	2,078,056
Financial Liabilities				
Deposit liabilities	714,564	733,100	142,546	1,590,210
Bills payable	64,511	20,207	-	84,718
Due to BSP and other banks	1,218	-	-	1,218
Manager's checks and demand drafts outstanding	7,022	-	-	7,022
Other financial liabilities	15,461	-	-	15,461
Total financial liabilities	802,776	753,307	142,546	1,698,629
Total maturity gap	229,926	(511,581)	661,082	379,427

Parent

PFRS 9	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2018				
Financial Assets				
Cash and other cash items	42,419	-	-	**42,419**
Due from BSP	202,487	-	-	**202,487**
Due from other banks	8,615	-	-	**8,615**
Interbank loans receivable and SPAR	22,705	12	135	**22,852**
Financial assets at FVTPL	2,530	1,229	4,169	**7,928**
Financial assets at FVOCI	23,926	1,392	7,390	**32,708**
Investment securities at amortized cost	39,473	50,821	239,775	**330,069**
Loans and advances, net	520,744	145,807	479,908	**1,146,459**
Other financial assets, net	4,426	-	-	**4,426**
Total financial assets	**867,325**	**199,261**	**731,377**	**1,797,963**
Financial Liabilities				
Deposit liabilities	814,358	726,595	116,373	**1,657,326**
Bills payable and other borrowed funds	85,037	76,747	-	**161,784**
Due to BSP and other banks	3,988	-	-	**3,988**
Manager's checks and demand drafts outstanding	5,354	-	-	**5,354**
Other financial liabilities	13,408	-	-	**13,408**
Total financial liabilities	**922,145**	**803,342**	**116,373**	**1,841,860**
Total maturity gap	**(54,820)**	**(604,081)**	**615,004**	**(43,897)**

PAS 39	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2017				
Financial Assets				
Cash and other cash items	34,160	-	-	34,160
Due from BSP	227,122	-	-	227,122
Due from other banks	10,894	-	-	10,894
Interbank loans receivable and SPAR	10,140	217	306	10,663
Financial assets at FVTPL				
Trading securities - debt securities	1,697	197	2,449	4,343
Available-for-sale - debt securities	2,344	2,400	6,538	11,282
Held-to-maturity securities	26,387	52,523	242,121	321,031
Loans and advances, net	604,818	129,349	415,758	1,149,925
Other financial assets, net	7,151	-	-	7,151
Total financial assets	924,713	184,686	667,172	1,776,571
Financial Liabilities				
Deposit liabilities	607,581	626,359	105,246	1,339,186
Bills payable	51,553	20,207	-	71,760
Due to BSP and other banks	1,218	-	-	1,218
Manager's checks and demand drafts outstanding	5,762	-	-	5,762
Other financial liabilities	11,118	-	-	11,118
Total financial liabilities	677,232	646,566	105,246	1,429,044
Total maturity gap	247,481	(461,880)	561,926	347,527

28.3.4 Derivative cash flows

(a) Derivatives settled on a net basis

The BPI Group's derivatives that are settled on a net basis consist of interest rate swaps, non-deliverable forwards and non-deliverable swaps. The table below presents the contractual undiscounted cash flows of interest rate swaps based on the remaining period from December 31 to the contractual maturity dates that are subject to offsetting, enforceable master netting arrangements and similar agreements.

Consolidated and Parent

PFRS 9	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2018		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	99	1,285	1,317	**2,701**
- Outflow	(59)	(1,296)	(1,485)	**(2,840)**
- Net inflow	**40**	**(11)**	**(168)**	**(139)**
Non-deliverable forwards and swaps - held for trading				
- Inflow	36,071	2,103	3,680	**41,854**
- Outflow	(35,972)	(2,120)	(3,680)	**(41,772)**
- Net outflow	**99**	**(17)**	**-**	**82**

PAS 39	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2017		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	73	319	1,114	1,506
- Outflow	(46)	(245)	(1,090)	(1,381)
- Net inflow	27	74	24	125
Non-deliverable forwards and swaps - held for trading				
- Inflow	30,387	-	-	30,387
- Outflow	(30,661)	-	-	(30,661)
- Net outflow	(274)	-	-	(274)

(b) Derivatives settled on a gross basis

The BPI Group's derivatives that are settled on a gross basis include foreign exchange derivatives mainly currency forwards and currency swaps. The table below presents the contractual undiscounted cash flows of foreign exchange derivatives based on the remaining period from reporting date to the contractual maturity dates.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
Foreign exchange derivatives - held for trading				
2018 (PFRS 9)				
- Inflow	127,002	4,184	-	**131,186**
- Outflow	(127,082)	(4,136)	-	**(131,218)**
- **Net inflow (outflow)**	**(80)**	**48**	**-**	**(32)**
2017 (PAS 39)				
- Inflow	178,511	99	-	178,610
- Outflow	(178,183)	(100)	-	(178,283)
- Net inflow (outflow)	328	(1)	-	327

28.4 Fair value of financial assets and liabilities

The following tables present the carrying value and fair value hierarchy of the BPI Group's assets and liabilities at December 31:

Consolidated

2018 (PFRS 9)	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,033	-	4,033	**4,033**
Trading assets				
- Debt securities	12,450	11,656	794	**12,450**
- Equity securities	238	238	-	**238**
Financial assets at FVOCI				**-**
- Debt securities	35,531	35,089	442	**35,531**
- Equity securities	1,675	1,129	546	**1,675**
	53,927	48,112	5,815	**53,927**
Financial liabilities				
Derivative financial liabilities	3,891	-	3,891	**3,891**
Non-recurring measurements				
Assets held for sale, net	3,363	-	9,859	**9,859**

2018 (PFRS 9)	Carrying Amount	Fair value Level 1	Level 2	Total
Fair values disclosed			(In Millions of Pesos)	
Financial assets				
Cash and other cash items	43,536	-	43,536	**43,536**
Due from BSP	225,907	-	225,907	**225,907**
Due from other banks	12,477	-	12,480	**12,480**
Interbank loans receivable and SPAR	34,323	-	34,373	**34,373**
Investment securities at amortized cost	287,571	254,850	3,802	**258,652**
Loans and advances, net	1,354,896	-	1,362,803	**1,362,803**
Other financial assets	5,667	-	5,667	**5,667**
Financial liabilities				
Deposit liabilities	1,585,746	-	1,585,746	**1,585,746**
Bills payable and other borrowed funds	166,901	-	163,545	**163,545**
Due to BSP and other banks	3,988	-	3,988	**3,988**
Manager's checks and demand drafts outstanding	6,931	-	6,931	**6,931**
Other financial liabilities	19,313	-	-	**19,313**
Non-financial assets				
Investment properties	129	-	1,786	**1,786**

