BPI

BUILDING THE FUTURE **TOGETHER**

“True economic growth cannot be achieved if someone is left behind.”

– Dr. Jaime Aristotle B. Alip

THE "CRAZY" IDEA OF ERADICATING POVERTY

By Dr. Jaime Aristotle B. Alip
Founder & Chair Emeritus, CARD MRI

To visualize a poverty-free society is to revolutionize a system, to disrupt trends, to empower the deprived and the underprivileged, to include them in the overall equation of things that speak of progress.

A crazy idea, many would say. Impossible, some would remark. But this crazy concept is what drove me to pursue it. More than three decades ago, I, together with a team of dedicated rural development practitioners, dove in head first to the seemingly impossible business of poverty eradication.

In 1986, I founded the Center for Agriculture and Rural Development (CARD). But CARD's initial experience in providing credit to the poor proved to be a failed model. We did not have a clear definition of who we were to the poor we wanted to serve. We let members of our organized groups decide when to pay back their loans.

Hence, from starting as a straightforward social development foundation, CARD expanded to an inclusive, holistic business model that embraced a financial and non-financial systems approach. We then established the CARD Mutually Reinforcing Institutions (MRI). This was certainly the transformation we needed to enable us to provide our members—majority of whom are women—with sustainable, financially-inclusive programs.

Why did I come up with this model? Poverty is a complicated matter. There are several factors that make the poor stay poor, if they are not given the right knowledge and tools. We saw this as an opportunity to expand our vision and to grow our mission.

The remarkable journey of CARD MRI would not be possible without the relationships we have established throughout the years. Among our valued partners is Bank of the Philippine Islands (BPI).

This was a milestone partnership, I must say. Our strong collaboration can be traced back to 2007 when BPI granted us a commercial loan amounting to Php 100 million—a historical transaction, as this was the first in the microfinance industry.

Microfinance is a lifetime commitment and so is the commitment to financial inclusion. There is no downtime in helping the poor. For me, poverty eradication isn't only our business. It is our very purpose, our very mission in CARD MRI.

Now we have already reached 6.3 million poor Filipino families, from Luzon, Visayas, to Mindanao. People thought I was crazy when I first broached the idea of a bank owned and managed by poor Filipino women.

Today, it's a different story.

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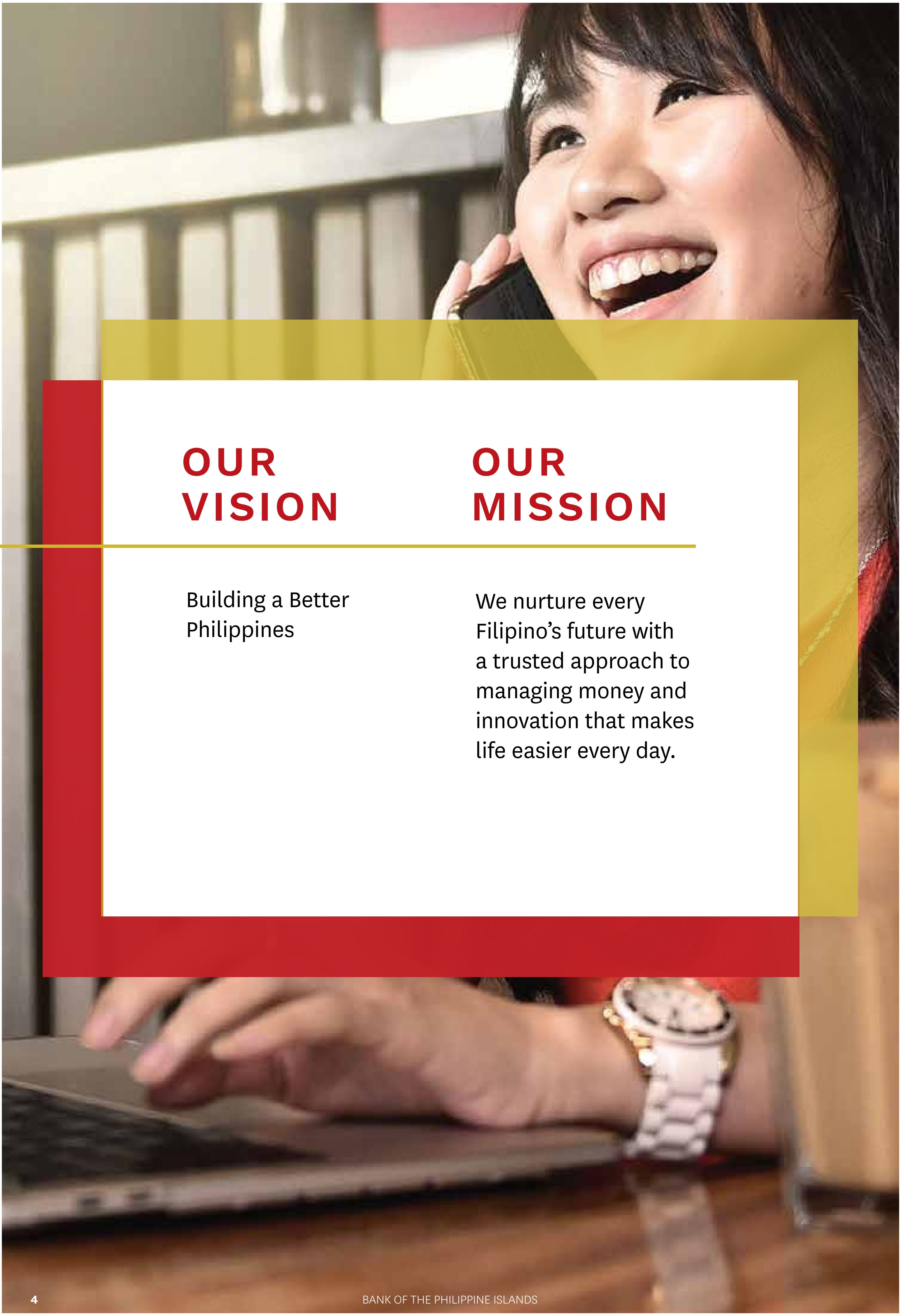

OUR VISION

Building a Better Philippines

OUR MISSION

We nurture every Filipino's future with a trusted approach to managing money and innovation that makes life easier every day.

BPI CREDO

We believe our first responsibility is to our CLIENTS.
If we understand and address our clients' financial needs, we will be entrusted with their most important financial transactions, and we will build lasting relationships. We do well when our clients do well.

We believe in our responsibility to our PEOPLE.
We seek to hire the best people for each job, provide them with the means to perform at a high level, and reward them fairly. We value integrity, professionalism, and loyalty. We promote a culture of mutual respect, meritocracy, performance, and teamwork. We strive to be the employer of choice among Philippine financial institutions.

We believe in our responsibility to our SHAREHOLDERS.
We treat capital as a most valuable asset and seek to generate superior returns while being prudent in risk-taking, spending, and investment.

We believe in our responsibility to our COUNTRY.
Our prosperity is greatly dependent on the well-being of our nation. We aim to be inclusive and responsible in nation-building. Through BPI Foundation, we are committed to the welfare and sustainability of the communities we serve.

CORE VALUES

Customer Service
We establish lasting relationships with clients, putting them first in our list of priorities. We delight them with our service and we always try to anticipate their needs.

Excellence
Whatever our functions are, we always give our best and continuously upgrade our knowledge, skills, habits and attitudes. This way, we meet each challenge with determination and drive, opening ourselves to unlimited possibilities.

Loyalty
We are proud of BPI. We are true to our ideals and vision, and we actively promote and defend what BPI stands for.

Teamwork
We build relationships founded on mutual respect. We are totally committed to the achievement of the objectives of our respective teams in BPI and of the Bank. We actively participate as one in any undertaking and contribute our individual knowledge and talents for the benefit of all.

Integrity
As bankers, we maintain and protect the credibility we have earned from BPI, our clients and our shareholders. We earn the trust of those we meet and interact with, and always do what is morally and socially correct, contributing in our small way in shaping the future of the Bank.

Concern for People
We are fair, supportive, friendly, caring, and sincere in our relations with the people around us.

ABOUT THE REPORT

Scope and Coverage

Building the Future Together is our 2018 Integrated Report, which covers BPI's Performance during the period of January 1 to December 31, 2018. It includes the operations of BPI and its subsidiaries in the Philippines and offices abroad unless otherwise stated in the data presentation.

The report has been prepared in accordance with the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework[1] and Bangko Sentral ng Pilipinas (BSP) guidelines on the submission of Annual Reports. This report uses the Global Reporting Initiative's (GRI) Sustainability Reporting Standards (GRI Standards) to bring out BPI's non-financial performance.

Divergence from the reporting boundaries and omissions are due to the nature of the data source, inadequate systems for capturing data, insignificance in scope of operations, and dearth of management control of BPI over aspects of operations.

Our previous Integrated Report published in April 2018 is available at www.bpi.com.ph.

Additional Reference

BPI's financial and operational performance is disclosed to and filed at the Philippines' Securities and Exchange Commission (SEC). It forms part of the Information Statement provided to stockholders. These are available online at www.bpi.com.ph.

Data covering the Philippine banking industry, macroeconomic, behavioral, and demographic trends were sourced from the reports of the BSP, Asian Development Bank, and World Bank. Other data sources are found in the footnotes.

Contact Information

For questions, comments, and suggestions, contact us:

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[1] The seven <IR> guiding principles underpin the preparation and presentation of the content of the report and how information is presented.

Materiality - Regular updates on the material topics were conducted and 2018 performance is presented. See material topics and indicators on pages 174-175.
Conciseness - Where applicable, references to prior published information is noted, and only material topics that affect the value creation of the bank is presented.
Consistency and comparability - The report references the GRI Standards for sustainability reporting, and comparison on performance of material issues from prior years is provided.
Reliability and completeness - For 2018, BPI engaged DNV-GL to provide an external assurance assessment on the non-financial disclosures of the report. Financial disclosures were audited by Isla Lipana & Co.
Connectivity - The report recognizes interrelatedness and relationships between the factors that affect BPI's ability to create value.
Stakeholder relationships - Our key stakeholders impact on our business, and they in turn are affected by our operations. A discussion on the formal platforms of engagement and our responses to their key concerns are presented in the Stakeholder Engagement on pages 176-177.
Strategic focus and future orientation - A discussion on how the Bank creates financial and non-financial value to stakeholders, and how risks and opportunities are managed is presented in business model and value creation on pages 18-19, strategy and performance on pages 24-27, risks and opportunities on on pages 28-29.
Divergence in scope - Employee head count covers all active employees of BPI and its subsidiaries in the Philippines as of December 31, 2018 and local hires of BPI's foreign offices are excluded. Environmental footprint includes branches, head offices, and business centers in the Philippines, excluding BanKo branches and BLUs

OUR BUSINESS

As the first bank in the Philippines and Southeast Asia, Bank of the Philippine Islands (BPI) has established a history of client trust, financial strength, and innovation. Since 1851, our business, products, and services have created sustainable value and played a significant role in every Filipino's daily life, as well as in the country's growing economy.

We are a member of the Ayala group of companies and we are one of the first institutions to be listed on the Philippine Stock Exchange (PSE). BPI has long recognized the primacy of corporate governance and the culture of integrity, values, and ethics that has always been the hallmark of BPI. Our Board of Directors and Senior Management work towards a sustainable and more inclusive society, framed around prudent and sound banking practices, quality of profits, and business fundamentals leadership.

We aim to provide better access to financial services for every Filipino. We want everyone – from individuals, enterprises, and institutions – to directly or indirectly benefit from the economic value generated and enabled by our business. As we enter another year, we shall continue to provide products and services efficiently, always mindful of our corporate values that have guided us through the past 167 years: Customer Service, Excellence, Loyalty, Teamwork, Integrity, and Concern for People.

A fully-diversified universal bank and a recognized leader in the banking industry, BPI, together with our subsidiaries and affiliates, offer a diverse range of products and services in consumer and corporate banking, as well as in asset management, payments, insurance, investment banking, foreign exchange, leasing, and securities and distribution. We have enhanced our digital infrastructure for a truly digital banking experience in the future, where clients can have delightfully better, more convenient and secure access to our services.

A foundational component of the digital infrastructure that we are building is the Bank's extensive network of automated teller machines (ATM), cash accept machines (CAM), BPI Express Assist (BEA) machines, point-of-sale debit system, and innovations that have made banking easier for an increasingly mobile population: phone banking, internet banking, and mobile banking.

As of today, our network boasts of 1,056 BPI, BPI Family Savings and BPI Direct BanKo branches, and branch-lite units (BLUs) nationwide. We also have more than 3,000 ATMs and CAMs, and about 7.88 million clients, being served by an 18,911-strong employee workforce. Together with our subsidiaries and affiliates in the BPI group, we seek to serve all client segments including corporate, consumer, or small, medium, and micro entrepreneurs.

Overseas, we offer diverse value-added services through two banking subsidiaries: BPI International Finance Limited in Hong Kong, and Bank of the Philippine Islands (Europe) Plc, which has a head office and a branch in London. This global presence is further strengthened through 139 international tie-ups, remittance centers and representative offices in Hong Kong, Tokyo, and Dubai, which have been established to meet the financial services needs of overseas Filipinos.

Furthermore, as part of our sustainability efforts, we are redeveloping our corporate headquarters in the heart of the Makati Central Business District. We will build a workplace that will more effectively and efficiently suit the needs of our employees and clients.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman

MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT & CEO

Dear Shareholders:

Last year, we announced our strategic priorities to digitalize the Bank, grow our SME and consumer loan businesses, and increase financial inclusion.

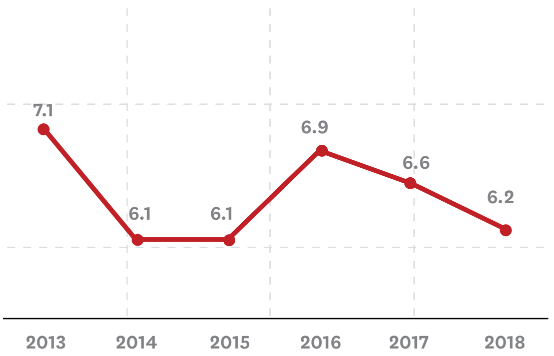
Since then, we have laid the foundation that will allow us to achieve these strategic initiatives. To help fund our digitalization efforts and support the growth of our loan portfolio, we underwent various fund-raising exercises. Each transaction was an overwhelming success, each setting its own record.

In May, we raised Php 50 billion from a stock rights offering, the largest capital markets transaction undertaken by the Bank. We then complemented the additional equity by raising debt, a US$ 600 million international bond in August and a Php 25 billion domestic bond in December, the largest in Philippine corporate history. We had never before raised amounts of this size in the public capital markets, which we believe is a reflection of the bold strategic initiatives that we have undertaken in recent years.

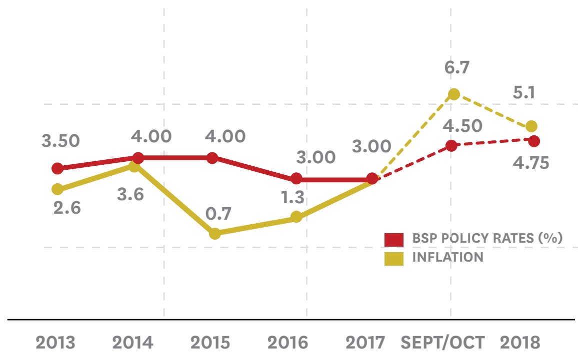
Our focus on preparing the Bank for the medium and long term did not distract us from delivering solid operating and financial results for the year. The capital we raised was very well timed. Our total assets grew by 9.5%, reaching Php 2 trillion, bolstered by a 12.7% growth in loans. High crude oil prices and a shortage of rice contributed to a rise in inflation, which peaked at 6.7% in September and October. Inflation weakened the peso, which hit a 9-year low of Php 54.34 to the US dollar. This in turn led to foreign financial investors selling Philippine listed stocks, causing a 12.8% decline in the PSEi. The BSP responded by raising policy rates five times during the year, for a cumulative increase of 175 basis points. The higher interest rates were more apparent, at least initially, on the deposit-taking side of the Bank. We were in the fortunate position of having the capital resources to forego high cost time deposits. At the end of the year,

CEZAR P. CONSING
President & Chief Executive Officer

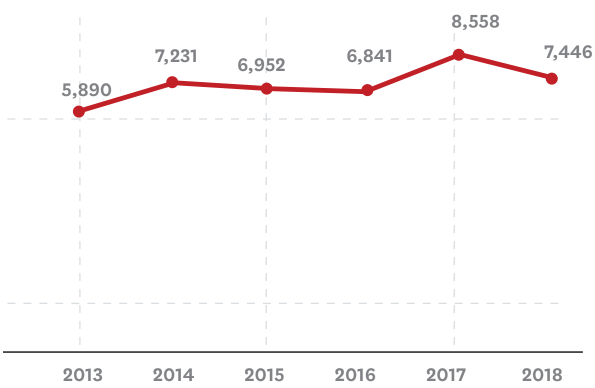
GDP GROWTH (%)



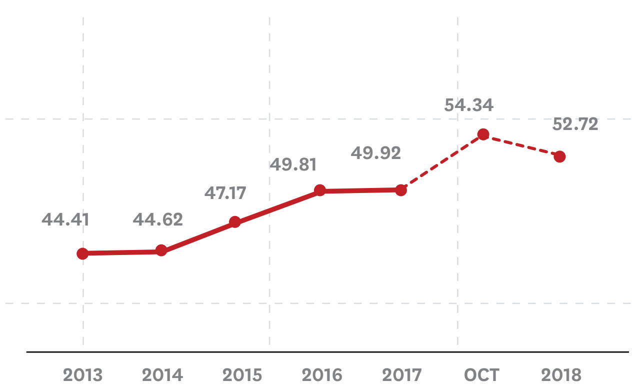
INFLATION, BSP Policy Rates (%)



PSE INDEX



PHP: USD RATE



Source: GDP growth & Average Inflation: Philippine Statistics Authority (PSA)
BSP Policy Rates & PHP:USD Rate (End of Period): Bangko Sentral ng Pilipinas (BSP)
PSE Index (End of Period): Bloomberg (PCOMP)

our CASA ratio stood at a strong 72%, while our loan-to-deposit ratio stood at an all-time high of 85.4%, indicative of a more efficient balance sheet. Most importantly, our average net interest margin was up by 21 basis points, the most significant increase in over a decade. This drove a 3% increase in after-tax net income to Php 23.1 billion.

The combination of a robust capital position and strong core business results have allowed us to embark on Phase Two of our digitalization journey. Phase One, which took almost three years, involved building the foundational digital infrastructure, which also meant delayering the technology architecture of the Bank. We built a state-of-the-art cybersecurity operations center, upgraded our core systems and adopted Agile to create capacity, improve turnaround times, and enhance customer experience. This phase supported a 13.8% average annual increase in transaction volumes over the same period. We spent Php 11.6 billion in technology in the last three years, with over a third of the amount devoted to building capacity and capability in new, cutting-edge ways.

Digitalization has to serve the businesses, and we want to make sure our technology investment is in support of some of our highest margin businesses. Last year, we prioritized SME lending by launching the Business Bank; Consumer lending, by re-engineering our housing and auto loan processes; and Microfinance, by opening an additional 100 BanKo branches, taking the total to 200 branches. Our goal is to see that our SME loans, consumer loans, and microfinance loans will over time account for a larger percentage of our total loan book, which today is predominantly corporate in nature. This will translate into higher loan yields and better net interest margins for the loan portfolio as a whole.

Phase Two of our digitalization efforts will involve nine focus areas: the orchestration of a digital ecosystem; becoming the partner of choice for digital platforms and ecosystem owners; reshaping payments in the country; pushing financial inclusion; digital lending and cash management for SMEs; digitalizing E2E processes; adopting a mobile first distribution strategy; adopting the latest digital marketing methodologies to accelerate customer acquisition; and leveraging big data and advanced analytics. Phase Two of our digitalization journey entails ramping up our investment in technology over the next three years. As the world becomes increasingly digitalized, embarking on this journey is a critical step in maintaining the competitive advantage of our franchise. A successful execution of Phase Two of our digitalization journey would, at the minimum, protect our base case revenue projections between now and 2023. If our plans fall into place, digitalization could contribute an additional 20% revenue uplift by 2023.

With even relatively new technologies being replaced by even more advanced technologies at an increasingly faster rate, we expect BPI's digital transformation to be an ongoing process, spanning decades, with new versions of a digitalized BPI emerging every few years. Phase Two of our digitalization journey will be focused on establishing a baseline in what we refer to as the three Es: Engage, Empower, Experience.

Engage

Digitalization will allow us to become more financially inclusive by significantly increasing our engagement with segments of the market where the banking system as a whole is woefully under-represented. These are small and medium scale companies and the lower-middle and lower-income consumer segments. The combination of high capital requirements, stringent regulations, large technology spend, an extensive physical branch network, and the increasing cost of human resources makes banking a high cost industry. With cost restrictions, banks have tended to focus their efforts on the larger corporates and the mid-and upper-income tier customers. While these segments continue to account for the bulk of economic activity, small and medium scale companies and the lower-middle and lower-income consumer segments are growing at a very fast rate. These segments require more and better banking services. Digitalization will reduce our cost to serve and will therefore permit a much higher level of engagement with these segments. Digitalization will make financial inclusion truly sustainable.

BPI Direct BanKo is a great example of this proposition. This three-year old platform makes loans to self-employed micro-entrepreneurs such as a stall operator in a public market, a beauty salon operator, and a neighborhood bakery. In its short history, BanKo has made over Php 4 billion in loans to almost 60,000 entrepreneurs. As brick and mortar is important for this kind of platform, we are growing BanKo at the rate of 100 branches a year to reach a total of 300 branches by end-2019. At the same time, BanKo will be the first digitalized bank in the country truly focused on financial inclusion, with a robust, secure, agile, and scalable cloud-enabled system that supports basic loans, deposits and mobile wallets as well as providing access to digital channels and payments. In addition, BanKo clients can access their accounts through 1,700 partner agencies.

Open Banking is another example of how digitalization allows for much greater engagement with counterparties. Open Banking refers to making our services available as application programming interfaces or APIs to fintech and e-commerce companies like G-Cash and Lazada. We are happy to see this initiative gaining traction quickly with our 40 APIs and 25 partnerships for a variety of platforms that facilitate online shopping, travel, payment of utilities, and the transfer of funds to e-wallets.

Empower

Digitalization will empower our clients, as they will be able to bank with us at any time wherever they may be, and in a manner that is attuned to their particular requirements.

For example, the number of clients enrolled in BPI's Bizlink, our cash and transaction management platform that caters to large corporate and SME clients, totals almost 37,000 less than two years after its introduction. Companies use Bizlink for payroll, collections, and payments to suppliers. Bizlink improves upon our own Expresslink. Bizlink provides features that empower clients to facilitate access to accounts on their own, allows more flexibility to cater to clients' requirements with minimal need for programming and system or data concerns, and aligns with SSS and Philhealth requirements for timely posting, among others.

For our consumer clients, digitalization has already produced the next generation of the BPI Online and BPI Mobile App platforms. Our latest application platforms allow for funds to be transferred via the use of a QR code and feature the use of one-time PINs for security. Active users of BPI Online and BPI Mobile grew by 16.3%, making BPI the bank with possibly the highest* digital adoption rate in terms of number of users.

Experience

Digitalization is about enhancing the client experience with our Bank. In the last 60 years, banking technology has undergone three distinct yet continuous phases. The 1960s and 1970s was the Mainframe Era with IBM and supercomputers. This was followed in the 1980s by the Self-Service Era, best characterized by automated teller machines or ATMs. The last ten years or so have marked the beginning of the Experience Era, with the advent of smartphones. Ultimately, digitalization is about putting our clients front and center. This requires that we make the experience of our clients seamless as they move from physical channels like our branches, to our digital channels like BPI Online and BPI Mobile. Our digitalization will allow for an omni-channel experience, with clients being able to start a transaction in one channel and complete it in another.

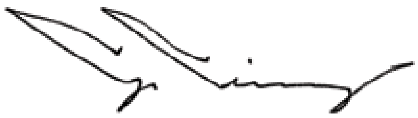
Critical to enhancing the client experience is to build a digital culture within our organization. It is not only about technology, it is also about how we communicate and collaborate, the speed at which we take action and our ability to manage change. We are now focused on building a digital culture with the same zeal that we exert when growing our loan book, expanding our branch network, or improving our financial and operating metrics.

In early 2019, we moved out of our almost 40-year old headquarters along Ayala Avenue. When it was completed in 1979, it was the tallest and most advanced building in the country's central business district. Today, while it is dwarfed by many other structures, it continues to stand for everything that makes BPI special — trust, financial strength, and the unwavering desire to always do right by our clients, our shareholders, our employees, and our country.

We will tear down our old building and replace it with a modern complex that will symbolize our confidence in the future. As an institution that has survived and thrived for 167 years, under multiple economic and political cycles, we attribute our success to our ability to constantly evolve with the needs of the times.

We thank you, our shareholders, for your continued support. We thank our Board of Directors for their guidance and counsel. We thank our employees for their loyalty and dedication. We are BPI — Ready Today. Ready Tomorrow.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman



CEZAR P. CONSING
President & Chief Executive Officer

*BPI Mobile app is ranked #1 and #4 in the Philippines in terms of number of downloads and active users under the Finance category of Apple App Store and Google Play, respectively. This is based on the March 31, 2019 report of Similar Web, which provides web traffic analytics and market intelligence reports.

FINANCIAL AND OPERATING HIGHLIGHTS

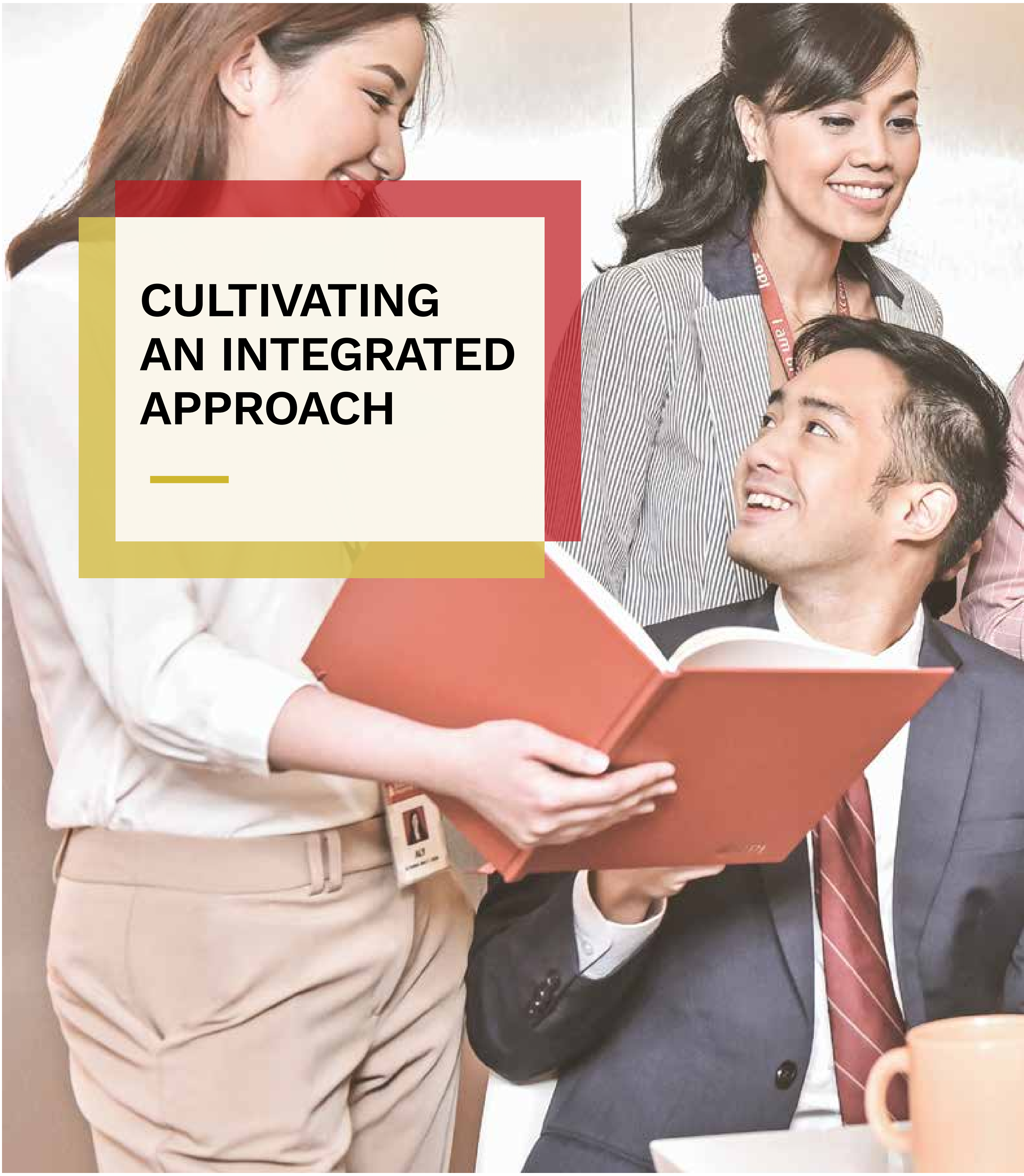
	Consolidated			Parent		
	2018	2017	Change	2018	2017	Change
BALANCE SHEET (in P mn)						
Assets	2,085,228	1,903,905	9.5%	1,753,141	1,582,748	10.8%
Trading and Investment Securities	337,465	306,117	10.2%	304,395	269,327	13.0%
Net Loans	1,354,896	1,202,338	12.7%	1,125,956	986,869	14.1%
Deposits	1,585,746	1,562,200	1.5%	1,347,207	1,323,963	1.8%
Equity (1)	248,521	180,688	37.5%	199,156	138,232	44.1%
INCOME STATEMENT (in P mn)						
Net Interest Income	55,843	48,039	16.2%	43,158	35,834	20.4%
Non-Interest Income	22,681	22,981	-1.3%	15,227	22,947	-33.6%
Net Revenues	78,524	71,020	10.6%	58,385	58,781	-0.7%
Operating Expenses	43,602	38,533	13.2%	33,661	29,379	14.6%
Pre-provision Profit	34,922	32,487	7.5%	24,724	29,402	-15.9%
Impairment Losses	4,923	3,795	29.7%	4,279	3,519	21.6%
Net Income (1)	23,078	22,416	3.0%	15,428	22,097	-30.2%
FINANCIAL PERFORMANCE INDICATORS						
Profitability						
Return on Equity	10.21%	12.75%	-2.5%	8.50%	16.81%	-8.3%
Return on Assets	1.20%	1.27%	-0.1%	0.96%	1.54%	-0.6%
Margins and Liquidity						
Net Interest Margin	3.11%	2.91%	0.2%	2.87%	2.65%	0.2%
Net Loans to Deposit Ratio	85.4%	77.0%	8.5%	83.6%	74.5%	9.0%
Cost Efficiency						
Cost to Income Ratio	55.5%	54.3%	1.3%	57.7%	50.0%	7.7%
Cost to Average Assets Ratio	2.27%	2.19%	0.1%	-	-	

	Consolidated			Parent		
	2018	2017	Change	2018	2017	Change
Asset Quality						
NPL Ratio (2)	1.85%	1.29%	0.6%	-	-	
NPL Cover	88.3%	129.2%	-40.9%	-	-	
Capital and Leverage						
CET 1 Ratio	15.19%	11.84%	3.4%	13.97%	10.48%	3.5%
Capital Adequacy Ratio	16.09%	12.74%	3.4%	14.83%	11.39%	3.4%
DISTRIBUTION NETWORK AND MANPOWER						
Branches	1,059	945	114	-	-	
ATMs	3,034	3,105	(71)	-	-	
Employees	18,911	17,047	1,864	-	-	
Officers	6,661	5,982	679	-	-	
Staff	12,250	11,065	1,185	-	-	
SHAREHOLDER INFORMATION						
Market Value						
Share Price	94.00	108.10	-13.0%	-	-	
Market Capitalization (in P mn)	423,230	425,851	-0.6%	-	-	
Valuation						
EPS, Basic and Diluted	5.35	5.69	-6.0%	3.57	5.61	-36.4%
Book Value per Share	55.20	45.87	20.3%	-	-	
Price-Earnings Ratio	18.3x	19.0x	-0.7x	-	-	
Price to Book Value	1.7x	2.4x	-0.7x	-	-	
Dividends						
Cash Dividends Paid to Common Shareholders (in P mn)	7,598	7,089	7.2%	7,598	7,089	7.2%
Cash Dividends per Common Share	1.80	1.80		-	-	

(1) Attributable to equity holders of BPI

(2) 2018 is based on BSP circular 941; 2017 is based on gross 90-day.

CULTIVATING AN INTEGRATED APPROACH



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Business Model and Value Creation
2018 Performance

Our Capitals	How we create value

Financial
We maintain a strong balance sheet, and we continue to grow and optimize our deposit franchise and loan book.

Php 2.1 trillion in total assets, a 9.5% increase from 2017

Php 248.5 billion in total capital

Manufactured and Intellectual
We have a reliable, secure, and expanding network of delivery infrastructure, in both traditional and digital platforms.

1,056 branches and branch lite units

3,034 ATMs and CAMs across the country

162 branches with upgraded look and feel and additional teller workspaces

57% of our active users migrated to our new BPI Online and mobile app

1.6 million BPI mobile app downloads

Human
We are driven by energized, enabled, and engaged employees with diverse talents.

18,911 total number of employees, a 10% increase from 2017

277,679 total training hours provided to employees

Social and Relationship
We are the beacon of stability and credibility upon which trust is built and sustained among our clients and global banking partners.

167 years of providing quality service and trusted advice

139 local and international partners

Natural
Our management systems ensure that we use resources efficiently to minimize our impact on the environment.

2% increase in electricity consumption, due to extended banking hours

1% decrease in water consumption

Capital Raising, Advisory, and Financing
We provide financial advisory, working capital loans, capital expenditure loans, acquisition financing, supply chain and trade financing, project finance, small business loans, and microfinance.

Growing Assets
We grow our assets through our Treasury portfolio management and participation in Philippine capital markets. We also grow our clients' assets through deposit and investment in fixed income securities, equity securities, unit investment trust funds, and mutual funds.

Insuring Life and Assets
We help protect the value of our clients' assets through our life and non-life insurance products.

Other Financial Services
We provide our clients an efficient means to make financial transactions through our card payments, remittance services, digital platforms and cash management facilities.

Strategies

Diversify our asset base and improve risk-adjusted returns by prudently accelerating **growth in the higher-margin SME and consumer lending businesses**

Enhance deposit franchise and delivery infrastructure

Continue work on our **digitalization roadmap**

Maintain our **leading position in the corporate segment**

Prudent balance sheet management

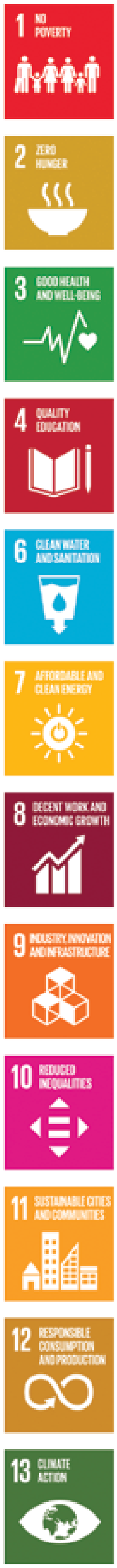
See pages 24-27 for more information.

OUR VISION
Building a better Philippines

OUR MISSION
We nurture every Filipino's future with a trusted approach to managing money and innovation that makes life easier every day.

The value we create

Our Contributions to the SDGs



Clients and communities
We foster financial inclusion and wellness, scale-up enterprises, and spur investments that directly impact our clients and the communities we serve.

7.9 million total clients* in both corporate and retail segments have established and sustained a relationship with BPI

Php 1.4 trillion in total loans, a 12.7% increase from 2017

Financial Inclusion and Wellness

10.5% increase in retail client base

946.8 million number of transactions done through electronic channels in 2018, a 35% increase from 2017

Php 3.3 billion microfinance loans disbursed through BanKo

3,939 financial management trainings conducted

102,000 total life insurance certificates issued

286,095 total non-life insurance policies availed across all product lines

1.18 million credit card users

198,504 new OF customers

Scaling-up enterprises

1,287 new corporate and business banking clients served

Php 540.8 billion in total capital raised for clients

37,000 BizLink enrolled clients

13% increase in total transaction volume for Bizlink

Php 6.1 billion in total throughput volume used for supplier and receivables financing, and Quick Assist program

1,596 Show me, teach me participants

Sustainable Development Financing

Php 196.92 billion in total funding for projects identified to contribute to the UN Sustainable Development Goals

Php 170.06 billion in total loans for agribusiness

Php 10.67 billion in financing sustainable energy projects

Employees
We invest in our employees, provide them a workplace that fosters learning and development, career advancement, and sustainable engagement.

Php 15.16 billion total payments to employees

54,040 volunteer hours contributed by employees

Government and Regulators
We support the government via capital raising through government securities distribution, payment of taxes, facilitating remittances, and complying to regulations.

Php 16.36 billion in total payments to government, a 21% increase from 2017

27% share in the remittance market

Php 121.76 billion total capital raised for government

Investors
We optimize our financial performance and value creation, ensuring delivery of superior shareholder returns in a manner that is transparent and equitable.

Php 78.5 billion in total revenues, a 10.6% increase from 2017

Php 27.76 billion in total payments to providers of capital (dividend and interest payments), a 25% increase from 2017

*Client count after clean-up of inactive accounts

BPI'S SUSTAINABILITY STRATEGY FRAMEWORK

Our Sustainability Strategy Framework highlights how our products and services create shared value for our clients, shareholders, and society as a whole. For us, sustainability means providing opportunities for financial wellness for individuals, communities, and businesses from different socio-economic backgrounds, as well as financing geared towards a greener economy and society.

Our value creation focuses on the following:

Financial Inclusion and Wellness – We widen our reach to underserved segments and help our clients grow and protect their assets through customized products and services.

Scaling Up Enterprises – We support enterprises through financing and capital raising across business segments to help them scale up their operations.

Sustainable Development Financing – We finance projects that support sustainable development, such as those involving sustainable energy, food and agriculture, sustainable communities, education, and infrastructure development.

An enhanced risk-managed delivery infrastructure is in place to ensure efficient delivery of the value we create. This includes our digital channels, operations, and cash management. We ensure that our traditional and digital channels are easily accessible, always available, and tightly secured.

We do this while we empower our employees and society, use our resources more efficiently, and strengthen stakeholder trust. These are all aligned with the Bank's philosophy as stated in our Credo.

CREATING SHARED VALUE

See page 48-73

- Financial Inclusion and Wellness
- Scaling-Up Enterprises
- Sustainable Development Financing

Risk-managed Delivery Infrastructure

CORPORATE SUSTAINABILITY

See page 74-169

- Empowering our People and Society
- Using our Resources Efficiently
- Building Trust

MARKET OUTLOOK

EXTERNAL ENVIRONMENT FACTORS

ECONOMIC GROWTH

The Philippine economy expanded by 6.2% in 2018, slower than the 6.7% growth recorded in 2017. However, the Philippines is still one of the fastest growing economies in Asia, next to China (6.6%) and Vietnam (7.1%). Despite global challenges such as the rate hikes of the US Federal Reserve and the rise of protectionism, the Philippine economy has been expanding by at least 6% since 2012 because of strong domestic demand supported by the country's population. For 2019, we expect a growth rate above 6.5% given the following drivers: (1) recovery of household consumption triggered by lower inflation, (2) sustained improvement in investment spending, and (3) additional boost provided by election spending.

ROBUST HOUSEHOLD CONSUMPTION

Household consumption growth remained healthy at 5.6% in 2018 given the tax cuts enacted by the government through the Philippine Tax Reform for Acceleration and Inclusion (TRAIN) law and the remittances from abroad, although it slowed down from 5.9% in 2017 because of higher prices. Average inflation accelerated to 5.2% in 2018 vs. 2.9% in 2017 due to higher global oil prices, food supply problems, a weaker Peso, and additional excise taxes. The Bangko Sentral ng Pilipinas (BSP) raised its policy rate by a total of 175 basis points (bps) during the year to avoid the build-up of inflationary expectations, bringing the BSP policy rate to 4.75%. Meanwhile, the National Government carried out efforts to address the supply constraints of key food items, allowing food prices to stabilize in late 2018. As a result of these measures together with the recent decline in global oil prices, BPI expects inflation to decelerate and return to the BSP's 2-4% target in 2019. Household consumption is expected to recover under this scenario.

IMPROVEMENT IN INVESTMENT SPENDING

In recent years, investment spending has improved significantly with the country's capital formation-to-GDP ratio (27%) now at par with the regional average. Combined capital expenditures by the government and the private sector continued to surge in 2018 given the need to expand the economy's productive capacity in order to meet rising consumer demand. Government spending in infrastructure rose by at least 40% in 2018 as part of the government's commitment to boost growth through the "Build, Build, Build" program. Even though borrowing costs are now higher because of the rate hikes of the BSP, we still expect capital spending to grow substantially in 2019 as pressure from rising consumer demand may reinforce the need to increase productivity through investment in fixed assets.

GROWTH OF MAJOR SECTORS

The industry sector posted the fastest growth rate (6.8%) among the three major sectors of the economy in 2018 as construction surged by 15.9%. The service sector grew by 6.6% and remained the biggest sector of the economy. Agriculture growth was almost flat as commodity costs rose. In 2019, we expect an improvement in manufacturing activity especially if energy prices stabilize. Construction may benefit from the government's "Build, Build, Build" program, especially if the groundbreaking of big ticket infrastructure projects finally kicks in this year.

FINANCIAL MARKETS

Interest rates rose in 2018 as inflation reached a 10-year high, with additional upward pressure coming from the government's borrowing program. Given the expectations that economic growth would remain strong and inflation would slow down in 2019, the BSP may have little reason to adjust its policy rate throughout 2019. Instead, the the BSP will likely prioritize the reduction of the reserve requirement ratio (RRR) on the deposits of universal and commercial banks as part of its financial reforms. The additional liquidity released by the RRR cut may lead to a moderate decline in benchmark interest rates which will support lending and economic activities, but this may be offset by upward pressure coming from the borrowing activities of the government.

Meanwhile, the Peso depreciated in 2018 owing in large part to the surge in imports to support the government's "Build, Build, Build" infrastructure spending program. Based on our in-house projections, the local currency may continue to weaken in 2019 as the country's substantial trade deficit may translate to a modest depreciation of the Peso, with additional Dollar support coming from global trade disputes and financial volatility in developed economies.

STRATEGY AND PERFORMANCE

Bell ringing ceremony for Php 50 billion stock rights offering

Our strategy is based on our analysis of the competitive environment, market outlook, stakeholder concerns, and other relevant factors to help us gain from opportunities while we manage the risks. Each year, we take stock of our performance against strategy and continually evaluate, adapt, and improve.

Stock rights offering

In May 2018, we raised Php 50 billion from our stock rights offering (SRO), the largest equity capital markets transaction in our 167-year history. The SRO involved the issuance of 558,659,210 new common shares (a ratio of 1:7.0594 common shares held or 14.2% of BPI shares outstanding) to shareholders as of record date. The SRO received strong support from both domestic and foreign shareholders, and was oversubscribed by 22.3%. The SRO cemented our position as one of the best capitalized banks in the Philippines, increasing our Common Equity Tier 1 (CET1) ratio from 11.84% to 15.19%.

Diversify our asset base and improve risk-adjusted returns by prudently accelerating growth in the higher-margin SME and consumer lending businesses

We plan to continue to tap opportunities in the growing market of middle-class Filipinos and thriving SME segments. The potential of these segments is significant, and we will pursue these opportunities in a prudent manner without compromising our stringent risk management standards and overall asset quality.

Small and Medium Enterprises

We believe that SMEs are important engines of growth in the Philippines. We will primarily focus on growing the relationship with existing SME clients of the Bank by expanding our product offering to these specific customers and developing relationships with SMEs who do business with existing corporate customers.

In 2018, we established the business banking group to focus solely on SMEs by addressing their day-to-day needs, such as cash management, payroll, government and supplier payment services. We help them achieve their long-term goals through quick, simple, and convenient solutions. We have built a team of focused and well-trained relationship managers to better understand and address the needs of the SME segment. The added focus and understanding will result in better risk management for the SME sector and improve overall returns.

We aim to enhance client experience by setting up the necessary infrastructure for improved client servicing, portfolio and risk management, credit, sales, relationship management, and collections. We also aim to shorten loan processing and approval times, increase the products available to SMEs, and to provide improved after-sales support.

Consumer lending

As of December 31, 2018, only 201,875 or 2.4%, of our retail depositors have availed of our loan products. We expect strong growth in the consumer lending market due to the stable growth of the Philippine economy and the recent passage of the TRAIN law. This reduced personal income tax rates, and is expected to result in higher disposable incomes for middle-class Filipinos and higher demand for vehicles and homes.

In 2017, we intentionally slowed down the growth in our consumer lending business to focus on improving our internal processes and developing internal systems. In particular, these improvements covered innovative auto and housing loan facilities, highly automated loan processing systems, and prudent risk management. With the new and improved processes in place, we believe that we are now better equipped to more effectively evaluate and manage risk as we grow our consumer lending business still in a prudent manner.

Microfinance

Recognizing the need for the unbanked market to have access to credit facilities, we repositioned our microfinance business (primarily through our subsidiary, BPI Direct BanKo, Inc.) from a mobile-based business model to a more traditional in-person business model that focuses on effective coverage of a specific market identified as the self-employed micro-entrepreneurs (SEMEs). BanKo implements an efficient collection process, grants business loans based on well-grounded credit parameters, and provides quick turnaround times and lower interest rates versus traditional money lenders. The shift to a more traditional business model allows BanKo to more effectively implement necessary know-your-customer processes and adhere to risk standards which lead to improved collection and reduction in Non-Performing Loans (NPLs).

Enhance deposit franchise and delivery infrastructure

Current Account and Savings Account (CASA) growth is a priority and we intend to continue to improve our CASA deposits by employing a dual-pronged approach of capitalizing on our extensive physical and digital distribution network, and continuing to provide innovative deposit-based products to acquire new clients and attract deposits.

We intend to expand our branch network in a strategic manner in Metro Manila and in key provincial cities showing potential for increasing consumer spending and infrastructure investments. This expansion will be balanced and complemented by the outlays in our digital infrastructure for more efficient digitalized banking processes that will spur financial inclusion in the country.

To increase deposits in the corporate, SME business, and retail banking segments, we aim to become a one-stop shop that provides integrated products and services to our clients, such as cash management, payroll, government and supplier payment services, as well as bancassurance, asset management, securities investments, credit facilities, payments and remittances, and foreign exchange products and services.

Elevate our digital infrastructure to deliver superior customer experience and cost efficiencies

We recognize the importance of building strong digital capabilities both in digital distribution platforms to exponentially increase client access points, and also in the back office to increase productivity and automation, as well as reduce costs.

In line with this, we intend to continue to make significant investments in our digitalization journey, which has the following five pillars:

- Developing an omni-channel client experience, resulting to a unified and seamless access for clients who navigate through different channels for various financial products and transactions;
- Providing a 360-degree view of the client, which allows us to effectively gather and analyze information to intuitively address the needs of our clients;
- Implementing Agile@scale, which is a workforce retraining program that will foster a culture of innovation and creativity where people re-engineer business processes using technology, thereby resulting in faster implementation of new processes and systems across the organization;
- Focusing on cybersecurity, which fosters our clients' trust in our digital channels and our adherence to relevant privacy rules and regulations. This requires investments in threat analytics and forensics as well as a cybersecurity operations center; and
- Building resiliency, through investments in IT systems to ensure 24/7 availability and stability of electronic services.

  While we have made substantial improvements in our digital infrastructure, digitalization will be our core focus over the next five years as we aim to continuously enhance overall customer experience, and maintain our cost advantage over other banks in the Philippines.

In 2019, we will work on Phase Two of our digitalization efforts. See page 12 for more information.

Maintain our leading position in the corporate segment

We plan to maintain our leading position in the corporate segment by continuing to provide a full suite of banking products to large corporates and multinationals. We will focus on improving risk-adjusted returns, capitalizing on strong cross-selling opportunities to offer other services such as the investment banking products of BPI Capital for corporate clients. We will do this while maintaining our prudent approach to underwriting. This improves the profitability of our traditional lending business, generates additional fee income, and provides clients with solutions that go beyond credit and cash management facilities.

Prudent balance sheet management

We will continue our prudent approach to risk management, maintaining our strong capital position, high asset quality, and liquidity. We plan to maintain our conservative approach (relative to industry standards) with respect to single borrower limits, non-performing loan recognition, and provisioning. Notwithstanding our loan growth aspirations in the SME, consumer and microfinance segments, asset quality will continue to be top-of-mind for us.

RISKS AND OPPORTUNITIES

Risk Description	Potential Impact
Credit Risk & Asset Quality Risk of loss due to a borrower or counterparty's non-payment of a loan or other credit accommodations (either the principal or interest, or both)	1) Decrease in our profitability due to an increase in loan losses and non-performing loans 2) Deterioration of the quality of our assets 3) Consequences from non-compliance to regulatory changes
Market & Liquidity Risks Risk of loss due to volatility of interest rates, foreign exchange rates or equity prices, and risk that we will be unable to meet a financial obligation to a customer or market in any location, in any currency at any time	1) Decline in earnings 2) Deterioration of the quality of our liquid assets; increased funding needs 3) Consequences from non-compliance to regulatory changes
Operational & Information Technology Risks Risk of loss due to inadequate or failed internal processes, people, and systems and risk of adverse outcomes due to the use of, or reliance on IT	1) Increase in operational losses 2) Disruptions in daily operations 3) Unauthorized access to our information assets 4) Inaccurate, incomplete, inconsistent, and/or unavailable information 5) Damage to our physical assets 6) Damage to our brand and reputation 7) Legal liabilities and tax implications 8) Consequences from non-compliance to regulatory changes
Business & Strategic Risks Risk to earnings or capital arising from adverse business decisions or strategy, improper implementation of decisions, lack of responsiveness to industry changes, and/or incorrect assessment of changes in business	1) Decline in earnings 2) Increase in operational losses 3) Damage to our brand and reputation
Environmental & Social Risks Risk of adverse effects due to the impact on the natural environment and/or communities	1) Increase in operational losses 2) Damage our physical assets 3) Damage to our brand, reputation, and social capital 4) Legal liabilities and tax implications 5) Consequences from non-compliance to regulatory changes

Management and Mitigation	Risk Exposure
Comprehensive set of Credit Risk Management policies and standard procedures covering: 1) Assessment of borrowing clients using credit risk rating models and credit risk scorecards 2) Evaluation and acceptance of collaterals 3) Credit evaluation and approval 4) Regular review of the appropriateness of classifications and impairment rates of classified loan accounts 5) Remedial management 6) Regular review of credit process implementation and documentation 7) Conduct of credit stress tests on our loan portfolio	Moderate, but Mitigated
Comprehensive set of Market and Liquidity Risk Management policies and standard procedures covering: 1) Measurement and monitoring of market risk exposures of trading and non-trading portfolios 2) Maintenance of adequate liquidity levels at all times 3) Establishment of a contingency funding plan 4) Conduct of stress tests 5) Enhancement of risk models and systems	Moderate, but Mitigated
Comprehensive set of Operational and IT Risk Management policies and standard procedures covering: 1) Identification, assessment, control / mitigation, monitoring, and reporting of operational and IT risks 2) Risk management processes are embedded in business activity processes (e.g., product development and process enhancements) 3) Development and monitoring of Key Risk Indicators (KRIs) 4) Loss event management process 5) Establishment of systems and programs on business continuity management, information security/ cybersecurity management, vendor management, and physical security management 6) Conduct of operational and IT risk management awareness and appreciation initiatives	Moderate, but Mitigated
1) Close monitoring of financial and operational performance, strategies, and policies 2) Development and monitoring of key risk indicators 3) Reporting to Senior Management and Board of Directors	Moderate, but Mitigated
Delivery of shared value through the following activities: 1) Efficient use of resources and increased focus on digitalization vis-à-vis sustainability and risk management 2) Financial inclusion and wellness initiatives 3) Sustainable development financing 4) Industry-academe initiatives	Low

BUSINESS REVIEW AND CLIENT TESTIMONIALS

RETAIL CLIENTS: SERVING OUR CLIENTS' CHANGING NEEDS

We serve our clients through our financial services and advice. While our branches serve the transactional needs of all clients, our relationship managers provide trusted advice to clients classified under various segments – Private, Preferred, Personal, and Overseas Filipinos (OF). We aim to be the Filipinos' Bank of Choice – the bank to which they flock to for their most important financial needs.

OPTIMIZED DISTRIBUTION NETWORK: We have expanded our capacity to serve and carry on quality conversations with our clients by renovating 94 of our existing branches and opening 17 new branches for the year. We now have a total of 856 BPI and BFSB branches nationwide, 53% of which are in Metro Manila. We also increased our seasonal accessibility, knowing the vital role we play in our clients' financial welfare. During the Christmas season, 138 BPI and 36 BFSB branches have extended branch hours by an additional hour. Likewise, 61 BPI and 18 BFSB branches were opened on four Saturdays in December. Furthermore, BPI also opened 61 branches nationwide on Saturdays to address the needs of most Filipino families during weekends.

DIGITAL HIGHLIGHTS: We launched the UNITAS system, where we bundled and customized account opening and electronic capture of IDs, thus improving the client experience through streamlined processes, as well as having better documentary compliance through retention of digital documents. The centralization of additional branch functions like outward remittances, check clearance and document digitization, also allowed us to leverage on economies of scale of cost and capabilities. Lastly, the debit EMV cards rollout, improved security for our clients' card transactions, while also allowing international Point-of-Sale (PoS) capabilities.

HIGHLY ROBUST DATA WAREHOUSE AND ANALYTICS PLATFORM: We continue to leverage on our dedicated client insighting and CRM Analytics team to deliver high quality leads. Our events-based marketing capability led to timely and relevant needs-based conversations with clients that are done using the right channel with the right offer. Conversion rates were three times better than our regular campaigns.

COMPETITIVE CONSUMER BANKING: Through our BPI Family Savings Bank (BFSB), which is the country's largest thrift bank, we launched the All-Out Promo which offers competitive rates, and fee waivers to eligible borrowers. The promo was able to generate an additional Php 8.0 billion in housing loans, enabling us to defend market share in 2018. ZWe also engaged credit reporting agencies, for credit information used in our underwriting. We continue to be a partner of the Home Guaranty Corporation in managing credit risk through the provision of guaranty coverage for low-cost and socialized housing. BFSB also aggressively marketed its Plan Ahead deposit product. Plan Ahead is a five-year term deposit product which offers high rates to retail clients. With its long tenor matching that of our consumer loan book, Plan Ahead continues to be a source of sustainable funding.

INSURING OUR CLIENTS: Our bancassurance partners, BPI-Philam for life, and BPI/MS for non-life, both had successful campaigns during our Debit EMV card rollouts. They generated Php 280 million in annualized new premiums and over 400,000 case counts availed of a one-year Php 50,000 Personal Accident (PA) insurance plan with a very low premium of Php 14.99. Intending to reach more clients through cost-effective digital channels, we also launched Pay'D in December 2018. Pay'D is a new online platform that accepts payment through credit or debit card, using our one-year PA insurance coverage of Php 1 million, with a premium of Php 365 only, as our pilot product. BPI-Philam was also first to market the electronic Automatic Debit Arrangement (ADA), via iPoS and phone, which was launched to allow the electronic transmission of ADA enrolment forms from BPI-Philam to BPI, leading to an increase in successful ADA enrolments.

EXPANDING OUR PRESENCE FOR OVERSEAS FILIPINOS: We also made sure that OFs are able to reach us easily through our OF Regional Sales teams strategically deployed in areas where there are high concentration of OFs. The goal is to reach out to OF communities and OF institutions in these areas. Currently, we have teams in Batangas covering Calabarzon, in Iloilo covering Panay, and in Cebu. We intend to expand our presence in Ilocos and Davao. In 2018, we also strengthened our partnership with one of the OF Pre-departure Orientation Seminar (PDOS) providers, Damlag, by offering them the use of our M.H. De Pilar branch as a venue for their PDOS.

Thelma Arceo
Loyal BPI client of 30 years

A Bank for All Ages

Thelma Arceo, 94, has been a loyal BPI client of 30 years. A retired real estate broker, she trusts BPI to manage her banking needs, particularly in managing the safekeeping of her hard-earned money from all her years spent working.

At her age, and with her impaired vision, she appreciates the special care that her branch at BPI-Tandang Sora extends to her.

“I have no complaints,” she said. “The staff are all courteous and accommodating. I have availed of what they offer because they explained everything to me.”

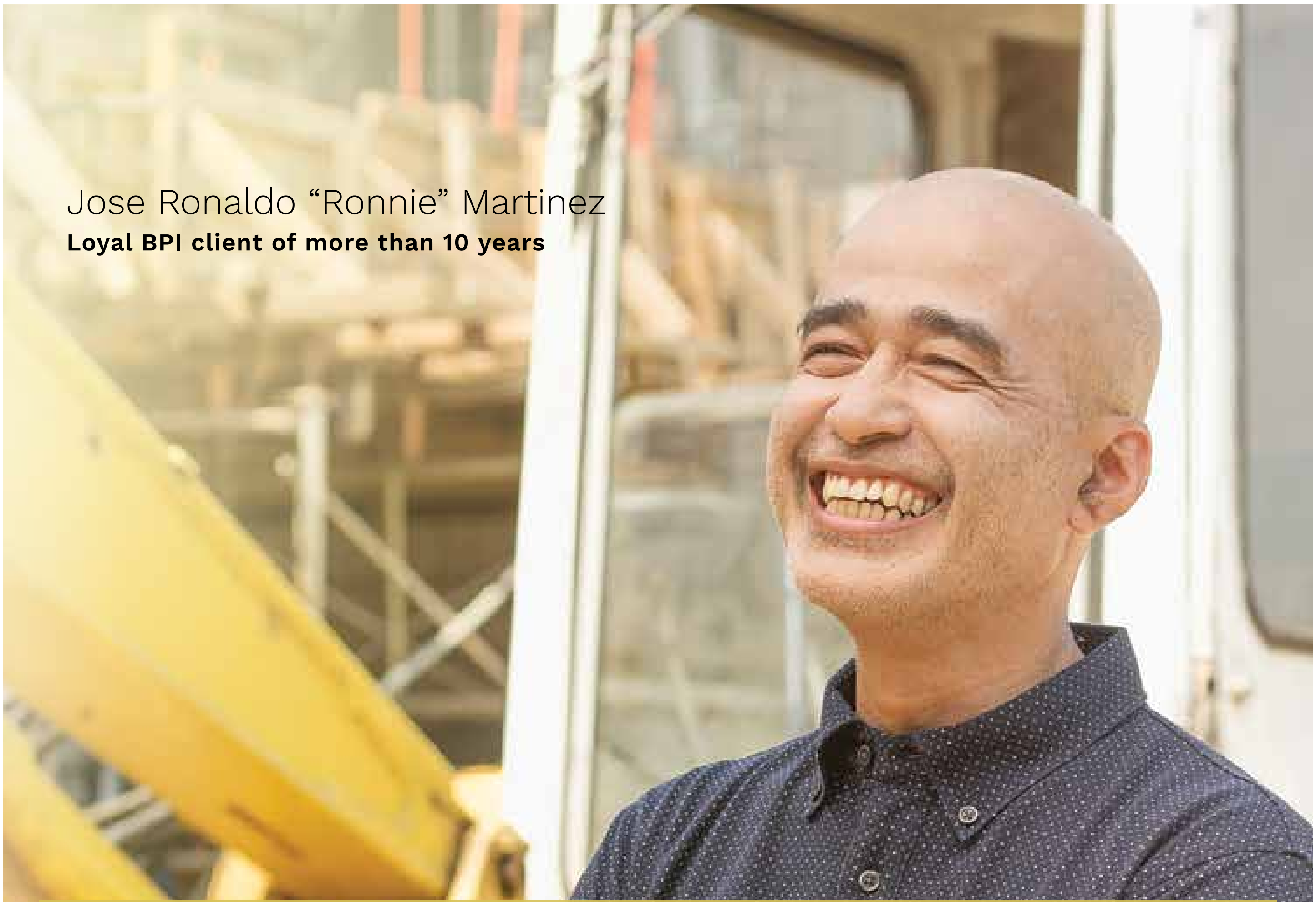
She still has four different accounts: her personal Peso Passbook Maxi Saver, Current Account, Regular Peso Passbook and SSS Peso Passbook – all joint accounts with her son, Roberto, who suffers from hemiplegia, or paralysis of half his body.

Thelma is particularly fond of the BPI Tandang Sora branch manager, Arlette Gesulga, who would willingly accommodate her whenever she visits the branch, especially when she needs help with digital aspects of banking.

“I’m sure that others will find my ways ancient and therefore cumbersome, because in this digital age you just push a button. But I can’t do that. So I suppose you need special people to stay and be patient with those who can’t cope with technology. I don’t know if I can find people like that anywhere. BPI has them,” Thelma said.

She believes accommodating her may be quite taxing to any bank staff, but she’s glad she gets help from BPI – from sorting her bills down to labeling bundles of money.

“I find it a special gift that I have people like Arlette. Beyond technology, BPI is a bank with a heart.”



Jose Ronaldo "Ronnie" Martinez

Loyal BPI client of more than 10 years

Building Dreams One Home at a Time

After working as an accountant for a Canadian firm based in Yemen for more than 10 years, Jose Ronaldo "Ronnie" Martinez decided to come home and try his luck as an entrepreneur.

Because he had limited resources to start his own business, Ronnie had to seek help from banks for financial support. Fortunately, BPI granted him his first-ever loan amounting to Php 4.8 million in 2008.

Assisted by business manager Amy Orbin, Ronnie was able to fund his housing projects in Marikina. With his confidence, hard work, and financial help from BPI, he successfully sold seven units.

Today, he owns two companies: MAJ Cornerstone and Santonex Corp. He has sold more than 100 units since he started his real estate buy-and-sell business.

"I see it like utang ng loob in our culture. BPI did help me fulfill my longtime dream of providing better life opportunities to lower-middle class families."

"They always take care of you," said Ronnie. "It's not just all about business. There is always someone to help you."

For Ronnie, BPI has become a valuable source of business advice. "I used to be very aggressive and wanted to take out loan after loan. They were the ones who said, 'Ron, you need to make a plan. You have to know your niche — townhouses or village? Big houses or smaller ones?' It's free financial advice," he said.

"Eventually, they would ask someone from housing loan to assist me or accredit my project. They will appraise per unit. They would say, 'Ron, your average income should be like this.'"

More importantly, BPI helps him realize his big dream of helping others.

"We are helping Filipinos by providing affordable homes. We're cheaper. We deliver right away. More importantly, we're helping provide livable homes," he said.

He says he can sleep soundly at night knowing that he has someone he can turn to for help in his business. BPI is all the reassurance he needs.

CORPORATE CLIENTS: BASTION OF BPI

BPI's Corporate Client Segment builds and strengthens relationships with institutional clients consisting of conglomerates, large local corporations and multinational companies through its Relationship Manager network. We aim to be our clients' go-to bank for growing their businesses (strategic), managing their operations efficiently (day-to-day), caring for their stakeholders (employees, clients, suppliers and other stakeholders) and mitigating business risks. By providing our clients with a comprehensive range of value-adding solutions, expert financial advice and superior customer experience, we have maintained a top-tier position in this highly competitive segment.

BPI is traditionally known for its corporate franchise. Our corporate loan portfolio has more than doubled in the last five years to cross the Php 1.0 trillion mark in 2018. Loan demand in 2018 was particularly strong in manufacturing, real estate, and utilities. Most corporate loans are in the form of working capital and business expansion term loans, thereby ensuring our core repeatable earnings. We also offer specialized products and services, such as:

LEASING: Through our joint venture with Tokyo Century Corporation, one of Japan's leading and most profitable financial services company, we offer asset financing alternatives and operating leases. In 2018, the largest amounts we disbursed in the sustainable development goals investment areas were in infrastructure development and healthcare. We have been supporting reforms that will improve the quality of infrastructure projects in the Philippines and in 2018 we financed 231 businesses with ongoing Public-Private Partnership (PPP) projects. We also provided medical equipment financing to over 66 health facilities nationwide. These medical equipment include machines used for MRI, CT scan, ultrasound, tomotherapy, etc. and are expected to improve the quality of health care services of our clients. We are committed to support the improvement of Philippine logistics as we support the refleeting and expansion activities of the trucking industry and warehouse projects of our customers.

SUSTAINABLE DEVELOPMENT FINANCING: Our Structured Finance Division supports sustainable energy and infrastructure development by providing financing to various power projects, including large hydro, run-of-river, geothermal, and wind projects, as well as PPP and other infrastructure projects. Meanwhile, strengthened by our partnership with the International Finance Corporation (IFC) of the World Bank Group, our Sustainable Energy Finance Division enables our clients to develop sustainable business operations by funding low-carbon and energy efficient technologies, helping them save 20–30% on energy costs and re-direct these savings to the bottom line. We also help our clients ensure that their renewable energy and climate resilience projects are properly designed, implemented, and yield targeted results. Finally, through our Agribusiness Division, we support the agricultural sector by extending loans to firms engaged in various agricultural industries such as piggery and other livestock, poultry, milling, trading, and processing, thereby contributing in industry development. Aside from helping "agripreneurs" in their day-to-day operations by providing working capital, we contribute to the industry modernization by financing construction of state-of-the-art facilities such as tunnel ventilated houses for swine and poultry and automated post-harvest plants. Detailed contributions made by each of these divisions are discussed in Chapter 8 of this report.

INVESTMENT BANKING: With the country's continued economic growth, Philippine companies have developed a need for more intricate financial solutions. In response to this emerging challenge, BPI Capital commits to continuously innovate and significantly create value for its clients by tailoring and executing financial solutions, especially as their needs become increasingly complex. Our leadership in the debt and equity capital markets, project finance, structured finance, advisory, and mergers and acquisitions guarantees that BPI Capital can deliver even the most meticulous and demanding investment banking needs. In our commitment to create value and significant contribution to the development of the Philippine economy, BPI Capital continues to be a champion of nation-building through our various initiatives. We support the country's key economic players by promoting inclusive growth and providing them with financial solutions that have stronger strategic impact. BPI Capital's business does not only take pride in creating progressive financial impact but also in advocating for positive change in the nation. Our 2018 transactions are reflective of our desire to guide our business to drive growth in the country.

In the debt capital markets, BPI Capital has played major roles in exemplary transactions that exhibit the bank's ability to successfully place securities in the domestic market and execute and manage transactions with varying degrees of complexity. BPI Capital's commitment to significantly contribute to the development of the Philippine economy is exemplified in our involvement in the government's 21st retail treasury bond offering. BPI Capital's position as the country's leading debt capital markets house as evidenced in our continued and demonstrated ability to effectively manage capital markets transactions and to achieve competitive pricing even in the midst of a rising interest rate environment is also seen in our role in IFC's maiden green bond and BPI's US dollar bond issuances.

DIGITAL HIGHLIGHTS: Bizlink was launched in 2017 to provide our corporate clients with an enhanced, more intuitive and flexible online banking portal as a means to address their customized cash management requirements. Bizlink is first to use the enterprise Multi-Factor Authentication (MFA) system in its internet banking portal. MFA provides two-factor authentication to ensure maximum security for clients. A key feature of the new online platform is the BizLink Mobile. The mobile feature offers executive corporate officers a convenient and secure channel to inquire on account balances and approve financial transactions remotely. Another enhancement under Bizlink is the System Administrator (SA) function. The SA function allows our corporate clients to customize their online banking set up (i.e., access to facilities and accounts) through pre-defined security controls, providing greater flexibility in managing their complex approval matrices. We are also committed to delivering innovations in the cash management space.

In 2018, we were the first to implement the Corporate Cash Deposit Machine (CCDM). CCDM is a more flexible alternative to traditional over-the-counter branch deposit and deposit pick-up services for cash intensive businesses. The CCDM solution promotes cost efficiency for clients as it eliminates manual cash handling and provides online visibility into daily collections. The funds collected through CCDMs are credited to the client's account within the day while cash positions may be viewed online via BizLink. In 2018, we piloted 12 CCDMs at client-nominated sites across Luzon.

Edwin Michael C. Wenceslao

Director and Vice President, Treasury and Administration
DM Wenceslao & Associates, Inc.

Taking Risks: An Ingredient for Success

Construction firm and property developer DM Wenceslao & Associates, Inc. (DMWAI) was built on a solid foundation of taking opportune, calculated risks.

Known for its development of Aseana City in Manila, DMWAI is one of the major players in the construction and real estate industry in the country today. Just like any other big company, DMWAI also started small. To grow their business, they knew they needed support.

"When you need to expand your business, one of the ways to go is to tap money from banks," shares Edwin Michael C. Wenceslao, Vice President for Treasury & Administration and director of DMWAI. "We needed the financial support."

Armed with optimism and vision for the company, they approached several banks. However, since Aseana City being one of the biggest projects of DMWAI was still breaking ground and relatively untested at the time, banks were not exactly rolling out the red carpet for them.

Fortunately, one bank listened. "It was BPI that took the risk to help us," Edwin said. "Despite the perceived uncertainties, BPI was there to support us."

He said that more than being partners in growing the business, they also maintained personal relationships with BPI's representatives who willingly shared prudence and guided them along the way.

"My father once said, if there's no relationship with people, there's no point in doing business. That's why we were comfortable with BPI," Edwin said.

In 2018, DMWAI held the first and only initial public offering (IPO) amidst weak market performance in the country. It was a bold move, but it paid off. DMWAI declared a net income of Php 1.9 billion for 2018, a 23-percent increase from 2017.

Confident with what they have learned about taking calculated risks, just like their recent IPO, the company is ready to further expand its business and unveil new projects in the coming months — with BPI, as their trusted financial partner.

Sabin Aboitiz

COO, Executive Vice President and Director

Aboitiz Equity Ventures

A Partner in Nation-building

Only about 61% of the population in Davao province has access to clean water.

Aboitiz Equity Ventures (AEV), one of the best-managed companies in the Philippines and a leader in good corporate governance and corporate social responsibility, set out to help.

AEV, together with J.V. Angeles Construction Corporation, established Apo Agua Infrastructura, Inc. (AAII) in 2014 to construct, operate, and manage the first large-scale bulk water supply project in Mindanao.

BPI became part of this landmark project by providing the needed financing for Apo Agua, which, once completed, would be one of the country's biggest private bulk water facilities that is expected to benefit more than one million residents of Davao City.

The water treatment facility has the capacity to supply at least 300 million liters per day to the Davao City Water District (DCWD) and an integrated 2.6MW hydro-electric power plant.

"We needed the capital to do this and we are very thankful to BPI for helping us," said AEV COO and Executive Vice President and Director Sabin Aboitiz. "Through this partnership, we are able to build this much-needed bulk water infrastructure project that will help address water problems in the country."

BPI, as the anchor lender among three other local banks, provided the financing of 51% (Php 4.6 billion) of the total project cost (Php 15.8 billion). BPI Capital acted as Sole Mandated Lead Arranger, Bookrunner, and Issue Coordinator, while BPI Asset Management and Trust Corporation is the Facility Agent and the Trustee.

Sabin sees this partnership between AEV and BPI as testimony to a shared mission of promoting inclusive growth and sustainable enterprises that will benefit future generations.

"Conglomerates like Aboitiz and Ayala groups – which AEV and BPI are part of, respectively – deeply understand the responsibility of contributing to nation-building," Sabin said.

Steven Que Azcona
Assistant to the President, Mercury Drug Corporation

Vivian Que-Azcona
President, Mercury Drug Corporation

A Partnership that Spans Decades

BPI has been taking care of our banking needs for over half a century," Says Vivian Que-Azcona, President of Mercury Drug Corporation (MDC), describing her company's relationship with BPI.

"My father opened his first store in Bambang, Manila, in March 1945 and our relationship with BPI started thereafter. More often than not, you will see a Mercury Drug near a BPI."

Over the years, the relationship of MDC and BPI has expanded from traditional deposit services to cover cash management, store point-of-sale, payroll, retirement funds management, foreign exchange, credit products and financial advisory.

The connection deepened further when Vivian became director of BPI from 2014 to 2017, giving her the opportunity to share her expertise on retail management and human resource development with BPI.

"What I like about BPI is its reliability, efficiency, accessibility and convenience through its nationwide branch network and digital platforms," she said. "We can always count on BPI to pick up our deposits from the branches, even in times of disasters and flooding. BPI understands the retailer's pains when pick-ups are not done, so they try their best to make it happen despite the weather or other circumstances."

MDC and BPI are both established institutions with a brand recall. They both desire to be of service to customers.

Mercury Drug and BPI have committed to creating services that provide high levels of customer experience. Mercury Drug offers Gamot Padala, Call Order Pick-Up, Order Anywhere Pick-Up Anywhere, Order Online, Drive-Thru Service, Gising 24 Oras, Suki Card and like BPI they also have a Mobile App for their customers' added convenience.

As Mercury Drug moves forward to its 75th year in 2020, Vivian shares that greater accessibility to its services can be expected through the "opening of more stores closer to all communities." It is a vision aligned with that of BPI, which hopes to serve more businesses across the country to further promote financial inclusion and be the reliable partner of corporations and entrepreneurs.

ELECTRONIC CHANNELS: LEADING THE DIGITAL TRANSFORMATION

As the primary mover in innovation, we aim to provide banking convenience in the digital space – even beyond our platforms. We innovate, develop, and deliver digital platforms and self-service machines that forge a strong "everyday banking" relationship with our clients while upholding the highest standards of security to sustain a safe banking experience for all.

35%
INCREASE IN TOTAL TRANSACTION VOLUME THROUGH ELECTRONIC CHANNELS

7%
INCREASE IN NUMBER OF UNIQUE USERS GOING DIGITAL

USER MIGRATION: We launched the new BPI Online and BPI Mobile App, combining our standard online banking features with a brand new user experience, and a set of innovative features and services that changed the way our clients bank. These include transfer via QR code, expanded list of reloading merchants, debit card control, biometric login, and one-time-PIN as a primary security feature.

PARTNER PLATFORMS: We introduced new revenue streams from partner Application Programming Interfaces (API) platforms – expanding the BPI brand beyond our current digital assets. With partners like Lazada, GCash and BPI/MS, straight-through payments became possible at the point of transaction of our partner companies – reloading your Lazada wallet with any BPI account, GCash account loading within the GCash app, and straight-through BPI/MS payment collection.

ATM NETWORK: We improved our ATM network acquisition, expansion, and availability strategies. To further establish our self-service machines' presence, we have deployed a total of 112 offsite machines nationwide and introduced process improvements that resulted in greater ATM/CAM presence and improved availability for our clients.

3,034
ATM/CAM MACHINES; 49% ARE IN METRO MANILA, AND 51% OUTSIDE METRO MANILA

13%
MARKET SHARE IN ATMS

NEW ATM SCREEN EXPERIENCE: We launched a new ATM screen experience. Initially deployed in over 200 machines nationwide, the new ATM screens boast a design aligned with the new BPI Online and BPI Mobile app, easier navigation, time-sensitive greetings, and paperless balance inquiry transactions, reducing cost and enhancing the ATM experience for our clients.

CARDLESS DEPOSIT: We generated 1.1 million deposit transactions with the reintroduced CAM Cardless Deposit feature. This feature enabled deposits to any BPI or BPI Family Savings Bank account without the need for the debit card and at no cost to the client. Bringing this feature back expanded the markets served by the Bank and improved branch banking experience by shifting more depositing customers to our self-service cash accept machines (CAMs).

AVAILABILITY AND SECURITY: We built digital platforms that are always available and highly secure. In 2018, the availability of our digital platforms was above 94% and no ATMs were compromised. We have monitoring and alerting tools to ensure that all issues are detected and pro-actively corrected. In case of system problems, a 24x7 operations team is on-site to immediately address the issues. The business team, in coordination with the Corporate Affairs and Communications team, ensures that customers and front-liners are updated of any situation.

57%
OF ACTIVE USERS WERE MIGRATED TO THE NEW BPI ONLINE AND MOBILE APP

1.6 M
APP DOWNLOADS TO DATE

BUSINESS BANKING: RENEWED FOCUS

Small and Medium Enterprises (SMEs) are the key drivers of economic development in the Philippines. These make up over 90% of all registered businesses in the country and employ over 70% of the working population. In January 2018, the Business Banking segment was launched to focus on the unique financial needs of our SME clients.

SEGMENT SNAPSHOT: 100,000 clients, including 20,000 relationship-managed accounts, serviced by more than 100 Business Relationship Managers and Business Sales Officers nation-wide.

SPECIALIZED CREDIT MODEL: We introduced a small business credit scorecard to allow for greater approval flexibility and faster turnaround times in extending loans and credit lines to small borrowers.

QUICK ASSIST PROGRAM: To address SMEs' difficulty in accessing traditional bank financing due to the extensive documentation and credit evaluation processes involved, our Trade Finance Unit established the Quick Assist Program. The program aims to facilitate the SME's requirement for Letters of Credit, which are necessary for their foreign and domestic trade obligations. The program was updated to simplify the required documentation and increase the threshold for eligible transactions. Through the Quick Assist Program, the SMEs may have access to Letter of Credit facilities without the rigorous approval process of traditional bank financing. In 2018, the value turnover of Quick Assist transactions increased by 40% vis-à-vis the previous year.

TAILOR-FIT PRODUCTS: We offer a KaNegosyo Term Loan which is ideal for expansion, building construction, development of land for business use, investment, working capital, and refinancing needs. We also offer a KaNegosyo Credit Line, ideal for recurring short-term financing, payment to suppliers, purchase of inventory, or working capital needs, bundled with BPI MS Insurance Business Care Advantage, where borrowers can get a wider coverage (including the required fire insurance) at a fraction of the cost. We accept collateral in the form of a real-estate mortgage, deposits, or investments.

BIZLINK: Under our Transaction Services Group, BizLink was created to provide clients an enhanced, more intuitive and scalable business banking portal as a means to address the basic needs of SMEs in an efficient manner. Through Bizlink, SMEs can conveniently operate their businesses and maintain control over their cash flow anytime, anywhere. In 2018, the value turnover of financial transactions processed in Bizlink increased by 13% vis-à-vis the previous year. See page 35 for more information about BizLink.

Angelita Wy
AWY Agricenter Corporation

Harvesting Partnership

Angelita Wy, 50, has solely led AWY Agricenter Corporation for 15 years now, selling and distributing fertilizers and chemicals to farmers to boost rice production and other crops.

AWY Agricenter Corporation was first established and founded by her husband, Aure, some 30 years ago. The business was excellent in the early years and they had grown steadily. Misfortune, however, struck them in their seventh year when a flood washed away their products and left them with Php 13 million in debt.

They went to their bank to borrow funds so they can recover, only to be met with a downgraded credit line because the bank doubted the couple's ability to pay.

"Lucky for us, Ma'am Jeng from BPI Gapan approached us. We've been partners ever since," says Angelita. "And in just one year, we are able to pay off our debts and the rest is history."

She encountered zero challenges in applying for BPI's loan program.

"They were very accommodating and friendly in guiding us on the requirements needed. In fact, BPI keeps us posted on products which we may need for the business and our employees alike," says Angelita.

The agriculture industry can be tough, but the credit line extended to the company allows the Wys to become more flexible in managing the business.

"When there is news about price hikes in fertilizers, we can afford to stock up more and get more profit in the process," says Angelita.

Because of its partnership with BPI, AWY Agricenter Corporation now thrives in a challenging business environment, while contributing to the development of the agricultural sector and creating jobs for marginalized but skilled individuals.

BANKO: BUILDING AN INCLUSIVE SOCIETY THROUGH MICROFINANCE

BPI Direct BanKo, Inc. (BanKo) is our platform for promoting financial inclusion, primarily serving Self-Employed Micro-Entrepreneurs (SEMEs). We provide SEMEs with affordable and appropriate products, and empower our clients with financial advice and solutions that promote the growth and expansion of their enterprises.

BanKo was specifically created for a bigger purpose – to contribute to the nation's prosperity by reaching out to a wider swath of the population through financial inclusion. In only two years of operations, the organization has already made significant changes in the lives of thousands of Filipino micro-entrepreneurs who previously had limited financial options.

DISTRIBUTION NETWORK: BanKo has seen tremendous growth in a span of two years. In 2016, our 10-branch network had 2,500 clients and a total loan amount of Php 170 million. Through aggressive branch expansion and community engagement programs, BanKo ended 2018 with 200 branches and Branch Lite Units (BLUs) in key provincial areas, a client base of almost 60,000 and disbursed Php 4 billion in loans. To date, we also have around 600 loan officers nationwide, our BanKoPares and BanKoMares, who are tasked to engage SEMEs and help them choose the best products and solutions to help scale up their businesses.

CUSTOMIZED PRODUCT SUITE: To assist our clients in their various financial needs, we primarily offer (1) NegosyoKo loans which are business loans that can be used as additional working capital or to fund business expansion, and (2) PondoKo savings which requires only a small initial deposit and maintaining balance of Php 50 for which we now have 332,757 clients. Through this savings account, our clients can also receive domestic remittances nationwide.

DIGITAL ACCESS: We understand how convenient, readily-available, and easy financial services can make a difference in our clients' lives, especially in hard-to-reach areas. Therefore we leveraged on our existing infrastructure and provided them with a simple way to reach us. Via simple text messages on their mobile phones, our clients can buy load, transfer funds anytime, anywhere, and even pay their bills. BanKo account holders are also able to do cashless shopping at over a thousand BancNet partner stores nationwide using the BanKo ATM card.

PARTNERSHIPS: BanKo participated in the Department of Trade and Industry's (DTI) Mentor Me program. In 2018, the growth rate of NegosyoKo loan availment of the participants of this program increased by 200%, or a total of 19 loans to date. BanKo also tied up with local government units for their local market vendors programs and took part in BPI Foundation's entrepreneurship programs to introduce our loan products directly to the target market. We also have a total of 1,700 BanKo Partner Outlets nationwide. In the communities where we are present, we have teamed up with various pawnshops, repair shops, and convenience stores who serve as an alternative delivery channel to make BanKo products and services more accessible to our clients there.

BANKOMARES AND BANKOPARES: Our BanKoMares and BanKoPares serve as the trusted advisers of the SEMEs. They help manage their finances to further grow their businesses. Aside from the SEMEs, the presence of BanKo in the provinces has also provided our branch staff with local employment opportunities, allowing them to stay in their hometowns with their families instead of seeking job opportunities in Metro Manila or overseas. We have 1,723 of the 1,851 employees of BanKo assigned in branches.

By changing the lives of more Filipinos and enabling them with the tools for a financially stable future, BanKo is contributing to sustainable development and nation-building.

Michael Del Rosario
BanKo Client
Roxas City

Wrapping the Business with Financial Security

With a meager starting capital and two old lumpia wrapper machines handed down to him by his parents, Michael Del Rosario started his lumpia wrapper-making business three years ago.