2017 (PAS 39)	Carrying Amount	Fair value		
		Level 1	Level 2	Total
Recurring measurements			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,975	-	4,975	4,975
Trading securities				
- Debt securities	5,002	4,973	29	5,002
- Equity securities	330	330	-	330
Available-for-sale securities				
- Debt securities	19,218	16,981	2,237	19,218
- Equity securities	4,095	3,755	661	4,416
	33,620	26,039	7,908	33,941
Financial liabilities				
Derivative financial liabilities	4,788	-	4,788	4,788

Non-recurring measurements				
Assets held for sale, net	3,578	-	9,864	9,864

2017 (PAS 39)	Carrying Amount	Fair value		
		Level 1	Level 2	Total
Fair values disclosed			(In Millions of Pesos)	
Financial assets				
Cash and other cash items	35,132	-	35,132	35,132
Due from BSP	255,948	-	255,948	255,948
Due from other banks	14,406	-	14,406	14,406
Interbank loans receivable and SPAR	18,586	-	18,586	18,586
Investment securities at amortized cost	277,472	264,379	3,922	268,301
Loans and advances, net	1,202,338	-	1,250,321	1,250,321
Other financial assets	4,676	-	4,676	4,676
Financial liabilities				
Deposit liabilities	1,562,200	-	1,562,200	1,562,200
Bills payable	83,517	-	83,154	83,154
Due to BSP and other banks	1,218	-	1,218	1,218
Manager’s checks and demand drafts outstanding	7,022	-	7,022	7,022
Other financial liabilities	15,461	-	15,461	15,461
Non-financial assets				
Investment properties	135	-	1,281	1,281

Parent

2018	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements		(In Millions of Pesos)		
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,031	-	4,031	**4,031**
Trading securities - debt securities	6,315	5,528	787	**6,315**
Financial assets at FVOCI				
- Debt securities	29,993	29,838	155	**29,993**
- Equity securities	590	406	184	**590**
	40,929	35,772	5,157	**40,929**
Financial liabilities				
Derivative financial liabilities	3,888	-	3,888	**3,888**

Non-recurring measurements				
Assets held for sale, net	455	-	3,496	**3,496**

2018	Carrying Amount	Fair value Level 1	Level 2	Total
Fair values disclosed		(In Millions of Pesos)		
Financial assets				
Cash and other cash items	42,419	-	42,419	**42,419**
Due from BSP	202,487	-	202,487	**202,487**
Due from other banks	8,615	-	8,615	**8,615**
Interbank loans receivable and SPAR	22,659	-	22,709	**22,709**
Investment securities at amortized cost	267,497	236,113	3,775	**239,888**
Loans and advances, net	1,125,956	-	1,144,903	**1,144,903**
Other financial assets	4,426	-	4,426	**4,426**
Financial liabilities				
Deposit liabilities	1,347,207	-	1,347,207	**1,347,207**
Bills payable and other borrowed funds	150,880	-	150,533	**150,533**
Due to BSP and other banks	3,988	-	3,988	**3,988**
Manager's checks and demand drafts outstanding	5,354	-	5,354	**5,354**
Other financial liabilities	13,408	-	13,408	**13,408**
Non-financial assets				
Investment properties	118	-	1,786	**1,786**

2017	Carrying Amount	Fair value		
		Level 1	Level 2	Total
Recurring measurements		(In Millions of Pesos)		
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,975	-	4,975	4,975
Trading securities - debt securities	3,806	3,806	-	3,806
Available-for-sale securities				
- Debt securities	9,669	7,433	2,236	9,669
- Equity securities	470	447	232	679
	18,920	11,686	7,443	19,129
Financial liabilities				
Derivative financial liabilities	4,788	-	4,788	4,788
Non-recurring measurements				
Assets held for sale, net	609	-	656	656

2017	Carrying Amount	Fair value		
		Level 1	Level 2	Total
Fair values disclosed		(In Millions of Pesos)		
Financial assets				
Cash and other cash items	34,160	-	34,160	34,160
Due from BSP	227,122	-	227,122	227,122
Due from other banks	10,894	-	10,894	10,894
Interbank loans receivable and SPAR	10,504	-	10,504	10,504
Held-to-maturity securities	255,382	242,297	3,922	246,219
Loans and advances, net	986,869	-	1,008,730	1,008,730
Other financial assets	7,151	-	7,151	7,151
Financial liabilities				
Deposit liabilities	1,323,963	-	1,323,963	1,323,963
Bills payable	70,722	-	70,284	70,284
Due to BSP and other banks	1,218	-	1,218	1,218
Manager's checks and demand drafts outstanding	5,762	-	5,762	5,762
Other financial liabilities	11,118	-	11,118	11,118
Non-financial assets				
Investment properties	135	-	1,281	1,281

The BPI Group has no financial instruments, other assets or liabilities with non-recurring fair value measurements or with fair values disclosed that fall under the Level 3 category as at December 31, 2018 and 2017. There were no transfers between Level 1 and Level 2 during the years ended December 31, 2018 and 2017.

28.5 Insurance risk management

The non-life insurance entities decide on the retention, or the absolute amount that they are ready to assume insurance risk from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion.

In excess of the retention, these entities arrange reinsurances either thru treaties or facultative placements. They also accredit reinsurers based on certain criteria and set limits as to what can be reinsured. The reinsurance treaties and the accreditation of reinsurers require BOD's approval.

Note 29 - Capital management

Capital management is understood to be a facet of risk management. The primary objective of the BPI Group is the generation of recurring acceptable returns to shareholders' capital. To this end, the BPI Group's policies, business strategies and activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various funders and stakeholders.

Cognizant of its exposure to risks, the BPI Group understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The BPI Group further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio remains at 10% which includes the capital conservation buffer.