"Nagumpisa kami na kaunti lang ang kapital, Php 1,500 lang," he recalled. With hard work and perseverance, he started gaining more customers. (I started with a small capital only - Php 1,500.)

However, the lack of access to affordable loans hindered his growth – until he heard about BanKo from a neighbor.

Badly needing a sidecar for his motorbike to be used in delivering their products, he applied for a loan – for the first time – from BanKo. *"Kasi mahirap mag-deliver pag walang sidecar, mahal yung pamasahe tapos malayo yung palengke,"* he said. (It is difficult to deliver without a tricycle. The fare is expensive and the market is too far.)

Since it was his first time to apply for a loan, he was impressed by BanKo's simple requirements and fast processing. *"Mabilis ko nakuha ang loan, hindi ako nahirapan mag-apply,"* he said.

Aside from the low interest rate, Michael also liked BanKo's easy and convenient payment scheme. *"Magaan ang pagbabayad, lalo na at napag-iipunan ko naman araw-araw,"* he said. (The payment scheme is manageable, and I'm able to save for it every day.)

With the growth of his business venture, Michael realized the value of having a partner like BanKo. He is now supplying lumpia wrappers to roughly 20 clients in two different marketplaces in Roxas City.

Michael attributes his success to three things: perseverance, diligence, and having the right bank partner. *"Sikap lang at tiyaga. Kahit anong pagod, tiis lang. At kapag may partner ka na bangko, makakaipon ka talaga, at hindi ka na mahihirapan maghanap ng kapital,"* he added. (Diligence and perseverance. I endure the exhaustion. And when you have a bank as a partner, you'll be able to save. You won't have a hard time looking for a capital.)

Aside from being able to provide for his family's needs, Michael is also now able to save for medical emergencies. "*Hindi na ako natatakot ipa-check up yung anak ko kasi meron na akong naipon,"* he proudly said. (I'm no longer afraid to bring my child to the doctor because I already have savings for emergencies).

Bolawan Udasan
Wife and Business Partner of Moctar Udasan
BanKo Client
Rosales, Pangasinan

Nothing is Impossible with BanKo

"Bata pa lang ako negosyo na ang trabaho ko." (Even when I was a child, I've always been into business.)

Moctar Udasan, now 32, has been an entrepreneur since he was 10, when he started peddling lighters and playing cards in the market.

Naturally for him, Moctar also started his own business venture when he was old enough by selling ready-to-wear clothes (RTWs) and cellphone accessories in Rosales Public Market in Pangasinan.

Moctar's vision for his business was to expand – open more stores and get a stall in another market. But he had a problem. *"Puhunan naman talaga ang problema ng mga negosyante."*(Capital is always the problem for us businessmen.)

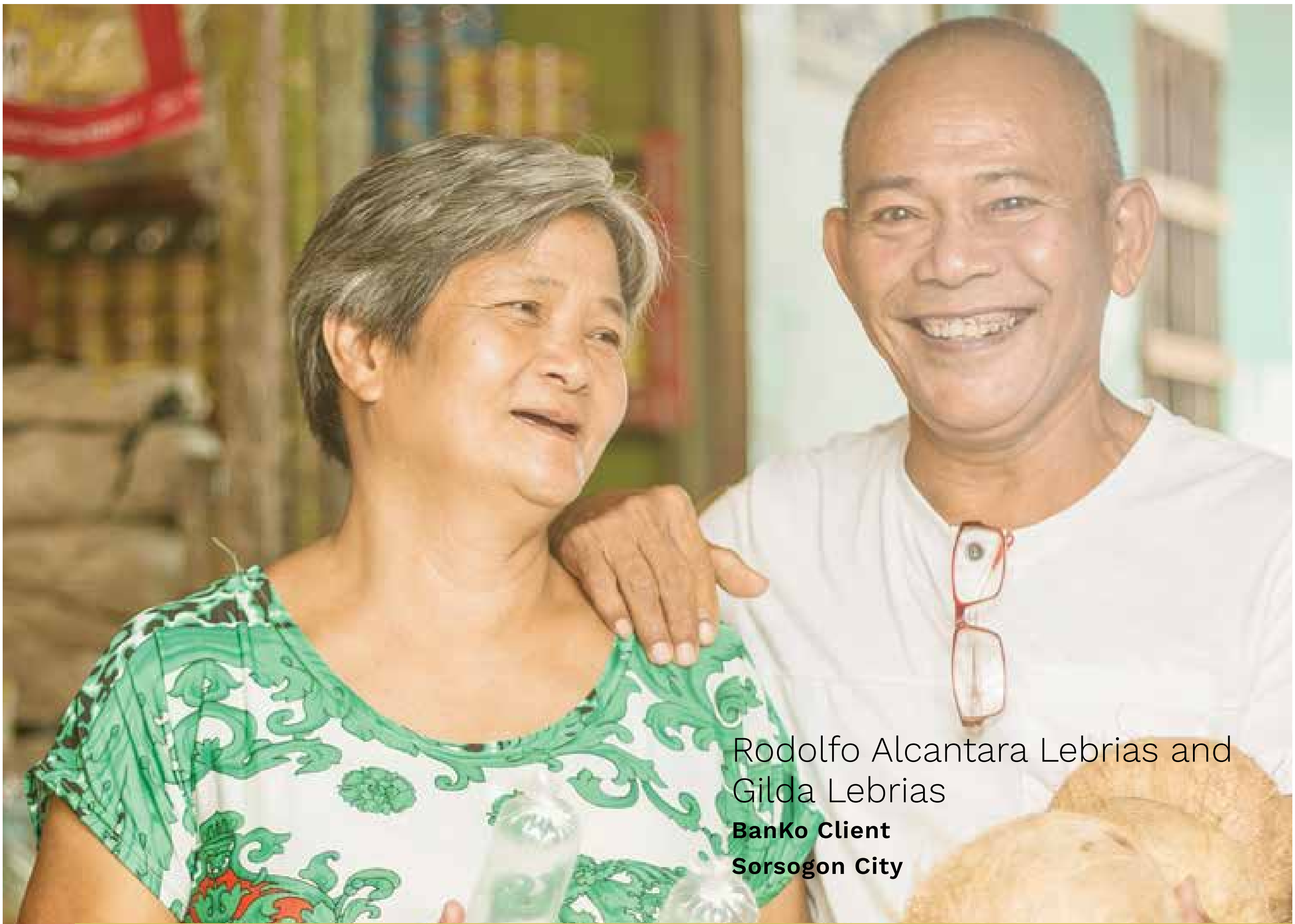
He chanced upon BPI Direct BanKo personnel visiting the market where his store was located. Reluctantly, he approached them and inquired about how he could apply for a loan.

He was apprehensive because he thought big banks do not deal with Muslims like him. But BanKo proved to be different. *"Sobrang babait ng mga staff dito. Pagpasok mo ng branch talagang naka-smile sila, hindi katulad ng iba. Maganda silang mag-assist,"* he said. (The BanKo staff are very accommodating. They are smiling and they are willing to help.)

His first loan application with BanKo went smooth and fast. *"One week lang nakuha na agad ang loan,"* he said. Aside from the easy application process, Moctar appreciates the convenient payment terms and the lower interest rate of BanKo. *"Humihiram ako dati sa iba pero itinigil ko na dahil yung sa BPI ay magaan, hindi kagaya ng iba na ang lalaki ng interes, malaki pa ang hulog,"* he said. (Within one week, I was able to get the loan. The payment terms with BanKo is very flexible. It has low interest rates and I'm able to manage the payments well.)

"Isa sa mga masayang experience ko sa BanKo ay nakapag-loan ako nang malaki nang walang collateral," he said. (One of the happiest experiences I have with BanKo is that I was able to take out a huge loan without any collateral.)

Overwhelmed with the BanKo's trust and confidence in him, Moctar promised not to waste the opportunity he was given to have a reliable partner: *"Magandang partner ang BanKo kaya talagang pag-iigihan ko. Hindi ko sisirain yung tiwala nila."* (BanKo is a wonderful partner that's why I will be very diligent. I won't destroy their trust in me.)



Rodolfo Alcantara Lebrias and Gilda Lebrias
BanKo Client
Sorsogon City

A Dreamer's Ideal Business Partner

Rodolfo Alcantara Lebrias and his wife Gilda have been working hard to realize their dream of a better life for their family.

They started selling cassava, sweet potatoes, and other fruit crops in the public market in 1992. While the income was just enough to cover the family's basic needs, they believed that they could turn their small business into something bigger, if only they could find a bank who would give them a loan.

In 2018, the couple found a partner in Banko, just when they decided to venture into selling coconut products. They didn't have enough capital then.

"BanKo is really a great help for our business. Ever since we borrowed from BanKo, our business grew by almost 100%, especially because we were able to purchase machineries that we now use in our daily operations," Rodolfo said.

While it was not their first time to get a loan from a bank, it was a new experience to borrow from a bank whose application process was simple, fast, and convenient.

"What I appreciate the most with BanKo is its fast service and easy payment scheme," said Rodolfo, who pays for their loan amortization every two weeks.

He said BanKo's interest rate is also relatively lower compared to other lending institutions.

After three loans from BanKo, Rodolfo's family now sells various coconut products — coco juice, coconut shell, and grated coconut meat – which are in high demand in Sorsogon. They continue to sell their signature cassava to bakeries, eateries, and food courts in the province.

Aside from the financial support, BanKoPares and BanKoMares also provide Rodolfo and his wife sound financial advice for their business.

"Some of them visit us in our store. They want to hear our stories. This way, we develop a healthy relationship with them," he adds.

Teresita Gallano
BanKo Client
Lemery, Batangas

Dressing up for Success

Batangas native Teresita Gallano used to be a market vendor trying to make ends meet, with the help of her husband who is a barangay tanod and who works part-time as a construction worker. Despite the hard work, she knew that they don't earn enough to provide for their four children.

Teresita decided to pursue her dream of having her own tailoring business, hoping it would give them better income. She studied the craft, and eventually looked for capital to start her business. She could not go to the big banks because she knew they will not extend a loan to her. So, just like other self-employed micro-entrepreneurs, she turned to the informal lenders, who charged extortionate rates.

She bought her first sewing machine using the loan to kick off her tailoring business, specializing in making gowns. She managed to grow her business and soon needed more sewing machines. However, she knew borrowing from loan sharks would not be sustainable.

By some twist of fate, Teresita saw BanKoPares and BanKoMares of BanKo.

"Hindi na ko nagdalawang-isip dahil naririnig ko na rin naman ang BPI kaya nagtiwala ako agad. Kung sa 5-6 nga nagtitiwala ako, bakit hindi sa BPI?" she said. (I didn't have second thoughts because I've heard about BPI, so I trusted the bank readily. If I trusted in 5-6 lenders, why not trust BPI?)

With her first loan from BanKo, Teresita bought another sewing machine and additional fabrics. *"Natulungan ko rin yung isang kapatid ko kasi nabigyan ko siya ng trabaho. Siya na ang katuwang kong manahi,"* she said. (I was able to provide a job for my sibling. She is now my partner dressmaker.)

"*Dahil sa pagtatahi ko ngayon, napag-aral ko yung mga anak ko at nasusuportahan ko ang kanilang pangangailangan,*" Teresita said. Aside from growing her business, she also wants to help other women in her community by getting them to work for her. (With my sewing business, I was able to send my children to school and provide for their needs.)

GLOBAL MARKETS: LANDMARK ISSUANCES

The Global Markets business of the Bank is responsible for optimizing our resources through multi-currency liquidity and portfolio management, position-taking and trading in financial markets, and distribution of foreign exchange, fixed income, and derivatives products. It generates revenues mainly from the interest differential and gapping businesses, and non-interest income from trading and sales activities.

In 2018, we tapped the debt capital markets twice, and these fund raising activities propelled us to reach Php 2 trillion worth of assets. The overwhelming success of both issuances is a reflection of investors' confidence in our credit strength. The cost efficiency of these landmark debt issuances also allowed us to cushion the increase in our funding cost amidst interest rate hikes, while allowing us to give clients high-yielding quality investments.

US DOLLAR BOND PROGRAM:

On August 28, 2018, BPI, rated Baa2/BBB- (Moody's/Fitch), priced its maiden US$ 600-million five-year senior unsecured RegS bond offering that closed three times oversubscribed. This issuance marked a first in our 167-year history and the largest ever debut issuance for a Philippine financial institution. We aimed to raise US$ 300 million to US$ 500 million from the transaction but, given strong investor reception, increased the size of the offering to US$ 600 million. The deal was three times oversubscribed. The Notes were priced with a coupon of 4.25% and a yield of 4.345%, offering a single digit to no new issue premium, which is not typical for new issuers.

PESO BOND PROGRAM:

On November 13, 2018, we priced our offering of Php 25 billion, 1.25 year fixed rate bonds due March 2020. The fixed rate bonds will pay a coupon of 6.7970% per annum, payable quarterly. The coupon represents a spread of 20 bps over the interpolated 1.25 year BVAL government benchmark rate, and is at the tight end of the spread range of 20 to 40 bps communicated to institutional investors during the institutional book-building period. Due to the strong response from both retail and institutional investors, we closed the offer period one day ahead of schedule as the issue was oversubscribed by 52%.

Listing Ceremony of BPI's Php 50 billion bond and commercial paper program.

DELIVERING SHARED VALUE

Financial Inclusion and Wellness | Page 50

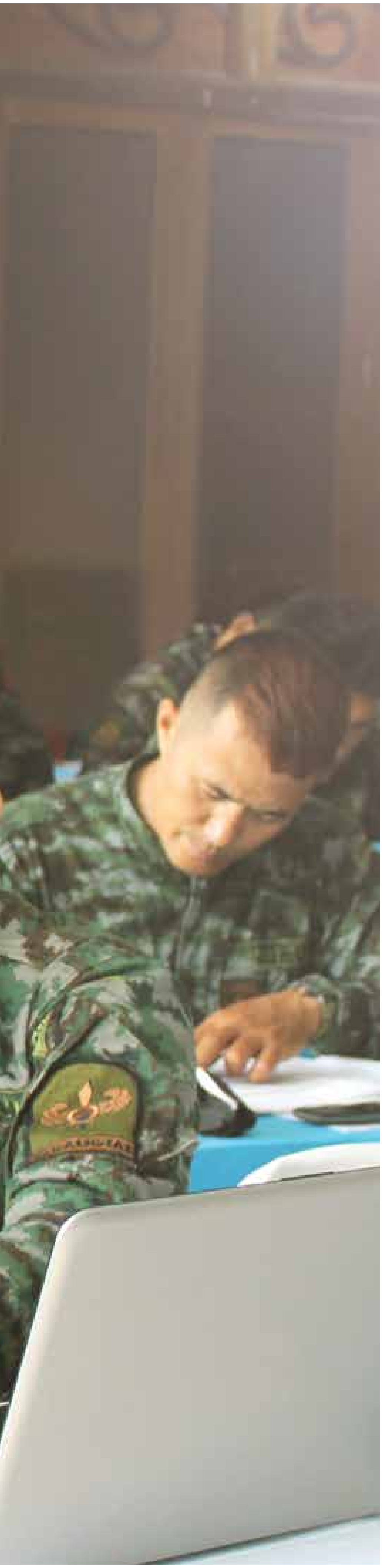
Scaling-Up Enterprises | Page 62

Sustainable Development Financing | Page 68

FINANCIAL INCLUSION **AND WELLNESS**

3,939

FINANCIAL MANAGEMENT TRAININGS CONDUCTED



At BPI, we aim to provide every Filipino with easy, convenient, and better access to our financial products and services. We continue to innovate to provide financial services that are appropriate for individuals and households with unique financial needs. We hope to make financial well-being a reality for every Filipino.

Our innovative and practical products and services make it easier for more Filipinos to save, borrow, and invest wisely, while protecting their hard-earned money and assets, so they can be financially empowered to lead the life they have dreamed of.

TEACHING FINANCIAL MANAGEMENT

In order to achieve financial wellness, we help educate Filipinos on how to manage their finances and make informed decisions about money and assets.

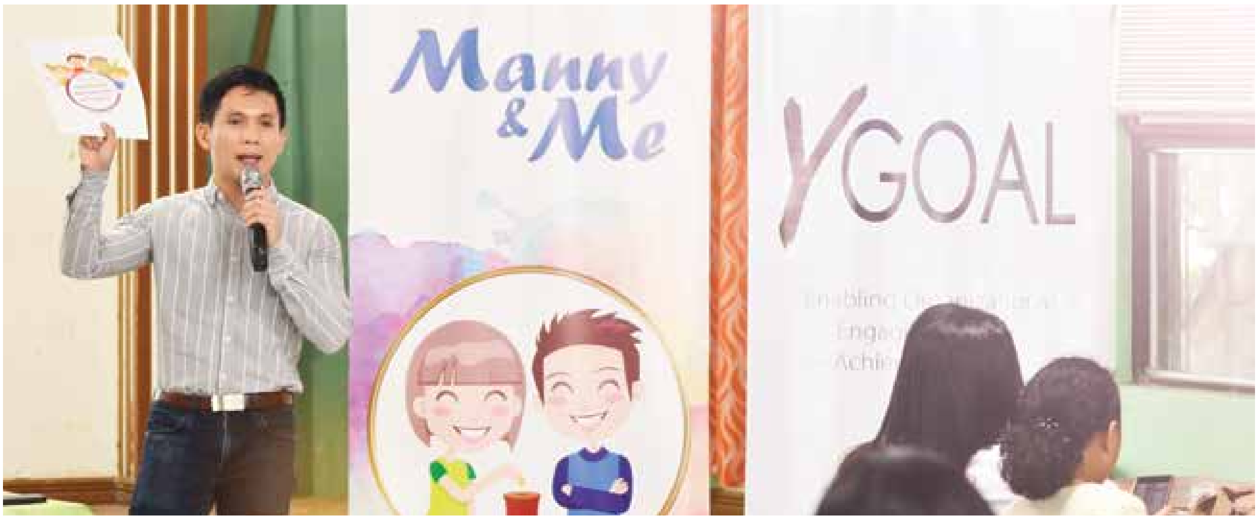
Our business units engage clients and partners through training programs on financial management, which are also covered in some of our product briefings and client orientations. BPI's subsidiaries such as BPI Family Savings Bank (BFSB), BPI Securities, and BPI/MS, and business units such as Treasury, Remittance, and Investments Distribution also share insights on financial wellness with clients. Moreover, BPI Foundation brings tailor-made programs to schools, barangays, and farming communities to teach the unbanked about the basics of finance.

Financial Education for Schools

Since 2016, BPI Foundation's Manny and Me and BPI Senior High School Acceleration Program (BPI SHAPE) have been training teachers on how to integrate the value of money, saving, and entrepreneurship in classroom discussions for public elementary and senior high school students.

In 2018, BPI Foundation enhanced these financial education programs by digitizing the modules to better aid partner teachers and students. The modules are readily available through Department of Education's (DepEd) learning portal. These programs are now Continuing Professional Development (CPD) accredited programs, making the renewal of licenses for beneficiary teachers easier.

The Foundation covered more provinces across the country to reach more beneficiaries.



2018 BPI FOUNDATION'S MANNY AND ME AND BPI SENIOR HIGH SCHOOL ACCELERATION PROGRAM (BPI SHAPE) HAVE REACHED

1,416
TEACHERS IN OVER 12 DIVISIONS IN LUZON, VISAYAS AND MINDANAO

141,600[1]
STUDENTS IN OVER 12 DIVISIONS IN LUZON, VISAYAS AND MINDANAO

23
TEACHERS IN MAKATI AND PASAY

159
TEACHERS IN TAGUIG

160
TEACHERS IN ILOCOS NORTE

193
TEACHERS IN CAVITE

87
TEACHERS IN LAGUNA

151
TEACHERS IN QUEZON

216
TEACHERS IN TWO DIVISONS IN MISAMIS ORIENTAL

244
TEACHERS IN TWO DIVISONS IN CAPIZ

183
TEACHERS IN CEBU

[1] Data on number of students is based on DepEd estimate ratio of 100 students for every teacher.

The Foundation also strengthened its FinEd-in-a-Box, a customized financial literacy module rolled out to partners in 2016. These partners work with the underbanked sectors, such as teachers, police and military personnel, and low-income earners. In 2018, the Foundation actively sought out partnerships with DepEd, BSP, Philippine National Police (PNP), Philippine Army, and other private organizations such as Ayala Corporation, Ayala Foundation, Kidzania, Citihub and Philam Foundation for this initiative.

15,263
INCREASE OF PARTICIPANTS ACROSS VARIED COMMUNITIES IN 2018

Financial Education for OF Families

We strive to be the trusted partner of Overseas Filipinos (OFs) and advocate the strengthening of OF family ties to ensure that the foundational support for financial wellness is maintained despite the physical distance.

We have created a series of learning sessions, such as BPI Financial

BPI and Damlag seal partnership

Clinics and Money Talks, for them and their families. These initiatives provide financial knowledge and advice on savings and investment options through face-to-face events or through email and social media.

95

SESSIONS WERE CONDUCTED IN 2018

12.4%

INCREASE IN SAVINGS AMONG BPI'S OF CLIENTS

30%

ATTENDEES BECAME CLIENTS

In 2018, we conducted a series of learning sessions, including one-on-one consultations, for OFWs in Hong Kong.

BPI Foundation also employed an integrated approach in BPI Sulong, a program that selects unbanked OFs in Hong Kong with families located in Iloilo and the Calabarzon area, the country's "OF Hubs". In 2018, through partnerships with ATIKHA and the Overseas Workers Welfare Administration (OWWA), the program was enhanced with integrated mirrored trainings between partner migrant workers in Hong Kong and their families in the Philippines.

The training program was deepened into a 6-level intervention, which includes pre-migration orientation, family and income management, reintegration planning and counselling, investment caravan, skills training, and entrepreneurship development.

Since the program's inception in 2016, BPI Sulong has reached over 2,667 OFs to date, 1,100 of which were engaged in 2018 alone.

MAKING SAVING EASY

Basic financial management entails knowledge and understanding of saving and creating budgets. A thorough understanding on this can help Filipinos make better financial decisions. To encourage the habit of saving before spending, there are simple tools which make it easier to save and start the journey towards financial wellness.

Value of Financial Discipline

We help instill the value of discipline among our clients. We continue to provide more value with diverse deposit solutions that go beyond just savings.

An individual may just need a "wallet" to keep money for everyday transactions, an entrepreneur may need a disbursement account for payments to suppliers, or a big company may require an instrument for parked funds. There is a product that suits each need of the customer.

8%

INCREASE IN MANAGEMENT OF PERSONAL FUNDS ACCOUNTS (SAVE-UP, JUMPSTART, MAXI SAVER)

12%

INCREASE IN VALUE BEYOND SAVINGS ACCOUNT (PAMANA SAVINGS, SAVE-UP WITH INSURANCE)

Through the BFSB Plan Ahead 5-Year Time Deposit, clients also benefit from long-term deposits for future expenses. This product alone showed a volume growth of Php 8.0 billion in 2018 compared with the previous rate offered.

Banking for the Unbanked

More than 6.76 million or 16.2% of the total employed persons in the Philippines are minimum wage earners.[1] The amount they earn often is not enough to cover their basic needs, such as food, shelter, and transportation. This reality makes it difficult for a lot of Filipinos to save enough money to open and maintain a regular bank account. BPI's Kaya Savings and BanKo's PondoKo Savings deposit products have been developed to make saving easier.

Current and potential clients can open accounts and not worry about keeping a maintaining balance. Requiring only a minimal fee, withdrawal transactions are made accessible and convenient through our various channels.

[1] Philippine Statistics Authority

332,757

PONDOKO SAVINGS CLIENTS

Starting them Young

To enable children to learn the value of saving, we engage parents to help teach their children practical money-management skills. Through Jumpstart, children can protect a portion of their funds from unplanned withdrawals, enable parents to transfer allowances easily, and provide for cellphone reloading at any BPI ATM.

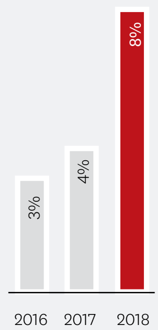
The continuing success of Jumpstart stems from our financial literacy programs for kids in partner schools as well as product and advocacy awareness campaigns through our digital and social media channels. In 2018, the volume of accounts grew by 23% and the savings volume increased by 14%.

Saving from Remittances

Our overseas Filipinos are the unsung heroes of our country. Their savings and investments help thousands of families back home afford a better life.

In the first quarter of 2018, we formally launched the BPI Padala Moneyger, an affordable savings account designed for those who receive remittances from abroad. With BPI Padala Moneyger, the beneficiaries are now the "managers" of the remittances they receive. With this product, beneficiaries have a safe, secure, and efficient way of receiving the remittance.

REMITTANCE INFLOW FROM DIGITAL SERVICE PROVIDERS



198,504

NEW OVERSEAS FILIPINO CUSTOMERS FOR 2018

ENABLING CONVENIENT ACCESS TO BANKING

BPI's first responsibility is to our clients. We want to be the go-to bank for clients' most important financial transactions. Because of this, we strengthen our relationship with them and help them achieve financial wellness.

The Philippines is still on its way to being fully digitalized. There is still a need to balance the presence of branches with our digital channels. Digital banking and branch banking will exist side by side, with each serving a different purpose for the clients. Some appreciate going to the branch to sit down and discuss their financial needs face-to-face. This will give clients greater control in completing banking transactions in a faster, more convenient, and safer way.

We are strategically growing our branch network as we pursue our goal of financial inclusion nationwide. As of end-2018, we have a total of 694 BPI branches, 162 BFSB branches, and 200 BanKo branches and BLUs across the country. Along with this expansion, we have enhanced client experience and refurbished the look of our branches. Facilities Services Group (FSG) continued upgrading the look and feel of branches to better serve our clients through an improved customer experience. A total of 394 projects were completed, adding additional teller workspaces in 162 branches.

We are making it possible for clients to experience convenience, innovation, and security across all our branches and electronic channels seamlessly.

PROVIDING ACCESS TO FINANCING

As our clients learn how to save and grow their money, we enable them to achieve their dreams and goals in their financial journey.

Financing your Personal Goals

We believe every Filipino deserves a comfortable life. More Filipinos can now afford a decent home or a convenient ride through BFSB.

In 2018, we have disbursed more than Php 6 billion for low-income housing projects. In general, BPI

Housing Loans' released Php 38.04 billion which increased by 35% from 2017.

For the Auto Loans, a total amount of Php 20.43 billion was disbursed, an 8.8% decrease from 2017. The passage of the TRAIN law, which imposed an excise tax on vehicles, might have dampened industry demand for cars and car financing. As such, the industry's total car sales declined by 16% in 2018[1]. However, we believe consumer demand will adjust in the long run. According to a survey of the National Economic and Development Authority, part of a "simple and comfortable life" for the majority of Filipino families is owning at least one car. BFSB Auto Loans enables our clients to drive their own car.

Php 20.43B
AUTO LOANS DISBURSED

Php 38.04B
HOUSING LOANS RELEASED

Furthermore, clients can also purchase a house and lot, apartment, motor vehicle, or other properties through BPI Personal Loans. Personal Loans have also been made more accessible to customers. In 2018, we were able to book a total of over Php 4.1 billion in multi-purpose loans.

[1] Joint report of the Chamber of Automotive Manufacturers of the Philippines Inc. (CAMPI) and Truck Manufacturers Association Inc. (TMA)

Increasing Purchasing Power

We help Filipinos pay for their basic needs conveniently, affording them new experiences while maintaining financial responsibility. With the BPI Credit, Debit or Prepaid card, clients have the tools to cover their needs. Our cardholders number over 8.7 million, with total transacted amount at Php 226 billion, coming from 73,000 transactions in 2018.

Clients continue to enjoy low foreign exchange conversion and Special Installment Plan (SIP) deals with a BPI Credit Card and across all card products. They also enjoy exclusive retail promos and rewards to get the best value for their money. Credit Cards launched engagement programs for cardholders such as the SIP & Grab Challenge, a first-in-the-industry promo wherein winning SIP customers were brought to an appliance store and were

given the chance to bring home as many appliances as they can in 100 seconds. Keeping in mind the various needs of our customers and the growing need for flexible payment terms, we continue to offer SIP Loans with low and fixed add-on rates. BPI also launched a new card variant for preferred clients called the BPI Visa Signature Card, which gives clients the chance to have wider and richer experiences when they relax or travel, here and abroad.

BPI Prepaid Payments ushers the underbanked into the world of financial services with reloadable cards. In 2018, BPI launched the ePay Visa variant, which organizations can use to establish their branding by customizing the face of their prepaid card. The card may bear their logo or the card owner's picture which can then be used as an ID. To date, there are about a million prepaid card holders who can now conveniently purchase goods and services in-store or online.

In 2018, we launched the new BPI Debit MasterCard, a card affiliated with an international payment network, with worldwide acceptance via ATMs and point-of-sale terminals. Clients now have more flexibility in managing their accounts. With customer-initiated card control, clients can change withdrawal and spending limits as well as activate upcoming features using our electronic channels.

In order to provide more secure transactions and to meet the global standard in security, the magstripe cards of 7.6 million customers are being replaced with EMV-enabled debit cards. These innovations support BSP's vision of creating a cash-lite society. Over 2 million clients actively use their BPI Debit at point-of-sale terminals in shops, bringing in close to Php 50 billion in transaction volume for 2018.

Enabling Micro, Small, and Medium Enterprises

BanKo is our microfinance arm, which primarily targets self-employed micro-entrepreneurs (SEMEs). The Bank provides SEMEs with an affordable and appropriate loan product called NegosyoKo loan, and empowers clients with financial advice and solutions that promote the growth and expansion of their enterprises.

GROWING ASSETS

We make the best happen for Filipinos by helping them make their money work harder for them. We have engaged more Filipinos into developing the attitude of investing and leveling up their knowledge on the stock market, mutual funds, and other investment instruments.

Bringing Investments Closer to Clients

We believe that more Filipinos should be given access to easy and safe ways to invest. Through our accessible and affordable investment plans and platforms, investing is no longer intimidating for Filipinos who want to benefit from our growing economy.

Our BPI Maxi-Saver and Time Deposit accounts provide higher interest rates compared to regular savings accounts. In 2018, the total number of Maxi-Saver accounts increased by 4% from 2017.

Through our fully owned subsidiary BPI Asset Management and Trust Corporation (BPI AMTC), the Bank helps clients address their most important investment needs through a wide array of products and services — wealth and institutional fund management, employee benefit plan management and administration, custody, escrow, mortgage trusts and other fiduciary services, unit investment trust funds (UITFs), and Personal Equity and Retirement Account (PERA) funds.

We continuously innovate our products and services to keep abreast of the fast-changing times, and provide clients domestic and international investment alternatives catering to their diverse needs.

In August 2018, BPI AMTC launched its first unit-paying UITF, the BPI US Dollar Income Feeder Fund. The fund aims to achieve stable income with secondary focus on long-term capital growth through its flexible multi-asset allocation and resilient investment strategy. In December 2018, it was able to pay out to each unit holder a unit income of 0.0181, equivalent to US$ 1.73 per unit. This translated to a yield of 5.42% per annum (based on the Net Asset Value per Unit as of December 28, 2018).

Another tool that helps clients save and invest regularly is the Regular Subscription Plan (RSP), an investment program that allows the purchase of units for an investment fund account on a regular and periodic basis, either monthly or quarterly. As of December 2018, the number of clients enrolled in RSP grew by 3%. Growth in RSP-enrolled investors indicates that more clients are committing to regularly set aside money to achieve their long-term financial goals.

BPI AMTC consistently creates financial and non-financial value by contributing Php 2.2 billion to BPI group's non-interest income in 2018 through its wide array of trust and investment management services. AMTC conducted free seminars exclusively for its retail clients where personal financial management as well as market and economic updates were taken up. Meanwhile, there were events held for other institutional and retail clients who benefited

from fund performance updates, market and economic updates, and recommended investment strategies.

Promoting Mutual Fund Investments

As of end-2018, BPI Investment Management, Inc. (BIMI), a wholly-owned subsidiary of BPI, has more than Php 100 billion in AUM, representing approximately 39% of the Philippine mutual fund industry. Established in 1974, BIMI is responsible for formulating and executing the investment strategies of eight investment companies. This includes the country's largest and most established mutual fund group, ALFM Mutual Funds.

In 2018, we saw a drop of more than 12% in the industry's total AUM brought about by significant redemptions as well as negative returns from both the equities (PSEi, – 12.8%) and fixed income (BPI Gov't Bond Index, -4.4%) space. Despite this, most of the BIMI-managed funds' return ranked in the top quartile amongst different collective investment instruments. Implemented in early 2018, the Implementing Rules and Regulations on the Investment Company Act (ICA-IRR) helped BIMI create different mutual fund structures, improve investment guidelines, and align with global best practices.

Advancing Stock Market Education

One of the challenges in investing in the stock market is knowing where and how to begin. BPI Securities Corporation, the Bank's stock brokerage arm, developed an educational program called the Invest-In-You Trading Academy (I-TRAC), which offers a wide range of courses that develop and enhance the knowledge and skills of new and existing investors to help them make sound investment decisions. BPI Securities also works closely with the PSE's market education team, human resources groups of various companies, schools, and other organizations to promote the concept of investing as a lifestyle among Filipinos.

We have opened over 6,000 client accounts and provided training to about 2,700 individuals in 2018. Furthermore, BPI Securities upgraded its trading platform, allowing clients to invest in stocks in a more intuitive and modern way.

INSURING LIFE AND ASSETS

Protecting one's assets and managing risks is at the core of financial wellness. We help increase our clients' awareness of risks surrounding their businesses and assets, and help them understand the impact and probability of these disasters and losses while fostering resilience.

More Protection and Health-focused Life Insurance

BPI-Philam, continues to make insurance affordable and accessible for every Filipino through the vast network

of BPI branches. Many are still reluctant to get an insurance policy, especially when the practicality and wisdom of getting one is negatively perceived. The thought of insurance as a protection and savings tool is a fairly new message which has slowly gained traction.

In 2018, BPI-Philam was successful in shifting its product mix from a savings-heavy product suite to a more protection and health-focused portfolio. We have continued the Philam Vitality program, a science-backed wellness program that works with its members to make real changes in their health.

BPI-Philam's business also got a boost from BPI's EMV card distribution because of the increased foot traffic and client engagement in branches. This resulted in a significant number of leads generated. Saturday EMV activities produced over 7,500 case counts (CC) and Php 280 million annualized new premiums (ANP).

Apart from the EMV initiative, customer engagement activities also helped in identifying specific needs of clients which can be addressed by insurance products.

We have about 294,000 unique customers who hold approximately 102,000 life insurance policies. By protecting the goals and aspirations of people and their loved ones, we have assured about Php 56.95 billion with a total amount of about Php 800 million in claims in 2018.

Caring for our Valuable Assets

Our clients have availed of motor and fire insurance policies through BPI/MS, a joint venture between BPI and Mitsui Sumitomo Insurance Company (MS), for non-life insurance. The total of sums insured in 2018 for natural catastrophes amounted to a total of over Php 3 trillion for typhoons, earthquakes, and floods. This shows the growing awareness of Filipinos on climate and natural risks.

During the distribution of BPI EMV cards, over 400,000 clients availed of a one-year Php 50,000 Personal Accident (PA) insurance coverage, with a very low one-time payment premium of Php 14.99.

BPI/MS intends to reach more clients through cost-effective digital channels. We launched our business-to-business platform in February 2018. Moreover, sales volume from our business-to-customer platform grew by 115% in 2018. Clients can purchase a travel insurance policy anytime through these channels.

BPI/MS continuously improves its processes and ensures quality in its services. In September 2018, BPI/MS was certified under the new and more customer-centric standard, ISO 9001:2015.

286,000

TOTAL NON-LIFE INSURANCE POLICIES WERE RECORDED IN 2018

SCALING-UP **ENTERPRISES**

BPI's contribution to a better Philippines is helping scale up enterprises across industries, big corporate, small, or medium enterprises, nationwide through our specialized products and services.

Small businesses are the key drivers of economic development in the Philippines. They make up more than 90% of all registered businesses in the country and employ over 70% of the working population. The SME segment in particular deserves close attention as it has remained largely untapped.

In BPI, most of SMEs only have deposits and have not availed of our loans or other products that may help expand their businesses. To stir up this dormant potential, we have launched in 2018, a new segment called Business Banking to focus on the unique financial needs of our SME clients. The segment helps transform the businesses of these entrepreneurs and their employees through instruments that help them better manage their cash flows, raise capital, and provide financial advisory.

BPI Business Banking offers simple, fast, and convenient products for small and medium-sized businesses. BizLink offers a Checking Account and an online platform to help business owners manage their cash flow through payroll, merchant, and government payments, and real-time account monitoring. To address their financing needs, we also offer a KaNegosyo term loan and credit line, both with a minimum loanable amount of Php 300,000.

The term loan is ideal for expansion, building construction, development of land for business use, investment, working capital, and refinancing needs. Borrowers can get a wider coverage through the bundle with BPI/MS Insurance Business Care Advantage. Meanwhile, the credit line is ideal for recurring short-term financing, payment to suppliers, purchase of inventory or new equipment, and working capital needs.

1,287
NEW CORPORATE AND SME CLIENTS SERVED

Improving Business Efficiency

BizLink allows corporate clients to conveniently perform banking tasks such as account and transaction inquiries, fund transfers, collections through automatic debit arrangement, payroll processing, and government payments, among others. Clients can perform these transactions anytime and anywhere, giving them greater control of their financial, operational, and cash management requirements.

We ensure that BizLink is always available to its almost 37,000 clients. This digital channel has a recorded average 99.5% uptime.

13%

INCREASE IN TRANSACTION VOLUME FOR BIZLINK

Managing Cash Flows for SMEs

Liquidity and plans for expansion in business operations can be affected by how money is transferred into and out of a business. In this regard, we offer certain services that help businesses to better manage their cash flows. Our Trade Finance and Supply Chain unit provides this through supplier financing, receivables financing, and the Quick Assist program.

Quick Assist Program for SMEs

The opportunity to expand is not limited to large corporations only. We are also working with SMEs to help them grow and develop. Our Quick Assist Program enhances SMEs' access to finance. These SMEs, more often than not, have difficulty accessing traditional bank financing due to the extensive documentation and credit evaluation processes involved.

In fact, in September 2018, SME loans comprised only 4.5% of Philippine GDP, indicating SMEs'

Php 6.1 B
THROUGHPUT VOLUME FOR SUPPLIER AND RECEIVABLES FINANCING AND QUICK ASSIST PROGRAM FOR SMES

poor access to finance which, in turn, poses a hindrance to business expansion. Through the Supply Chain and Trade Financing's Quick Assist Program, 45 new suppliers from the SME segment were given credit lines in 2018 and Php 126 million extended to SMEs.

Supplier and Receivables Financing

With our diverse client base, we are in a unique position to create interlocked trading communities and offer a clear value proposition to suppliers through Receivables Financing.

Receivables Financing is a type of financing wherein a company sells its trade receivables in order to improve its cash flow. It is common practice for suppliers to give buyers credit terms as part of their trading terms. Hence, suppliers experience a working capital gap. This prevents them from increasing production and expanding their business.

128
SUPPLIERS ENROLLED UNDER SUPPLY CHAIN AND TRADE FINANCING

BPI's Receivables Finance fills such funding requirements. In 2018, BPI Trade Finance and Supply Chain financed Php 13.5 billion worth of trade receivables for SMEs.

30%
INCREASE IN THROUGHPUT VOLUME FOR SUPPLIER FINANCING

Raising Capital and Providing Advisory

With the country's continued economic growth, companies have developed a need for more intricate financial solutions. In response to this emerging challenge, BPI Capital, our investment banking unit, has created value for its corporate clients by tailoring and executing financial solutions that satisfy the increasingly complex needs of clients. Our leadership in the debt and equity capital markets, loan syndication, project finance, structured finance, advisory, securities distribution, and mergers and acquisitions guarantees that BPI Capital can deliver the most meticulous and demanding investment banking requirements.

Php 540.8B
BILLION IN TOTAL CAPITAL RAISED FOR CLIENTS

Equity Capital Markets

BPI Capital has proven its formidable track record in the equity capital markets through its services, which include equity underwriting and syndication. Our clients gain strong competitive positions and are able to maximize shareholder value because they are backed by BPI Capital's wealth of knowledge, extensive corporate finance experience, a sharp understanding of the markets, and prudent corporate governance practices.

BPI Capital played a significant role in the Bank's Php 50 billion stock rights offering in May 2018.

Debt Capital Markets

BPI Capital has established its place as a leading bond house and has proven its extensive experience in providing solutions-driven and innovative structured finance services. BPI Capital has played major roles in exemplary transactions that exhibit the bank's ability to successfully place securities in the domestic market and execute and manage transactions with varying degrees of complexity.

Our commitment to the growth of the country's economy can be seen in our participation in the government's 21st retail treasury bond offering, our role in IFC's maiden green bond, and BPI's US dollar bond issuances.

Financial Advisory

To complement its traditional equity and debt underwriting roles, BPI Capital has provided exclusive financial advisory services to its clients, uniquely positioning them for industry leadership and strategic international joint ventures. These services cover mergers and acquisitions, valuation services, rendering of fairness opinions, and strategic advisory services in preparation for a capital markets transaction.

One of the significant deals of BPI Capital in 2018 is the Ayala Education, Inc.'s (AEI) acquisition of the National Teachers College. BPI Capital acted as the exclusive financial advisor of AEI for this acquisition. As financial advisor, we assisted AEI by leading and managing all activities up to transaction closing, demonstrating BPI Capital's advisory capability in the education sector, as well as in competitive bidding processes.