Information on the regulatory capital is summarized below:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Tier 1 capital	**244,276**	177,172	**243,519**	176,842
Tier 2 capital	**13,116**	11,682	**10,795**	10,180
Gross qualifying capital	**257,392**	188,854	**254,314**	187,022
Less: Regulatory adjustments/required deductions	**23,152**	22,371	**68,491**	59,246
Total qualifying capital	**234,240**	166,483	**185,823**	127,776
Risk weighted assets	**1,455,746**	1,306,907	**1,252,790**	1,122,119
CAR (%)	**16.09**	12.74	**14.83**	11.39
CET1 (%)	**15.19**	11.84	**13.97**	10.48

The BPI Group has fully complied with the CAR requirement of the BSP.

Likewise, the BPI Group manages the capital of its non-life insurance subsidiaries, pre-need subsidiary and securities dealer subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as Insurance Commission, Philippine SEC and PSE. These subsidiaries have fully complied with the relevant capital requirements.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Parent Bank has fully complied with this requirement.

Note 30 - Commitments and Contingencies

At present, there are lawsuits, claims and tax assessments pending against the BPI Group. In the opinion of management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the BPI Group's financial position or financial performance.

BPI and some of its subsidiaries are defendants in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

In the normal course of business, the BPI Group makes various commitments that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 31 - Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

31.1 Basis of preparation

The financial statements of the BPI Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

As allowed by the SEC, the pre-need subsidiary of the Parent Bank continues to follow the provisions of the Pre-Need Uniform Chart of Accounts (PNUCA) prescribed by the SEC and adopted by the Insurance Commission.

The financial statements comprise the statement of condition, statement of income and statement of comprehensive income shown as two statements, statement of changes in capital funds, statement of cash flows and the notes.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, financial assets at FVOCI (AFS in 2017), and plan assets of the BPI Group's defined benefit plans.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the BPI Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 27.

31.2 Changes in accounting policy and disclosures

(a) New standards adopted by the BPI Group

The BPI Group has adopted the following standards effective January 1, 2018:

- *PFRS 15, 'Revenue from contracts with customers'* replaces PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

  A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied.

  The adoption of PFRS 15 did not have a material impact on the financial statements of the BPI Group.

- *PFRS 9, 'Financial instruments'* replaces the provisions of PAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

<u>PFRS 9 adoption</u>

The adoption of PFRS 9 resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The BPI Group did not early adopt any provisions of PFRS 9 in previous periods.

As permitted by the transitional provisions of PFRS 9, the BPI Group elected not to restate comparative figures. Resulting adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening balance of Surplus and Reserves as of January 1, 2018.

The adoption of PFRS 9 has resulted in changes mainly in the BPI Group's accounting policies for recognition, classification and measurement and impairment of financial assets. There were no changes in the classification of financial liabilities. PFRS 9 also significantly amends other standards dealing with financial instruments such as PFRS 7, *Financial Instruments: Disclosures.*

The BPI Group shifted from incurred loss model under PAS 39 to expected credit loss model in the determination of impairment provisions for financial assets not carried at fair value through profit or loss upon adoption of PFRS 9. The adoption did not result to significant adjustments on the level of allowance for credit losses recognized as at December 31, 2017.

Set out below are disclosures relating to the impact of the adoption of PFRS 9 on the BPI Group.

Classification and measurement of financial assets

The measurement category and the carrying amount of financial assets in accordance with PAS 39 and PFRS 9 at January 1, 2018 are as follows:

Consolidated

	PAS 39		PFRS 9	
	December 31, 2017		January 1, 2018	
Financial assets	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and other cash items	Amortized cost	35,132	Amortized cost	35,132
Due from Bangko Sentral ng Pilipinas	Amortized cost	255,948	Amortized cost	255,948
Due from other banks	Amortized cost	14,406	Amortized cost	14,406
Interbank loans receivable and securities purchased under agreements to resell	Amortized cost	18,586	Amortized cost	18,586
Derivative assets	FVTPL	4,981	FVTPL	4,981
Trading securities				
Equity	FVTPL	330	FVOCI	330
Debt	FVTPL	5,002	FVTPL	10,078
Investment securities				
Equity	FVOCI (AFS)	4,095	FVOCI	4,416
Debt	FVOCI (AFS)	19,218	FVOCI	21,893
	Amortized cost (HTM)	277,472	Amortized cost	273,386
Loans and advances, net	Amortized cost	1,202,338	Amortized cost	1,202,326
Other financial assets	Amortized cost	4,676	Amortized cost	4,676

Parent

	PAS 39		PFRS 9	
	December 31, 2017		January 1, 2018	
Financial assets	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and other cash items	Amortized cost	34,160	Amortized cost	34,160
Due from Bangko Sentral ng Pilipinas	Amortized cost	227,122	Amortized cost	227,122
Due from other banks	Amortized cost	10,894	Amortized cost	10,894
Interbank loans receivable and securities purchased under agreements to resell	Amortized cost	10,504	Amortized cost	10,504
Derivative assets	FVTPL	4,945	FVTPL	4,945
Trading securities - debt	FVTPL	3,806	FVTPL	6,041
Investment securities				
Equity	FVOCI (AFS)	470	FVOCI	679
Debt	FVOCI (AFS)	9,669	FVOCI	9,823
	Amortized cost (HTM)	255,382	Amortized cost	256,226
Loans and advances, net	Amortized cost	986,869	Amortized cost	986,869
Other financial assets	Amortized cost	7,151	Amortized cost	7,151

Reconciliation of statement of condition balances from PAS 39 to PFRS 9

On January 1, 2018, the BPI Group performed a detailed analysis of its business models for managing financial assets including their cash flow characteristics. Please refer to Note 31.3 for more detailed information regarding the new classification requirements of PFRS 9.

The financial assets affected by the adoption of the new standard are shown below. The reconciliation of the carrying amounts of these financial assets from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018 follow:

<u>Consolidated</u>

		FVTPL - Trading securities	Investment debt securities at FVOCI	Investment securities at amortized cost	Loans and advances, net
			(In Millions of Pesos)		
Closing balance, December 31, 2017 - PAS 39		**5,332**	**23,313**	**277,472**	**1,202,338**
Reclassifications from:					
AFS to FVTPL	a	5,076	(5,076)	-	-
AFS to amortized cost	b	-	(4,565)	7,910	-
HTM to FVOCI	c	-	12,637	(11,996)	-
ECL provision		-	-	-	(12)
		5,076	2,996	(4,086)	(12)
Opening balance, January 1, 2018 - PFRS 9		**10,408**	**26,309**	**273,386**	**1,202,326**

<u>Parent</u>

		FVTPL - Trading securities	Investment securities at FVOCI (Available-for-sale in 2017)	Investment securities at amortized cost (HTM in 2017)
			(In Millions of Pesos)	
Closing balance, December 31, 2017 - PAS 39		**3,806**	**10,139**	**255,382**
Reclassifications from:				
AFS to FVTPL	a	2,235	(2,235)	-
AFS to amortized cost	b	-	(4,515)	7,776
HTM to FVOCI	c	-	7,113	(6,932)
		2,235	363	844
Opening balance, January 1, 2018 - PFRS 9		**6,041**	**10,502**	**256,226**

The impact on the relevant equity items as at January 1, 2018 is as follows:

Consolidated

		Surplus	Accumulated other comprehensive loss
		(In Millions of Pesos)	
Closing balances, December 31, 2017 - PAS 39		116,415	(5,088)
Reclassifications from:			
AFS to FVTPL	a	30	(30)
AFS to amortized cost	b	(401)	3,592
HTM to FVOCI	c	-	641
HTM to FVOCI (attributable to insurance corporations)	c	-	229
Remeasurement of equity securities at FVOCI	d	321	(321)
ECL provision		(12)	-
Opening balances, January 1, 2018 - PFRS 9		**116,353**	**(977)**

Parent

		Surplus	Accumulated other comprehensive loss
		(In Millions of Pesos)	
Closing balances, December 31, 2017 - PAS 39		73,679	(4,696)
Reclassifications from:			
AFS to FVTPL	a	(12)	12
AFS to amortized cost	b	(375)	3,501
HTM to FVOCI	c	-	181
Remeasurement of equity securities at FVOCI	d	209	(209)
Opening balances, January 1, 2018 - PFRS 9		**73,501**	**(1,211)**

a. The BPI Group holds debt securities which were classified previously as AFS. In 2018, these securities were classified as financial assets at FVTPL consistent with the PFRS 9 business model of the BPI Group. Likewise, the BPI Group holds certain credit-linked notes where the host contracts were previously classified as AFS while the embedded derivative component was measured at fair value through profit or loss in 2017. Upon adoption of PFRS 9, these credit-linked notes are classified entirely at fair value through profit or loss as they failed to meet the "solely payments of principal and interest" requirements under PFRS 9.

b. The BPI Group holds securities which were classified previously as AFS. Consequently, these securities were classified as financial assets at amortized cost consistent with the PFRS 9 business model of the BPI Group. Likewise, the amount also includes adjustment to reinstate certain reclassified AFS securities (see Note 9) back to amortized cost using their original effective interest rates consistent with the business model of the BPI Group.

c. The BPI Group holds securities which were classified previously as HTM. Consequently, these securities were classified as financial assets at FVOCI consistent with the PFRS 9 business model of the BPI Group.

d. The BPI Group has elected to irrevocably designate strategic investments in a small portfolio of non-trading equity securities at FVOCI as permitted under PFRS 9. These securities were previously classified as AFS and carried at cost as allowed by PAS 39. Consequently, these unlisted equities are remeasured to fair value in accordance with PFRS 9. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

In addition to the above, the following debt instruments have been reclassified to new categories under PFRS 9, as their previous categories under PAS 39 were 'retired', with no changes to their measurement basis:

(i) Those previously classified as available-for-sale and now classified as measured at FVOCI; and
(ii) Those previously classified as held-to-maturity and now classified as measured at amortized cost.

For financial assets that have been reclassified to the amortized cost category, the table below shows their fair values as at December 31, 2018 and the fair value gain or loss that would have been recognized if these financial assets had not been reclassified as part of the transition to PFRS 9:

	Consolidated	Parent
	(In Millions of Pesos)	
Fair value as at December 31, 2018	4,396	4,448
Fair value loss that would have been recognized during the year if the financial asset had not been reclassified	(117)	(115)

In addition to PFRS 9 and 15, the following amendments have also been adopted by the BPI Group effective January 1, 2018:

- Amendments to PFRS 2, Share-based payments
- IFRIC 22, Foreign currency transactions and advance consideration

The adoption of the above amendments did not have a material impact on the financial statements of the BPI Group.

(b) New standards, amendments and interpretations not yet adopted

The following new accounting standards and interpretations are mandatory for annual periods after December 31, 2018 and have not been early adopted by the BPI Group:

PFRS 16, *Leases* (effective for annual periods beginning on or after January 1, 2019)

PFRS 16 will replace the current guidance in PAS 17, *Leases*. PFRS 16 which will become effective on January 1, 2019 will affect primarily the accounting by lessees and will result in the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

The adoption of PFRS 16 will affect the accounting of certain assets currently held by the BPI Group under operating lease arrangements. The financial impact is yet to be determined by the BPI Group management.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)

It has been clarified previously that PAS 12, not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of the above interpretation will not have a material impact on the financial statements of the BPI Group.

PFRS 17, Insurance Contracts (effective for annual periods beginning on or after January 1, 2022)

PFRS 17 was issued in May 2017 as replacement for PFRS 4, Insurance Contracts. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Insurance Commission, in coordination with Philippine Insurers and Reinsurers Association, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach. The BPI Group is assessing the quantitative impact of PFRS 17 as of reporting date.

Likewise, the following amendments are not mandatory for December 31, 2018 reporting period and have not been early adopted by the BPI Group:

- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to PAS 9, Plan Amendment, Curtailment or Settlement

The adoption of the above amendments is not expected to have a material impact on the financial statements of the BPI Group.

31.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The BPI Group recognizes a financial instrument in the statements of condition when, and only when, the BPI Group becomes a party to the contractual provisions of the instrument.

31.3.1 Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired (see definition on Note 31.3.2.2) at initial recognition – the BPI Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the BPI Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the BPI Group commits to purchase or sell the asset.