Financial Market Risk Guidance

BPI's Global Markets Segment is responsible for optimizing the Bank's resources through multi-currency liquidity and portfolio management, position-taking and trading in financial markets, and distribution of foreign exchange, fixed income, and derivatives products. It generates revenues mainly from the interest differential and gapping businesses as well as non-interest income from trading and sales activities.

As part of our overall management of the balance sheet, we maintain an adequate level of multi-currency liquidity to support the day-to-day operating and funding requirements of the entire Bank. To maximize return on liquidity, surplus funds are strategically deployed in domestic and cross-border securities and alternative investments that increase portfolio yield and accrual income. When market conditions are favorable, we can further improve return on capital by tapping external funding sources in various currencies to grow the balance sheet and pursue yield-enhancing portfolio strategies.

For the trading and flows businesses, the focus has been to continuously improve the quality of our non-interest income through a combination of calculated risk-return trading execution and synergistic collaboration with our distribution teams. By maintaining an active presence in liquid markets for currencies, rates, credits, and derivatives, we are able to increase market share and aid in the Bank's sales effort by providing competitive pricing to clients.

Our firm commitment to understand the needs of our clients has enabled the Global Markets Segment to successfully execute complex deals and introduce products relevant to the changing market landscape. We leverage on our strong economics and market research capabilities and highly competent team of sales personnel to provide timely market updates and tailor-fit financial advisory and Treasury solutions to clients.

Being a major player in Philippine financial markets, we proactively participate in initiatives of various industry organizations and work closely with regulatory bodies to push for reforms that further develop markets, products, and conventions that align with global best practices and promote investor protection.

Empowerment of Entrepreneurs

Entrepreneurs have gained strong support from BPI, which caters to social entrepreneurs, as well as small and medium ones. We provide them with intellectual, financial, and social support to make their businesses sustainable and scalable.

In 2015, BPI Foundation created the BPI Sinag competition, which mentors young social entrepreneurs in running their businesses. Through the years, it has fostered a thriving ecosystem for social entrepreneurs.

The program includes the provision of grants, boot camps in business management, advice on finance and marketing. It also connects the entrepreneurs to investors, the academe and other like-minded partners to increase opportunities for sustainable business growth.

Furthermore, Show Me, Teach Me

BPI SINAG LINKED

37

SOCIAL ENTERPRISES TO MENTORS AND INVESTORS IN 2018

BPI SINAG HELD
7 CITY ROAD SHOW
ACROSS THE COUNTRY THAT INLOVED LEARNING SESSION WITH TOTAL OF
120
ENTREPRENEURS

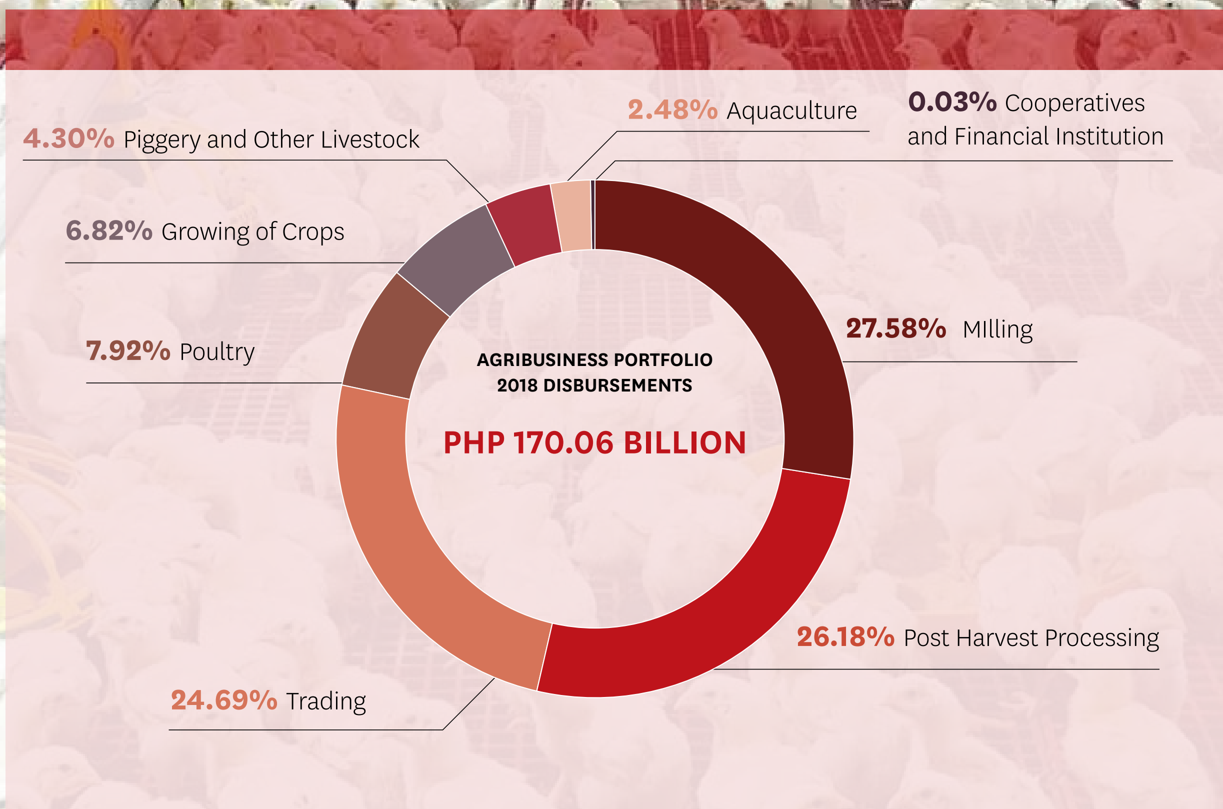
(SMTM), in partnership with the Department of Trade and Industry's Philippine Trade Training Center (DTI-PTTC), provided training and workshops to more cohorts in 10 cities across the Philippines. By strengthening its partnership with DTI-PTTC, the program was able to expand its reach and cover more provinces across the country, growing its beneficiary reach by 70% in 2018.

The program has also actively engaged with BanKo to connect MSMEs to financial products that will help them grow their businesses. In 2018, the growth rate of BanKo loan availment of SMTM participants increased by 200%, or a total of 19 loans to date.

Also in 2018, the BPI Tech-Voc Program was launched to capacitate both MSMEs and low-income earners with technical-vocational, entrepreneurial, and management skills. Seven communities in Sorsogon, Negros Occidental, Batangas, Pampanga and Western Samar were selected and provided with skills development modules. A total of 377 community members were able to learn and apply new tech-voc skills through the program. This was done by working closely with the Regional and Provincial offices of both Technical Education and Skills Development Authority (TESDA) and Department of Trade and Industry (DTI), Bayan Academy, and other private organizations.

1,595
SMTM PARTICIPANTS IN 2018

SUSTAINABLE DEVELOPMENT FINANCING



Financing and investment play an important role in facilitating projects that directly contribute to the achievement of the United Nations' Sustainable Development Goals (UN SDGs). In 2018, BPI disbursed Php 196.92 billion in total loans, capital raising, and leasing arrangements in businesses and projects that promote sustainable urban and countryside development.

Php 196.92B

TOTAL LOANS, CAPITAL RAISING, AND LEASING ARRANGEMENTS IN BUSINESSES AND PROJECTS THAT PROMOTE SUSTAINABLE URBAN AND COUNTRYSIDE DEVELOPMENT

FOOD SECURITY AND AGRICULTURAL PRODUCTIVITY

By financing the construction of state-of-the-art farm facilities such as tunnel-ventilated houses for swine and poultry, and automated post-harvest plants, we contribute to industry development and modernization, increasing production output with minimal input. This leads to higher profits for our clients. Furthermore, the modernization of farm facilities minimizes risks brought about by adverse environmental conditions, and makes waste management more convenient. All this helps improve our compliance to the Republic Act 1000 or the Agri-Agra Reform Credit Act of 2009.

The BPI Agribusiness team conducts technical capacity building trainings for relationship managers, credit officers, and other business units.

In 2018, BPI Agribusiness supported around a thousand agribusiness clients with total loan disbursement of Php 170.06 billion. BPI Century Tokyo Lease & Finance Corp. (BPICTL) financed trucks for agricultural products amounting to Php 2.39 million. BFSB also disbursed Php 468.16 million in loans for the agriculture and fishing sectors.

SUPPORT FOR ACCESS TO EDUCATION

We assist in ensuring quality education for young Filipinos by supporting the education sector. In 2018, BFSB financed the acquisition, construction, and expansion of school buildings amounting to Php 13 million. BPI also disbursed Php 752.37 million in loans to over 50 educational institutions.

HEALTHCARE AND WELL-BEING

We are committed to help improve the accessibility of quality healthcare services to all Filipinos. Medical equipment such as MRI scanners, CT scan machines, ultrasound machines, and tomotherapy machines amounting to Php 1.16 billion were financed by BPICTL, for use in hospitals, clinics, and health centers nationwide. BFSB also disbursed a total of Php 1.19 billion in loans directed towards healthcare and wellness.

SUSTAINABLE ENERGY AND CLIMATE RESILIENCE

We continue to be the market leader in Sustainable Energy Finance (SEF) in the Philippine banking industry since 2008. This has been strengthened by our partnership with the International Finance Corporation (IFC) of the World Bank Group. IFC helps ensure that the projects we finance satisfy their stringent sustainability standards. We enable our clients to achieve compliant, profitable, and sustainable business operations by funding low-carbon and energy-efficient technologies, helping them save 20-30% on energy costs and re-direct these savings to their bottom line. We also help clients ensure that renewable energy and climate resilience projects are properly designed and implemented to achieve target results. In 2018, BPI SEF disbursed a total of Php 9.67 billion in loans, bringing cumulative disbursements to Php 52.68 billion.

Our SEF team provides training and technical assistance to both big and small companies on best sustainability practices, latest technologies, and regulatory requirements. We help less sophisticated companies ensure that their projects are technically feasible, profitable, and sustainable through free technical consultations, which are part of the BPI loan package. SEF boasts of its highly-experienced team of senior IFC-trained and accredited technical consultants, in the areas of Energy Efficiency, Renewable Energy, and Climate Resilience which covers Green Buildings.

Related to the new Philippine Green Building Code, we partnered with the Philippine Green Building Initiative (PGBI), an IFC affiliate, to promote climate resilience and help BPI clients comply with the new and mandatory law. We help green building projects achieve energy and water efficiency and materials sustainability while boosting profits, through IFC's green building rating system called Excellence in Design for Greater Efficiencies (EDGE). In 2018, BPI is the only bank to participate in the PGBI-IFC Green Breakthroughs event in Manila. In the Corporate Treasury and CFO (CT CFO) Summit, we centered on best practices of successful Green Buildings to inspire compliance. We likewise conducted our own BPI Real Estate fora in Cebu and Davao where almost 200 property development and building owners participated. These events as well as client technical trainings raised awareness on best green building practices. Green Building loans have increased by 191% from a cumulative volume of Php 3.3 billion in 2017 to Php 9.6 billion in 2018.

Over the last ten years, our SEF has disbursed a total of Php 6.4 billion in Climate Controlled Systems (CCS) loans for pig and poultry housing facilities. CCS projects such as tunnel-ventilated and typhoon-resilient facilities also feature automated feeding systems in a cooler environment that raises animal productivity. CCS system increases the farm's overall productivity and lowers livestock mortality caused by the impact of climate change.

To date, BPI SEF have funded a total of 306 small and mid-sized green projects on energy efficiency, renewable energy, and climate resilience that helped reduce an estimated 986,135 tCO_2e (tons of carbon dioxide equivalent) of greenhouse gas (GHG) emissions. This is equal to 16.3 million tree seedlings grown for 10 years (carbon sequestered).

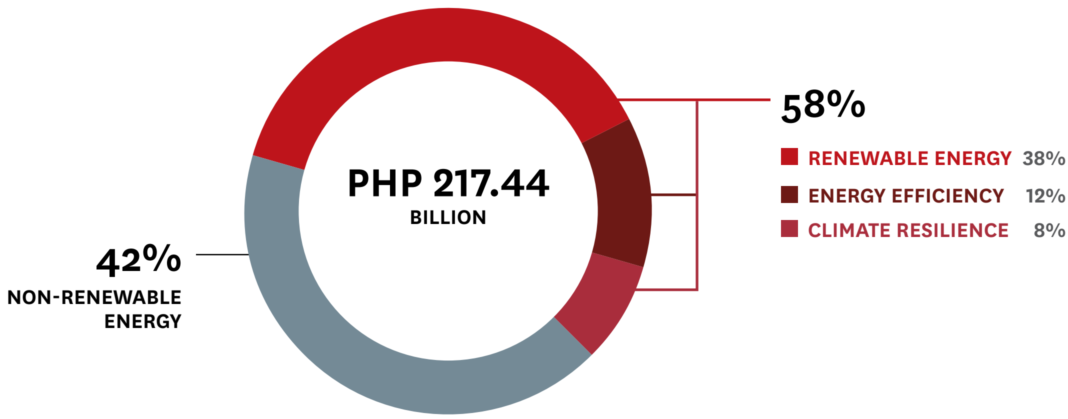
Large scale renewable energy projects handled by the Bank's Structured Finance Division (SFD) disbursed Php 1 billion for a wind project in 2018. This brings cumulative disbursements to Php 73.08 billion in loans to support various large hydro, geothermal, and wind projects. Through these projects, GHG emissions were reduced by 10.49 million tCO_2e per year[1]. In addition, BPICTL disbursed Php 87.31 million in loans for solar energy projects.

[1] Computed based from SEF technical consultant based on the Department of Energy Grid Emission Factor (https://www.doe.gov.ph/electric-power/2015-2017-national-grid-emission-factor-ngef)

Metrostar Realty and Development, Inc.

Metrostar Realty and Development Inc. is constructing Eminenza 2 and 3 Residences, green housing projects in San Jose del Monte, Bulacan. Occupants benefit from efficiencies in energy and water systems used in the building, as well as a well-planned waste management system, which promotes good health and well-being of building occupants. Because our country is prone to climate and environmental risks, green buildings such as Eminenza 2 and 3 are designed to be more resilient to strong typhoons. They are also sustainable, saving energy and water, and posting an overall smaller carbon footprint. The projects' combined energy savings is expected to be at 675.24 Mwh/year or Php 5 million/year and GHG emissions avoidance is estimated at 9,982 tCO_2e/year.

Energy and Climate Resilience Portfolio Cumulative Disbursements



R & I Marketing, a rice milling business in Sultan Kudarat, Mindanao, expanded and upgraded its rice drying facility by adding 10 automated biomass dryers with built-in rice husk furnace through BPI SEF loans. By using rice husks, a by-product of their milling operations as fuel for their mechanized drying facility, R & I Marketing increased production efficiency and decreased rice wastage. Before automation, R&I would dry rice grains on the roads and open areas. This resulted in spoilage because of unpredictable rains and grain breakage as vehicles ply the streets. Now, R&I can also operate 24/7, rain or shine, as it no longer depends on the weather for drying its palay. The estimated average energy production is at 892 Mwh/year or Php 5.8 million/year and GHG emissions avoidance is estimated at 401 tCO_2e/year.

OPPORTUNITIES FOR MICRO AND SMALL BUSINESSES

In 2018, BanKo released Php 3.3 billion in loans for thousands of self-employed micro entrepreneurs (SEMEs). From limited financial options, BanKo provides SEMEs with an affordable loan product and empowers them with financial advice and solutions that help grow and expand their enterprises. See page 42 for more information.

BPICTL also supported micro and small businesses with Php 170.41 million in lease arrangements.

BANKO 2017 VS. 2018 DISBURSEMENTS

[1]2017 figure is restated from previous report

Apo Agua Groundbreaking Ceremony

ACCESS TO CLEAN WATER

BPI Capital's partnership with Apo Agua Infrastructura paved the way for the first large-scale bulk water supply project in Mindanao, providing sustainable, reliable, and clean water to cater to the growing demand of over 1 million residents of Davao City for a period of 30 years. In 2018, we have disbursed Php 1.45 billion to fund this project. See page 37 for Apo Agua's full story.

For small businesses with water and sanitation projects, the BPI financed Php 195.63 million in 2018.

INFRASTRUCTURE DEVELOPMENT

We actively take part in the government's Build, Build, Build program through project financing and leasing arrangements. In 2018, we released Php 456.30 million in loans for Public-Private Partnership (PPP) and other infrastructure projects such as airport rehabilitation and expansion and IT projects.

BPICTL also supported PPP projects through the disbursement of Php 736.22 million in loans for heavy equipment and trucks used to build roads and other infrastructure through various contractors and subcontractors of the Department of Public Works and Highways (DPWH).

AFFORDABLE HOUSING

We are committed to provide access to housing to every Filipino. In 2018, we disbursed through BFSB Php 6.06 billion in loans for affordable housing.

SUSTAINABLE MOBILITY

To support the government's point-to-point (P2P) program that aims to improve the country's mass transportation system, BPICTL financed Php 147.96 million in buses plying routes between key cities in Metro Manila and the central business district of Makati.

MANAGING OUR CAPITALS

Economic Performance | **Page 76**

Social Performance | **Page 78**

Environmental Performance | **Page 89**

Senior Management | **Page 91**

Corporate Governance | **Page 94**

ECONOMIC PERFORMANCE

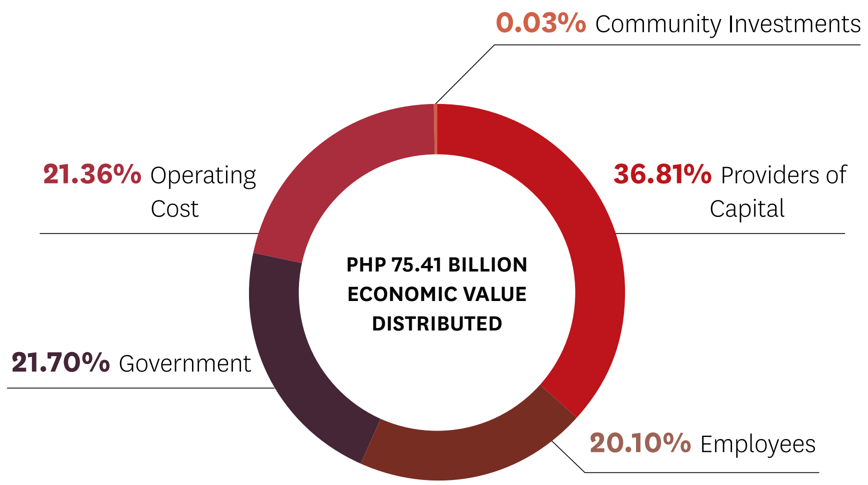
DISTRIBUTION OF VALUE CREATED

In order to make economic growth more meaningful, we foster inclusive growth and wealth creation for every Filipino. We do this by distributing financial and non-financial value to our stakeholders through our operations.

In 2018, our revenue or economic value generated was at Php 78.52 billion, an 11% increase from 2017's Php 71.02 billion. Our economic value distribution includes payments to our shareholders, employees, government, community investments, and operating costs. In 2018, this amounted to Php 75.41 billion, an increase of 20% from 2017.

In addition, we distributed non-financial value to our stakeholders in the following ways:

Clients	Offering trusted financial advice, products, and services that are suited to the needs of our clients, in an accessible, reliable, and efficient manner
Investors	Delivering growth and business continuity anchored on a strong brand trust
Employees	Providing learning development programs, volunteer opportunities, as well as health and other benefits to our employees
Government and Regulatory Agencies	Continuing active participation in the government's public-private partnership initiatives and strict adherence to relevant national laws and regulations
Communities	Promoting financial inclusion and wellness, supporting MSMEs and social enterprises, and advancing countryside development and sustainable environment
Suppliers	Ensuring decent jobs among all our suppliers by implementing a stringent supplier accreditation process



PHP 27.76 BILLION
PROVIDERS OF CAPITAL
Dividends paid to shareholders and interest payments for deposits and borrowings

PHP 16.36 BILLION
GOVERNMENT
Tax payments for corporate revenue streams (interest income, foreign exchange, security trading, fees, commissions, and other income), properties, operational transactions, and related penalties

PHP 24 MILLION
COMMUNITY INVESTMENTS
Donations, contributions to charities, direct costs of BPI Foundation programs

PHP 15.16 BILLION
EMPLOYEES
Disbursements due to salaries, bonuses, and employee benefits

PHP 16.11 BILLION
OPERATING COSTS
Payments to suppliers for materials and services procured, and other operating expenses

PHP 3.11 BILLION
ECONOMIC VALUE RETAINED
Reinvested in the business

SOCIAL PERFORMANCE

ENGAGING OUR EMPLOYEES

Our people have always been our valued stakeholders — their integrity, professionalism, and loyalty underpin our competitive advantage and they are the key drivers of the Bank's current and future success. As reflected in our Credo, our Human Resources Management Group (HRMG) strategies promote the wellbeing of our people and build our reputation as the employer of choice within the banking industry.

We implement a holistic approach to maintain high levels of employee engagement and oversee career advancement programs, mandatory and functional trainings, and leadership courses. To ensure that employee engagement is well-rounded, there are interest clubs, volunteerism platforms, and health and wellness seminars available.

TOTAL HEADCOUNT	2016	2017	2018
Direct Hires*	15,201	17,052	**18,911**
By gender			
Male	4,514	5,215	**6,037**
Female	10,687	11,837	**12,874**
By age			
Over 50 years old	1,039	1,058	**1,162**
30-50 years old	6,892	7,494	**8,206**
Below 30 years old	7,270	8,500	**9,543**
By region			
National Capital Region (NCR)**		10,655	**11,671**
Luzon	13,010	2,750	**3,897**
Visayas	1,372	1,439	**1,998**
Mindanao	819	916	**1,345**
Indirect Hires * **			**2,725**

* All active employees of BPI and its subsidiaries in the Philippines as of December 31, 2018. Local hires of BPI's foreign offices are excluded.
** NCR is part of Luzon. Tracking started in 2017
***Includes outsourced personnel from security, janitorial, and messengerial agencies. Tracking started in 2018

BY EMPLOYEE CATEGORY	2016	2017	2018
Senior Management			
By gender			
Female	100	100	**107**
Male	93	98	**112**
By age			
Over 50 years old	116	121	**132**
30-50 years old	77	77	**87**
Below 30 years old	0	0	**0**
By region*			
NCR		172	**205**
Luzon		3	**6**
Visayas		5	**5**
Mindanao		1	**3**
Middle Management			
By gender			
Female	3,326	4,233	**4,219**
Male	1,587	2,178	**2,223**
By age			
Over 50 years old	538	553	**616**
30-50 years old	3,380	4,036	**4,408**
Below 30 years old	995	1,822	**1,418**
By region*			
NCR		4,554	**4,395**
Luzon		760	**1,092**
Visayas		405	**573**
Mindanao		253	**382**
Rank-and-File			
By gender			
Female	7,261	7,489	**8,548**
Male	2,834	2,938	**3,702**
By age			
Over 50 years old	385	384	**414**
30-50 years old	3,435	3,381	**3,711**
Below 30 years old	6,275	6,662	**8,125**
By region*			
NCR		5,924	**7,071**
Luzon		1,987	**2,799**
Visayas		1,029	**1,420**
Mindanao		662	**960**

* Tracking started in 2017

NEW HIRES	2016	2017	2018
By gender			
Female	1,070	2,389	**2,212**
Male	431	1,263	**1,437**
By age			
Over 50 years old	8	15	**8**
30-50 years old	265	551	**832**
Below 30 years old	3,357	3,085	**2,809**
By region			
NCR		2,049	**2,018**
Luzon	3,064	336	**876**
Visayas	378	236	**432**
Mindanao	188	208	**323**
By employee category			
Senior Management			**9**
Middle Management			**795**
Rank and file			**2,845**

TURNOVER	2016	2017	2018
Total	2,064	1,946	**1,786**
By gender			
Female	1,440	1,320	**1,172**
Male	624	623	**614**
By age			
Over 50 years old	137	160	**150**
30-50 years old	386	451	**531**
Below 30 years old	1,541	1,334	**1,105**
By region			
NCR*		1,433	**1,263**
Luzon	1,774	264	**296**
Visayas	186	121	**125**
Mindanao	104	89	**102**
By employee category**			
Senior Management			**23**
Middle Management			**505**
Rank-and-File			**1,258**

* Tracking started in 2017
**Tracking started in 2018

FUTURE-PROOFING OUR WORK FORCE

Management has taken the initiative to ensure that we will always be in capable hands by taking deliberate steps in identifying successors. Potential successors are assessed and developed with the goal of future-proofing the organization. Leadership programs across all levels were developed to ensure that leaders have the competencies needed to manage the business.

Employees are made aware that their work contributes to our business objectives. At the start of the year, organizational targets and scorecards are presented and released to make the goals clear to each officer. A new online goal-setting and performance appraisal platform was introduced in 2018 to strengthen performance management.

In line with efforts to improve services, our HRMG measures employee engagement by using robust survey tools and validates the results with both management and the employees. This allows management to determine areas in need of improvement and design the appropriate programs to address them. Labor Management Conferences and HR Caravans, including to provincial areas, also provide platforms for employee concerns and HR programs to be discussed. See page 176 for key concerns.

With the continuing challenges in the industry, we anticipate trends that can have a significant effect on the business. For 2019, the shift of employee demographics as younger millennials join the company, HRMG needs to continuously reinvent itself so that its services remain relevant to employees. This requires learning more about how employees of different age groups and backgrounds can work together to maximize their potential.

TAKING CARE OF OUR PEOPLE

We recognize our employees' need for wellness, security, and empowerment. We address this through employee benefits, volunteerism, wellness programs, and safety and security measures.

Benefits

Our competitive compensation and benefits consider market data. Job evaluation and salary benchmarking ensure that compensation is within industry standards. Benefits include bonuses, executive stock purchases (for officers), and the Defined Contribution and Defined Benefit retirement plans. Employees receive clothing and medical allowances on top of health benefits and life insurance coverage. They are given leaves for sickness, vacation, maternity, and paternity. Access to car, housing, and multipurpose loans are also available, with amounts depending on tenure and rank. See Remuneration and Employee Welfare under Corporate Governance section for more information.

We encourage healthier lifestyles through the BPI Wellness Program. Activities include lectures on health and wellness, interest clubs, blood and vaccination drives, health screening, and access to wellness products and related services from health partners.

Employee welfare

We strictly comply with the labor laws and regulations in the Philippines and uphold the rights to freedom of association and collective bargaining. In 2018, the bank maintained harmonious relations with 25 labor unions covering 91% of the staff population. We aim to treat all employees with respect and communicate with them fairly and transparently. We do not discriminate on gender, religion, age, race, color, political views, or social background. We strictly enforce non-employment of minors and are against forced compulsory labor.

COLLECTIVE BARGAINING	2016	2017	2018
Employees covered by CBAs	7,664	8,348	**10,525**
Total rank-and-file employees	9,094	9,738	**11,506**
Percentage covered	84%	86%	**91%**
Total existing labor unions	25	25	**25**

Our Employee Care Unit was created as a help desk for all HR units. It assists employees with any HR concerns. To address integrity issues, we have a robust Whistleblowing Policy, an organized disciplinary process, and a mandatory course on conflict of interest standards.

Safety and security

Employee welfare and our clients' banking experience are important to us, and we include in our responsibilities their safety and security within the vicinity of our facilities. Our Central Security Office (CSO) is manned 24/7 by a team which provides alarm and closed-circuit television (CCTV) monitoring, and dispatches roving inspectors to all branches and offices. CSO ensures that there are adequate security personnel manning BPI's premises.

We have continually upgraded the security systems of our branches with the Central Video and Alarm Monitoring Project that strengthens threat identification and our response mechanism. All CCTV cameras and alarm notifications are centrally monitored and managed in the CSO. As of 2018, we have outfitted 1,001 BPI offices and branch premises with this technology.

Security and safety measures are regularly done through drills and training programs. First aid training and fire and earthquake drills are conducted for employees. In 2018, 254 employees underwent first aid and basic life support training, and 4,321 employees participated in the fire simulation drills. For our fire drills, the average evacuation time across all head office buildings was nine minutes.

All security personnel undergo at least four hours of training each quarter. They are trained on bank security enhancement, gun safety, bomb identification and detection, robbery and hold-up procedures, disaster awareness, and security guard customer care.

See page 152 for more information.

8,385

TRAINING HOURS DEDICATED TO HEALTH AND SAFETY WERE PROVIDED FOR EMPLOYEES

Volunteerism

We empower employees to create needs-based volunteer programs in the local communities near BPI offices and branches.

Under BPI Social Immersion Lab (SoIL), now on its third year, six senior officers of the bank immersed themselves in underdeveloped agricultural communities in

Visayas and shared their expertise in developing and implementing financial interventions.

This year, the Bank held its first nationwide volunteer day and mobilized over 1,200 BPI employees to work hand-in-hand in building shelters in 10 Gawad Kalinga (GK) communities all over the country, providing hope to over 3,284[1] residents from 714 families in these marginalized areas.

In 2018, under BPI BAYAN, about 7,500 volunteers worked in 45 communities across the country to address the needs of their respective communities. Some of these projects include mangrove planting for denuded coastal areas, livelihood development for housewives in marginalized communities, and financial literacy and skills training for out-of-school youth.

A notable volunteer project is "Oplan Save Tuburan", which was implemented by BPI Negros Area employees with the beneficiary organizations of Tuburan Fisherfolks and Mangrove Development Association and Brgy. Tuburan's Mangrove Development Program. What started as a simple mangrove reforestation in Brgy. Tuburan, EB Magalona, Negros Occidental in 2012, has now expanded into a sustainable livelihood program that enables the community to remain resilient and independent despite several catastrophic events in their area.

In 2018, this BPI BAYAN project expanded their reach and replicated their program in another community, Sitio Roma, Brgy. Batea in the same municipality. Sitio Roma is an island fishing community of 155 households, with the same geographical and social attributes as that of Brgy. Tuburan's, which suffers from extreme erosion and poverty. The project, now named as "Balangaw sa Sitio Roma", started to rebuild mangrove nurseries with the help of Brgy. Batea's supply of propagules for their mangrove reforestation initiatives. Moreover, the project has its sights on implementing financial literacy and waste segregation campaigns to address other environmental and livelihood challenges within the area.

54,040
VOLUNTEER HOURS CONTRIBUTED BY EMPLOYEES THROUGH BPI BAYAN, SOCIAL IMMERSION LAB, NATIONWIDE VOLUNTEER DAY, AND OTHER BANK-INITIATED VOLUNTEER ACTIVITIES.

[1]Estimated based on Philippine Statistics Authority 2010 census on average household size of 4.6 members in every family

PROVIDING CAREER DEVELOPMENT OPPORTUNITIES

We continuously provide our employees with professional growth and career development opportunities. We use a blended learning approach that includes workshops, coaching, mentoring, instructor-led training sessions, and web-based training courses. This array of career advancement and development programs include the Officership Training Program, and Loan Officers Development Program, for qualified staff, officers, and management trainees. Employees also receive continuous mandatory and specialized functional training, and leadership and core values courses, along with customized programs through our partnership with Harvard Business School Publishing and other learning providers. In 2018, employees underwent a total of 277,679 training hours, an average of 15 training hours for each employee. The goal is for all employees to complete five days or 40 hours of training per year.

AVERAGE TIME IN RANK (YEARS)	2016	2017	2018
Junior Management	7	7	**7**
Middle Management	7	7	**8**
Senior Management	14	13.5	**17**
PROMOTIONS (COUNT)	**2016**	**2017**	**2018**
To Junior Management	673	573	**782**
To Middle Management	127	213	**105**
To Senior Management	20	25	**24**

CREATING SOCIAL VALUE FOR COMMUNITIES

BPI Foundation Inc. (BPIFI) is the corporate social responsibility arm of the Bank. BPIFI promotes financial inclusion through its programs on entrepreneurial development, financial education, and sustainable environment in underserved communities in partnership with other foundations, government agencies, and non-government organizations. Its flagship program, BPI Sinag, focuses on accelerating the growth of social entrepreneurs in the country who contribute to the economic bottom line, and helping address a social or environmental issue in the country.

In 2018, community investments were at Php 24 million. Community development programs were also implemented through the support from other areas within the Bank. See pages 51-53 and 66-67 for more information.

2018 BPI FOUNDATION BENEFICIARIES

18,099
FINANCIAL LITERACY

Financial Education in a Box, Manny and Me, BPI SHAPE, Sulong

2,177
ENTREPRENEURIAL DEVELOPMENT

Technical Vocation Program, BPI SINAG, Show Me Teach Me

492
SUSTAINABLE ENVIRONMENT

Hineliban Reforestation, Agri-Clima, Adopt-a-Community

Securing a Sustainable Environment

The agricultural sector is the perfect industry to engage with to address the challenge of food security, while promoting environmental sustainability. Initiated in 2016 in partnership with WWF Philippines, AgriClima aims to measurably reduce the most significant environmental impact of agricultural production of commodities, such as sugarcane, while capacitating smallholder farmers through climate-smart agriculture practices both at the farm and water catchment levels. This program provides opportunities for farmers to take an active role in ensuring food on our table, without compromising our natural resources.

The program was piloted in Negros Occidental since it is the largest producer of sugarcane in the country, accounting for 60% of the Philippines' sugar production. We also provided eight food houses which supports multi-crop planting and poultry production in an environment that is natural and pesticide-free. These food houses promote food security for the community and income diversification for the farmers.

At the farmer enterprise level, AgriClima has capacitated eight cooperatives of 400 smallholder farmers[1] with social preparation interventions on business, organizational and financial management. This has prepared them for an engagement with the Sugar Regulatory Administration (SRA), wherein these cooperatives will gain access to funding from the Sugar Industry Development Act (SIDA).

DATA PRIVACY

BPI abides by the Data Privacy Act of 2012 (DPA) and has complied fully and on-time with the reportorial requirements of the National Privacy Commission. The Bank has a Data Privacy Office that ensures that data privacy-related complaints received from the public are promptly attended to, analyzed, remediated, and tracked until closure.

In early 2018, we articulated a sustainable privacy management framework and program that was approved by the Board that guides all aspects of our operations in upholding the public's right to data privacy. The program aims to proactively embed privacy requirements in the design, development, and performance of processes and systems following the principle of "privacy-by-design" to ensure comprehensive and sustainable compliance with the DPA. To strengthen the awareness and capabilities of our employees in performing their roles in this program, the Data Privacy Office has launched two e-learning courses on data protection and privacy, which are mandatory for all employees. Supplementing these courses are numerous bulletins and posters that touch on the practical aspects of fulfilling privacy requirements as well as in-person briefings in all branches and head office locations. Our annual observance of the Cyber Security Awareness Month in October prominently features lectures and workshops on data privacy topics.

See Data Privacy Office under Compliance Section.

CUSTOMER EXPERIENCE

We have a Customer Assistance Program (CAP), which was established by the Customer Experience Management Office (CXMO) to institutionalize guidelines that will help ensure that feedback from existing and potential clients are handled appropriately, as required by the Bank's consumer protection policies. The designated Customer Assistance Officers (CAOs) have undergone onsite training so that they are equipped to address customer issues and ensure compliance with the Bank's Consumer Protection Program. There is a continuous information and education campaign on the Financial Consumer Protection

[1]Data on number of farmers is based on MUAD-Negros estimate of 50 farmers in every cooperative.

	2016	2017	2018
Complaints (in Thousands)	306.0	437.5	**424.4**
Transactions (in Millions)	1,341.4	1,442.1	**1,540.7**

(FCP) Program to help propagate awareness. In 2018, CXMO conducted roll-outs and on-site training on FCP and alignment meetings with the CAOs in various business areas.

As part of the FCP Program, a Customer Feedback Database was created in 2017 and now used to strengthen the role of the frontliners in addressing and reporting customer issues. The complaints data gathered is a vital tool in identifying areas of concern and process improvements.

CXMO, in coordination with the Total Quality and Business Transformation Office, conducts a Service Quality Review (SQR), where various business units present their performance updates on their defined service quality goals to the Bank's Customer Experience Council, which is composed of the top executives of the Bank. Business process improvements are discussed here to deepen customer engagement and address specific customer needs. For 2018, eight business units underwent the SQR.

There are also related policies in place such as the BPI Financial Consumer Protection Program and Complaints Management and Reporting to properly equip our bank personnel in the handling of customer feedback. Preventive measures and treatment plans from business units with top customer concerns are discussed in the Service Quality Review (SQR) appropriate service improvements and customer satisfaction.

As part of our CAP, different touch points or channels are in place where clients can file their feedback. These include our Contact Center via phone, e-mail and social media accounts, Customer Care, branches, and the business units. Our employees are guided by the internal bank policies in handling complaints and CAP where client feedback, specifically complaints, are classified with corresponding turn-around-time which are responded accordingly.

We continuously track and monitor customer issues and feedback concerning our products and services. Action plans were implemented to ensure that the most pressing and important issues raised by clients were resolved within the committed turnaround times. Compliance rate for complaints resolution to our internal turn-around time was 93% in 2018, up from 85% in 2017. As of year-end 2018, from the complaints received for 2018, 99% have been resolved. The enterprise-wide complaint report is regularly reported to BPI Management. Complaint intensity decreased by 9% from 2017 to 2018. This is calculated as every one complaint per 1,000 transactions. by 9% from 2017 to 2018. This is calculated as every one complaint per 1,000 transactions.

Since the establishment of the Framework in 2017, we have substantially complied with product and service information and labeling regulations and/or voluntary codes. In 2018, there were no confirmed incidents of non-compliance.

See Financial Product Governance and Financial Consumer Protection Program under Corporate Governance section for more information.

SUPPLY CHAIN MANAGEMENT

Facilities Services Group (FSG) oversees all of our engagements with service providers, contractors, and suppliers. Strict and detailed supplier accreditation processes and compliance with all legal standards are enforced. This enables us to identify contractors who meet quality standards on best practices and constant improvement.

The procurement process involves accreditation committees, standards covering accreditation criteria, improved information on requirements and documentation, various modes of procurement, and service performance monitoring. This procedure allows us and our suppliers to be aware of the ethical, environmental, and social risks and opportunities relating to operations and products. In 2018, our supplier pool consisted 394 accredited local and foreign entities.

The required accreditation documents include permits, licenses, certificates, and proof of authority are used in assessing our vendors for their suitability, as well as environmental and social compliance. We believe that the business permit requirement attests to the vendor's conformity with the sanitary and fire safety requirements of local government units. The same principle applies with our need for vendors to submit certifications from the Department of Labor and Employment (DOLE) 18A/174 for manpower service providers, licenses like Philippine Contractors Accreditation Board (PCAB) for general contractors, and Department of Transportation and Communications (DOTC) certificates for courier service providers. All accredited suppliers are screened on these social and environmental criteria. Our conscious effort to source materials and services locally supports a stable local economy.

Suppliers undergo a re-accreditation process at least every two years, depending on the size of transactions with us. This process requires an evaluation from business units and resubmission of permits, licenses, certificates, and proof of authority.

In 2018, we paid a total of Php 16.11 billion for the products and services rendered by these contractors, suppliers, and other providers.

ENVIRONMENTAL PERFORMANCE

Recognizing our role as a responsible financial institution, we aim to reduce negative environmental impact coming from our business operations and become more cost-effective through mindful leadership of the organization, leading to overall improved margins.

We track the environmental impact in our business, gathering data on energy and water consumption, and carbon emission for branches, head offices, and business centers in the Philippines*. Data on energy and water consumption of our branches and kiosks are consolidated per geographical business area. FSG monitors those of our head office and other business hubs.

We continually explore technological innovations that could reduce our resource consumption and improve our environmental tracking systems. We also encourage our clients, suppliers, and partners to reduce their own environmental footprints.

DUE TO EXTENDED BANKING HOURS, ELECTRICITY CONSUMPTION INCREASED BY
2%

WATER CONSUMPTION DECREASED BY
1%

GHG SCOPE 2 EMISSIONS INCREASED BY
2.6%

ENERGY CONSUMPTION

Electricity is vital in our daily operations as it is used to run our offices and branches. To manage our resources more efficiently and save costs on utility, FSG commissioned a third-party energy audit to determine the management approach to the installation of LED lights and inverter-type air-conditioning units in BPI offices and branches.

To date, we have completed the installation of LED lights and inverter-type air-conditioning units in 45% of all our branches. This has resulted in Php 14.4 million in total cost savings for LED lights and Php 3 million for aircons.

For 2018, electricity consumption increased by 2% from 2017. This may be attributed to the opening of 17 new branches and the increase in banking days for client engagement programs held on weekends.

Fuel consumption comes from the diesel for armored cars serving our Cash Centers and the fuel used for generator sets. From previous year's data collection, fuel from generator sets was determined to be insignificant in the scale of our operations and hence, excluded in the fuel consumption computation.

Diesel fuel consumption as of June 2018 is 13,608 gigajoules. The Central Operations Group (COG) unit that oversees armored vehicles indicated that their contract with the armored car agency has changed from leased to outsourced, resulting to the shift of fuel management from BPI to the agency starting July 2018. This change in contract has resulted in the 51% decrease of the Bank's fuel consumption and Scope 3 GHG emissions compared to 2017.

WATER CONSUMPTION

Our water consumption comes from pantry sinks, washrooms, and maintenance faucets in our offices and branches. The water used is sourced from water utility companies. For 2018, water consumption decreased by 1% from 2017.

GREENHOUSE GAS EMISSIONS

Our greenhouse gas (GHG) emissions are under Scope 2 and Scope 3 of our GHG Protocol Corporate Standard. Scope 2 covers indirect emissions from the generation of purchased energy. Scope 3 emissions are indirect emissions not included in scope 2, which occur in the value chain of a company. GHG emission is computed based on the electricity consumption for Scope 2, and armored cars' fuel consumption for Scope 3.