At initial recognition, the BPI Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, as described in Note 31.3.2.1 below, which results in the loss provision being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the BPI Group recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Policies from January 1, 2018 (PFRS 9)

31.3.2 Financial assets

31.3.2.1 Classification and subsequent measurement

From January 1, 2018, the BPI Group has applied PFRS 9 and classifies its financial assets in the following measurement categories: at fair value through profit or loss, fair value through other comprehensive income and at amortized cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and advances, due from BSP and other banks, government and corporate bonds and other financial receivables.

Classification and subsequent measurement of debt instruments depend on the BPI Group's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the BPI Group classifies its debt instruments into one of the following three measurement categories:

- *Amortized cost*
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include cash and other cash items, due from BSP, due from other banks, interbank loans receivables and SPAR, loans and advances, and other financial receivables.

- *Fair value through other comprehensive income (FVOCI)*
  Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statements of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- *Fair value through profit or loss (FVTPL)*
  Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statements of income within 'Trading gain on securities' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately.

Business model: The business model reflects how the BPI Group manages the assets in order to generate cash flows. That is, whether the BPI Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified and measured at fair value through profit or loss. Factors considered by the BPI Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the BPI Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the BPI Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The BPI Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The BPI Group subsequently measures all equity investments at fair value through profit or loss, except where the BPI Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The BPI Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as "Other operating income" when the BPI Group's right to receive payments is established. Gains and losses on equity investments at fair value through profit or loss are included in the "Trading gain on securities" in the statements of income.

31.3.2.2 Impairment of amortized cost and FVOCI financial assets

The BPI Group assesses impairment as follows:
- individually for loans that exceed specified thresholds. Where there is objective evidence of impairment, individually assessed provisions will be recognised; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognised.

Expected credit losses

The BPI Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The BPI Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

PFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:
- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the BPI Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The BPI Group determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.
- POCI financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). There are no POCI as at December 31, 2018.

The following diagram summarizes the impairment requirements under PFRS 9 (other than purchased originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Determination of significant increase in credit risk (SICR)

The BPI Group compares the probabilities of default occurring over its expected life as at the reporting date with the probability of default occurring over its expected life on the date of initial recognition to determine significant increase in credit risk. Since comparison is made between forward-looking information at reporting date against initial recognition, the deterioration in credit risk may be triggered by the following factors:

- substantial deterioration in credit quality as measured by the applicable internal or external ratings, credit score or shift from investment grade category to non-investment grade category;
- adverse changes in business, financial and/or economic conditions of the borrower;
- early warning signs of worsening credit where the ability of the counterparty to honor his obligation is dependent upon favorable business or economic condition;
- the account has become past due beyond 30 days where an account is classified under special monitoring category (refer to Note 28.1.2 for the description of special monitoring); and
- expert judgment for the other quantitative and qualitative factors which may result to SICR as defined by the BPI Group.

Measuring ECL -Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood that the borrower will default (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset.

- EAD is based on the amounts the BPI Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). For example, for a revolving commitment, the BPI Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

  The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

  - For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
  - For committed credit lines, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default.

- LGD represents the BPI Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

  The LGDs are determined based on the factors which impact the recoveries made post-default.

  - For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
  - For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies and historical recoveries.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. These assumptions vary by product type.

The assumptions underlying the ECL calculation—such as how the maturity profile of the PDs and how collateral values change—are monitored and reviewed regularly.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period from the time of the adoption of PFRS 9 on January 1, 2018 to the reporting date.

Forward-looking information incorporated in the ECL models

The BPI Group incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and expected credit losses for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgement. The BPI Group's economics team establishes possible global and domestic economic scenarios. With the use of economic theories and conventions, expert judgement and external forecasts, the economics team develops assumptions to be used in forecasting variables in the next five (5) years, subsequently reverting to long run-averages. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 27.

Financial assets with low credit risk

Loss allowance for financial assets at amortized cost and FVOCI that have low credit risk is limited to 12-month expected credit losses. Management considers "low credit risk" for listed government bonds to be an investment grade credit rating with at least one major rating agency. Other debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Definition of default and credit-impaired assets

The BPI Group considers a financial instrument in default or credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments (with the exception of credit cards and micro-finance loans where a borrower is required to be 90 days past due and over 7 days past due, respectively, to be considered in default).

Qualitative criteria

The counterparty is experiencing significant financial difficulty which may lead to non-payment of loan as may be indicated by any or combination of the following events:

- The counterparty is in long-term forbearance;
- The counterparty is insolvent;
- The counterparty is in breach of major financial covenant(s) which lead(s) to event of default;
- An active market for the security has disappeared;
- Granting of concession that would not be otherwise considered due to economic or contractual reasons relating to the counterparty's financial difficulty;
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the BPI Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the probability of default, exposure at default (EAD), and loss given default (LGD) throughout the BPI Group's expected credit loss calculations.

The BPI Group's definition of default is substantially consistent with non-performing loan definition of the BSP. For cross-border, treasury and debt securities, these are classified as defaulted based on combination of BSP and external credit rating agency definitions.

Policies applicable prior to January 1, 2018 (PAS 39)

31.3.3 Financial assets

31.3.3.1 Classification

The BPI Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities and available-for-sale securities. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading (other than derivatives) are shown as "Trading securities" in the statements of condition.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the BPI Group's key management personnel. The BPI Group has no financial assets that are specifically designated at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments: (i) that are not quoted in an active market, (ii) with no intention of being traded, and (iii) that are not designated as available-for-sale. Significant accounts falling under this category include loans and advances, cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under agreements to resell and accounts receivable included under other assets.

(c) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the BPI Group's management has the positive intention and ability to hold to maturity.

(d) Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

31.3.3.2 Subsequent measurement

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost. Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statements of condition. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statements of income (as "Trading gain/loss on securities") in the year in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative fair value adjustments previously recognized in other comprehensive income should be recognized in profit or loss. However, interest is calculated on these securities using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the BPI Group's right to receive payment is established.

31.3.3.3 Reclassification

The BPI Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the BPI Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the BPI Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Reclassification and sale of held-to-maturity securities other than an insignificant amount, would taint the entire portfolio and result in reclassification to available-for-sale category, except on sales and reclassifications that:

- are so close to maturity that changes in market interests rates would not significantly affect fair value;
- occur after the entity has collected substantially all of the asset's original principal; or
- are attributable to an isolated, non-recurring event that could not have been reasonably expected.

31.3.3.4 Impairment of financial assets

(*a*) *Assets carried at amortized cost*

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

The criteria that the BPI Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

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

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the BPI Group and historical loss experience for assets with credit risk characteristics similar to those in the BPI Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Subsequent recoveries of amounts previously written-off are credited to impairment loss in the statements of income.

(b) Assets classified as available-for-sale

The BPI Group assesses at each reporting date whether there is an objective evidence that a security classified as available-for-sale is impaired. For debt securities, the BPI Group uses the criteria mentioned in (a) above. For an equity security classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. Generally, the BPI Group treats 'significant' as 20% or more and 'prolonged' as greater than six months. The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in profit or loss) is removed from other comprehensive income and recognized in profit or loss when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

(c) Renegotiated loans

Loans that are either subject to individual or collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

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

31.3.4 Modification of loans (PFRS 9 and PAS 39)

The BPI Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the BPI Group assesses whether or not the new terms are substantially different to the original terms. The BPI Group does this by considering, among others, the following factors:

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

If the terms are substantially different, the BPI Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the BPI Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in the statements of income as a gain or loss on derecognition.

31.3.5 Derecognition of financial assets other than modification (PFRS 9 and PAS 39)

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the BPI Group transfers substantially all the risks and rewards of ownership, or (ii) the BPI Group neither transfers nor retains substantially all the risks and rewards of ownership and the BPI Group has not retained control.

The BPI Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the BPI Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

31.3.6 Financial liabilities (PFRS 9 and PAS 39)

31.3.6.1 Classification

The BPI Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the BPI Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statements of income and are reported as "Trading gains/losses on securities". The BPI Group has no financial liabilities that are designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost include deposits from customers and banks, bills payable, amounts due to BSP and other banks, manager's checks and demand drafts outstanding, subordinated notes and other financial liabilities under deferred credits and other liabilities.

31.3.6.2 Subsequent measurement and derecognition

Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Other liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired). Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

31.3.7 Loan commitments

Loan commitments are those contracts that the BPI Group is required to provide a loan with pre-specified terms to the customer. These contracts, which are not issued at below-market interest rate and are not settled net in cash or by delivering or issuing another financial instrument, are not recorded in the statement of financial position. Starting January 1, 2018, loss allowance is calculated on these commitments as described in Note 28.1.

31.3.8 Derivative financial instruments (PFRS 9 and PAS 39)

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

Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The BPI Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that do not qualify for hedge accounting are recognized immediately in the statements of income under "Trading gain on securities".

31.3.8.1 Embedded derivatives

From January 1, 2018 (PFRS 9)

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the BPI Group assesses the entire contract for classification and measurement in accordance with the policy outlined in Note 31.3.2 above. Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in the statement of profit or loss unless the BPI Group chooses to designate the hybrid contracts at fair value through profit or loss.

Prior to January 1, 2018 (PAS 39)

When derivatives are embedded on other financial instruments or host contracts, such combinations are known as hybrid instruments with the effect that some of the cash flows of a hybrid instrument vary in a way similar to a stand-alone derivative. If the host contract is not carried at fair value with changed in fair value reported in the Consolidated Statements of Income, the embedded derivative is generally required to be separated from the host contract and accounted for separately as at FVTPL if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. All embedded derivatives are presented on a combined basis with the host contracts although they are separated for measurement purposes when conditions requiring separation are met.

31.3.9 Fair value measurement

The fair value measurement did not change on adoption of PFRS 9. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The BPI Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, PSE, Philippine Dealing and Exchange Corp., etc.).
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at December 31, 2018 and 2017.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

(a) Financial instruments

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, foreign exchange rates, volatilities and counterparty spreads) existing at reporting dates. The BPI Group uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the BPI Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Valuation models are used primarily to value derivatives transacted in the OTC market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The fair value of OTC derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates, with the resulting value discounted back to present value.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, under PAS 39, the instruments are carried at cost less impairment. However, under PFRS 9, all investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

(b) Non-financial assets or liabilities

The BPI Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions. The fair values of BPI Group's investment properties and foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy. The BPI Group has no non-financial assets or liabilities classified under Level 3 as at December 31, 2018 and 2017.

31.3.10 Interest income and expense

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the BPI Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

31.3.11 Dividend income

Dividend income is recognized in profit or loss when the BPI Group's right to receive payment is established.

31.3.12 Transaction costs

Transaction costs are expensed as incurred for financial instruments classified or designated as FVTPL. For other financial instruments, transaction costs are capitalized on initial recognition. For financial assets and financial liabilities measured at amortized cost, capitalized transaction costs are amortized through net income over the estiamted life of the instrument using the effective interest method. For financial assets measured at FVOCI (AFS financial assets under PAS 39) the do not have fixed or determinable payments and no fixed maturity, capitalized transaction costs are recognized in net income when the asset is derecognized or becomes impaired.

31.3.13 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

As at December 31, 2018 and 2017, there are no financial assets and liabilities that have been offset.

31.3.14 Cash and cash equivalents

Cash and cash equivalents consist of Cash and other cash items, Due from BSP, Due from other banks, and Interbank loans receivable and securities purchased under agreements to resell with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

31.3.15 Repurchase and reverse repurchase agreements (PFRS 9 and PAS 39)

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks and customers and included in the statements of condition under "Interbank loans receivable and securities purchased under agreements to resell". Securities lent to counterparties are also retained in the financial statements.

31.4 Consolidation

The subsidiaries financial statements are prepared for the same reporting year as the consolidated financial statements. Refer to Note 1 for the list of the Parent Bank's subsidiaries.

(a) Subsidiaries

Subsidiaries are all entities over which the BPI Group has control. The BPI Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The BPI Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the BPI Group's voting rights relative to the size and dispersion of holdings of other shareholders give the BPI Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the BPI Group. They are de-consolidated from the date that control ceases.

The BPI Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the BPI Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the BPI Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the BPI Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PFRS 9 (PAS 39 in 2017) either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the BPI Group's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group, except for the pre-need subsidiary which follows the provisions of the PNUCA as allowed by the SEC.

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

(b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the Parent Bank are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the statements of income as net income (loss) attributable to non-controlling interests.

(c) Associates

Associates are all entities over which the BPI Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

If the ownership interest in an associate is reduced but significant influence is retained, a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The BPI Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the BPI Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BPI Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The BPI Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the BPI Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

Unrealized gains on transactions between the BPI Group and its associates are eliminated to the extent of the BPI Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

31.5 Investments in subsidiaries and associates

Investments in subsidiaries and associates in the Parent Bank's separate financial statements are accounted for using the cost method in accordance with PAS 27. Under this method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as reduction of the cost of the investment.