For 2018, our Scope 2 GHG emissions increased by 2.6% due to the increase of electricity consumption, and our Scope 3 GHG emissions dropped by 51% from 2017 due to the change in armored car fleet contract which has shifted management from BPI to the third party agency". See discussion on energy consumption.

OTHER EFFORTS

7,114 KG
OF PAPER AND CARTON WASTE RECYCLED

1,320 KG
OF ELECTRONIC WASTE RECYCLED

The BPI Sustainability Office set up regular recyclable fairs to ensure the responsible disposal of paper, plastic, and electronic waste. This was participated by BPI head offices and branches within the Makati Central Business District. In total, 816 kilograms of plastic and metal waste, 7,114 kilograms of paper and carton waste, and 1,320 kilograms of electronic waste was turned-over to our partner recyclers. We also regularly participate in WWF's Earth Hour through office-wide lights off and Earth Hour Challenge where employees are tasked to make joint commitments as an office to do earth-friendly activities. Learning Sessions and Sustainability Exposure Visits are also made available to employees for a hands-on learning experience about different sustainability issues.

The Centralized Operations Group, which oversees printing operations, has been closely working with the electronic Statement of Account (eSOA) Project team to fully implement the alignment of all paper products (SOA, Notices, Financial Statements, etc.) to the digitalization strategy. For 2018, this migration is still underway for BPI paper products. For BPI Family Savings Bank, which already has the eSOA for their credit cards, the total volume of eSOA released has increased by 18% from 2017.

ENVIRONMENTAL FOOTPRINT*	2017	2018
Electricity consumption** (gigajoules)	175,797	179,883
Fuel consumption – armored cars (gigajoules)	27,677	13,608
Total energy consumption (gigajoules)	203,474	193,401
Scope 2*** (Tonnes Co2e)	28,701	35,860
Scope 3*** (Tonnes Co2e)	1,959	953
Total water consumption (cubic meters)	387,087	381,443

*Includes branches, head offices, and business centers in the Philippines, excluding BanKo branches and BLUs
**Branch data for January and December 2018 is dependent on the different billing schedules of utility service providers.
*** GHG emissions computed based on the Department of Energy Grid Emission Factors (https://www.doe.gov.ph/electric-power/2015-2017-national-grid-emission-factor-ngef). Recalculation was done using this source for the 2017 GHG emissions, and thereby restating 2017 GHG emissions disclosure.

SENIOR MANAGEMENT

AS OF FEBRUARY 13, 2019

OFFICE OF THE CHAIRMAN AND PRESIDENT

Senior Vice Presidents

- Cruz, Rosemarie B.
- Gayares, Marita Socorro D.

Vice Presidents

- Almazan, Jinky C.
- Amado, Frances S.
- Asis, Ma. Cristina F.
- Gealogo, Noravir A.
- Lim, Steven S.
- Luna, Maria Ana M.
- Maramag, Angela Pilar B.
- Mendiola, Nicanor A.
- Paz, Jonathan John B.
- Sumagpang, Sylvia P.
- Villaflores-Balatan, Melissa B.

OFFICE OF THE CHIEF CREDIT OFFICER

Senior Vice Presidents

- Alonso, Joseph Anthony M.
- Cruz, Ma. Luisa L.

Vice Presidents

- Mina, Andrea G.
- Jacinto, Miriam Jane M.
- Santos, Jose Roman H.
- Silva, Elisa M.

RETAIL CLIENTS

Senior Vice Presidents

- Ang, Olga S.
- Dimayuga, Raul Marcelo D.
- Jereza, Jose Raul IV E.
- King, Angelie O.
- Santamaria, Mary Catherine Elizabeth P.

Vice Presidents

- Aguilar, D'artagnan M.
- Altea, Bernardo R.
- Badua, Arrex S.
- Braganza, Sonia S.
- Catindig, Myra Liza D.
- Dionisio, Florisa F.
- Farinas, Ritche G.
- Flores, Andre M.
- Galvez, Marwin L.
- Gasa, Jose Mari Israel V.
- Gonzales, Glenda M.
- Lamasuta, Aileen S.
- Lucero, Joseph L.
- Melliza, Madeline H.
- Monfort, Virginia L.
- Perez, Art Gerald B.
- Quimbo, Joseph Sidney D.
- Saguindang, Isagani M.
- Sampang, Maya B.
- Santos, Ma. Claudina C.
- Santos, Mylene Riza C.
- Segui, Maribeth G.
- Sta Ana, Ana Liza C.
- Sy, Cristina J.
- Taguba, Janette B.
- Tined, Edelinda R.

BUSINESS BANKING

Senior Vice Presidents

- Parungao, Joseph Philip Anthony S.
- Veloso, Roland Gerard Jr. R.

Vice Presidents

- Ampolitud, Mary Jane L.
- Ballelos, Luisito R.
- Catelo, Felices V.
- Cruz, Katrina Joy G.
- Cruz, Socorro Jessymel T.
- Lualhati, Genaro IV N.
- Pagulayan, Rhodora Adelaida C.
- Ramos, Erick M.
- Sangco, Jose Martin S.

CORPORATE CLIENTS

Executive Vice President

- Syquia, Juan Carlos L.

Senior Vice Presidents

- Cruz, Luis Geminiano E.
- Untalan, Barbara Ann C.

Vice Presidents

- Aniceto, Homer L.
- Basilio, Maria Cristina A.
- Casals, Sheree N.
- Cirujano, Raymond Anthony M.
- Cortez, Marie Antoinette S.
- De Jesus, Marie Joan Socorro J.
- Felipe, Herman Rufino S.
- Garcia, Jeanette J.
- Go, Raymond H.
- Gozar, Carmencita Lilia B.
- Laquindanum, Mary Jane Y.
- Lim, Maria Teresa Anna K.
- Marcos, Noelito C.
- Munoz, Barbara S.
- Macatangay, Abraham Daniel J.
- Marquez, Ma. Carmina T.
- Ocliasa, Dominique R.
- Oliva, Arnold E.
- Paulino, Ma. Genalyn R.
- Picache, Ma. Josefina P.
- Ramirez, Maria Socorro D.
- Roxas, Vilma L.
- Sison, Ana Maria C.
- Tan, Ma. Elizabeth V.
- Valenzuela, Miriam Socorro K.
- Velez, Gemma T.
- Villaraza, Carmel Ace Q.

FINANCIAL PRODUCTS AND SERVICES

Executive Vice President

- Paterno, Simon R.

Senior Vice Presidents

- Chuidian, Tomas S.
- Gomez, Jesus Angelo O.
- Lacerna, Jenelyn Z.
- Luchangco, Eric Roberto M.
- Ocampo, Marie Josephine M.
- Tagaza, Manuel C.

Vice Presidents

- Ang, Irene L.
- Bengzon, Joaquin Augusto Angelo A.
- Bustamante, Ma. Carmencita S.
- Cutiongco, Ma. Perpetua A.
- De Guzman, Ivy Maria E.
- De Paula, Noel Isabelo S.
- De Vera, Jose M.
- Dela Paz, Cecile Catherine A.
- Diomampo, Irene A.
- Dulay, Melinda V.
- Eala, Jo Ann B.
- Espiritu, Ruben Enrique A.
- Feranil, Catherine Y.
- Florentino, Maria Angelica G.
- Gatuslao, Carlo Carmelo S.

GLOBAL MARKETS

Executive Vice President and Treasurer

- Paner, Antonio V.

Senior Vice President

- Gasmen, Dino R.

Vice Presidents

- Agdeppa, Maria Lourdes Valerie C.
- Arceo, Henry C.
- Barrameda, Ma. Lourdes D.
- Cayetano, Alan C.
- Crisostomo, Mari Len S.
- Fernandez, Rinaldo H.
- Garcia, Cyril S.
- Neri, Emilio Jr. S.
- Pineda, Donarber N.
- Salvan, Jose Esteban J.
- Singian, Jennifer Gayle P.
- Sorra, Jethro Daniel S.

STRATEGY AND DEVELOPMENT

Executive Vice President and Chief Finance Officer

- Javier, Maria Theresa M.

Senior Vice President

- Lukban, Maria Consuelo A.

Vice Presidents

- Campos, Lourdes Suzanne S.
- Gatmaytan, Ma. Lourdes P.
- Osalvo, Emmanuel Jesus G.
- Tan, Cherish Honey C.
- Tuddao, Dennis T.
- Ysmael, Paul Roderick A.

ENTERPRISE SERVICES

Executive Vice President and Chief Operating Officer

- Jocson, Ramon L.

Senior Vice Presidents

- Abola, Joaquin Ma. B.
- Calleja, Michael D.
- Maranan, Florendo G.
- Marquez, Pilar Bernadette C.
- Mercado, Eugenio P.
- Pertierra, Rafael J.

Vice Presidents

- Almirante, Joseph Y.
- Alviar, Jocelyn C.
- Bednar, Maria Concepcion A.
- Bernales, Dominador Jr. R.
- Calingasan, Reynaldo C.
- Cariaso, Maria Theresa G.
- Cervantes, Miguel Jr. P.
- Co, Giovanni Cornelius D.
- Cruz, Napoleon Jr. I.
- Cruz, Winnie G.
- Del Fierro, Anna Christina U.
- Ferrer, Josephine B.
- Gangoso, Jesusa Camila V.
- Guzman, Rina Marie S.
- Lansang, Jennie F.
- Lee, Eugene O.
- Leong, Maria Antonia O.
- Lim, Roseller B.
- Lustre, Francisca Ann M.
- Kho, Ailen C.
- Navarrete, Armando Jr. T.
- Rocero, Anna Lyn J.
- Santiago, Noel A.
- Segundo, Servillano R.
- Taguibao, Domingo Digno Jr. A.
- Tierro, Frederick W.

Treyes, Anthony Y.
Uichanco, Edilberto Jr. N.
Ugsimar, Joel L.
Umayam, Editha F.
Zoluaga, Olivia Visminda G.

BPI FAMILY SAVINGS BANK
President
Go, Ma. Cristina L.
Senior Vice Presidents
Carlos, Felipe D.
Ricardo, Victoria Marie G.
Vice Presidents
Altamirano, Ramon Noel S.
Barroquillo, Ericson H.
Celestino, Aurora L.
Dio, Amy Belen R.
Erguiza, Susan L.
Fronda, Dennis T.
Galura, Erwin M.
Lazo, Ma. Cynthia N.
Leonen, Lionel F.
Velasco, Josephine Eufemia P.

BPI DIRECT BANKO INC.
President
Minglana, Jerome B.
Vice President
Mabiasen, Rodolfo Jr. K.

BPI CAPITAL CORP.
President
Cariaso, Reginaldo Anthony B.
Senior Vice President
Huang, Rhoda A.
Vice Presidents
Bonoan, Francisco Javier P.
Collado, Marie Natalie J.
Guevara, Jenny C.
Jardeleza, Francis L.
Uy-Tioco, George Jr. S.

BPI SECURITIES CORP.
President
Narvaez, Hermenegildo Z.
Senior Directors
Bonilla, Claro P.
Guiang, Georgia V.

BPI ASSET MANAGEMENT AND TRUST CORP.
President
Tan, Sheila Marie U.
Senior Vice Presidents
Chua, Smith L.
De Peralta, Yvette Mari V.
Garcia, Maria Paz A.
Vice Presidents
Ayson, Remarie Suzette A.
Balita, Jose Erwin B.
Bello, Ronald Bernard P.
Dee, Allen Martin O.
Evaristo, Mario Gerardo Z.
Jalandoni, Carlos A.
Kawpeng, Marijoy Y.
Manalo, Andrae V.
Sarreal, Lovell A.
Sevilla, Christmas G.
Taco, Eliza May T.
Valdez, Amalia Lourdes S.
Zialcita, Luis Antonio P.

BPI INVESTMENT MANAGEMENT INC.
President
Enrile, Roberto Martin S.

BPI CENTURY TOKYO LEASE AND FINANCE CORP.
President
Tanaka, Kuniaki
Vice Presidents
Bandol, Christine Grace A.
Ikeda, Masahito

BPI/MS INSURANCE CORP.
President
Takahashi, Masayuki
Directors
Bernabe, Anthony Lou M.
Kano, Yasuhiro
Santos, Alberto C.

AYALA PLANS INC.
Director & Officer-in-Charge
Tan, Elizabeth J.

BPI EUROPE PLC
Managing Director
Yulo, Lizbeth Joan P.

BPI INTERNATIONAL FINANCE LTD.
Managing Director
Lin, Archie

BPI FOUNDATION INC.
Executive Director
San Diego, Ma. Cristina L.

CORPORATE GOVERNANCE

Corporate governance policies, practices and standards must be reviewed and realigned in order to set the stage for the future of banking.

OVERVIEW

At BPI, we take pride that corporate governance must have **FACT**.

Focus. As one of the most trusted financial services organizations in the country, our goal is to continue that history of trust of our clients, customers, colleagues, and stakeholders, by building on the solid corporate governance foundations that are in place to deliver our commitment. We gauge our success not by our rank or size but by the trust we are given. We focus on skillfully creating value, generating strong returns, and prudently managing risks as we innovate our core bank business and the products and services that we offer and how we offer them. This will help us provide the right solutions for our clients and markets, and promote sustainability and greater financial inclusion in the country.

Accountability. The cornerstone of our strength, sustainability, and long-term existence is corporate governance – the oversight mechanisms and the way we and our subsidiaries are governed. This encompasses how decisions are made and how we deal with various interests of and relationships with our many stakeholders, including shareholders, customers, regulators, employees and the broader community – to ensure greater accountability. We design our policies, processes, and work environment for accountability to our stakeholders, knowing that this is a crucial and key driver of high performance.

Culture. Beyond corporate governance structures, rules and sanctions, culture impacts the decisions we make as an organization and how these decisions influence and affect our employees, clients, organization and communities. We strive to build a healthy corporate culture that will allow us to realize our goals in an ethical way, guided by a framework of shared values and a sense of social responsibility, not just because it is the right thing to do but because it is fundamental to our business, reputation and success as a financial institution. We recognize the importance of culture as a source of competitive advantage and understand that it is vital to the creation and protection of long-term value.

Transparency. We continuously work closely and constructively with regulators, keenly aware of the immense value and importance of transparency in such relationships. As a publicly listed company (PLC), we likewise recognize that we can demonstrate transparency through robust corporate governance policies and practices. These are integral to the creation of a fair and sound market valuation for BPI shares and maintaining the confidence of clients and retail and institutional investors alike. We therefore strive to ensure better quality of disclosures beyond simply being compliant with the corporate governance and listed company requirements and standards of the BSP, SEC, and PSE.

The year 2018 witnessed an evolving ecosystem for corporate governance in Asia where, in addition to pertinent financial reporting, accounting, and auditing issues around the region, greater focus was placed on corporate governance standards. For financial institutions such as banks, growth is getting tougher in the face of new market dynamics: rising consumer expectations, increasing competition, and digital disruption. This race to spot business opportunities at hyper-granular levels and capture them quickly can be rewarding – but such growth can only be worthwhile if supported by a strong, resilient but adaptive foundation in corporate governance.

In this challenging business climate, we believe that corporate governance must therefore drive growth in a way that is deliberate, persistent, and disciplined. Corporate governance policies, practices and standards must be reviewed and realigned in order to set the stage for the future of next generation banking. Indeed, there may be no better time than now to reimagine such transformation.

Corporate governance milestones in 2018 reflect this deliberate, persistent and disciplined approach, centered on reevaluating and improving our governance framework. The Board Charter, for example, was amended to address future key concerns with respect to board renewal that affect financial institutions and publicly-listed companies alike. These included:

1. Setting a limit on non-executive directorships in publicly-listed companies with the qualification that such limit shall not impinge on a shareholder's ownership rights to vote and be voted upon as director;
2. Adoption of a policy on number of directorships and internal/external commitments with the option to review, on a case-to-case basis. The Board may opt to grant a conditional/unconditional waiver on the directorship limit upon evaluation of a director's specific situation;
3. Establishment of a retirement policy for directors which the Board may opt to waive depending on determining factors and conditions: for transition, continuity, or strategic purpose;
4. Non-setting of mandatory rotation or fixed tenure of committee assignments or chairmanships to ensure fit, effectiveness, and continuity.

Another governance milestone was our adoption of an Anti-Bribery and Anti-Corruption (ABC) Policy. Our current corporate governance practice of zero tolerance for bribery and corruption is already established through our Conflict of Interest standards and both the Directors' and Employees' Codes of Conduct. The ABC policy formally recognizes bribery and corruption as real risks, pro-actively and sustainably manages reputational risk, strengthens our financial crime policies in an effort to create the safest commercial environment in which to do business. Implementation is supported by a communication, awareness, and training program as well as annual risk assessments, compliance monitoring, and audit reviews.

For 2019, we are looking at a robust and responsive corporate governance framework to help realize business goals and better serve our customers.

Our corporate governance policies and practices are embodied in our Manual on Corporate Governance and disclosed in the Integrated – Annual Corporate Governance Report, both of which are available on our website at www.bpi.com.ph.

LEADERSHIP

Advisory Council

We have an Advisory Council to the Chairman which was organized following the Annual Stockholders Meeting (ASM) in April 2016. Comprised of senior thought leaders, captains of industry, and luminaries in their respective fields, the Advisory Council expands the range of expertise, experience, and collective wisdom available to the Bank.

Board of Directors

The leadership and stewardship of the Board of Directors is one of the most important factors accounting for BPI's long-term growth and success.

In discharging their oversight responsibilities as guardians of the Bank's financial prudence and strength, the Board provides challenge, oversight, and advice to ensure that BPI continues to do the right things the right way, assuring our long-term sustainable success.

Considering the Bank's role in the BPI group as parent and publicly listed company, the Board of Directors ensures that BPI maintains an effective, high-level risk management, and oversight process across all companies in the group, with due consideration for the group's business and reputation, the materiality of financial and other risks inherent in the business, and the relative costs and benefits of implementing specific controls.

The Board also decides on all other important matters that pertain to the entire group, in view of the strategic, financial, regulatory, and reputational implications.

Chairman

In adherence to Recommendation 2.3 of the SEC Code of Corporate Governance for Publicly-Listed Companies, the BPI Board of Directors is headed by a competent and qualified Chairman.

Vice-Chairman

The BPI Board also has a Vice-Chairman who, in the absence of the Chairman of the Board, assumes and performs all the powers and duties of the Chairman of the Board.

See Appendix for full biographies of our Chairman, Vice-Chairman, and Board of Directors.

Role and Independence of the Chairman. The Chairman and Vice-Chairman are both Non-Executive Directors. The Board does not encourage CEO Duality. The Chairman, who has not served as CEO of the Bank within the past three years, is separately appointed from the President and CEO (Recommendation 5.4, SEC CG Code for PLCs). The Chairman and the President and CEO positions are currently held by two individuals who are not related to each other and have defined roles and responsibilities that are separate and distinct, as set in our Amended By-Laws and Manual on Corporate Governance.

Under the leadership of the Chairman, the Board creates the framework within which the Bank's executive team, headed by our President and CEO, steers the business. As stated in the Bank's Manual on Corporate Governance, the Chairman guides the Board in its decision-making process and ensures that the Board operates effectively as a team. The Chairman also forges a very positive and constructive working relationship between the Board and management. With the Chairman at the helm, the Board sets the Bank's strategy and risk appetite, and approves capital and operating plans presented by management for sustainable achievement of strategic objectives.

Chief Executive Officer. The CEO reports directly to, and is accountable to, the Board of Directors for the performance of the Bank. As defined in the Manual on Corporate Governance, the CEO (1) leads the development and execution of short- and long-term strategies, (2) communicates on behalf of the Bank with shareholders, regulators and the public, (3) evaluates the work of other executive leaders within the Bank, and (4) implements the Bank's vision and mission. (Recommendation 5.4, SEC CG Code for PLCs).

Lead Independent Director
The Board does not appoint a Lead Independent Director as current regulations of BSP require the appointment of a Lead Independent Director only when the positions of Chairman of the Board of Directors and CEO are, with prior approval of the Monetary Board, held by one person. In BPI, in such an instance when a Lead Independent Director must be appointed, this role may be assumed by the Vice-Chairman if he is an Independent Director.

BPI's Manual on Corporate Governance states the duties and responsibilities for such a role and position in the Bank, if and when one is appointed: the Lead Independent Director shall act as the preferred point of contact for other Independent Directors on the Board.
(Recommendation 5.5, SEC CG Code for PLCs).

Board Charter. The charter of the Board of Directors articulates with specificity the governance and oversight responsibilities exercised by the directors and their roles and functions in the Bank. It includes provisions on board composition, Board Committees, and board governance, subject to the Bank's Articles of Incorporation, Amended By-Laws, and applicable laws. The charter does not limit, enlarge, or change in any way the responsibilities of the Board.

The charter, which is in adherence to Recommendation 2.12 of the SEC CG Code for PLCs, is incorporated in our Manual on Corporate Governance, both of which are reviewed annually. The Bank's updated and revised Manual on Corporate Governance was approved and adopted by our Board of Directors in its entirety on March 7, 2018.

As stated in the charter, the Board's key areas of focus include:

- Governance – Ensuring that corporate responsibility and ethical standards underpin the conduct of BPI's business; developing succession plans for the Board and CEO; and establishing the general framework of corporate governance for the Bank;

- Strategy - Reviewing BPI's strategic and business plans; growing the business sensibly; and building resilience into the franchise. ; (Recommendation 2.2, SEC CG Code for PLCs)
- Risk management – Ensuring that effective risk management, compliance and assurance processes undergird our business;
- Financial performance – Monitoring management performance and achievement of goals and targets;
- Sustainability – Considering environmental, social and governance issues and including these as part of the Bank's strategy.

In the Board strategy session last November 2018, the Board and the senior management committee reviewed and approved the Bank's mission and vision and strategic plans for the coming years.
(Recommendation 2.1, 2.2, 2.12, 8.7 SEC CG Code for PLCs)

The Board Charter is disclosed in the Manual on Corporate Governance and on the company website at www.bpi.com.ph.

Composition and Qualification.

In pursuit of class leading risk management and governance practices for the appropriate board size, BPI maintains a 15-member board. The size of our Board is deemed appropriate given the complexity of operations of the Bank and the entire BPI group, our risk appetite, the geographical spread of our business, and the significant time demands placed on the Directors.

Board Composition. The Bank adheres to Recommendation 1.2 of the SEC CG Code for PLCs with respect to the board composition so that no director or small group of directors can dominate the decision-making process. The only Executive Director is the Bank's President and CEO.

The 15-member Board also ensures that directors are able to carry out their responsibilities efficiently, given the number of committees that they are appointed to. *Global best practice surveys show that complex banks benefit from larger board sizes in the long-term, providing better oversight and risk management.*

Board membership was reinvigorated during the Bank's ASM in April 2018 with majority or 14 of the newly-refreshed 15-member board comprised of Non-Executive Directors, safeguarding independent oversight of management. This is in compliance with BSP Circular No. 969, "Enhanced Corporate Governance Guidelines for BSP-Supervised Institutions" and in adherence to Recommendation 1.2 of the SEC CG Code for PLCs.

The General Banking Law, R.A.8791 mandates that there be at least five (5) and a maximum of fifteen (15) members of the board of directors of a bank. The board of directors shall determine the appropriate number of its members to ensure that the number is commensurate to the size and complexity of the bank's operations. Universal and commercial banks are deemed to operate complex business models by virtue of the scale and type of banking activities.

Certain factors also determine the complexity of a bank's operations such as:

1. **Size of Total Assets**
2. **Extent of Branch Network**
3. **Non-traditional products and services offered by virtue of special authorities (e.g., trust, quasi-banking, derivatives licenses), as well as distinctive products like credit cards, remittance, trade related services, among other financial services;**
4. **Use of non-conventional business model, such as those using non-traditional delivery platforms such as electronic platforms; and**
5. **Business strategy that is characterized by risk appetite that is aggressive and risk exposures which are increasing.**

In pursuit of class leading risk management and governance practices for the appropriate board size, BPI maintains a 15-member board.

In June 2018, Independent Director Astrid S. Tuminez resigned to take up her appointment as President of Utah Valley University, USA. Correspondingly, Independent Director Tuminez also relinquished her positions as a member of the Corporate Governance Committee and Risk Management Committee. As allowed under the Corporation Code and the Bank's Amended By-Laws, the Board can appoint a replacement for the vacancy within its one-year term. Any vacancy in the Board, except when it is caused by removal, shall be filled by a majority vote of the Board of Directors constituting a quorum in a meeting especially called for that purpose. The elected director shall serve for the unexpired term.

On February 20, 2019, the Board approved during its regular meeting the election of Mr. Jose Teodoro K. Limcaoco, 57, Filipino, as Non-Executive Director of the Board. Currently, he is the Chief Finance Officer (CFO), Chief Risk Officer (CRO), Chief Sustainability Officer (CSO), and Finance Group Head of Ayala Corporation.

Director Qualifications. Our Board of Directors enjoys the trust and respect of the local and international business community. They are established professionals who provide perspective, objectivity, practical wisdom, and sound judgment in their oversight, recommendations, and evaluation of bank operations and management.

As a financial institution imbued with public interest, qualifications for membership in our Board of Directors are dictated by our Amended By-Laws, Manual of Corporate Governance, the Corporation Code, and relevant regulations of the BSP and the SEC.

As a publicly listed company, we also take special care to ensure that the Board composition and director qualifications, particularly with respect to independent directors, also meet the pertinent governance regulations, requirements, and standards of the PSE.

As required by the SEC, all of the Bank's annual reports contain comprehensive profiles of the Board of Directors which disclose, among other information, the age, qualifications, date of appointment, relevant experience and directorships both in the BPI group as well as in other companies, listed or otherwise. In compliance with SEC Memo. Cir. No. 11, s2014, the Bank also posts biographical details of the Board of Directors and Senior Management on the company website.

Directors comply with all fit and proper qualifications and requirements of the BSP, SEC, and PSE and remain qualified throughout the one-year term. This includes required working knowledge, experience or expertise, and competence relevant to the banking industry.

The Board has a fiduciary duty in addressing environmental, social, and governance (ESG) issues, including changes in stakeholder expectations, business strategy, governance, risk assessment, and measurement and disclosure practices, which are central to the Bank's corporate competitiveness and continued ability to operate. The Board, through its Nomination Committee, ensures the selection of progressive and thoughtful directors who have credible involvement or are actively engaged in sustainability initiatives, in order to drive the board's integration of ESG factors into its long-term strategy.

Statutory requirements on qualifications and disqualifications for directors are stated in our Manual on Corporate Governance published on our website, www.bpi.com.ph. See Appendix for full biographies of our Board of Directors. (Recommendation 8.3 SEC CG Code for PLCs)

APPOINTMENT AND YEARS OF SERVICE OF BOARD OF DIRECTORS

Director's Name	Type of Director*	Date First Elected	Date Last Elected	Manner of Election	No. of Years as Director of BPI**
Jaime Augusto Zobel de Ayala	NED	03/13/1990	04/19/2018	Annual Meeting	28.8
Fernando Zobel de Ayala	NED	10/19/1994	04/19/2018	Annual Meeting	24.2
Gerardo C. Ablaza, Jr.	NED	04/20/2017	04/19/2018	Annual Meeting	1.7
Romeo L. Bernardo	NED ID	02/1998 08/21/2002	04/2001 04/19/2018	Annual Meeting	3 17
Ignacio R. Bunye	ID	4/14/2016	4/19/2018	Annual Meeting	2.7
Cezar P. Consing	NED ID ID ED	02/1995 08/18/2004 04/15/2010 04/18/2013	01/2000 01/01/2007 04/18/13 04/19/2018	Annual Meeting	5 2.5 3 5.7
Octavio V. Espiritu	NED ID	03/2000 04/2002	03/31/2002 04/19/2018	Annual Meeting	2 16.75
Rebecca G. Fernando	NED NED	10/1995 03/31/2009	03/31/2009 04/19/2018	Annual Meeting	12 9.75
Delfin C. Gonzalez, Jr.	NED	4/14/2016	4/19/2018	Annual Meeting	2.7
Xavier P. Loinaz	ED NED ID	03/1982 01/2005 03/31/2009	03/30/2004 03/30/2009 04/19/2018	Annual Meeting	22 4 9.75
Aurelio R. Montinola III	ED NED	01/12/2004 04/18/2013	04/13/2013 04/19/2018	Annual Meeting	9 5.7
Mercedita S. Nolledo	NED	11/20/1991	04/19/2018	Annual Meeting	27
Antonio Jose U. Periquet	ID	04/19/2012	04/19/2018	Annual Meeting	6.7
Dolores B. Yuvienco	NED ID	04/10/2014 04/15/2015	04/08/2015 04/19/2018	Annual Meeting	1.75 3.7
Jose Teodoro K. Limcaoco	NED	02/20/2019	02/20/2019	Board Meeting	-

**Type: Executive (ED), Non-Executive (NED), Independent (ID)*
**Based on Type of Director

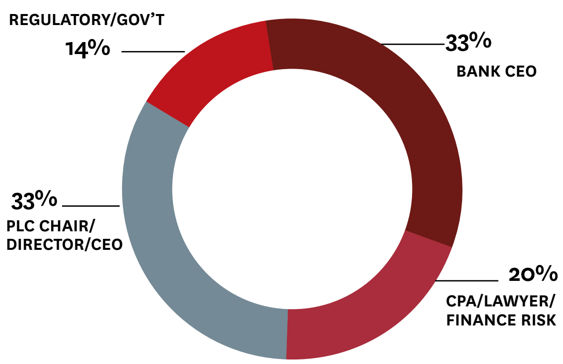
Diversity.

The Bank's Board Diversity Policy, adopted in 2015, underscores diversity at the Board level as an essential element of sound corporate governance, risk management, sustainable and balanced development, and effective business strategy.

Our leadership model ensures an appropriate balance of power, accountability, and independence in decision-making.

Diversity—in terms of gender, age, cultural background, education, professional experience, engagement in sustainability and ESG initiatives, skills, knowledge, length of service, and other regulatory requirements—is duly considered in the design and selection of the Board's composition. (Recommendation 1.4 of the SEC CG Code for PLCs)

Skills & Experience



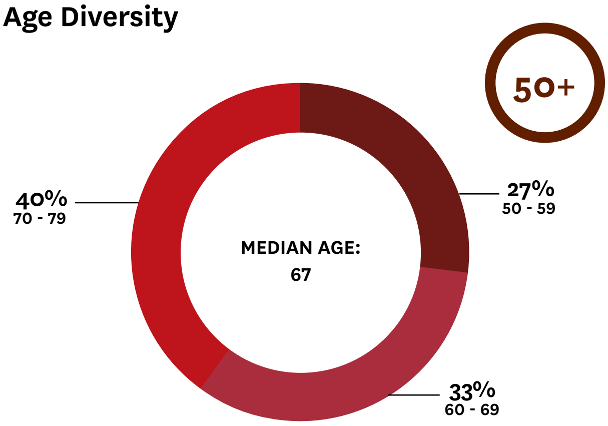
The business of banking is not simply a game of numbers, loan and deposit volumes, and money transactions. It is the business of building trust and continually winning that trust even as customer needs and preferences, the industry, products and services, and the regulatory regime seem to evolve overnight. *Only a skillfully put together, diverse, and well-composed Board can accomplish the challenge of marrying this underlying sense of purpose with the passion and bias to action needed to move towards that vision.*

Apart from the President and CEO, BPI has four former bank CEOs on its 2018 Board who not only collectively provide a wealth of technical, banking, and risk management experience but, more importantly, also embody prudent judgment and integrity characterized by sound decision-making and professionalism. As bank CEOs, they are also hardwired to understand what matters in the business and driven to build strategies to win that trust. (Recommendation 1.1, SEC CG Code for PLCs)

A good third of the Board are directors of publicly-listed companies that include business leaders at the helm of the country's top companies and conglomerates. Unchallenged in their depth of understanding and appreciation of what the Bank needs to do to continue its 167-year legacy as the principal architect of the country's financial inclusion landscape, they also safeguard its listed status, protect shareholder rights, and strengthen investor relations. Over a quarter of the Board are astute professionals who can best assess and evaluate the risk and control policies, processes, and systems of the Bank. Including the five bank CEOs and directors with regulator experience, about 70% of the Board are equipped with specialist and generalist experience, training, and education to guide the most critical functions in the Bank.

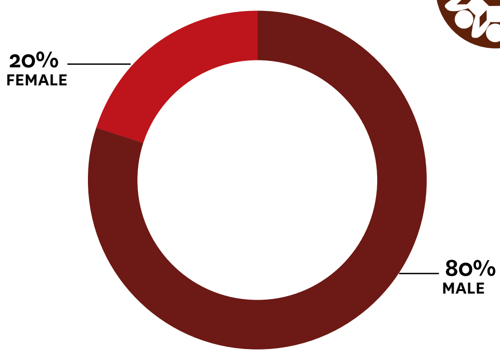
Last but not least, a healthy respect and cautious, heedful, and constructive regulatory perspective is also brought onboard by 14% of the directors.

Age Diversity



The Board recognizes that age diversity is an important factor to achieving diversity of thought. Its experienced directors bring to the Board the benefit of having seen several business cycles and thus provide unique perspective and insight. The Board also values having younger directors, who may be better attuned to the rapidly evolving environment, particularly when it comes to disruption and digitalization of financial services.

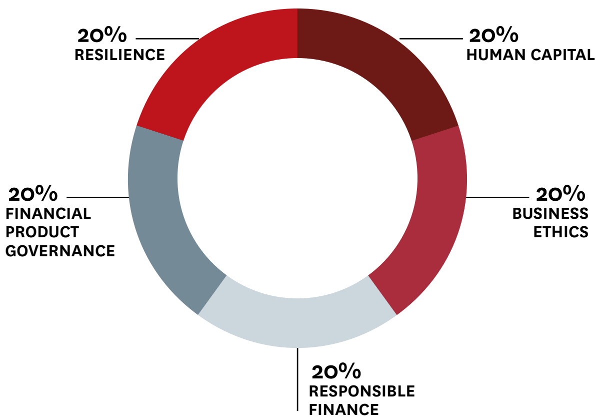
Gender Diversity



The Bank believes that setting a target quota with respect to gender parity, runs contrary to deeply held meritocratic principles and will fail to rebalance the organization's Board in a manner that reflects the up-to-date operating requirements of the Bank, current resource levels for director talent, and long-term interests of the shareholders. Nevertheless, the Board strives to ensure that there is appropriate representation of women, and female Independent Directors. (Recommendation 1.4 of SEC CG Code for PLCs)

At the time of the elections for the 2018 Board, four directors or 27% of the Board was comprised of women, which included two Independent Directors. At year-end 2018, despite the resignation of Independent Director Astrid S. Tuminez in June, women still comprised a healthy 3 out of 15 or 20% of the Board, which included one female independent. Best global practice recommends at least three female directors in a 7-member or larger board.

ESG Involvement



Based on global surveys on the environmental and social profile and vulnerabilities of companies in financial services, the key ESG issues for the banking sector include: Resilience, Business Ethics, Responsible Finance, Financial Product Governance, and Human Capital. Composition of our 2018 Board shows that there is an equal distribution of our directors with respect to their skills, work experience, background and current involvement, knowledge and understanding of these key ESG issues, and preferences of stakeholders.

Our full Board Diversity Policy may be read on our website at www.bpi.com.ph.

Security Ownership of Directors and Officers. Public trust in a company and by the markets where its securities trade in, largely depends on the existence of an accurate disclosure regime that provides transparency in the beneficial ownership and control structures of the company. The Bank understands that disclosure of such information is important in detecting and preventing tax evasion, corruption, money laundering, terrorist financing and other unlawful activities and guards against conflicts of interest in companies, which may have concentrated ownership and where there may be controlling beneficial owners with large voting blocks. None of the members of the Bank's Board of Directors and management owns 2.0% or more of the outstanding capital stock of the Bank. (Recommendation 8.3 SEC CG Code for PLCs)

As of December 31, 2018, the following are known to BPI to be directly the record and/or beneficial owners of BPI voting securities:

Title of Class	Name of Beneficial Owner	Position	Dec 2017		Dec 2018		Nature of Ownership (D) Direct (I) Indirect	Citizenship
			No. of Shares	% of Holdings*	No. of Shares	% of Holdings*		
Common	Jaime Augusto Zobel de Ayala	Chairman, NED	312	0.00%	9,628	0.00%	D	Filipino
Common	Fernando Zobel de Ayala	Vice-Chair, NED	120	0.00%	137	0.00%	D	Filipino
Common	Cezar Peralta Consing	ED, President & CEO	1,000,391	0.02%	2,159,099	0.05%	D	Filipino
Common	Gerardo Cinco Ablaza, Jr.	NED	193	0.00%	193	0.00%	D	Filipino
Common	Romeo Lopez Bernardo	ID	12	0.00%	12	0.00%	D	Filipino
Common	Ignacio Rivera Bunye	ID	10	0.00%	118,032	0.00%	D	Filipino
Common	Octavio Victor Reyes Espiritu	ID	1,073,102	0.03%	1,225,110	0.03%	D	Filipino
Common	Rebecca Guanco Fernando	NED	18	0.00%	20	0.00%	D	Filipino
Common	Delfin Carballo Gonzalez, Jr.	NED	15,010	0.00%	25,935	0.00%	D	Filipino
Common	Xavier Pardo de Tavera Loinaz	ID	3,449,557	0.09%	3,938,203	0.09%	D	Filipino
Common	Aurelio Reyes Montinola III	NED	1,572,159	0.04%	1,794,863	0.04%	D	Filipino
Common	Mercedita Santiago Nolledo	NED	51,487	0.00%	59,502	0.00%	D	Filipino
Common	Antonio Jose Uy Periquet	ID	22,093	0.00%	25,221	0.00%	D	Filipino
Common	Dolores Bordador Yuvienco	ID	1,310	0.00%	5,813	0.00%	D	Filipino
Common	Mary Astrid Segovia Tuminez*	ID	10	0.00%			D	Filipino
	SUB-TOTAL		7,185,784	0.18%	9,361,768	0.21%		

** Resigned effective June 21, 2018*

Title of Class	Name of Beneficial Owner	Position	Dec 2017		Dec 2018		Nature of Ownership (D) Direct (I) Indirect	Citizenship
			No. of Shares	% of Holdings*	No. of Shares	% of Holdings*		
Common	Antonio V. Paner	EVP & Treasurer	129,483	0.00%	153,489	0.00%	D	Filipino
Common	Ramon L. Jocson	EVP & COO	10	0.00%	13,783	0.00%	D	Filipino
Common	Maria Theresa Marcial-Javier**	EVP & CFO	13,925	0.02%	20,994	0.00%	D	Filipino
Common	Simon R. Paterno	EVP	10	0.00%	5,675	0.00%	D	Filipino
Common	Juan Carlos L. Syquia**	EVP		0.00%	1,982	0.00%	D	Filipino
	TOTAL		7,329,212	0.18%	9,557,691	0.21%		

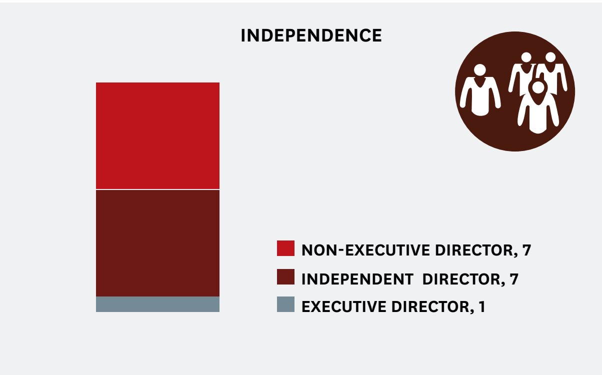
***Mr. Juan Carlos L. Syquia and Ms. Maria Theresa M. Javier were promoted to the rank of EVP effective January 1, 2019.*

Independence.

Independence is paramount for the BPI Board and key to engendering public trust. To ensure that the Board is able to maintain fairness, integrity, and balance among all stakeholder interests, Non-Executive Directors, which include Independent Directors, comprise 14 or 93% of the 15-member Board.

At the Bank's 2018 ASM, seven out of the 15–member board elected were classified as Independent, or having no interest or relationship with BPI at the time of election, appointment, or re-election. Fourteen or 93% of the Board were Non-Executive Directors, who are not involved in the day-to-day management of banking operations. (Recommendation 1.2, 5.1 of SEC CG Code for PLCs)

BPI also exceeds both the minimum BSP regulatory and the SEC CG Code requirements for the number of Independent Directors in its Board, who must make up at least one-third and not less than two. At year-end 2018, with six Independent Directors remaining or 40%, the Board continues to operate with significant independence. (Recommendation 5.1 of SEC CG Code for PLCs)
The Bank also ensures compliance with the qualifications and requirements for Independent Directors as defined under the provision of SRC Rule 38 of the Securities Regulation Code, as amended, and as mandated in the BSP Manual of Regulations for Banks. In this regard, the Bank submits the required certifications of its Independent Directors annually to the BSP for confirmation of the election or appointment. (Recommendation 5.2 of the SEC CG Code for PLCs)



Powers of the Board of Directors. As stated in the BSP Manual of Regulations for Banks, the corporate powers of a bank shall be exercised, its business conducted, and all its property controlled and held by its Board of Directors. The powers of the Board of Directors, as conferred by law, are original and cannot be revoked by the stockholders. The Directors hold their office, charged with the duty of exercising sound and objective judgment for the best interest of the Bank.

Duties and Responsibilities. The Board bears the primary responsibility for creating and enhancing the long-term shareholder value of BPI, and generating reasonable and sustainable returns on shareholder capital by, among others, reviewing and approving the Bank's mission, vision, strategies and objectives; appointing senior executives and confirming organizational structures; approving enterprise-wide policies and procedures; monitoring business and financial performance; overseeing risk management frameworks and risk appetite; and fostering regulatory compliance.

Our Directors have healthy communication lines across various levels and functions within the Bank and the BPI group. In particular, BPI Directors who also sit on the boards of the Bank's subsidiaries or affiliates have first-hand access and insight into their operations and business activities, which allows for better assessment of Bank strategy and performance.

Nomination and Selection. Following the Bank's Amended By-Laws, Manual on Corporate Governance, Board Diversity Policy, Board and Committee Charters, rules provided for by the regulators (SEC, BSP and PSE) as well as the Corporation Code, all written nominations for directors are submitted to the Nomination Committee. These may be presented not later than the date prescribed by law, rules and regulations or at such earlier or later date before the date of the next annual meeting of the stockholders. All recommendations shall be signed by the nominating stockholders together with the written acceptance and conformity of the would-be nominees.

Our shareholders, including minority shareholders, may recommend candidates for board membership for consideration by the Nominations Committee. Such recommendations are sent to the Committee through the Office of the Corporate Secretary. Candidates recommended by shareholders are evaluated in the same manner as Director candidates identified by any other means. The Committee itself may identify and recommend qualified individuals for nomination and election to the Board. For this purpose, the Committee may utilize professional search firms and other external groups to search for qualified candidates. Members of the Committee recuse themselves in case of deliberations on their re-nomination. (Recommendation 2.6 of SEC CG Code for PLCs)

In 2018, in accordance with the resolution of the Board of Directors of the Bank dated December 13, 2017, disclosed and reported to PSE and SEC, all nominations for election of Directors for the term 2018-2019 were required to be submitted to the Corporate Secretary not later than February 12, 2018. As of said date, there were only 15 nominees to the Board received by the Corporate Secretary. All the nominees confirmed their acceptance of said nomination. Ms. Rebecca G. Fernando was nominated by the Roman Catholic Archbishop of Manila and the rest of the nominees were formally nominated by Mr. Melvin M. Miranda, a long time stockholder of BPI who is not related to any of the nominees including the nominees for independent director. The nominations were subsequently processed and evaluated by the Nomination Committee of the Bank in a meeting called for that purpose. It was determined by the Committee that all the nominees (both regular Directors and Independent Directors) possess all the qualifications required by relevant law, rules, regulations and BPI's By-Laws and Manual on Corporate Governance and no provision on disqualification would apply to any of them. None of the nominees, directors and officers of the Bank works for the government.

Evaluation Process. In the case of incumbent directors, the Nomination Committee reviews each director's overall service during his or her current term, including the number of meetings attended, level of participation, quality of performance, and, if any, transactions between the director and the Bank. Apart from the annual accomplishment reports of all board-level committees, inputs to the Committee review include, but are not limited to, the results of the regular board self-assessment, updated directors' biographies, written affirmation to the BPI Director's Code of Conduct and Manual on Corporate Governance, and relevant disclosures such as conflicts of interest or related party transactions, if any.

In the case of new director candidates, the Committee first determines whether the nominee must be independent under SEC and BSP rules, then identifies any special needs of the current Board. The Committee then conducts a candidate assessment for a high level of personal and professional integrity, as well as to assess the nominee's likely level of commitment to the organization, availability, other external commitments and possible conflicts of interest. The Committee also examines if there is mutual fit and gauges the candidate's interest and conscientiousness to determine if he or she is suitable for the Board. This may include face-to-face meetings and interviews. Beyond the selection criteria, the Committee also vets candidates based on their full and voluntary disclosure. Considering that today's data trails can produce volumes of digital information on director candidates, it has become imperative for candidates themselves, to be forthright with relevant news articles, company reports, legal filings, as well as social media profiles, especially if there may be potential issues, résumé discrepancies and the like.

Selection Criteria. The Board, through the Nomination Committee, ensures the Fit and Proper requirements for the position of a director of a bank and assesses candidates in terms of integrity or probity, competence, education, diligence and experience or training. These are dictated by Banking Laws, BPI's Amended By-Laws, Manual on Corporate Governance, Board Diversity Policy, Board and Committee Charters, the rules and regulations of the SEC, BSP and PSE as well as the Corporation Code. A Skills and Expertise matrix prepared by the Corporate Governance Committee also provides recommendations for the desired competency profile of the Board, which includes the alignment of qualifications with the strategic direction of the Bank. The Board also reviews candidate directors with respect to their skills, engagement and past or present work or board experience that considers ESG factors. (Recommendation 1.1, 2.6 of the SEC CG Code for PLCs)

BPI complies with the BSP, SEC and PSE Fit and Proper criteria and requirements for the position of a director. The General Banking Law of 2000 (R.A. No. 8791) provides the BSP with powers to prescribe, pass upon, and review the qualifications and disqualifications of individuals elected or appointed as bank directors or officers and the power to disqualify those found unfit for positions of bank directors and officers.

Election of Directors.

The Nominations Committee pre-screens the candidates and prepares a final list of candidates prior to the ASM. Only nominees whose names appear on the final list of candidates are eligible for election to the Board. No other nomination shall be entertained after the final list of candidates are drawn up. No nomination shall be entertained or allowed on the floor during the ASM.

The Bank's Amended By-Laws state that elections for the Board of Directors will be held yearly during the ASM. Voting for the election of members of the Board of Directors is considered on a poll, by shares of stock, that is, one share entitles the holder to one vote, two shares to two votes. Votes may be cumulated as provided for in the Corporation Code. The fifteen nominees receiving the highest number of votes are declared elected.
No meeting of stockholders shall be competent to transact business unless a majority of the outstanding and subscribed capital stock entitled to vote is represented, except to adjourn from day to day or until such time as may be deemed proper. The Rules of Conduct, voting and vote tabulation procedures are explained during the ASM. The Office of the Corporate Secretary tabulates all votes received and the Bank's external auditor validates the results. Voting results are likewise disclosed on the various exchanges where BPI's capital market issuances are traded and the company's website as soon as possible after the meeting. These are discussed in much greater detail in the section of the BPI Integrated Report on Shareholder Rights and Engagement.

The election and appointment of directors and officers, which includes the Chairperson of the Board, of banks such as BPI, must also be confirmed by the Monetary Board of the BSP. Elected or appointed directors and officers must submit required certifications and other documentary proof of qualifications for the confirmation of their election or appointment.

The nomination and election processes and their effectiveness, are reviewed annually by the Nomination Committee during its review of the committee charter and its self-assessment, by its members, of committee performance. (Recommendation 2.6 of SEC CG Code for PLCs)

In adherence to Recommendation 2.6 of the SEC CG Code for PLCs, these nomination and election policies are disclosed in the Bank's Manual on Corporate Governance as well as on the company website.

For more information, please read further on the Nomination Committee Charter at www.bpi.com.ph.

Term of Directors
Directors are to hold office for a term of one year immediately upon their election and until the next election when their successor shall have been elected and qualified in accordance with the Bank's Amended By-Laws and the Corporation Code. In case any vacancy or vacancies should occur on the Board during the period between two ASMs, due to death, resignation or other causes, except removal, the remaining members of the Board, if still constituting a quorum, may fill said vacancy or vacancies by electing from among the stockholders. The stockholder or stockholders so elected shall act as a member or members of said Board until the election of a new Board of Directors.

Policy on Directorships
With a rigorous nomination process, close monitoring and reporting of board and committee meeting attendance, an annual performance evaluation which includes affirmative determination of time commitments and an annual review of board committee chairmanships and memberships, adequate safeguards against over boarding or over commitment are in place. In adherence

to Recommendation 4.3 the SEC CG Code for PLCs, directors must notify the Board of their intention to accept a directorship in another company. In this respect, the Board policy on directorships currently sets twenty-five (25) directorships as an acceptable upper limit for board service.

BPI directors are bound by the Board of Director's Code of Conduct to take into account their individual circumstances and the nature, scale and complexity of the Bank's activities in showing full commitment. They should be able to devote the time, schedule and attention necessary to its business interests, to properly and effectively perform their duties and responsibilities, to avoid conflicts of interest, and to affirm this in writing annually.

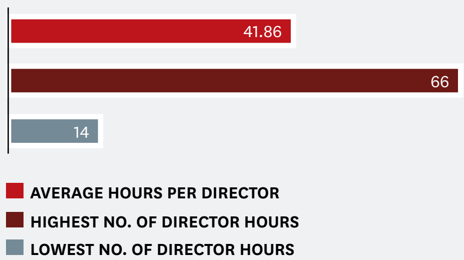
A lower limit in the number of directorships would reduce the pool of interested and qualified director candidates and increase difficulty in finding and retaining the most effective directors. The Bank also benefits greatly from stewardship of experienced directors who serve on other boards and provide guidance and independent perspective on multi-faceted issues, and complex, strategic concerns in banking.

The Bank also applies a limit of five on directorships of Non-Executive Directors and Independent Directors in publicly-listed companies and within conglomerates. (BSP Cir. 969 and Recommendation 4.2 SEC CG Code for PLCs). Application of the policy on directorships shall not impinge on or violate a shareholder's ownership rights and legal right to vote and be voted upon as directors.

The Bank also complies with the relevant provisions of the Manual of Regulations for Banks on interlocking directorships. The Board regularly reviews interlocking board memberships to determine whether any of these create real or possible conflicts of interest or impair the ability of the involved directors to exercise independent judgment.

Time Commitments. A thematic review of BPI directors' time commitments, including a granular analysis of Board and Committee packs and minutes, shows that the total aggregate professional time commitment of all directors on the BPI Board runs in excess of 580 hours a year, not including their commitments, if any, on other boards or organizations. On the other hand, the base time commitment of an individual director on the BPI Board is, on average, in the order of over 40 hours a year. Both figures do not include the significant time commitments of the directors for preparation and review of documents for Board and Committee meetings, continuing education and training, and engagement with the executive team and stakeholders as needed. Factoring these in may easily double the estimated time spent in the performance of their duties and responsibilities as Director.

TIME COMMITMENTS



The total aggregate professional time commitment of all directors on the BPI Board as well as their base time commitments compares very favorably with peers and industry averages, ensuring that BPI directors are able to fulfill their Board roles to an appropriate standard and that the BPI Board's quality of performance as a body, is high. In contrast, much higher levels of time commitment and committee memberships are regarded as risk indicators which triggers close monitoring and reassessment of directors' commitments.

Majority of our Independent Directors hold no more than two board level committee memberships each. Further, on average, most of our directors on the BPI Board hold no more than two board-level committee memberships each as well. Best prac*tice surveys dictate having no more than two committees per director as "busy" boards and directors tend to have worse long-term performance and oversight. This is especially important for Independent Directors who are mandated under BSP Cir. 969 to chair or be members of the risk and control board-level committees.*

In its own annual board effectiveness self-assessment exercise, BPI directors' time commitments are also reviewed to ensure that these are maintained at a level that allows legal obligations and responsibilities as board and committee members to be met and mitigates the potential risk that governance standards may be weakened. This strength was validated in the board effectiveness exercise conducted for the year 2018. (Recommendations 4.1, 4.2 and 4.3 of the SEC CG Code for PLCs)

Director Education and Training. The Board policy, as stated in the Manual on Corporate Governance, is to ensure that directors acquire appropriate skills upon appointment, and thereafter remain abreast of relevant new laws, regulations, and changing commercial risks through in-house training and external courses.

In adherence to Recommendation 1.3, 1.5 and 1.8 of the of the SEC CG Code for PLCs, the Office of the Corporate Secretary, together with the Bank's Corporate Governance Department, Compliance Division, ensures that the Board of Directors, in their own capacity or as sponsored by the Company, are able to attend the requisite programs, seminars and roundtables with accredited service providers during the year.

Continuing education of Board members includes internal meetings with senior executives and operational or functional heads, dedicated briefings on specific areas of responsibility within the business and special presentations on current issues or regulatory initiatives with respect to Data Privacy, Cyber Risk and Cyber Security, the Anti-Money Laundering and Terrorist Financing Prevention Program, Foreign Account Tax Compliance Act, Securities Regulations Code, Sustainability Issues and ESG Reporting, SEC memorandum circulars, and BSP regulations, among others.

The Bank brings in technical, subject matter experts as needed. Board members also regularly attend governance fora, conferences, and summits.

New Directors are briefed on BPI's background, organizational structure, and, in compliance with BSP Circular No. 758 on general and specific duties and responsibilities of the Board. They are given an overview of the industry, regulatory environment, business of banking, strategic plans of the Bank, its governance framework, i.e., Manual on Corporate Governance, Director's Code of Conduct, Board operations (schedules, procedures and processes), including support from the Corporate Secretary and senior management. (Recommendation 1.3, 2.1 of the SEC CG Code for PLCs). New directors are required to certify under oath that they have received a copy of the general responsibility and specific duties and responsibilities of the Board and of a Director. This certification is also submitted to the BSP together with the certification on their qualifications as a director.

The following table shows the training received by the Board of Directors:

<table>
<tr><th>Director</th><th>2017</th><th>2018</th></tr>
<tr><td>Jaime Augusto Zobel de Ayala</td><td rowspan="3">Annual CG Training conducted by the Institute of Corporate Directors (ICD) on August 11</td><td rowspan="5">Advanced CG Training conducted by the ICD on September 10</td></tr>
<tr><td>Fernando Zobel de Ayala</td></tr>
<tr><td>Gerardo C. Ablaza, Jr.</td></tr>
<tr><td>Dolores B. Yuvienco</td><td rowspan="9">Annual CG Training conducted by the ICD on August 11</td></tr>
<tr><td>Ignacio R. Bunye</td></tr>
<tr><td>Cezar P. Consing</td><td>Advanced CG Training conducted by the ICD on October 5</td></tr>
<tr><td>Octavio V. Espiritu</td><td rowspan="7">Advanced CG Training conducted by the ICD on September 10</td></tr>
<tr><td>Mercedita S. Nolledo</td></tr>
<tr><td>Rebecca G. Fernando</td></tr>
<tr><td>Delfin C. Gonzalez, Jr.</td></tr>
<tr><td>Xavier P. Loinaz</td></tr>
<tr><td>Aurelio R. Montinola III</td></tr>
<tr><td>Romeo L. Bernardo</td><td>CG Training conducted by SGV on July 26</td></tr>
<tr><td>Antonio Jose U. Periquet</td><td>CG Training conducted by SGV on February 27</td><td>Distinguished CG Speaker Series conducted by ICD on February 13</td></tr>
<tr><td>Jose Teodoro G. Limcaoco*</td><td>Annual CG Training, ICD, August 11</td><td>Advanced CG Training, ICD, September 10</td></tr>
</table>

**Elected as BPI director on February 20, 2019*

Remuneration

BPI's remuneration decisions for the Board and management are aligned with risk incentives and support sustainable, long-term value creation. Apart from ensuring that Board and management pay appropriately reflects industry conditions and financial performance, the Bank likewise rebalances returns back to shareholders through consistent dividend declaration.

Under the Bank's Amended By-Laws, as approved by the shareholders, the Board, as a whole, determines the level of remuneration and/or benefits for directors sufficient to attract and retain directors and compensate them for their time commitments and responsibilities of their role. (Recommendation 8.4 of SEC CG Code for PLCs)

Our Personnel and Compensation Committee recommends to the Board the fees and other compensation for directors, ensuring that compensation fairly remunerates directors for work required in a company of BPI's size and scope. As provided by our Amended By-Laws and pursuant to a Board resolution, each director is entitled to receive fees and other compensation for his services as director. The Board has the sole authority to determine the amount, form, and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of the Board exceed 1% of the Bank's net income before income tax during the preceding year.

Board members receive per diems for each occasion of attendance at meetings of the Board or of a board committee. All fixed or variable remuneration paid to directors may be given as approved by stockholders during the ASM, upon recommendation of the Personnel and Compensation Committee. Other than the usual per diem arrangement for Board and Committee meetings and the aforementioned compensation of Directors, there is no other standard arrangement as regards compensation of directors, directly or indirectly, for any other service provided by the directors for the last completed fiscal year.

Board members with executive responsibilities within the BPI group are compensated as full-time officers of the company, not as Non-Executive Directors.

No director participates in discussions of the remuneration scheme for himself or herself. Historically, total compensation paid annually to all directors has been significantly less than the cap stipulated by the Bank's Amended By-Laws. The remuneration policy is reviewed annually to ensure that it remains competitive and consistent with the Bank's high-performance culture, objectives, and long-term outlook, risk assessment and strategies. This relationship between remuneration and performance, which aligns remuneration of the Board of Directors with the long-term interests of the Bank, is in adherence to Recommendation 2.5 of the SEC CG Code for PLCs.

In 2018, BPI's Board of Directors, as a whole, received a total of Php 71.81 million as fees and other compensation for the services they rendered.

These principles of paying competitively and paying for performance applies equally to our Board and senior executives as it does to the rest of the Banks' employees and staff. Senior management and staff remuneration must reflect the interests of the shareholders and the Bank, and is structured to encourage the long-term commitment of the employee as well as long-term outlook and plans of the Bank. (Recommendation 2.5 of SEC CG Code for PLCs). Factors considered include revenues, volume, earnings, earnings per share (EPS), Return on Equity (ROE), Return on Assets (ROA), capital strength, risk containment, corporate governance, customer satisfaction, adherence to corporate values, contributions both to operating unit and company-wide achievement, including any ESG factors which may be relevant to the evaluation of an employee's performance in the context of the sustainability objectives of the Bank. We are also committed to making adjustments to remuneration to reflect the challenge of attracting, retaining and competitively rewarding key staff with the ability, experience, skills, values and behaviors to deliver bank goals. In this respect, salary surveys conducted by external compensation consultants are also used as references for employee salary benchmarking purposes.

Remuneration for our most senior officers, as reflected in the ratio between fixed and variable components of their total compensation, changes according to performance, rank and function. (Recommendation 1.4 of SEC CG Code for PLCs). Apart from the aforementioned key performance indicators, the Bank ensures that senior management remuneration and incentives reflect prudent risk-taking and effective control. Salary reviews (covering fixed and variable compensation) are done annually to ensure market competitiveness of the officer's total remuneration. The Bank also participates in Executive and Total Remuneration Surveys to benchmark on its market positioning. Other remuneration policies include:

- All salary programs are subject to the approval of the Personnel and Compensation Committee (PerCom) and the Board.
- An annual merit increase may be granted upon Management discretion based on the Officers' performance.
- Upon Management's discretion, a performance bonus may be given in a year, based on the performance and contribution of the individual in the attainment of the over-all Company goals. This is subject to the endorsement of the PerCom and approval of the Board.
- The Board, through the PerCom, has established long-term incentive programs, the Executive Stock Option Plan (ESOP) and Executive Stock Purchase Plan (ESPP), which give officers the opportunity to buy shares of stock in BPI at a discounted price. (Recommendation 2.5 SEC CG Code for PLCs). Details on the ESOP and ESPP can be found in Note 18 of the Audited Financial Statements.

In 2018, the level of remuneration for the most senior executive officers of the Bank is as follows:*

<table>
<tr><th>Name</th><th>Salary</th><th>Bonuses</th><th>Other Salary</th></tr>
<tr><td>Cezar P. Consing,
*President & CEO***</td><td rowspan="5">P 185,719,878</td><td rowspan="5">P 85,327,500</td><td>None</td></tr>
<tr><td>Antonio V. Paner,
EVP & Treasurer</td><td></td></tr>
<tr><td>Ramon L. Jocson,
EVP & Chief Operating Officer</td><td></td></tr>
<tr><td>Simon R. Paterno,
EVP</td><td></td></tr>
<tr><td>Juan Carlos L. Syquia,
*EVP****</td><td></td></tr>
</table>

* In as much as corporate governance best practices recommend that remuneration of the top five key officers be individually disclosed, the Bank believes that it would be disadvantageous to do so because of the competitiveness and high demand for talent in the industry.

** The President and CEO/Executive Director receives remuneration as Officer and not as Executive Director of the Company. There are no other Executive Directors other than the President and CEO.

***Mr. Juan Carlos L. Syquia was promoted to the rank of EVP effective January 1, 2019.

Meetings and Attendance

Our directors make significant time commitments, not only in preparing for and attending Board and Board Committee meetings, but also to initial induction, continuing education, training, and engagement with the executive team and stakeholders as needed. (Recommendation 4.1 of the SEC CG Code for PLCs)

The Board conducts business through meetings of the Board and its committees for the effective discharge of its obligations. Regular board meetings are convened monthly, scheduled at the beginning of the year to cover the full term of the newly elected or re-elected members of the Board, reckoned from the date of the current year's ASM to that of the following year. Special meetings may be called for as needed.

Board Meetings in 2018 were held on the following dates:

Date of Meeting	Nature of Meeting
January 17	Regular
January 31	Special
February 21	Regular
March 21	Regular
April 19	Regular
April 19	Organizational
May 16	Regular
June 13	Special
June 20	Regular
July 18	Regular
August 15	Regular
September 19	Regular
October 17	Regular
November 15	Special
November 19	Strategic Planning
November 21	Regular
December 19	Regular

Items placed on the board agenda are those that have the most fundamental importance and broad policy implications for the Bank. Directors are free to suggest items for inclusion in the agenda, and are free to raise at any board meeting subjects that are not on the agenda for that meeting. At the Chairman's discretion, any agenda items may also be referred for discussion in the respective committees.

The Chairman presides over meetings of the Board. The Vice Chairman presides in the absence of the Chairman. Board and committee meetings are conducted consistent with the Bank's Amended By-Laws.

In 2018, average attendance of re-elected and newly-elected members at the Board's 17 meetings was 93%. When exigencies prevent a Director from physically attending a Board or Board committee meeting, facilities for telephone conferencing are made available. In instances when a Director is unable to attend meetings even through teleconferencing due to prior commitments or unavoidable events, the said Director provides input to the chairman so that his views can be known and considered.

No. of Meetings Attended in 2018*		
Name	Attended/ Total	In Percentage (%)
Jaime Augusto Zobel de Ayala *Re-elected*	15/17	88%
Fernando Zobel de Ayala *Re-elected*	16/17	94%
Cezar P. Consing *Re-elected*	17/17	100%
Gerardo C. Ablaza. Jr. *Elected*	15/17	88%
Romeo L. Bernardo (ID) *Re-elected*	17/17	100%
Ignacio R. Bunye (ID) *Re-elected*	17/17	100%
Octavio V. Espiritu (ID) *Re-Elected*	17/17	100%
Rebecca G. Fernando *Re-elected*	17/17	100%
Delfin C. Gonzalez *Re-elected*	17/17	100%
Xavier P. Loinaz (ID) *Re-elected*	17/17	100%
Aurelio R. Montinola III *Re-elected*	16/17	94%
Mercedita S. Nolledo *Re-elected*	17/17	100%
Antonio Jose U. Periquet (ID) *Re-Elected*	17/17	100%
Dolores B. Yuvienco (ID) *Re-elected*	17/17	100%
Astrid S. Tuminez (ID)* *Re-elected*	5/8	63%

**Resigned from the BPI Board effective June 21, 2018.*

Minutes of Board and committee meetings are prepared with due regard to legal requirements. Key points and decisions taken have been summarized. The Board generally acts by consensus rather than on an adversarial basis, so that abstentions and rare instances of formal dissent are duly recorded. Further, members of the Board take the initiative to have high-level discussions outside the Board meetings, including separate discussions with Senior Management on its proposals. The Chairman of the Board likewise ensures that there is a fair and honest exchange of ideas and opinions by and between the Directors and Senior Management in board meetings.

Discussions during board meetings are open and independent views are given due consideration. When necessary, the Board holds executive sessions to discuss highly sensitive matters.

Board reference materials are made available to the directors at least five business days in advance of the scheduled meeting. As an innovation to board governance, all materials for Board and Board committee meetings are uploaded through a secure system onto individual tablet devices specifically provided to the Board members to ensure immediate receipt and quick access. Independent and Non-Executive Directors of the Bank also meet at least once a year without the presence of the executive director or management.

Members of the Board appreciate the high level of commitment required of a Director. As evident in the annual board self-assessment, each of the members has committed sufficient time to his/her board and committee responsibilities and has contributed meaningfully to BPI.

Quorum. The minimum quorum requirement for board decisions is set at a majority of Board members as provided by the Bank's Amended By-Laws. Any meeting for the transaction of corporate business, and every decision of a majority of the quorum duly assembled as a Board shall be valid as a corporate act, unless otherwise provided in the Amended By-Laws.

Access to Information

The Board needs to have the right information at the right time, so that it can engage deeply on how the business is operating, how the executive team is performing and provide the proper check and balance.

The Board has separate and independent access to the Corporate Secretary, who serves as adviser to the directors on their responsibilities and obligations and oversees the adequate flow of information to the Board prior to meetings (Recommendation 1.5 of the SEC CG Code for PLCs). To provide directors with all the information and assistance necessary to prepare for meetings or obtain clarification for any relevant matters, this access to the Corporate Secretary is unhampered, unlimited and direct. Directors may simply request such information by phone, email, written communication or in person, from the Corporate Secretary who in turn will give them all the information and assistance they will need to prepare for the meeting or clarification of any relevant matters.

Our management also ensures adequate flow of information to the Board. This information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure statements and related documents, budgets, forecasts and monthly internal financial statements. In this respect, all directors also have access to advice from senior management including C-Suite officers such as the Chief Operating Officer, Chief Financial Officer, Chief Audit Executive, Chief Risk Officer, Chief Human Resources Officer, Chief Information Officer, and Chief Compliance Officer.

All directors and board committees also have unrestricted access to company records and information in addition to receipt of regular detailed financial and operational reports from senior management.

External Advice. Considering the increasing complexity of market transactions and rapid rate of change in the regulatory sphere, our Board, if requested by the Chairman or other directors, can call on external specialists or consultants for advice, briefings or assistance on specialized areas of focus such as accounting standards, related party transactions, capital, tax, listing, mergers and acquisitions, valuation, etc. Management can arrange for the external auditor, management services company or consultants to present to the Board and the Bank.

Role of the Corporate Secretary. Our Corporate Secretary, who is a senior, strategic-level corporate officer, not a member of the Board and a separate individual from the Chief Compliance Officer, plays a leading role in the Bank's corporate governance, and as such, attends corporate governance training annually.[1] The Corporate Secretary's functions, as stated in the Bank's Amended By-laws and Manual on Corporate Governance, include:

- Serve as an adviser to the directors on their responsibilities and obligations;
- Keep the minutes of meetings of the stockholders, the Board, the Executive Committee, and all other committees in a book or books kept for that purpose, and shall furnish copies thereof to the Chairman, the President and other members of the Board as appropriate;

[1] Advanced CG Training, Sept. 10, 2018, ICD

- Keep in safe custody the seal of BPI and affix it to any instrument requiring the same;
- Have charge of the stock certificate book and such other books and papers as the Board may direct;
- Attend to the giving and serving of notices of Board and shareholder meetings;
- Be fully informed and be part of the scheduling process of other activities of the Board;
- Prepare an annual schedule of Board meetings, including the regular agenda, and put the Board on notice of such agenda at every meeting;
- Oversee the adequate flow of information to the Board prior to meetings. Materials for approval or for information shall be given to the members of the Board in advance prior to the date of meeting to give them the chance to study and ask questions if necessary, even before the meeting itself; and
- Ensure the fulfilment of disclosure requirements to the SEC and PSE

Our Corporate Secretary is suitably trained and experienced in legal, accountancy, or company secretarial practices and is professionally qualified for these responsibilities. The present Corporate Secretary possesses the legal skills of a chief legal officer whose training is complemented by business, organizational, human relations and administrative work skills. Our Corporate Secretary is also the Corporate Secretary of various BPI subsidiaries and affiliates**.**

See Appendix for the full biography of our Corporate Secretary.

Performance Evaluation and Self-Assessment.

The Board annually conducts a self-assessment to ascertain the alignment of leadership fundamentals and issues, validate the Board's appreciation of its roles and responsibilities and confirm that the Board possesses the right mix of background and competencies. (Recommendation 6.1 of the SEC CG Code for PLCs)

Board of Directors. In this regard, the Board, under the guidance of the Corporate Governance Committee, thoroughly reviews its performance, measured on the basis of what it delivers and how it delivers, how it meets its responsibilities to all BPI stakeholders, and how it addresses issues that impact the Board's ability to effectively fulfill its fiduciary duties.

Using a widely-advocated standard evaluation method of self-assessment and feedback review, performance is assessed across four levels: the Board as a body, Board Committees, individual Directors, and President and CEO. Key evaluation criteria are built on the Board's terms of reference and committee charters, and framed around broad leadership fundamentals and best practices.

The Corporate Governance Committee processes and tabulates the results of the self-assessments and communicates them to the Board. Areas for improvement are discussed by the Board, in order to agree on remedial actions. The Corporate Governance Committee may also develop recommendations and action plans for the Board, whenever necessary and desirable. In adherence to Recommendation 6.1 SEC CG Code for PLCs the Board may also consider the use of an independent, external facilitator in the conduct of the Board self-assessment.

Board Performance Evaluation and Self-Assessment (Recommendation 6.2 SEC CG Code for PLCs)

	Process	Criteria
Board of Directors	Self-Assessment by all directors 1. The board of directors shall be given sufficient time to accomplish the self-assessments. a. Each individual director performs the four (4) levels of self-assessment using the prescribed forms, applying the rating scale and predetermined evaluation criteria for each level. b. For the Board and Committee-level assessments, while the directors will be rating the board's or committee's performance as a body, the accomplishment of the assessment forms is meant to be done individually, on a per director basis. This is to secure an honest, unbiased, independent and anonymous view from each director rather than a collective assessment that may already be subject to filtering and pre-agreement. 2. Each director shall submit the completed forms on or before the deadline set by the Corporate Governance Committee or at such earlier or later date as the Board of Directors may agree upon. The Corporate Governance Committee processes the results of the assessments and communicates this to the board through a Summary Report.	1. Strategy and Effectiveness 2. Structure and Committees 3. Meetings and Procedures 4. Board and Management Relations 5. Succession Planning and Training 6. Performance Evaluation 7. Value Creation General and specific leadership standards under the above criteria are considered in evaluating the Board as a body such as: Adequacy of the processes which monitor business performance; board member interaction with management; adequacy of board knowledge; appropriateness of balance and mix of skills; size of board; contribution of individual board members; board's effectiveness in use of time; if board allows sufficient opportunity to adequately assess management performance; board's ability to keep abreast of developments in wider environment which may affect BPI; working relationship between chairman and chief executive officer; segregation of duties between board and management; ability of directors to express views on each other and to management in constructive manner, etc.
Board Committees	A. Self-Assessment by all Directors B. Submission of Accomplishment Reports to the Board by the different committees. In addition, the Audit Committee submits the "Self-Assessment in the Performance of the Audit Committee" to the SEC.	General and Specific factors relating to Committee organization, meetings, processes and procedures and overall effectiveness. 1. Committee role 2. Committee membership 3. Procedure and practice 4. Committee structure 5. Collaboration and style 6. Personal A sampling of factors under the above criteria include: Use of committee time; adequacy of committee papers and frequency of meetings; ability to access resources; ability to keep informed in relevant area; provision for continued development; working relationship between committee chairman and members; segregation of duties between committee and management; ability of directors to express views on each other and to management in a constructive manner, etc.

Board Performance Evaluation and Self-Assessment (Recommendation 6.2 SEC CG Code for PLCs)

	Process	Criteria
Individual Director	Each director is required to fill-up a Self-Assessment Form annually	1. Leadership, Vision, Mission and Values 2. Effective Governance 3. Strategic Thinking and Decision Making 4. Teamwork 5. Fulfillment of the Bank's Governance Attendance
CEO/President	Each director fills up an evaluation form based on the relevant criteria. These are then submitted to the Chairman. The CEO/ President's performance is also evaluated at least once a year by the Personnel and Compensation Committee and Executive Committee.	1. Leadership 2. Working with the Board 3. Managing Execution 4. Communication/External Relations

CEO and Senior Management. As stated in the Bank's Amended By-Laws and Manual on Corporate Governance, the PerCom oversees the performance evaluation process within the Bank which includes annual review and approval of the corporate goals, strategic objectives and standards relevant to CEO, senior management and other key officers of the Bank. Performance is generally measured on the performance of the officer, a business unit, or the Bank as a whole, or using a combination of all as the executive's responsibilities may dictate. (Recommendation 2.8, 2.9 SEC CG Code for PLCs)

The performance management framework considers goals or actual results of a given period's business objectives and core competencies. It also looks into the behavior, technical competencies and soft skills exhibited by the officer during the period under review, as well as fitness and propriety. The performance of control function heads for audit, risk management and compliance are also evaluated by the Audit Committee and Risk Management Committee. (Recommendation 2.8, 2.9 SEC CG Code for PLCs)

The framework also follows a performance management cycle: Goal setting, Performance monitoring, Performance appraisal, Performance reinforcement and Performance improvement.

The Board conducted its 2018 annual performance evaluation in early 2019. Directors assessed that the Board had performed its duties and responsibilities effectively for the past year and that there were no material issues with respect to its membership, governance and operations.

Succession Planning and Talent Management. Financial services today face many transformative factors—regulation, market disruption, new technologies and business models, competition—that affect the business in major and long-term ways. Our Board understands that the Bank must continually evolve, adapt, and even restructure the business to remain ahead of strategic, market, technology, and regulatory shifts. In the same way, the Board and senior management leadership must also respond to and anticipate future changes.

The Board is committed to a process of orderly succession and acknowledges that a succession plan for the Board and for its leadership positions is in the best interest of the Bank and its stakeholders who value the continuity in leadership. Leadership changes are not only carefully considered and planned, but are also part of a comprehensive risk management strategy that is guided by clear and transparent governance policies, processes and laws.

Board Succession. In this regard, our Board is regularly refreshed in a continuing cycle. The Nomination Committee and the Corporate Governance Committee work within a general board succession plan framework to ensure that: 1) appropriate governance processes are in place and ongoing, for identifying, assessing and monitoring future needs of the Board; 2) there is continuity and transfer of knowledge in the Board so that it may effectively fulfill its role and responsibilities to BPI, as that may evolve over time, and; 3) the Board is taking a prudent and structured approach to managing succession risk. (BSP Cir. 969 and Recommendation 2.4 SEC CG Code for PLCs)

The Corporate Governance Committee assists the Nomination Committee in the annual review and assessment of the structure, size and composition of the Board and Board-level committees. The committees take into consideration the Bank's current strategy and business, regulatory requirements on independence and diversity, as well as comparative benchmark and peer group analysis. Both committees also determine if there is reason to believe that one or more director slots shall become vacant in the following term of the Board of Directors or within the next 12 months after the current year's ASM. In addition, the Nomination Committee considers the long-term strategic goals and directions as well as requirements of the Bank and other companies in the BPI group, moving forward. The Corporate Governance Committee may also review the Board's forecasted membership requirements over the next three to five years, based on factors such as directorship limits for PLCs, diversity policy, retirement policy for directors, and term limits for independent directors. The Corporate Governance Committee also utilizes a Skills and Expertise Matrix to proactively shape board composition, identify competency gaps, if any, and build the desired or required competency profile against which candidate directors will be assessed. The Board, through the Nomination and Corporate Governance Committees, also considers candidate directors with respect to their skills, engagement and past or present work or board experience that considers ESG factors. Using a point system, succession planning priorities are then determined to guide the Nomination Committee in the assessment of candidates and in managing current and future requirements of the Board.

Senior Management Succession. The Board, through its PerCom, manages the talent pipeline and assembles the required personnel capable of navigating such changes. In consultation with the President and CEO, the PerCom reviews the Bank's talent development process for proper management. Senior management provides a report to this Committee on the results of its talent and performance review process for key management positions and other high-potential individuals. Aside from ensuring that there is a sufficient pool of qualified internal candidates to fill senior leadership positions, this review process identifies opportunities, performance gaps, and proactive measures in the Bank's executive succession planning. As part of the same executive planning process, the Committee as a whole or a part thereof, in consultation with the Board and the President and CEO, evaluates and nominates potential successors to the President and the CEO. (Recommendation 2.4, 2.8 of the SEC CG Code for PLCs) Our succession planning has effectively ensured leadership continuity in the last three decades, witnessing three President and CEO changes, marked by early planning and mentoring, smooth organizational and operational transitioning, and prudent but progressive institutional building at BPI and across the BPI group.

More information on Succession Planning and Talent Management can be read on the company website at www.bpi.com.ph.

Retirement Policy

The best interests of BPI are served by retention of directors that make very meaningful contributions to the Board and the organization, regardless of age. It is the Bank's strong view that with age often comes unmatched wisdom and experience, expert business judgment, invaluable industry and community relations and authority, and deeply ingrained appreciation of the principles of corporate governance.

The Bank believes that imposing uniform and fixed limits on director tenure is counter-productive as it may force the arbitrary retirement of valuable directors.

Nevertheless, the Bank, in adherence to Recommendation 2.4 of the SEC CG Code for PLCs, has set a retirement age for Directors at 80 years old. In specific cases, the Board, in mutual agreement with the director, may opt to postpone said director's retirement depending on the following conditions:

i. Consistent and robust application of more dynamic and constructive corporate governance practices such as the annual Board's performance evaluation, regular succession planning, an exhaustive nomination process, and annual Fit and Proper assessment for more effective board refreshment.
ii. The Board also evaluates all facts and circumstances when considering a director's tenure in accordance with good governance practices, including (without limitation) to accommodate the transition of a new CEO or new directors or to provide continuity to further strategic objectives or address external factors affecting the Bank.

Term limits of Independent Directors are set at a maximum cumulative term of nine (9) years as prescribed in the Manual of Regulations for Banks and SEC Memorandum Circular No. 9, Series of 2011 and No. 4, Series of 2017. (Recommendation 5.3 of the SEC CG Code for PLCs)

The Retirement Policy and other board governance policies may be viewed on the company website at www.bpi.com.ph.

Retirement of senior management is done with the requisite succession planning and in accordance with the Bank's policies and implementing guidelines of its retirement plan for all employees, the Bank's Amended By-Laws, Labor Code and the Corporation Code of the Philippines. Currently, the retirement age for employees of the Bank is set at 60 years of age.

See Appendix for full biographies of our Principal Officers.

Contact our Board. Communications to our directors, including any concerns regarding BPI's risk management, governance, accounting, internal controls, auditing or other matters, may be addressed to our Board of Directors through the Office of the Corporate Secretary.

Board of Directors
Bank of the Philippine Islands
Office of the Corporate Secretary
14/F Ayala North Exchange Tower 1, Ayala Avenue cor. Salcedo St., Legaspi Village, Makati City, Metro Manila 1229

Concerns may be submitted anonymously or confidentially and may also indicate whether this is from a shareholder, customer, supplier or other interested party. Communications relating to the Bank's risk management will be endorsed to the Risk Management Committee. Accounting, internal controls or auditing matters will be relayed to the Audit Committee. Other matters will also be handled by the appropriate board committee. In the same manner, communications will be referred to other areas of the Bank for handling as appropriate under the facts and circumstances outlined in the communications.

Board committees.
The Board has established Committees to heighten the efficiency of Board operations and assist in exercising its authority for oversight of internal control, risk management, and performance monitoring of the Bank. The committees provide organized and focused means for the directors to achieve specific goals and address issues, including those related to governance. In particular, the committees enhance the objectivity and independence of the Board's judgment, insulating it from undue influence of management and major shareholders. In 2018, the Bank had eight Board-level committees. The chairmen and members of the different committees were elected by the Board during the Organizational Board Meeting on April 19, 2018 after the ASM. Any subsequent changes in membership of the respective committees are made upon approval by the Board. (Recommendations 3.1- 3.6 of the SEC CG Code for PLCs)

We strive to comply with the BSP regulations and the SEC Code of Corporate Governance for PLCs with respect to the chairmanships and memberships of the committees. All committee chairmanships and memberships are compliant with their respective committee charters.

Committee chairs and vice chairs provide leadership to their respective committees and guide members in translating the Board's goals for the committee into meeting agendas and work plans for the year. They work with the corporate secretary, management and committee secretariats to prepare the agendas, discussion materials and reports, and schedules of meetings set at the beginning of the year, for guidance of the members. Committee meetings are recorded and written minutes by the corporate secretary. The work, accomplishments and minutes of the meetings of the committees are regularly reported to the full Board. Policies approved at committee level are confirmed by the Executive Committee or the full Board.

As part of the annual Board effectiveness review, committees conducted self-assessment exercises exercises for 2018 in early 2019. The review found all committees to have performed their respective duties and responsibilities effectively. There were no material issues with respect to committee memberships, governance and operations.

Attendance of the members of our Board in their respective committee meetings in 2018 are shown on the succeeding pages.

BPI BOARD AND BOARD-LEVEL COMMITTEES

	Board	Executive	Audit	Risk Management	Corporate Governance	Related Party Transactions	Personnel and Compensation	Nomination	Retirement/ Pension
Number/Composition of Committee Members	15	5	3	3	3	3	5	5	3
Frequency of Meetings**	12	35	12	12	4	12	8	2	3
Name of Members									
Jaime Augusto Zobel de Ayala	x-C	x-C						x	
Fernando Zobel de Ayala	x-VC	x-VC					x-C	x	
Gerardo C. Ablaza, Jr.	x						x		
Cezar P. Consing	x	x							
Romeo L. Bernardo (ID)	x			x		x	x	x-C	
Ignacio R. Bunye (ID)	x				x	x-C			
Octavio V. Espiritu (ID)	x		x	x-C					
Rebecca G. Fernando	x	x				x			x
Delfin C. Gonzalez, Jr	x						x		x
Xavier P. Loinaz (ID)	x		x-C					x	
Aurelio R. Montinola III	x	x		x			x	x	
Mercedita S. Nolledo	x	x			x				x-C
Antonio Jose U. Periquet (ID)	x	x							
Dolores B. Yuvienco (ID)	x		x		x-C				
Jose Teodoro G. Limcaoco*	x								

*Elected as Board member on February 20, 2019
**Based on committee charter or current practice

Committee Charters. All the board-level committees have Committee Charters which state their respective purposes, memberships, structures, duties and responsibilities, operations, reporting processes, resources and other relevant information which may serve as a basis for performance evaluation of each committee. In 2018, all committees conducted the annual review of their charters as well as the self-assessment exercise. (Recommendation 3.6 of the SEC CG Code for PLCs)

Said Committee Charters are fully disclosed in the Manual on Corporate Governance and on the company website at www.bpi.com.ph.