The Parent Bank recognizes a dividend from a subsidiary or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

The Parent Bank determines at each reporting date whether there is any indicator of impairment that the investment in the subsidiary or associate is impaired. If this is the case, the Parent Bank calculates the amount of impairment as the difference between the recoverable amount and carrying value and the difference is recognized in profit or loss.

Investments in subsidiaries and associates are derecognized upon disposal or when no future economic benefits are expected to be derived from the subsidiaries and associates at which time the cost and the related accumulated impairment loss are removed in the statements of condition. Any gains and losses on disposal is determined by comparing the proceeds with the carrying amount of the investment and recognized in profit or loss.

31.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who allocates resources to, and assesses the performance of the operating segments of the BPI Group.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated upon consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with PFRS 8, the BPI Group has the following main banking business segments: consumer banking, corporate banking and investment banking. Its insurance business is assessed separately from these banking business segments (Note 3).

31.7 Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of branches and offices. All bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the BPI Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Land is not depreciated. Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

Building	25-50 years
Furniture and equipment	3-5 years
Equipment for lease	2-8 years

Leasehold improvements are depreciated over the shorter of the lease term (ranges from 5 to 10 years) and the useful life of the related improvement (ranges from 5 to 10 years). Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There are no bank premises, furniture, fixtures and equipment that are fully impaired as at December 31, 2018 and 2017.

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

31.8 Investment properties

Properties that are held either to earn rental income or for capital appreciation or both, and that are not significantly occupied by the BPI Group are classified as investment properties. Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) Commencement of development with a view of sale, for a transfer from investment property to real properties held-for-sale and development;
(c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
(d) Commencement of an operating lease to another party, for a transfer from real properties held-for-sale and development to investment property.

Transfers to and from investment property do not result in gain or loss.

Investment properties comprise land and building. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on investment property is determined using the same policy as applied to Bank premises, furniture, fixtures, and equipment. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher of the property's fair value less costs to sell and value in use.

An item of investment property is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

31.9 Foreclosed assets

Assets foreclosed shown as Assets held for sale in the statements of condition are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

(a) Investment property is accounted for using the cost model under PAS 40;
(b) Bank-occupied property is accounted for using the cost model under PAS 16; and
(c) Financial assets are accounted for under PFRS 9 starting January 1, 2018 (PAS 39 was applied until December 31, 2017).

31.10 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the BPI Group's share in the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included under Other assets, net in the statements of condition. Goodwill on acquisitions of associates is included in Investments in subsidiaries and associates. Separately recognized goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include carrying amount of goodwill relating to the subsidiary/associate sold.

Goodwill is an indefinite-lived intangible asset and hence not subject to amortization.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit is represented by each primary reporting segment.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationships have finite useful lives of ten years and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship. Contractual customer relationships are included under Other assets, net in the statements of condition.

(c) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the expected useful lives (three to five years). Computer software is included under Other assets, net in the statements of condition.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the BPI Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other assets to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

31.11 Impairment of non-financial assets

Assets that have indefinite useful lives - for example, goodwill or intangible assets not ready for use - are not subject to amortization and are tested annually for impairment and more frequently if there are indicators of impairment. Assets that have definite useful lives are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

31.12 Borrowings and borrowing costs

The BPI Group's borrowings consist mainly of bills payable and other borrowed funds. Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The BPI Group has no qualifying asset as at December 31, 2018 and 2017.

Borrowings derecognized when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in te Statements of Income as other income.

31.13 Fees and commission income

Starting January 1, 2018, the BPI Group has applied PFRS 15 where revenue is recognized when (or as) The BPI Group satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

The recognition of revenue can be either over time or at a point in time depending on when the performance obligation is satisfied.

When control of a good or service is transferred over time, that is, when the customer simultaneously receives and consumes the benefits, the BPI Group satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time at the point of transfer control of the good or service to the customer.

Variable consideration is measured using either the expected value method or the most likely amount method depending on which method the BPI Group expects to better predict the amount of consideration to which it will be entitled. This is the estimated amount of variable consideration, or the portion, if any, of that amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

The BPI Group recognizes revenue based on the price specified in the contract, net of the estimated rebates/discounts and include variable consideration, if there is any. Accumulated experience is used to estimate and provide for the discounts and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

The BPI Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the BPI Group does not adjust any of the transaction prices for the time value of money.

There are no warranties and other similar obligation and refunds agreed with customers.

Until December 31, 2017, the BPI Group recognizes revenue under PAS 18. Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party (i.e. the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses) are recognized on completion of underlying transactions. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period in which the service is provided.

31.14 Credit card income

Credit card arrangements involve numerous contracts between various parties. The BPI Group has determined that the more significant contracts within the scope of PFRS 15 are (1) the contract between the BPI Group and the credit card holder (‘Cardholder Agreement’) under which the BPI Group earn miscellaneous fees (e.g., late payment fees, over-limit fees, foreign exchange fees, etc.) and (2) an implied contract between the BPI Group and merchants who accept the credit cards in connection with the purchase of their goods and/or services (‘Merchant Agreement’) under which the BPI Group earn interchange fees.

The Cardholder Agreement obligates the Bank, as the card issuer, to perform activities such as redeem loyalty points by providing goods, cash or services to the cardholder; provide ancillary services such as concierge services, travel insurance, airport lounge access and the like; process late payments; provide foreign exchange services and others. The amount of fees stated in the contract represents the transaction price for that performance obligation.

The implied contract between the BPI Group and the merchant results in the BPI Group receiving an interchange fee from the merchant. The interchange fee represents the transaction price associated with the implied contract between the BPI Group and the merchant because it represents the amount of consideration to which the BPI Group expects to be entitled in exchange for transferring the promised service (i.e., purchase approval and payment remittance) to the merchant. The performance obligation associated with the implied contract between the BPI Group and the merchant is satisfied upon performance and simultaneous consumption by the customer of the underlying service (i.e. purchase approval and payment remittance). Therefore, the interchange fee is recognized as revenue each time the BPI Group approves a purchase and remits payment to the merchant.