Executive Committee. The Board appoints from its members an Executive Committee composed of not less than five (5) members and one of whom shall be an Independent Director. There were no changes in the committee chairmanship and membership for 2018. Membership of the committee remained in compliance with its charter.

The Executive Committee, between meetings of the Board, possesses and exercises all powers of the Board in the management and direction of the affairs of the Bank subject to the provisions of the Bank's Amended By-Laws, and the limitations of the law and other applicable regulations.

The Executive Committee serves as the operating arm of the Board in all matters related to corporate governance. It approves all major policies and oversees all major risk-taking activities, including the approval of material credit exposures. A majority of all the members of the Executive Committee shall constitute a quorum.

In 2018, the Executive Committee approved major credit risks and major policies and corporate actions, i.e., approved contracts, sale of real properties, HR Matters (such as compensation, hiring, promotions, terminations), transfers and relocation of branches, approval of Bank policies, including all matters related to corporate governance, i.e., anti-bribery and anti-corruption policy and board governance policies.

Audit Committee. The Board appoints from its members an Audit Committee composed of at least three (3) Non-Executive Directors, majority of whom are Independent Directors including the Chairman. Members of the committee must have accounting, auditing or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The Chairperson of the Audit Committee shall not be the Chairperson of the Board of Directors or of any other board-level committees. (Recommendation 3.2 of the SEC CG Code for PLCs). There were no changes in the committee chairmanship and membership for 2018. Membership of the committee remained in compliance with its charter.

For 2018, the Audit Committee monitored and evaluated the adequacy and effectiveness of the Bank's internal control systems, risk management, compliance and governance practices. It provided oversight on the integrity of the Bank's financial statements and financial reporting process, performance of the internal and external audit functions and compliance with bank policies, applicable laws, and regulatory requirements. The Committee also approved the external auditor's annual audit plan and scope of work, and assessed its overall performance and effectiveness. In consultation with management, this Committee also approved the external auditor's terms of engagement and audit fees.

For more details, please read the Audit Committee Report for the year ended December 31, 2018. The report is also posted on the company website at www.bpi.com.ph.

Corporate Governance Committee. The Board appoints from its members a Corporate Governance Committee composed of at least three (3) Non-Executive Directors, majority of whom are Independent Directors including the Chairman. (Recommendation 3.3 of the SEC CG Code for PLCs). In June 2018, Independent Director Astrid S. Tuminez resigned to take up her appointment as President of Utah Valley University, USA. Correspondingly, Independent Director Tuminez also relinquished her position as a member of the Corporate Governance Committee. Membership of the committee remained in compliance with its charter.

The Corporate Governance Committee charter was amended in February 2018 to reflect alignment of duties and responsibilities with BSP Cir. No. 969.

In 2018, the Corporate Governance Committee carried out its regular mandate as set in its charter, to offer recommendations for the Bank's corporate governance framework and to address, in particular, BPI's conformance to BSP Circular 969 "Enhanced Corporate Governance Guidelines for BSP Supervised Financial Institutions" and Circular 900, "Guidelines on Operational Risk Management", SEC Memorandum Circular No. 19, Series of 2016, "Code of Corporate Governance for Publicly-listed Companies" as well as best practices espoused by the ASEAN Corporate Governance Scorecard (ACGS). This included board governance policies on directorship, retirement, and committee chairmanships and memberships. The Committee also had oversight for the first submission of the new Integrated Annual Corporate Governance Report (I-ACGR). The Committee also provided guidance with respect to regulatory matters concerning the BSP and SEC.

Nominations Committee. The Board appoints from its members a Nominations Committee composed of at least three (3) directors, majority of whom are Independent or Non-Executive Directors with a Chairman who is either an Independent or Non-Executive Director. There were no changes in the committee chairmanship and membership for 2018. Membership of the committee remained in compliance with its charter.

For 2018, the Nominations Committee convened to ensure that candidates for nomination to be elected at the 2018 Annual Stockholders Meeting were made up of individuals of proven integrity and competence, and that each possesses the ability and resolve to effectively oversee the Bank in his capacity as board member and member in the board-level committees. The Committee also accepted the resignation of Director Astrid S. Tuminez as well as evaluated the qualifications of Mr. Jose Teodoro K. Limcaoco and guided the nomination and election activities as part of the succession planning process.

Risk Management Committee. The Board appoints from its members a Risk Management Committee composed of at least three (3) members of the Board, majority of whom shall be Independent Directors, including the Chairperson. Committee members should possess a range of knowledge and expertise on risk management issues and best practices. The Chairperson shall not be the Chairperson of the Board of Directors or of any other board-level committee. (Recommendation 3.4, SEC CG Code for PLCs) In June 2018, Independent Director Astrid S. Tuminez resigned to take up her appointment as President of Utah Valley University, USA. Correspondingly, Independent Director Tuminez also relinquished her position as a member of the Risk Management Committee. Membership of the committee remained in compliance with its charter.

The Risk Management Committee charter was amended in March 2018 to comply with provisions of BSP Cir. Nos. 971 and 969.

The Risk Management Committee is tasked with nurturing a culture of risk management across the enterprise. It supports the Board by overseeing and managing the Bank's exposures to financial and non-financial risks, assesses new and emerging risk issues across the Bank, regularly reviews the Bank's risk management appetite, policies, methodologies, structures and metrics, and monitors overall liquidity and capital adequacy. These are all done in support of the Bank's business strategies, as well as meet and comply with regulatory and international standards on risk measurement and management. (Recommendation 3.4 of the SEC CG Code for PLCs).

For 2018, the Risk Management Committee oversaw and managed the Bank's exposures to financial and non-financial risks, assessed new and emerging risk issues across the Bank, reviewed the Bank's risk management appetite, policies, structures and metrics, and monitored overall liquidity and capital adequacy, in order to meet and comply with regulatory and international standards on risk measurement and management. A more detailed report on the activities can be found in the Risk Management section of the annual report.

Personnel and Compensation Committee. The Board appoints from its members a PerCom composed of four (4) members of the Board who are not officers of the Bank plus one (1) member who is an Independent Director. There were no changes in the committee chairmanship and membership for 2018. Membership of the committee remained in compliance with its charter.

In 2018, the Personnel and Compensation Committee directed and ensured the various programs of the Human Resources Management Group such as: Leadership and Talent Development, Compensation and Total Rewards Review, the 2018 Performance Level Ranking Program for various unibank officers, the 2018 Stock Rights Offer, CBA settlements, as well as promotions and organizational changes during the year.

Related Party Transaction Committee. The Board appoints from its members a Related Party Transactions Committee composed of at least three (3) Non-Executive Directors, majority of whom are Independent Directors including the Chairman. (Recommendation 3.5 of the SEC CG Code for PLCs). At the Organizational Board Meeting on April 19, 2018 after the ASM, in compliance with the Risk Management Committee charter and BSP Circular No. 969, Independent Director Octavio R. Espiritu relinquished his chairmanship and membership in the Related Party Transaction Committee. Independent Director Ignacio R. Bunye was elected as member and new Chairman of the Related Party Transaction Committee. Membership of the committee remained in compliance with its charter.

For 2018, the Related Party Transaction Committee vetted and/or endorsed Credit and Non-Credit transactions involving accounts that reached established thresholds. The Committee also formulated, revised and approved policies on RPTs, in keeping with the BSP mandate to consistently conduct the affairs of the institution with a high degree of integrity. It also noted the Quarterly/Post-Reviews of RPTs by the Internal Audit (significant RPTs) and BPI Compliance Office (below significant transactions), as presented by the Chief Audit Executive and Chief Compliance Officer, respectively, both non-voting members of RPTC. The Committee also noted the Monthly Reports on RPTs (Credit and Non Credit) below the materiality threshold on accounts vetted by the Management Vetting Committee Details of related party transactions are disclosed in the audited financial statements.

Retirement and Pension Committee. The Board appoints from its members a Retirement and Pension Committee composed of at least three (3) directors, majority of whom are Independent or Non-Executive Directors with a Chairman who is either an Independent or Non-Executive Director. The Human Resources Head shall also be a non-voting member of the Committee. There were no changes in the committee chairmanship and membership for 2018. Membership of the committee remained in compliance with its charter.

For 2018, the Retirement and Pension Committee convened to oversee and discuss matters relative to its fiduciary, administrative, investment portfolio responsibilities under its charter, as well as manage the non-investment aspects of the Bank's retirement plan.

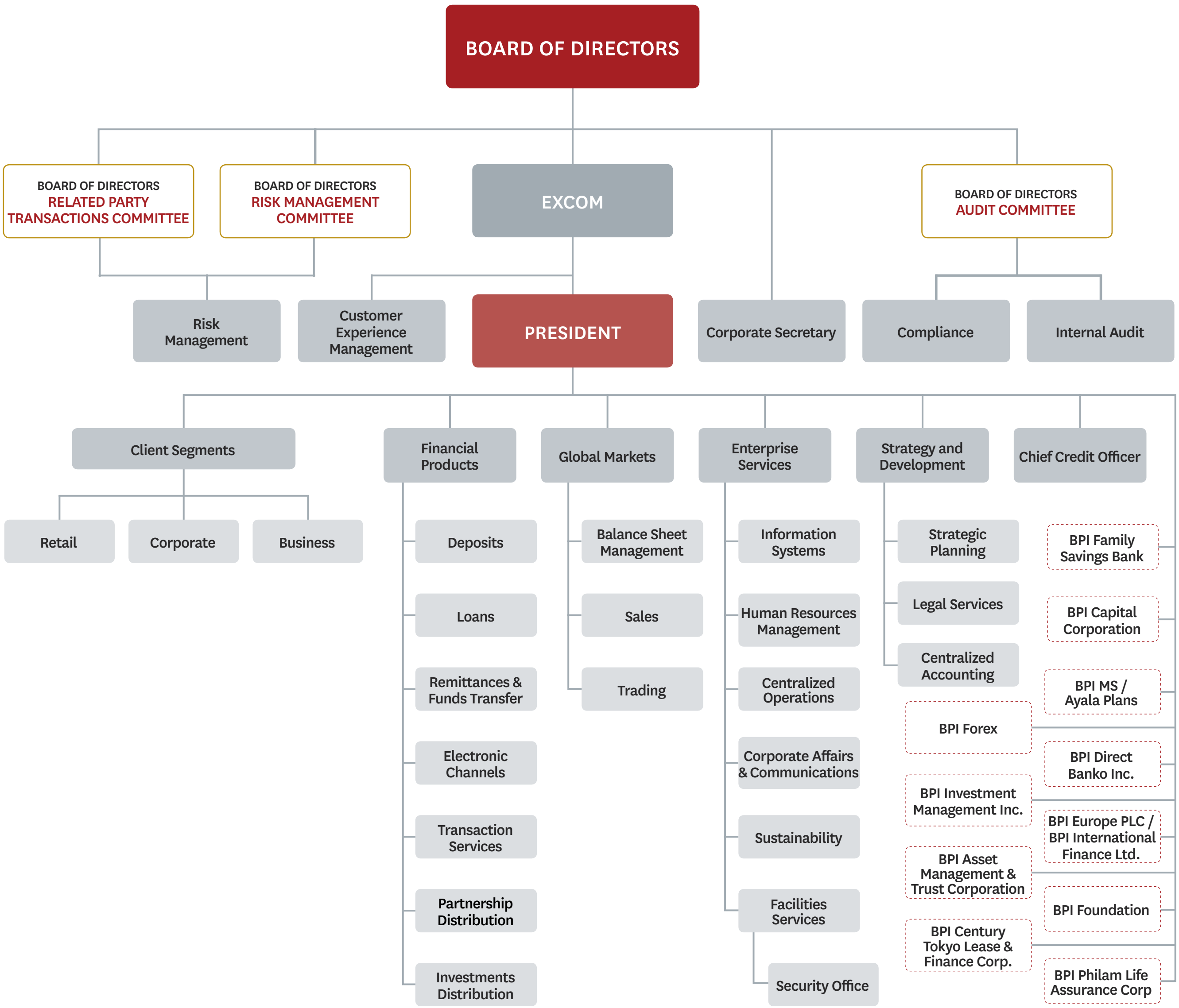
COMMITTEE APPOINTMENTS, ATTENDANCE AND YEARS OF SERVICE

Committee	Office	Name	Date of Appointment	Attendance/ Meetings	%	Years served on Committee
EXECUTIVE COMMITTEE	Chairman (NED)	Jaime Augusto Zobel de Ayala	April 3, 2003	26/33	79%	15.7
	Vice-Chairman (NED)	Fernando Zobel de Ayala	April 3, 2003	26/33	79%	15.7
	Member (ED)	Cezar P. Consing	April 18, 2013	30/33	91%	5.7
	Member (NED)	Rebecca G. Fernando	March 31, 2009	31/33	94%	9.75
	Member (NED)	Aurelio R. Montinola III	March 25, 2004	27/33	82%	14.7
	Member (ID)	Antonio Jose U. Periquet	April 18, 2013	32/33	97%	5.7
	Member (NED)	Mercedita S. Nolledo	April 10, 2014	31/33	94%	4.7
AUDIT COMMITTEE	Chairman (ID)	Xavier P. Loinaz	April 15, 2010	17/17*	100%	8.7
	Member (ID)	Octavio V. Espiritu	April 15, 2010	16/16	100%	8.7
	Member (ID)	Dolores B. Yuvienco	April 10, 2014	17/17*	100%	4.7
CORPORATE GOVERNANCE COMMITTEE	Chairman (ID)	Dolores B. Yuvienco	April 10, 2014	4/4	100%	4.7
	Member (ID)	Ignacio R. Bunye	April 14, 2016	4/4	100%	2.7
	Member (NED)	Mercedita S. Nolledo	April 6, 2006	4/4	100%	12.7
	Member (ID)	Astrid S. Tuminez*	April 10, 2014	2/2	100%	4.2
NOMINATIONS COMMITTEE	Chairman (ID)	Romeo L. Bernardo	April 14, 2011	2/2	100%	7.7
	Member (ID)		April 7, 2005		100%	6.5
	Member (NED)	Jaime Augusto Zobel de Ayala	April 14, 2011	2/2	100%	7.7
	Chairman (NED)		April 3, 2003		100%	9.5
	Member (NED)	Fernando Zobel de Ayala	April 10, 2014	2/2	100%	4.7
	Member (ID)	Xavier P. Loinaz	March 31, 2009	2/2	100%	9.75
	Member (ED/NED)		April 3, 2003		100%	6.5
	Member (NED)	Aurelio R. Montinola III**	April 20, 2017	2/2	100%	1.7
RISK MANAGEMENT COMMITTEE	Chairman (ID)	Octavio V. Espiritu	April 3, 2003	13/13*	100%	15.7
	Member (ID)	Romeo L. Bernardo	April 3, 2008	13/12*	92%	10.7
	Member (ED)	Aurelio R. Montinola III	April 7, 2005	13/11*	85%	8
	Member (NED)		April 18,2013		100%	5.7
	Member (ID)	Astrid S. Tuminez**	April 10, 2014	7/6*	86%	4.2
PERSONNEL AND COMPENSATION COMMITTEE	Chairman (NED)	Fernando Zobel de Ayala	April 3, 2003	10/9	90%	15.7
	Member (NED)	Gerardo C. Ablaza, Jr.	April 20, 2017	10/9	90%	1.7
	Member (ID)	Romeo L. Bernardo	April 3, 2003	10/10	100%	15.7
	Member (NED)	Delfin C. Gonzalez, Jr	April 14, 2016	10/9	90%	2.7
	Member (NED)	Aurelio R. Montinola III	April 18, 2013	10/9	90%	5.7
RELATED PARTY TRANSACTIONS COMMITTEE	Chairman (ID)	Ignacio R. Bunye	April 19, 2018	9/9	100%	0.7
	Chairman (ID)	Octavio V. Espiritu****	April 10, 2014	5/5	100%	4.0
	Member (ID)	Romeo L. Bernardo	April 10, 2014	14/12	86%	4.7
	Member (NED)	Rebecca G. Fernando	April 10, 2014	14/13	93%	4.7
	Non-Voting Member	Rosemarie B. Cruz, (Chief Audit Executive)			100%	
	Non-Voting Member	Noravir A. Gealogo, (Chief Compliance Officer,)			100%	
RETIREMENT PENSION COMMITTEE	Chairman (NED)	Mercedita S. Nolledo	April 6, 2006	3/3	100%	12.7
	Member (NED)	Delfin C. Gonzalez, Jr.	April 14, 2016	3/3	100%	2.7
	Member (NED)	Rebecca G. Fernando	March 31, 2009	3/3	100%	9.75

*Includes joint Audit and Risk Management Committee Meetings
**Resigned effective June 21, 2018
***Elected as a member on April 20, 2017
****Chairman and member until April 18, 2018

BPI TABLE OF ORGANIZATION

The following is an overview of the Bank's principal activities and its functional organization (as of December 31, 2018):



**Note: The following Board Level Committees are also existing: Corporate Governance, Personnel and Compensation, Nomination Committees, and Retirement/Pension Committees.*

OPERATING MANAGEMENT

Organization. BPI's President and CEO is responsible for formulating the business strategy and the overall management of the Bank in fulfilling objectives to achieve the desired outcomes of its strategy. The Bank's senior executive officers are each responsible for an area of the Bank's business and report directly to the President and CEO.

In 2018, the senior executive officers of the Bank included: Simon R. Paterno, Executive Vice President and Head, Financial Products and Services; Antonio V. Paner, Treasurer, Executive Vice President and Head, Global Markets; Ramon L. Jocson, Executive Vice President, Chief Operating Officer and Head, Enterprise Services Segment; Juan Carlos L. Syquia[1], Executive Vice President and Head, Corporate Client Segment; and Maria Theresa M. Javier[2], Executive Vice President, Chief Financial Officer, and Head, Strategy and Development.

The senior executive officers are responsible for ensuring development and expansion of BPI's client relationships; service quality and innovation in its products and services; enterprise asset-liability management and flows business; reliability, productivity, and efficiency of our operating infrastructure; financial strategy formulation and execution; and sustainable investor and stakeholder relations.

In addition, the Bank has a Management Committee, which regularly convenes to discuss matters of company-wide relevance. The Management Committee is appointed by the President and CEO, and its membership is periodically rotated, to reflect current initiatives of the Bank and to grant senior decision-making exposure to executives below the rank of EVP.

Planning and Performance Management. The Bank articulates its strategy in periodic planning exercises, realizes plans in formal budgets, and conducts periodic performance reviews against both our budgets and our past performance. We act in accordance with well-defined operating policies and procedures, and ensure the accuracy and transparency of our operational and financial reporting to protect the Bank's reputation for integrity and fair dealing. We also strive to achieve accountability in our revenue performance, efficiency in our expenditure of resources, and high quality in the delivery of services and achievement of customer satisfaction. Our management is regularly reviewed and rewarded according to their performance relative to innovation, initiatives, assigned targets, and feedback from customers, peers, and the Board.

We place strong emphasis on prudent risk-taking and risk management. Specific management committees ensure that major risks are identified, measured, and controlled against established limits. These key management committees are the Credit Committees, Assets and Liabilities Committee, Operational Risk Management Committee, Crisis Resiliency Committee, Information Technology Steering Committee, Capital Expenditures Committee, Anti-Money Laundering Evaluation Committee, Fraud and Irregularities Committee, Real and other properties acquired (ROPA) Sales Committee, and Management Vetting Committee. Members of these committees are senior officers (in the case of the Information Technology Steering Committee, a non-executive board member) who are subject matter experts in areas of knowledge relevant to the respective committees. They include client specialists, product specialists, senior officers of the Risk Management Office, and other senior executives.

[1, 2] Mr. Juan Carlos L. Syquia and Ms. Maria Theresa M. Javier were promoted to the rank of EVP effective January 1, 2019.

CONTROL, RISK MANAGEMENT AND COMPLIANCE

The Bank's control, risk management and compliance agenda is a key priority, and in recent years BPI has devoted significant resources to adhering and adapting to the increasing number of heightened regulatory expectations and reporting requirements that guide the Banking Industry as well as publicly-listed companies.

In this respect, BPI continuously enhances governance and oversight of the control, risk management and compliance environment across the group and strives to simplify and appropriately de-risk operations. The Bank also continues to make substantial investments in financial, technology and human capital dedicated to these efforts.

BPI regularly partners and engages in constructive dialogue with our regulators, shares efforts and seeks proper clearance in the design of appropriate adjustments and remediation plans for the Bank's control, risk management and compliance environment.

The Bank takes extra effort to understand all legal and regulatory requirements and continuously builds and strengthens the culture and infrastructure to support risk management, compliance and assurance activities.

In 2018, the Board of Directors, through its various Board-level Committees, reviewed the Bank's overall control, risk management and compliance systems covering operational and financial areas and determined these to be adequate and operating effectively. (Recommendation 12.1 SEC CG Code for PLCs)

INTERNAL AUDIT AND CONTROL

Our Internal Audit Division is an independent body that supports the Audit Committee in fulfilling its oversight responsibilities by providing an objective assessment on the adequacy and effectiveness of the Bank's risk management, internal controls, and governance processes through well-established risk-based audit plans. Internal Audit also ensures that the Bank's operating and business units adhere to internal processes and procedures and to regulatory and legal requirements.

The assessment of controls, systems, and processes of the Bank is covered by the annual audit work plan, which is developed using the Audit Risk Assessment or scoring model, and reviewed and approved by the Board through the Audit Committee. The Committee of Sponsoring Organizations of the Treadway Commission (COSO)[1] internal control framework includes Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities, and the Control Objectives for Information and Related Technology (COBIT). These frameworks are used in assessing the effectiveness of the internal control system.

This unit reports directly to the Board through its Audit Committee. It collaborates with other assurance providers such as the Risk Management Office, Compliance Office, external auditors, and other oversight units. Through this system for the comprehensive monitoring and review of risks and compliance in the institution, the Board ensures that the Bank and all business units proactively manage the risk and compliance exposures impacting the business. (Recommendation 2.10 and 12.2 of the SEC CG Code for PLCs)

[1] Joint initiative in the United States by five private sector organizations [the Institute of Management Accountants (IMA), the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), and Financial Executives International (FEI)], dedicated to guide executive management and governance entities on relevant aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting.

The Audit Committee also ensures that the Internal Audit Division undergoes an external quality assessment review (EQAR) to confirm that audit activities conform to the International Standards for the Professional Practice of Internal Auditing and Code of Ethics. The program includes periodic internal and external quality assessments and ongoing monitoring of the performance of the internal audit activity. Periodic internal assessments are conducted annually, while external quality assessments are conducted at least once every five years by a qualified independent validator. This unit maintains its "generally conforms" ratings on both internal and external assessments, which indicate that its activities have continuously conformed to professional standards, code of ethics, and other internal standards.

Internal Audit Charter. The internal audit function as empowered by the Internal Audit Charter includes free access to all records, properties, and personnel. In this respect, the Audit Committee reviews the internal audit function, including its independence and the authority of its reporting relationships. The Internal Audit Division continuously improves the capabilities of its auditors through continuous education on specialized areas of knowledge, auditing techniques, regulations, and banking products and services. As stated in the Manual on Corporate Governance, the Board, thru the Audit Committee, periodically reviews and approves the Internal Audit Charter. (Recommendation 2.10, SEC CG Code for PLCs).

The Internal Audit Charter is published on the company website and may be read at www.bpi.com.ph.

Chief Audit Executive. The Internal Audit Division is headed by a Chief Audit Executive (CAE) who is appointed by the Board and reports functionally to the Board through the Audit Committee and administratively to the President and CEO. This ensures that the CAE is not dependent on any bank executive or operating officer for the security of his or her position. The CAE has unrestricted access to all functions, records, property, and personnel. Additionally, the Audit Committee ensures that the CAE has access to the Board, on a confidential basis, and that the Internal Audit Division is independent of bank management, both by intent and actual practice. The Board, through the Audit Committee, evaluates the performance of the CAE. (Recommendation 2.8, 9.1, 9.2, 12.3 SEC CG Code for PLCs)

See Appendix for the full biography of the CAE.

Independent External Auditor. The Audit Committee recommends to the Board the appointment of a BSP-accredited external auditor for the purpose of preparing or issuing an audit report or other related work. The appointment, re-appointment, and removal of the Bank's external auditor is subject to the approval and endorsement by the Audit Committee, for subsequent confirmation and approval by the Board and, finally, the stockholders. (Recommendation 2.8, 9.1, 9.2, SEC CG Code for PLCs) The engagement of the external auditor is also done pursuant to the General Requirements of Securities Regulation Code (SRC) Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors).

The Audit Committee also assesses the external auditor's effectiveness, independence, and objectivity, ensuring that key partners or the handling partner is rotated at appropriate intervals or changed every five years or earlier. The Committee also reviews the external auditor's annual plan, scope of work, and, in consultation with management, approves the external auditor's term of engagement and audit fees. They also oversee the resolution of disagreements between management and the external auditors in the event that these arise.

The Audit Committee ensures suitability and effectiveness of the external auditor through the following:

- No external auditor can be engaged by the Bank if he has any direct or material indirect financial interest in the Bank, or if his independence is considered impaired under circumstances specified in the Code of Professional Ethics for Certified Public Accountants. In the case of partnership, this limitation shall apply to the partners, associates, and the auditor-in-charge of the engagement.

- The external auditor and the members of the audit team shall not have outstanding loans or any credit accommodation (except credit card obligations) with the Bank throughout the engagement.
- The external auditor and the members of the audit team adhere to the highest standards of professional conduct, integrity, and objectivity.

The external auditor reviews and discusses the financial statements and reports, including results of operations, with Management and the Internal Auditor, and endorses the same to the Board for approval. Audited Financial Statements are signed by the Chairman of the Board, the President and CEO, and the Chief Finance Officer (CFO). The Audit Committee also holds executive or private meetings with the external auditors without the presence of Management.

Audit and Audit-Related Fees. BPI has paid the following fees, inclusive of taxes, to its external auditors in the past two years:

(In Million Pesos)	Audit Fees	Audit-related Fees
2017 paid in 2018	Php 13.185	Php2.348
Approved for 2018	Php 19.415	

The audit and audit-related fees cover services by the external auditor that are reasonably related to the performance of the audit or review of the Bank's and its subsidiaries' annual financial statements. There were no non-audit fees (services not related to the audit of the annual financial statements). (Recommendation 9.3 of the SEC CG Code for PLCs)

The Audit Committee charter, as stated in the Bank's Manual on Corporate Governance, provides that the Audit Committee is empowered by the Board to approve all audit and non-audit services, including fees, to be provided by the external auditor to the Bank and its subsidiaries. It is also tasked to review the external audit fees and recommend for approval by the Board.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure. There were no disagreements with Isla Lipana & Co. on accounting and financial disclosures.

RISK MANAGEMENT

Comprehensive Framework. BPI pursues best practices in enterprise risk management across its businesses and processes. It espouses a comprehensive risk management and capital management framework, which integrates the identification, measurement, monitoring, and controlling of our risk exposures. It works to ensure that it has adequate liquidity and capital at all times in order to mitigate risks, as well as robust business continuity and crisis resiliency plans that are regularly tested. BPI's framework conforms not only with its own rigorous standards, but also with BSP directives promoting an effective internal capital adequacy assessment and other risk management processes. (Recommendation 2.11, 12.4 SEC CG Code for PLCs)

Risk management in BPI follows a top-down approach, with risk-appetite setting and overall risk strategy emanating from the Board. The Board fulfills its risk management function through the Risk Management Committee (RMC). The RMC defines risk appetite statements at functional risk areas, aggregate and enterprise levels, and directs its risk strategy framework anchored on sound risk management governance, value-enhancing risk methods and processes, and risk-intelligent data and technology. It oversees and manages exposures to financial and non-financial risks and monitors regulatory and internal capital adequacy vis-a-vis these exposures. It nurtures a culture of risk management across the BPI group and exercises oversight over the various subsidiaries across the enterprise. It manages risks through clearly-delineated functions, using the "three lines of defense" model, to ensure effective risk management governance and control processes across the Bank. This model defines the risk management responsibilities of each unit depending on whether they own and manage the risk (1st line), oversee risk management (2nd line), or provide independent assurance on the quality and effectiveness of risk management and internal controls (3rd line).

BPI's risk culture is strongly anchored on its vision of transparency and integrity in the workplace, creation of sustainable value, and delivery of maximum returns to shareholders. In order to succeed in its mission of satisfying its responsibilities to clients, employees, shareholders, regulators and country, it exercises proactive and prudent risk management.

Chief Risk Officer (CRO). BPI's Risk Management Office, headed by the CRO, leads the formulation of risk management policies and methodologies in alignment with our overall business strategy. The CRO, who is primarily responsible for the overall management of the BPI group's total risk, ensures that risks are rationally undertaken, within its risk appetite and commensurate with returns on capital. The Bank's risk appetite is a careful measure of the amount of risk we are willing to assume in order to achieve the business objectives. The risk appetite statements on key risk areas are regularly reviewed, approved by, and reported to the Board through the RMC. The CRO and the RMO facilitate risk management learning programs and promote best practices on an enterprise-wide basis. (Recommendation 12.5 of the SEC CG Code for PLCs)

See Appendix for full biography of our CRO.

BPI tracks risks according to three major classifications: credit, market and liquidity, and operational and IT. Credit risk arises from its core lending and investing businesses; market and liquidity risk arises from its business in managing interest rate and liquidity gaps, as well as in the trading and distribution of fixed income, foreign exchange, and derivative instruments (as allowed by regulation); and operational and IT risks arise from inadequate or failed internal processes, people, information technology and systems, and threats from external events that pose risks of financial losses and damage to our reputation. We are cognizant of other and any emerging risks that the Bank may be exposed to in its day-to-day business operations and these are identified, mitigated, and monitored accordingly.

BPI has established robust and effective risk management processes and controls that allow it to manage risks closer to its source, either preventing them from happening or mitigating their impact. It uses various methodologies, metrics, tools, and systems to measure its risk exposures. It continuously invests in risk technology and business-enabling systems, and enhance our processes to ensure completeness and accuracy of data, 360° risk perspective, and timely reporting. Independent reviews are regularly conducted by the Bank's Internal Audit, external auditors, and regulatory examiners to ensure that controls and risk mitigants are in place and functioning effectively as intended.

Our financial risk management is carried out by a dedicated team of competent risk managers and senior officers who have extensive operational experience working for the Bank. Our risk managers regularly monitor key risk indicators, and report exposures against carefully established credit, market and liquidity, and operational and IT risk metrics and limits approved by our RMC. We ensure adequate training to keep abreast of industry developments, emerging risks, and risk management best practices.

We continuously promote a culture of proactive and prudent risk management with the goal of becoming a risk-intelligent organization, with the CRO and the RMO continuously engaging the RMC, management, and business units, communicating the risk awareness culture to the rest of the Bank through various internal channels, facilitating learning programs and awareness campaigns on risk management, and promoting best practices enterprise-wide. We engaged various risk management experts in the independent assessment of the Bank's risk maturity covering the areas of business continuity, cyber and information security, and enterprise risk management. All these efforts have been undertaken and conscientiously practiced in recognition of the BSP's issuance of the Guidelines on Risk Governance, as well as benchmarked to the Committee of Sponsoring Organization's (COSO) ERM integrated framework.

Credit Risk. Our Credit Policy and Risk Management (CPRM) division is responsible for the overall management of the Bank's credit risk. CPRM is accountable to the RMC in assisting to establish BPI's risk appetite and in the RMC's oversight function on credit risk and asset quality. In addition, CPRM supports senior management in ensuring the quality of our loan portfolio by identifying, measuring, reporting, and controlling credit risks. CPRM ensures that the Bank's stringent underwriting standards and rating parameters are met by the various lending units. In 2018, BPI experienced significant growth in loan volumes but ably managed overall low credit risk and maintained asset quality, in general compliance with regulatory and prudential requirements relating to credit risk management (for example, DOSRI and RPT compliance, single borrower's limits, credit concentration, and stress tests, amongst others).

BPI continues to maintain a diversified loan portfolio with no significant concentrations. Its top borrower-group exposures generally remain within the internal single borrower's limit and operate in diversified industries. Its corporate credit risk exposures are assessed individually using internal credit risk rating models that generate a probability of default per rating grade and take into account credit risk mitigants. Credit risk rating models are developed internally by its Credit Risk Modeling, Analytics and MIS team using statistical methods on quantitative and qualitative risk factors, including credit judgment overlays to account for borrower-specific and such other factors that cannot be modeled statistically. The credit risk ratings of corporate accounts are generally updated on an annual basis. For consumer loans, the Bank adopted credit risk scorecards to assess borrowers' creditworthiness. Both financial and non-financial variables were considered in the scorecard development process, and all scorecards were also subjected to expert judgment meetings with key business lending units. The models are independently validated, and their predictive power and performance are regularly monitored to ensure they are qualitatively and statistically acceptable.

BPI regularly reviews the appropriateness of classifications and impairment rates of classified loan accounts for proper assessment of loan quality. Corporate exposures are classified and managed according to rating grades. Each rating grade has a corresponding probability of default that exponentially increases as a rated account moves from the best to the worst rating grade. The migration of accounts between rating grades is regularly monitored and analyzed. Loss provisioning also takes into account the rating grade of each exposure. While specific reserves are set up for defaulted exposures and reviewed regularly, provisioning for non-default exposures is based on expected credit loss. The Bank fully implemented Philippine Financial Reporting Standards 9 (PFRS 9) -based policies, models, and Expected Credit Loss (ECL) methodologies for the most of its credit portfolios, rendering it compliant to both the BSP and accounting standards on PFRS 9 implementation. Loss provisioning for corporate and consumer exposures are based on ECL, which is a function of the probability of default, loss given default, and exposure at default.

BPI regularly conducts credit reviews to assess that the credit process—from loan origination, credit analysis, approval, implementation, and administration—conforms to the standards set in our internal policies and complies with regulatory requirements. In 2018, it reviewed key lending units, credit products, and portfolios nationwide that revealed generally acceptable credit performance and portfolio qualities. The Bank has spun-off a dedicated cross-border risk management team tasked to independently monitor and evaluate credit and country risks emanating from the increased cross-border portfolio of the Bank.

BPI measures its credit risk exposures in terms of regulatory capital requirement using the standardized approach in compliance with Basel III and BSP standards on minimum capital requirements. Using this method, its credit exposures to sovereigns, corporates and banks are risk-weighted to reflect credit assessment from eligible ratings agencies (Fitch, Moody's, Standard & Poors, and PhilRatings, where applicable). This method also allows for the use of eligible collaterals (cash, financial instruments, and guarantees) to mitigate credit risk. They ensure all documentation used in collateralized or guaranteed transactions are binding on all parties and legally enforceable in the relevant jurisdiction.

BPI continuously enhances our credit policies, guidelines, and lending programs specifically on credit risk limits-setting process, align regulatory changes in the treatment of past due and non-performing loans, project finance, and PFRS 9 implementation. Its credit risk information system is continuously being improved to enable more robust and granular analysis of the loan portfolio while delivering timely and accurate reporting of the Bank's loan structures, credit concentrations, and other risk data analytics.

BPI regularly conducts stress tests on its loan portfolio to determine the impact of various economic scenarios, to surface any undue credit concentration risk and to comply with regulatory reporting. Results showed that its capital adequacy ratio (CAR) and common equity tier 1 ratio (CET1) will generally remain above or at about the regulatory capital requirements even with assumed write–down scenarios on our large exposures, exposures by industry (including real estate), and consumer portfolios. Any shortfall is expected to be adequately covered by our realizable future income.

All these efforts have been undertaken in recognition of BSP's issuance of the Guidelines on Sound Credit Risk Management Practices.

Market, Interest Rate in the Banking Book, and Liquidity Risks. The BPI Market Risk Management (MRM) division employs various risk metrics commensurate to the size and sophistication of its business operations which guide the Bank to effectively manage the risks arising from position-taking strategies balanced by the Board's overall risk appetite. Risk limits are continuously reviewed and updated to align with the Bank's goals, objectives, strategies, and overall risk appetite. MRM also provides forward-looking scenario analysis, simulations, and stress tests to complement the risk metrics and provide a broader and holistic risk perspective to the Management and RMC. For 2018, BPI's market, interest rate in the banking book, and liquidity risk exposures were generally within the RMC-approved limits.

BPI closely monitors the risk exposures of both trading and non-trading portfolios. Assets in both on- and off-balance sheet trading portfolios are marked-to-market and the resulting gains and losses are recognized through profit or loss. Market risk exposures from these portfolios are measured by using the historical simulation value-at-risk model complemented by several risk metrics such as Stop Loss and DV01. It has exposures in interest rate swaps, currency swaps, and structured notes as part of our trading and position-taking activities. Financial derivatives are also used to hedge open exposures to mitigate price risk inherent in our portfolios.

Interest rate risk in the banking book (IRRBB) is inherent to its business operations, as movements in interest rates expose the Bank to adverse shifts in the level of net interest income and could impair the underlying values of the Bank's assets and liabilities. The Bank is exposed to interest rate risk on unfavorable changes in the interest rate curves, which would have adverse effects on the BPI group's earnings and its economic value of equity. Interest rate risk exposure arising from the core banking activities is measured by (1) earnings-at-risk (EaR), or the potential deterioration in net interest income over the next 12 months, and (2) balance sheet value-at-risk (BSVaR), or the impact on the economic value of the future cash flows in the banking book due to changes in interest rates. The interest rate gap model is measured based on the re-pricing schedule of the balance sheet accounts. For instance, loan accounts paying fixed interest rate are mapped according to maturity date, while loan accounts paying floating interest rate are mapped according to interest rate review dates. Likewise, for deposit accounts that do not have defined maturity dates, re-pricing schedules are derived from our historical review of depositors' behavior and aging profile.

BPI ensures adequate liquidity levels at all times and contingency plans are in place in the event of liquidity stress. The Bank's liquidity profile is measured and monitored through its internal metric - the minimum cumulative liquidity gap (MCLG), and the regulatory metric-liquidity coverage ratio (LCR). MCLG measures the smallest net cumulative cash inflow (if positively gapped) or the largest net cumulative cash outflow (if negatively gapped) over the next three months. This indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the Bank. On the other hand, LCR determines the short-term resilience of the Bank's liquidity risk profile, requiring financial institutions to hold adequate level of high-quality liquid assets to cover net cash outflows in the next 30 days. BPI, on a solo and consolidated basis, should maintain adequate liquidity to provide sufficient buffer for critical liquidity situations. An escalation procedure is in place to immediately report to management and the RMC when MCLG and LCR levels are about to drop below the approved floor levels and the minimum regulatory limit, respectively. Corrective actions are identified and implemented to resolve breaches, if any, in order to maintain a stable liquidity environment. Scenario analyses and simulations provide forward looking liquidity conditions to anticipate potential funding requirements.

BPI continuously improves our liquidity and re-pricing gap models through improvements in model assumptions, resulting in more extensive and robust liquidity stress tests. Under assumed severe market stress scenarios, our CAR and CET1 will still be above the minimum regulatory requirement; in addition, our liquidity profile could withstand an assumed prolonged crisis period.

Operational and Information Technology Risks. BPI's Operational Risk Management (ORM) division monitors risks arising from inadequate or failed internal processes, people, and systems or from external events such as natural disasters that damage physical assets, electrical or telecommunication failures that disrupt our banking operations. Operational risk is inherent in all banking products and services, and may include risks that give rise to adverse legal, tax, regulatory, or reputational consequences. Information technology is a significant risk factor assumed in conjunction with operational risk, given the highly automated nature of our processes and services. The Bank define IT risk as the risk of any potential adverse outcome arising from the use of or reliance on IT (i.e., computer hardware, software, devices, systems, applications and networks). IT risk includes, but is not limited to, information security, service availability, reliability and availability of IT operations, completion-on-specification of IT development projects, and regulatory compliance pursuant to the BSP's policy guidelines on Information Technology Risk Management. The ORM Committee provides the senior management oversight over its ORM division, in accordance with regulatory requirements.

One of the significant resources that the Bank employs are Business Risk Officers (BRO). The Bank has several BROs embedded across the organization in key functional and business units. The BROs are responsible to the RMO for promoting a sound risk management culture, implementing enterprise risk management best practices as determined by the RMO, and ensuring timely submission of operational and other risk reports.

BPI develops and monitors key risk indicators (KRI), and oversees thoroughness of Bank-wide risk and control self-assessments, loss event management processes, and operational risk management awareness and appreciation programs. The Bank manages its operational and IT risks by ensuring such risks are thoroughly identified, assessed, monitored, reported, and mitigated. It has defined clear responsibilities related to the performance of the risk management function, as well as the accountabilities, methods, and tools employed to identify and mitigate operational and IT risks in our operating units. It requires operating units to undertake regular self-assessments to identify risks, assess the inherent and residual risks, identify controls, and assess the design and the performance effectiveness of the controls. KRIs are used to monitor risk profiles, trigger early-warning alerts, and instigate mitigating action. Operational loss events data collection and analysis provide meaningful information in effectively managing risks. The risk and control library improves its aggregation and reporting process by providing an aligned taxonomy of risks and controls.

BPI's exposure to operational risks is identified, assessed, and monitored as an integral part of the risk assessment processes. It currently uses the Basel III regulatory basic indicator approach to quantify operational risk-weighted assets, by using the historical total annual gross income as the main measure of risk.