31.15 Foreign currency translation

(a) Functional and presentation currency

Items in the financial statements of each entity in the BPI Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is the Parent Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

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

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss recognized under "Trading gain/loss on securities" in the statements of income. Translation differences on non-monetary financial instruments, such as equities classified as financial assets at FVOCI, are included in Accumulated other comprehensive income (loss) in the capital funds.

(c) Foreign subsidiaries

The results and financial position of BPI's foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at reporting date;
(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognized as a separate component (Currency translation differences) of Accumulated other comprehensive income (loss) in the capital funds. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

31.16 Accrued expenses and other liabilities

Accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the BPI Group is established.

31.17 Provisions for legal or contractual obligations

Provisions are recognized when all of the following conditions are met: (i) the BPI Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item is included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

31.18 Income taxes

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax is related to items (for example, current tax on financial assets at FVOCI) that are charged or credited in other comprehensive income or directly to capital funds.

The BPI Group has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the final tax paid or withheld is included in Provision for income tax - Current.

(b) Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

The BPI Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, and associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, and associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the BPI Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the BPI Group is unable to control the reversal of the temporary difference for associates except when there is an agreement in place that gives the BPI Group the ability to control the reversal of the temporary difference.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

31.19 Employee benefits

(a) Short-term benefits

The BPI Group recognizes a liability net of amount already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by to its employees include salaries and wages, social security contributions, short-term compensated absences and bonuses, and non-monetary benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(b) Defined benefit retirement plan

The BPI Group has a defined benefit plan that shares risks among entities within the group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statements of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Defined benefit costs comprise of service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statements of income. Past service costs are recognized when the plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as interest income or expense in the statements of income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

For individual financial reporting purposes, the unified plan assets are allocated among the BPI Group entities based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(c) Defined contribution retirement plan

The BPI Group also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the BPI Group pays fixed contributions based on the employees' monthly salaries. The BPI Group, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement Pay Law, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the BPI Group accounts for its retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The BPI Group and Parent Bank determine the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) then, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plan are recognized in the statements of income.

The defined contribution liability is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Actuarial gains and losses arising from the remeasurements of the net defined contribution liability are recognized immediately in the other comprehensive income.

(d) Share-based compensation

The BPI Group engages in equity-settled share-based payment transactions in respect of services received from certain employees.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of employee services received in respect of the shares or share options granted is recognized in profit or loss (with a corresponding increase in reserve in capital funds) over the period that the services are received, which is the vesting period.

The fair value of the options granted is determined using option pricing models which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

When the stock options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (par value) and share premium for the excess of exercise price over par value.

(e) Profit sharing and bonus plans

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

31.20 Capital funds

Share capital, comprising common shares, is classified as equity.

Share premium includes any premiums or consideration received in excess of par value on the issuance of share capital.

Incremental costs directly attributable to the issue of new shares or options are shown in capital funds as a deduction from the proceeds, net of tax.

31.21 Earnings per share (EPS)

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. In case of a rights issue, an adjustment factor is being considered for the weighted average number of shares outstanding for all periods before the rights issue. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

31.22 Dividends on common shares

Dividends on common shares are recognized as a liability in the BPI Group's financial statements in the period in which the dividends are approved by the BOD.

31.23 Fiduciary activities

The BPI Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the BPI Group (Note 25).

31.24 Leases

(a) BPI Group is the lessee

(i) Operating lease
Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to "Occupancy and equipment-related expenses" in the statements of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

(ii) Finance lease
Leases of assets, where the BPI Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(*b) BPI Group is the lessor*

(i) Operating lease
Properties (land and building) leased out under operating leases are included in "Investment properties" in the statements of condition. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

(ii) Finance lease
When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

31.25 Insurance and pre-need operations

(a) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiaries follow: (a) gross premiums written from short-term insurance contracts are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method; (b) acquisition costs are deferred and charged to expense in proportion to the premium revenue recognized; reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs; (c) a liability adequacy test is performed which compares the subsidiaries' reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to profit or loss; (d) amounts recoverable from reinsurers and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts; and (e) financial assets and liabilities are measured following the classification and valuation provisions of PFRS 9.

(b) Pre-need

The more significant provisions of the PNUCA as applied by the pre-need subsidiary follow: (a) premium income from sale of pre-need plans is recognized as earned when collected; (b) costs of contracts issued and other direct costs and expenses are recognized as expense when incurred; (c) pre-need reserves which represent the accrued net liabilities of the subsidiary to its plan holders are actuarially computed based on standards and guidelines set forth by the Insurance Commission; the increase or decrease in the account is charged or credited to other costs of contracts issued in profit or loss; and (d) insurance premium reserves which represent the amount that must be set aside by the subsidiary to pay for premiums for insurance coverage of fully paid plan holders, are actuarially computed based on standards and guidelines set forth by the Insurance Commission.

31.26 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

31.27 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no changes to the presentation made during the year.

31.28 Reclassification

Certain amounts have been reclassified in the statements of condition in the prior year to conform to the current year's presentation of other assets.

31.29 Subsequent events (or Events after the reporting date)

Post year-end events that provide additional information about the BPI Group's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 32 - Supplementary information required by the Bureau of Internal Revenue

On December 28, 2010, Revenue Regulations (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2018 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	6,990
Trade finance documents	639
Mortgage documents	467
Shares of stocks	56
Others	7
	8,159

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2018 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Income taxes withheld on compensation	1,566	177	**1,743**
Final income taxes withheld on interest on deposits and yield on deposit substitutes	2,178	244	**2,422**
Final income taxes withheld on income payment	643	29	**672**
Creditable income taxes withheld (expanded)	409	53	**462**
Fringe benefit tax	145	34	**179**
VAT withholding tax	47	12	**59**
	4,988	**549**	**5,537**

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2018 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Gross receipts tax	3,014	407	**3,421**
Real property tax	128	-	**128**
Municipal taxes	168	-	**168**
Others	6	-	**6**
	3,316	**407**	**3,723**

Local and national taxes imposed by the government which are incurred under the normal courses of business are part of "Taxes and Licenses" within Other Operating Expense (Note 21).

(iv) Tax cases and assessments

As at reporting date, the Parent Bank has pending cases filed in courts and with the tax authorities contesting certain tax assessments and for various claims for tax refund. Management is of the opinion that the ultimate outcome of the said cases will not have a material impact on the financial statements of the Parent Bank.