BPI regularly performs operational risk stress tests, through scenario analysis, to support the internal capital assessment for operational and IT risks, as part of our initiatives to advance risk management methodologies. Through a series of stress scenarios, the Bank is able to identify, analyze, and assess the impact of unexpected and severe operational risk events. This exercise ensures that the impact of high-severity events is captured during risk assessment, especially those not yet reflected in our existing historical loss data.

The Bank's risk management processes are ingrained in the new product development efforts. From inception to launch, new products or programs, as well as its related processes and systems, are subject to rigorous risk assessments, design and testing activities aimed at safeguarding both the Bank and our clients from the risks of economic loss, operational disruption, or compromise of personal or financial data. It has updated its guidelines on the assessment and approval process for engaging in new business activities to cover not only products and processes, but also new markets and new business locations or offices.

The Bank has a Board-approved IT risk governance structure that espouses the three lines of defense. It also has a dedicated IT Risk Committee and IT Steering Committee that meets regularly, where IT risk issues are discussed at the management level. The Board-level RMC is regularly apprised of IT risks through comprehensive reporting and discussions during monthly meetings. To further strengthen IT risk and information security awareness, the RMC is continually briefed on current cybercrime landscapes, emerging risks and industry trends, as well as mitigating measures implemented by the Bank.

The Bank continues to closely monitor established measurements and limits on risk indicators, and implement mitigating measures in view of increasing IT-related losses (mostly from industry-wide credit card fraud and card skimming incidents). It employs a real-time card fraud detection system that helps the Bank significantly improve fraud detection, false positive rates, and fraud case handling. It has also implemented the One-Time Password (OTP) functionality to enhance security for credit card transactions. Email and SMS notifications for ATM withdrawals exceeding set threshold amounts are in place. The Bank has updated its ATM switch, upgraded its ATMs and CAMs, and migrated debit cards to become EMV-compliant. Moreover, awareness campaigns covering both clients and employees are being done through www.bpi.com.ph and social media channels.

Business Continuity Risk. *BPI is able to maintain its business continuity capability and organizational resilience, by means of an effective and sustainable Business Continuity Management (BCM) program*. This program was self-assessed by the Bank, aligned with ISO:22301. Within this program are methodology and processes, recovery plans, and response structure to provide adequate level of services until normal operations resume. The Business Impact Analysis (BIA) methodology prioritizes products and services, and determines how quickly it should respond during a disruption. Recovery strategy and plans provide suitable solution that focuses on the impact of events and the timely restoration of building, equipment and supplies, technology and vital documents, human resources, and third-party vendors.

An organizational response structure is in place and cross-functional teams have been identified, to meet business continuity objectives and to support the agreed recovery solution. Each site or branch has a designated Business Continuity Coordinator, who handles localized risk events impacting a specific location. For larger risk events affecting various locations, experienced Incident Management Teams and Corporate BCM unit take over. Likewise, for incidents that rise to the level of a true crisis, the Crisis Resiliency Committee (CRC) composed of seniors officers of the Bank is convened to establish command and control.

Information and Physical Security Risks. *The Bank is vigilant about information and physical security*. Our Enterprise Information Security Management (EISM) team is continuously maintaining and revalidating the inventory of our information assets to enhance monitoring and reporting of information security risks. It addresses the evolving cyber-threat landscape and adhere to applicable laws such as the Data Privacy Act by continuously improving its defenses as implemented, following the Bank's Information Security Program.

To complement continued investments in technical controls and recognizing the criticality of a cyber-aware organization in securing the Bank from attacks, it has an established awareness program that includes classroom trainings, e-learning courses, roadshows, and periodic bulletins. Awareness campaigns for clients to combat fraud are also conducted extensively online via social media, the BPI website, press releases, and email bulletins. An established third-party or vendor risk management program ensures that the use of service providers and IT suppliers do not unnecessarily expose the Bank to operational, regulatory, and reputational risk.

BPI's Central Security Office (CSO) is responsible for the security of the Bank’s facilities and the overall safety of its clients and employees. Increasingly sophisticated and cross-border threats on financial products and services fulfillment require an integrated approach to premises, infrastructure, people, and information security. CSO is at the forefront of ensuring an environment within which our clients and personnel can conduct business safely. A disaster response and recovery plan is in place to steer the direction for the Rapid Emergency Dispatch of the service providers in further ensuring safety. To ensure this, it has deployed and constantly optimized a combination of physical assets, personnel and technologies. The Bank's office and branch security infrastructure, is regularly evaluated including the enhancement and value engineering of monitoring systems, to stay ahead of the evolving nature of financial fraud and related threats. Training of personnel on crises, disaster risk management and climate change adaptation is being pursued. Investments in command and control will be made to continuously improve situational awareness and response.

BPI continually implement programs to make clients and employees aware of current cybercrime landscapes, emerging risks and trends and mitigating measures to further strengthen operational risk and information awareness. It has an online training platform that is accessible anytime, anywhere and covers the basic and advanced information security awareness courses, as well as the business continuity and operational risk management courses, for employees.

Legal and Tax Risks. *The Bank has two competently manned and specialized legal services divisions composed of highly-trained legal professionals with extensive experience in banking and corporate law that serve as the BPI group's main legal resource.*

BPI's Corporate Legal Affairs unit has a critical role of providing proactive legal measures to effectively manage legal and tax risks. It has the documentation and research department to respectively ensure that its rights and obligations are protected in its contractual relations and that the Bank is abreast with the most recent legal developments and requirements. It also conducts a legal risk assessment of potential claims against the Bank and recommends legal risk mitigation measures. It further empowers the Bank units by issuing legal and tax advisory bulletins and providing supporting training seminars that highlight legal issues, new laws, and regulatory fiats that impact our products and services, and promote awareness of initiatives of various regulatory agencies.

The Dispute Resolution and Litigation unit plays a significant role in protecting the Bank's rights and interests and in avoiding losses when it is involved in litigation. It files offensive criminal, civil and administrative cases (including cybercrime cases) against delinquent clients or any party that attempts to violate any of our rights or impair our interests. Likewise, it handles defensive cases filed by any party against us for any reason.

Reputational Risk. The Bank defines reputational risk as the risk of possible damage to our brand and reputation that can adversely affect the ability to maintain existing or establish new business relationships and continued access to sources and funding.

The Bank's reputational risk is governed by the Framework on Managing Reputational Risk that was established to provide consistent standards for the identification, assessment, and management of reputational risk issues. While all employees have a responsibility to protect the Bank's reputation, which forms part of the Bank's Code of Conduct, the primary responsibility for managing and reporting of reputational risk matters lies with the business and operating units in the first line of defense. The Corporate Affairs and Communications unit, on the other hand, is the risk control owner of reputational risk, promoting awareness and application of our policies and standards regarding reputational risk and encouraging business units to take account of the Bank's reputation in all decision-making, including dealings with customers and suppliers, and among employees.

The policies ensure reputational risk matters are managed in a consistent manner and align with the Bank's strategic priorities. It has established risk indicators for reputational risks that are regularly monitored and reported. These include metrics related to traditional and social media monitoring, products and services, channels, financial performance, and corporate social responsibility.

In 2018, the Bank recently conducted a Corporate Equity survey to identify possible improvements and establish the baseline for monitoring. In the survey, BPI registered a strong corporate equity compared to global standards, local companies, and among local banks.

Model Risk. The Risk Models Validation (RMV) division is responsible for conducting the independent model validation activities of the Bank's risk and stress testing models. The independent validation of risk models is governed by the model risk management policy and governance framework, aimed at ensuring an active and effective model risk management across the enterprise. RMV conducts an annual inventory of its models to ensure relevance, comprehensiveness, and usability across functional risk areas. Given the increased regulatory expectations on model risk management and validation in the context of PFRS 9 and enterprise stress testing, and the necessity for business-enabling and risk-informed decision-making, it will continuously test the quality and robustness of our models, benchmarked to global best practices on model risk management.

CAPITAL ADEQUACY

BPI's Strategic and Corporate Planning division oversees the *management of the Bank's capital adequacy*. Capital adequacy ratio, or CAR, is a measure of the Bank's total qualifying capital relative to its risk-weighted assets, and indicates the ability of its capital funds to cover various business risks.

This division also ensures *compliance with regulatory capital adequacy requirements, as well as internal capital thresholds*, referred to as the Bank's internal minimum Common Equity Tier 1 (CET1) ratio, or IMCET1, and the CET1 management action trigger, of CET1MAT, which incorporate the Bank's internal capital buffers and limit triggers, and capture risks beyond Pillar 1 (credit, market, and operational).

Furthermore, as the central planning unit of the Bank, this division is responsible for *assessing and raising the strategic capital needs of the Bank, as well as initiating approvals for dividend payments to shareholders.*

Sound Capital Management. Effective capital management supports the Bank's assets and absorbs losses that may arise from credit, market and liquidity, operational and IT, and other risk exposures. The Bank's capital management framework ensures that on stand-alone and group bases, there are sufficient capital buffers at all times to support the respective risk profiles of the various businesses of the Bank, as well as changes in the regulatory and accounting standards and other future events.

BPI submits a comprehensive internal capital adequacy assessment process, or ICAAP, document annually to the Bangko Sentral, in accordance with the Pillar 2 guidelines of the Basel framework.

As of December 31, 2018, BPI's solo (parent) and consolidated CAR stood at 14.83% and 16.09% respectively, higher than the minimum regulatory requirement of 10.0%. The Bank's solo and consolidated CET1 ratio at 13.97% and 15.19%, respectively, likewise compare favorably with regulatory and internal limits and buffers.

The table below shows the Bank's CAR components for December 2018 and 2017:

Risk-Weighed Assets	Regulatory Capital	
(Php Mn)	2018	2017
Credit Risk	131,092	116,658
Market Risk	2,223	2,247
Operational Risk	12,260	11,785
Total	**145,575**	**130,691**
Capital Adequacy		
(Php Mn)	2018	2017
CET/Net Tier 1	221,124	154,801
T2/Net Tier 2	13,116	11,682
Total QC	**234,240**	**166,484**
Total CRWA	1,310,922	1,166,583
Total MRWA	22,226	22,475
Total ORWA	122,598	117,849
TRWA	**1,455,746**	**1,306,907**
Consolidated Ratios (%)		
CAR	**16.09**	**12.74**
CET1	**15.19**	**11.84**
Solo (Parent) Ratios (%)		
CAR	**14.83**	**11.39**
CET1	**13.97**	**10.48**

RELATED PARTY TRANSACTIONS

In the normal course of business, the Bank transacts with related parties which include its directors, officers, stockholders and related interest, subsidiaries and affiliates (including those under the Ayala group of companies), as well as other related parties defined in the Bank's internal policy.

These transactions involve credit and non-credit exposures such as borrowings, guarantees, agreements for the periodic provision of leases or other services, asset purchases and sales, derivative transactions, trust transactions, and investments, amongst others, for which related parties are perceived to have significant influence. As part of the Bank's efforts to ensure that transactions with related parties are normal banking activities and are done at arm's length (particularly, on terms and conditions comparable to those offered to non-related parties or to similar transactions in the market), vetting is done either by the Board-level Related Party Transaction Committee (RPTC) or the Management Vetting Committee (MVC), depending on materiality, prior to implementation. Related parties whose individual and group exposures, existing or potential, are considered material have been vetted by the RPTC.

The RPTC is composed of three directors, majority of whom are independent including its chairman, and two non-voting members from management, the Chief Audit Executive and the Chief Compliance Officer, both of whom perform post-reviews to ensure proper implementation of related party transactions. On the other hand, the MVC is composed of the Executive Vice Presidents of the Bank.

Loans and advances granted to related parties as disclosed in the Audited Financial Statements, particularly Note 26 on RPTs, are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and maturity periods ranging from four days to 14 years.

The Bank is committed to ensure strict compliance with laws, regulations and reporting requirements relating to DOSRI and related party transactions, by instituting rigorous vetting processes, establishing adequate controls and oversight mechanisms, and pursuing improvements such as its related party database to facilitate the timely and accurate related party classification of clients and counterparties.

COMPLIANCE

The Bank views compliance to mean not only adherence to laws, regulations, and standards but, more importantly, the *consistent conduct of the affairs of the Bank within a culture of high integrity, conforming to ethical business practice, abiding by the principles of fair dealing, accountability, and transparency*. This ensures that in all its areas of activity, the Bank and its stakeholders are protected from business risks as comprehensively as possible. The Bank values its reputation most and the fact that it is trusted by its shareholders, clients, employees, partners, and members of the communities it serves.

As the Bank's second line of defense, the compliance function has also evolved in recent years to adapt to the shift towards more technology-heavy strategies, as it seeks to deliver the compliance risk management outcomes required in an era of digital transformation. While remaining a key advisory function, it has embraced a more forward-thinking, risk-based, and stress-tested approach to continuously monitor, evaluate, and improve its ability to ensure compliance in a banking landscape that is subject to disruption and rapid change.

Chief Compliance Officer. Oversight of the management of the Bank's business risk and implementation of its compliance function is the responsibility of the Board, through the Audit Committee (Recommendation 2.10 of the SEC CG Code for PLCs). At the management level, the compliance function is carried out by the Compliance Office, led by the Chief Compliance Officer (CCO). Designated by the Chairman of the Board, the CCO is not a member of the Board and has the rank of at least a Vice President. The CCO's qualifications are subject to the applicable provisions of the Manual of Regulations for Banks, particularly considering Fit and Proper criteria such as integrity or probity, competence, education, diligence, and experience and training. The CCO annually attends training on corporate governance. (Recommendation 1.6 SEC CG Code for PLCs)

See Appendix for the full biography of the CCO.

The Compliance Office *oversees the implementation of the Bank's enterprise-wide compliance programs*. These programs take into account the size and complexity of the Bank, the relevant rules and regulations that affect its operations, and the business risks that may arise due to non-compliance. By using regulatory and self-assessment compliance matrices, compliance measures are formulated to mitigate identified business risks and tested to ensure effectiveness.

The Compliance Office routinely provides advice to individual business units on applicable laws, directives, standards, and regulations as well as provides compliance support to the Group Compliance Officer. It jointly develops guidance on operations and business processes in order to guard against potential compliance risk, and reviews and assists in interpretations of laws, implementing rules and regulations, standards and guidelines of the BSP, SEC, Anti-Money Laundering Council (AMLC), PSE, Philippine Deposit Insurance Corporation (PDIC), Insurance Commission (IC), National Privacy Commission (NPC), and other regulatory bodies for compliance, communicating them and verifying adherence.

The Compliance Office also helps achieve adherence to the Bank's internal confidentiality regulations ("Chinese Walls"); provides regular training and education for employees on the applicable regulations, rules, and internal standards; and leads the Bank's business units in compliance risk assessment, rules-based testing and reporting.

The Compliance Office is currently organized to cover Regulatory Compliance, Corporate Governance, Anti-Money Laundering Compliance, FATCA Compliance and the Data Privacy Office. Considering the rapid developments in the regulatory sphere, as well as the growing complexity of the Bank's products, services, and transactions, the Compliance Office evolves in its coverage of compliance practice areas to anticipate and meet future challenges. Enhancement of our compliance function's scope and domain is redefined for new and emerging sources of compliance risk.

The Compliance Office is also empowered by 21 Group Compliance Officers (GCOs), who are embedded in operational units throughout the Bank. The GCOs enforce Compliance Office initiatives, as well as provide timely reports to the Compliance Office.

The Compliance Office applies a three-layered compliance testing and monitoring process, which includes unit self-assessment testing conducted by GCOs and independent random testing performed by the Compliance Office. Independent periodic review is conducted by the Bank's Internal Audit Division. Results of compliance testing are reported regularly to the Audit Committee.

Overall enforcement is through self-regulation within the business units, and independent testing and reviews conducted by the Compliance Office and Internal Audit.

Results of these reviews are elevated to the Board's Audit Committee and, with respect to governance issues, the Corporate Governance Committee.

The Compliance Office promotes adherence and awareness to laws, rules, and regulations by electronically posting information and documents in a compliance database that is accessible to all employees. Regular meetings are conducted by the Compliance Office with the GCOs to discuss the impact of new regulations, decide on the required compliance measures, and amend compliance matrices as necessary. Through continued liaison and dialogue with regulators, the Compliance Office ensures the prompt dissemination of new regulations and other developments affecting bank operations.

Regulatory Compliance. The Regulatory Compliance Department covers adherence to all relevant and applicable Philippine banking laws and regulations. They are in charge of regulatory compliance management with respect to the BSP's institutional compliance rating system, which comprehensively evaluates the effectiveness of a bank's compliance system in mitigating business risk.

Partnership-building with the regulators, external auditor, and industry organizations (Association of Bank Compliance Officers and the Bankers Institute of the Philippines) is also essential in regulatory compliance management.

Corporate Governance. The Corporate Governance Department covers the compliance aspect of the Bank's corporate governance framework and requirements externally, with respect to the laws relevant and applicable to BPI as a bank and as a PLC such as the Corporation Code, and the rules and regulations of the BSP, SEC, PDIC, and PSE, and internally, with respect to BPI's Articles of Incorporation, Amended By-Laws, Manual on Corporate Governance, Code of Business Conduct and Ethics, and all corporate governance-related policies such as those on conflict of interest standards, insider trading, whistleblower, related party transactions and anti-bribery and anti-corruption.

The Corporate Governance Department also monitors compliance with regional corporate governance initiatives, jointly sponsored by the SEC and the ICD such as the ASEAN Corporate Governance Scorecard. Working closely with the Board-level Audit and Corporate Governance Committees, this department ensures that the Bank's corporate governance foundations can withstand rigorous tests and demands of more stringent supervision, regulation, disclosure, and bank governance best practices.

Anti-Money Laundering Compliance. The prevention of financial crimes is a top priority of BPI, not only because they pose a significant threat to its reputation, but because they weaken the integrity of the global financial system. Hence, the Compliance Office extends its ambit beyond the Bank, its policies, and its employees to ensure that its clients also act within the law and do not use the Bank for illegal activities.

The Compliance Office's Anti-Money Laundering Department is responsible for monitoring customer and counterparty transactions in compliance with the Anti-Money Laundering Law, its implementing rules and regulations, and BSP Circular 706. Developed under the guidance of the BSP's Money Laundering and Terrorist Financing Prevention Program, the Bank's anti-money laundering program covers all its subsidiaries and affiliates.

This program aims to implement sound anti-money laundering practices and combat terrorist financing and other financial crimes. It consists of conscientious customer due diligence and know-your-customer (KYC) processes; sanctions screening; automated tools to identify and detect financial transactions of a suspicious nature; and monitoring, testing, periodic review, and timely reporting of anti-money laundering-combating the financing of terrorism (AML-CFT) events to senior management. This program also includes regular and effective AML-CFT training and awareness programs for all personnel; maintenance of customer data and transaction documents within prescribed timelines; and timely updates of policies and procedures in accordance with changes in regulations and AML-CFT typologies.

With increasing global AML initiatives and numerous new regulations, the Bank recognizes that its AML processes and controls are changing from a stand-alone function under Compliance, to an increasingly complex and overarching function cutting across legal, risk and operations. The Bank constantly reviews its program to ensure compliance with the latest legislative and regulatory developments. The Board and management support bank-wide efforts towards establishing strong AML assurance mechanisms and globally consistent standards.

The specialized IT system captures information required for covered transaction reports, and detects suspicious transaction patterns for reporting to the AMLC.

To promote awareness, knowledge, and understanding of AML concepts, principles, and requirements, all employees are required to attend training programs conducted by the Bank's AML Department or through e-Learning courses available with the BPI University, its in-house training academy.

FATCA Compliance. The Bank recognizes global movements to widen tax regimes across borders such as the enactment into law by the United States government of the Foreign Account Tax Compliance Act (FATCA). BPI values its ability to transact efficiently in US dollars and, in support thereof, established a FATCA Compliance Department to ensure consistent and effective compliance with FATCA regulations throughout the Bank and its subsidiaries.

As required under the rules of FATCA, the Bank has appointed a responsible officer to oversee the Bank's compliance with regulations, establish a program to ensure its effective implementation, and accomplish certain certifications with the IRS. The FATCA compliance program provides for additional requirements on customer due diligence and documentation and new reporting guidelines to relevant tax authorities.

The Bank appears in the U.S. internal revenue service official list of participating financial institutions with the Global Intermediary Identification Number (GIIN) of CUC04I.00000.LE.608.

Type of Financial Institution (FI): Lead of an Expanded Affiliated Group

FATCA Classification and Date of Registration:

- Participating Foreign Financial Institution: April 23, 2014
- Registered Deemed-Compliant Financial Institution/ Reporting Financial Institution under a Model 1 IGA: March 23, 2015

Data Privacy Office. Republic Act No. 10173, known as the Data Privacy Act of 2012, requires government and private sector entities to apply the principles of Transparency, Legitimate Purpose, and Proportionality in its processing of personal data so that the data is (1) only used in relevant and specifically stated ways, (2) not stored for longer than necessary, (3) kept safe and secure, (4) used only within the confines of the law, and (5) stored following people's data protection rights. Cybersecurity and data privacy and protection have become corporate governance and risk management concerns.

BPI has established a comprehensive Data Privacy Program utilizing a combination of policies, organizational structure, access controls, and technologies designed for risk reduction. The Bank has a Data Privacy Office, headed by a Board-appointed Data Protection Officer (DPO), a senior management officer. The key focus of the DPO is to oversee data privacy compliance and manage data protection risks for the organization, consistent with the Data Privacy Act rules and regulations, issuances by the NPC, and other applicable laws. Management has also appointed Compliance Officers for Privacy (COP) for major business units of the Bank to augment the Data Privacy

Office and ensure the sustained implementation of the Data Privacy Management Program across business lines. To promote transparency and to comply in part with the Data Privacy Act, BPI has published online and inside its branches the Data Privacy Statement that discloses how BPI collects, protects, uses, and shares personal data across its operations.

The Bank's Data Privacy Statement may be read at www.bpi.com.ph.

MANUAL ON CORPORATE GOVERNANCE

The Bank has a Manual on Corporate Governance which supplements and complements BPI's Articles of Incorporation and Amended By-Laws. It sets forth the underlying principles of good and transparent governance through a framework of policies, rules, systems, and processes for the Board and Management's performance of their respective duties and responsibilities to stakeholders. The manual also discusses the Bank's Sustainability Strategy Framework which encapsulates the value created from BPI's business model while innovating for operational efficiency, empowering people and society, using resources more efficiently, and strengthening stakeholder trust.

The Board commits itself to the principles and practices contained in the manual that are designed to ensure independence and effective oversight. The Board also undertakes every effort to create awareness of these principles and practices within the Bank to ensure proper internalization by every member of the organization. The manual is on the Bank's internal electronic database and published in the company website for easy access and viewing.

The Manual on Corporate Governance, reviewed annually, was last amended in early 2018. These amendments were approved by the Board on March 7, 2018. Upon amendment, BPI submits the updated Manual on Corporate Governance, bearing the signatures of the Chairman of the Board and the Chief Compliance Officer, to the SEC. The Manual on Corporate Governance may be read on our website at www.bpi.com.ph. (Recommendation 8.7 SEC CG Code for PLCs)

Compliance with the SEC Code of Corporate Governance for PLCs

A certification on the Bank's full compliance with the BPI Manual on Corporate Governance, containing relevant provisions of the SEC Code of Corporate Governance for PLCs, signed and issued by the CCO, is posted on the company website.

ASEAN Corporate Governance Scorecard

BPI actively measures its governance practices against its counterparts in the region. The Bank has adopted the rigorous benchmarking framework of the ASEAN Corporate Governance Scorecard (ACGS), which rates how ASEAN PLCs' governance practices fare against global standards.

Since the SEC and the Institute of Corporate Directors (ICD) jointly launched the scorecard initiative in 2012, BPI has merited considerable success and continues to register marked improvement in its scorecard performance. In 2016, BPI was one of the 15 awardees of the inaugural Institutional Investors' Award for Corporate Governance at the Fund Managers Association of the Philippines (FMAP) Investors Forum. In 2018, BPI was awarded as a Top Performing Company under the ASEAN Corporate Governance Scorecard by the ICD.

The Bank's ASEAN Corporate Governance Scorecard is posted on the company website at www.bpi.com.ph.

Integrated Annual Corporate Governance Report

SEC Memorandum Circular No. 15, Series of 2017 and PSE Memorandum CN No. 2017-0079 mandate all companies listed in the PSE to submit the Integrated Annual Corporate Governance Report (I-ACGR) on or before May 30th of every year that the company remains listed on the PSE.

The I-ACGR covers (1) Recommendations from SEC CG Code for Publicly-Listed Companies, (2) Supplemental provisions from PSE CG Guidelines Disclosure Survey, (3) Additional requirements not in SEC CG Code/PSE CG Guidelines but expected of PLCs, and (4) Requirements from the ASEAN CG Scorecard (optional).

BPI's latest I-ACGR as well as that of previous years' may be viewed on the company website at www.bpi.com.ph.

CODES OF BUSINESS CONDUCT AND ETHICS

BPI has Codes of Business Conduct and Ethics for its directors, officers, and employees that provide the key practices and behaviors. The codes serve as guidance so that the right decisions are made in the performance of their respective roles and responsibilities across various functions in the Bank. (Recommendation 7.1 of the SEC CG Code for PLCs)

Employee Code of Business Conduct and Ethics.

Built around BPI's Mission and Vision, Credo and Core Values, the Code lists the high-level ethical principles that guide the Bank's business, how its employees must treat its clients, and the conduct expected from them. The Code also includes guidance on care for the environment, labor rights, customer service and protection, commitment to human rights, the right to privacy, and anti-bribery and anti-corruption. The Code of Business Conduct and Ethics is a declaration of principles and, more so, a vital part of the Bank's risk management strategy. Annually reviewed, the Code was refreshed and approved by the PerCom in August 2017.

Through the Code, the Bank desires to: (1) build a culture of integrity, accountability, and ethical behavior that encourages employees to abide by the Code and strive to protect the Bank's reputation; (2) establish a system for detection and reporting of known or suspected ethical wrongdoing or violations of the Code, and; (3) emphasize BPI's commitment to compliance with regulatory guidelines, rules, and laws. (Recommendations 7.1 and 7.2., SEC CG Code for PLCs)

THE CODE OF BUSINESS CONDUCT AND ETHICS
OUR CLIENTS
Values at work: Customer Service, Teamwork, Concern for People
• Building Client Relationships
• Safeguarding Privacy and Security of Client Information
• Promoting and Strengthening Consumer Protection
OUR EMPLOYEES
Values at work: Integrity, Excellence, Teamwork, Loyalty
• Adhering to Company Rules and Workplace Policies
• Creating Dignity and Unity in the Workplace
• Contributing to Workplace Health & Safety
• Following Limits of Authority
• Avoiding Conflict of Interest
• Protecting Property and Assets of BPI and Others
• Recognizing Privacy of Employee Information
OUR SHAREHOLDERS
Values at work: Integrity, Excellence, Teamwork, Loyalty
• Upholding the Bank's Reputation, Service Quality and Trust
• Transparency, Liaison and Coordination with Regulators
• Maintaining Company Records and Reporting Requirements
• Supporting Investors and the Market
• Encouraging and Assisting Whistleblowing
• Handling Related Party Transactions
OUR COUNTRY
Values at work: Integrity, Excellence, Teamwork, Concern for People
• Compliance with KYC, Anti-Money Laundering and FATCA Regulations
• Preventing Insider Trading
• Enforcing Anti-Corruption and Anti-Bribery
• Dealing with Suppliers and Business Partners
• Caring for Sustainability and Communities

Applicability of Code. The Code is applicable to and mandatory for all employees at all levels of the BPI group. As no code could address every situation an employee may encounter, all employees are required to follow both the spirit and the letter of the Code, its policies, and procedures. Annually, all BPI employees are required to read, understand, and comply with the Code of Business Conduct and Ethics.

All others who work for, or on behalf of, BPI are also required to demonstrate the highest standards of professional business conduct. In general, this includes consultants, agents, contract or temporary workers, and business partners.

Each employee's conduct is his or her own responsibility and decision. No employee should ever commit a violation even if directed to do so by a manager or colleague. Any disciplinary action shall be directed against the employee's wrongdoing and not against his person or personality. The identity of an employee, who is the subject of a Code violation or disciplinary process, and information on such proceedings, shall be maintained in confidence to the extent possible, given the legitimate needs of law and the fact-finding process.

Guidance on the Code. Throughout the Code, employees will find information, key terms, and links to related policies on BPI's internal electronic database, to guide them in making ethical decisions. However, the Code does not contain the answers to every question employees may encounter at work nor cover every violation. In the absence of a specific policy, employees have a responsibility to use good judgment, comply with the spirit of the Code, and seek help from their immediate superior, the Human Resources Management Group, or HR Employee Care Unit if they have any questions or concerns.

Reporting Violations. All employees must report to management any information they may have about any offense or Code violation which has been, is being, or is about to be committed. Failure to do so will subject the employee to the appropriate disciplinary action. Protection of the reporting party's identity will be maintained to the extent possible, within the legitimate needs of law and the fact-finding process. Where appropriate, BPI may apply the protected disclosure protocols of our Whistleblower Policy. Employees are also expected to cooperate with any investigation, inquiry, examination, or litigation related to the offense or Code violation.

Director's Code of Conduct. BPI has a Code of Conduct for its Board of Directors, adopted in September 2017, which applies to and is binding on all directors of the Bank. The Director's Code is intended to provide guidance to directors, whether executive, non-executive, or independent, with policies on standards for conduct of the business of the Bank, the protection of its rights and its stakeholders, maintaining BPI's reputation for integrity, and fostering compliance with applicable laws and regulations. The principles outlined in the Director's Code of Conduct: (1) codify a standard of conduct for which directors are to abide throughout their term of service, from the date of their appointment; (2) set out a range of matters relating to the director's role and the behavior expected of them to properly undertake their fiduciary duties, protect the business interests of BPI, and maintain its reputation for integrity, and; (3) emphasize BPI's commitment to compliance with regulatory guidelines, rules and laws In contrast to the Board Charter and Manual on Corporate Governance, which sets out the qualifications, role, composition, duties, and responsibilities of the Board within the governance structure of the Bank, the Code governs the behavior and conduct of the directors. The Director's Code, therefore, sets forth policies in several basic areas that commonly require directors to exercise sound and informed judgment, recognize and deal with ethical issues, report possible unethical conduct, and foster a culture of openness, fair dealing, diligence, and accountability. These basic areas include: (1) leadership and stewardship, (2) diligence, care, and skill, (3) upholding the law, (4) conflict of interest, (5) competition and fair dealing, (6) confidentiality, and (7) corporate disclosure. The Director's Code also discusses directors' time commitments, training and development, personal investments and insider trading, political activity and involvement, gifts policy, anti-bribery and anti-corruption, related party transactions, competition and fair-dealing, and public communication. These are all part of the key ESG issues for the banking sector, i.e., Resilience, Business Ethics, Responsible Finance, Financial Product Governance and Human Capital. (Recommendation 2.1 SEC CG Code for PLCs)

Dissemination of the Codes. Among others, the Bank's codes of conduct and policies on conflict-of-interest, insider trading, whistleblower, related party transactions, and other guidelines are embodied in the Bank's Manual on Corporate Governance and included in the Bank's Management and Operating Manual and Personnel Policy Manual, each of which is recorded in electronic databases readily accessible for all Bank employees. Bank policies are also regularly announced via internal e-mail facility to ensure constant top-of-mind awareness of employees of the need to comply with these policies. Directors are provided with hard copies as well as electronic copies of the Director's Code. Both the Employees' and Directors' Codes of Conduct are disclosed in the Manual on Corporate Governance and on the company website at www.bpi.com.ph. (Recommendation 7.1, 8.5, 8.7 SEC CG Code for PLCs)

Training on the Codes. New employees are likewise given training on the Bank's Credo and the Code of Conduct as part of a values integration session.

Compliance with the Codes. All directors and employees acknowledge annually, through a Statement of Affirmation, that they have read and understood the employee Code of Conduct and/or the Director's Code, respectively, as well as the Manual on Corporate Governance, and fully comply and adhere to the principles, standards, and policies therein. In adherence to Recommendation 7.2 of the SEC CG Code for PLCs, the Board, through the Personnel and Compensation, Audit, and Corporate Governance Committees, ensures that the Bank's Human Resources Management Group implements and monitors compliance with the Code.

COMPANY POLICIES AND STANDARDS

Major policies and standards are also in place to guide and support BPI employees' adherence to the Code of Business Conduct and Ethics and to internal company rules and regulations.

Conflict of Interest. BPI does not tolerate those who place their interest above that of the institution, its clients, or business partners. The Bank has in place standards on conflict-of-interest that elevate the interest of the Bank above that of the personal interests of directors, officers, and employees. These standards prohibit directors and employees from using their position of authority or rank to directly or indirectly derive personal gain or advantage.

Our standards on conflict of interest expect all directors and employees to refrain from any conduct that could be viewed unfavorably by the Bank's clients, co-employees, competitors, suppliers, investors, regulators, or the public. The standards also require full cooperation and provision of complete and accurate information from employees during government, regulatory or internal enquiries, investigations, and audits. Directors are required to disclose any conflicts of interests such as cross-board memberships, cross-shareholdings with suppliers and other stakeholders, and related party issues. See Appendix for Board biographies.

The standards also cover specific conflict-of-interest situations such as receipt of gifts from third parties, respect for trade secrets, use of non-public information, and use of company funds, assets, and information.

The Conflict of Interest standards are disclosed in the Manual on Corporate Governance and on the company website at www.bpi.com.ph. (Recommendation 7.1, 8.7 SEC CG Code for PLCs).

Anti-Bribery and Anti-Corruption. Through its Anti-Bribery and Anti-Corruption (ABC) Policy, the Bank puts the highest premium on sound, responsible, and effective corporate governance. The Bank advocates that directors and employees do not tolerate corruption or any form of bribery nor provide or accept improper inducements in the course of any business dealing. (Recommendation 15.2 SEC CG Code for PLCs)

Aligned with the Bank's commitment to act fairly and with integrity in all business dealings and relationships, the ABC Policy complements the Bank's financial crime policies and programs such as the Money Laundering and Terrorist Financing Prevention Program (MLPP) and Whistleblower Policy.

Guidance on the Bank's ABC Policy is supplemented by the Standards on Conflict of Interest under Request or Acceptance of Fees, Commissions, Gifts. Monitoring of and compliance with the Code of Conduct and related policies are undertaken by the Human Resources Management Group and Corporate Governance Department of the Compliance Division.

For the year 2018, there are no confirmed incidents of bribery or corruption.

The ABC Policy is disclosed in the Manual on Corporate Governance and on the company website at www.bpi.com.ph. (Recommendation 7.1, 8.7 SEC CG Code for PLCs)

Insider Trading. The Bank has an Insider Trading Policy which prohibits its covered persons or directors, employees, and other parties who are considered to have knowledge of material facts that have not been disclosed to the public, including any information that will likely affect the market price of BPI's securities, from buying or selling these securities for their own personal account. (Recommendation 8.2 of the SEC CG Code for PLCs)

Covered persons are strictly prohibited from trading during periods of structured and non-structured disclosure (trading blackout). This prohibition includes passing on material and non-public information relating to BPI or its clients to anybody who may buy or sell securities. A trading blackout prohibits trading once the covered person receives material information before a structured or unstructured disclosure. Trading can only be done after said disclosure.

Office bulletins are regularly issued by the Compliance Office before, during, and after trading blackout periods to ensure compliance with the Insider Trading Policy.

All directors and senior management are required to comply with regular reportorial requirements of and disclosure to the SEC and the PSE for the purchase and sale of BPI shares.

The Bank expects every director, officer, and employee, including related covered persons, to comply with the Policy, and to use honesty and good judgment at all times when trading in the company's securities.

Violation of the policy shall be subject to disciplinary action as may be determined by management or the Board, without prejudice to any civil or criminal proceedings which BPI or the regulators may file. Under the law, insider trading may be subject to penalty for damages or fine and/or imprisonment.

For the year 2018, there are no confirmed incidents of insider trading.

The Insider Trading Policy is disclosed in the Manual on Corporate Governance and on the company website at www.bpi.com.ph. (Recommendation 7.1, 8.7 SEC CG Code for PLCs)

Whistleblowing. The Bank supports a whistleblower program, an important mechanism to prevent and detect fraud or misconduct, and enable fast and coordinated incident responses, remedial actions, and damage control procedures. (Recommendation 15.3 of the SEC CG Code for PLCs)

Applicability of Policy. The Whistleblower Policy is applicable to both internal and external stakeholders. All directors and employees, as well as clients, suppliers, and other stakeholders can report any violation. These can include violations of policies, procedures, and applicable laws and regulations such as fraud, sexual harassment, theft, stealing, conflict of interest, information security breach, and any other acts which are inimical to the interests of the Bank and the BPI group.

Reporting Procedure. The whistleblower may approach any of the following officers who are the designated contacts for the Bank and the primary reporting line: Chief Human Resources Officer, Chief Audit Executive, and Chief Risk Officer. Under extraordinary circumstances, the whistleblower may also course the complaint through other reporting lines, like the President and CEO or the Chairman of the Bank's Audit Committee.

The whistleblower may report formally or anonymously to the primary contacts. Reporting can be done in writing, by telephone, in person, or through *eye_report@bpi.com.ph.*

Upon receipt of the whistleblower report, the personnel to whom the report was disclosed shall immediately initiate the investigation by turning over the details and documents, if any, to the investigating unit of the Bank. The investigation of the whistleblower report shall follow due process as stipulated in the Bank's manual of operations for handling fraud and irregularities.

Non-Retaliation. The Whistleblower Policy emphasizes the Bank's commitment to non-retaliation. It fosters and maintains an environment of utmost confidentiality where all whistleblowers may act appropriately without fear of reprisal, and be treated with utmost confidentiality. An individual who makes a protected disclosure shall not suffer harassment, retaliation, or adverse employment consequences. Any person who retaliates against any individual who makes a protected disclosure shall be subject to discipline, including termination.

In case the whistleblower believes he has been subjected to retaliation, he may seek redress or file a formal complaint to the three primary contacts for whistleblowing.

In 2018, BPI received a total of 34 reports through its BPI Eye Report Box, all of which have been fully resolved. The nature of the reports included customer issues (47%), queries (32%), administrative matters (15%), external fraud (3%), and operational lapses (3%).

The Whistleblower Policy is disclosed in the Manual on Corporate Governance and may also be read on our website at www.bpi.com.ph (Recommendation 7.1, 8.7 SEC CG Code for PLCs)

Related Party Transactions.

Our Related Party Transactions Policy imposes stringent guidelines and measures to maintain arm's length integrity in all of the Bank's related party business transactions, operations, and activities. BPI vigilantly guards against improper pricing policies, questionable manners of settlement, and ambiguous or disputable terms of transactions in any related party transactions. (Recommendation 2.7 of the SEC CG Code for PLCs)

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the latter in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, including affiliates. Related parties may also be individuals or corporate entities.

Because transactions with related parties can be abused, the terms of such transactions are of vital interest to shareholders. The interests of all stakeholders must likewise be fully protected.

Through this policy, the Bank also institutionalized a sustainable framework for identification, assessment, and reporting of related party transactions, aimed at achieving an increased degree of transparency.

BPI established a Board-level Related Party Transactions (RPT) Committee to assist the Board in assessing material agreements of any kind with a related party and determine whether to approve, ratify, disapprove or reject a transaction. Currently composed of independent and non-executive directors, this Committee meets regularly to vet credit and non-credit related party transactions of significant amounts above the material threshold of Php 50 million. The Bank's CAE and CCO also sit as non-voting members of the RPT Committee. Internal Audit, under the CAE, performs post-reviews to ensure proper implementation of related party transactions approved by the RPT Committee.

The RPT Committee is guided by the following:

- The Committee takes into account whether the RPT is entered into on terms no less favorable to the Bank than terms generally available to an unaffiliated third-party under the same or similar circumstances.
- For a transaction involving a sale of bank assets, the Committee reviews the results of the appraisal or valuation methodology used, as well as alternative approaches to valuation.
- The Committee assesses the extent of the related party's interest in the transaction:
  - Term of the transaction;
  - The related party's interest in the transaction;
  - Purpose and timing of the transaction;
  - Whether the Bank is a party to the transaction and, if not, the nature of the Bank's participation in the transaction;
  - If the transaction involves the sale of an asset, a description of the asset including date acquired and costs basis;
  - Information concerning potential counterparties in the transactions;

- Approximated value of the transaction and the approximated value of the related party's interest in the transaction;
- Description of provisions or limitations imposed as a result of entering into proposed transaction;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Purpose of transaction; and
- Potential benefits to the Bank.

In adherence to Recommendation 5.6 of the SEC CG Code for PLCs, the Bank's Related Party Transactions Policy, and Code of Conduct, directors with material interest in any transaction affecting the Bank abstain from taking part in deliberations for the same.

RPTs that are classified as a material transaction must be approved by the Board and submitted for confirmation by majority vote of the stockholders in the ASM.

RPTs involving amounts below the materiality threshold must be approved by the proper authority and submitted for confirmation by the Board, or the subsidiary as the case may be. RPTs involving Directors, Officers, Shareholders, and Related Interests (DOSRI), subsidiaries, and affiliates, must at all times be submitted to the appropriate Board for approval.

The Bank also created a Management Vetting Committee (MVC), composed of the five Executive Vice Presidents of the Bank, to review related party transactions which are below the materiality threshold. The Compliance Office, under the CCO, is responsible for the post-review of all MVC-approved transactions. The MVC also submits all vetted transactions to the RPT Committee for its information and confirmation.

All directors, officers, and employees are also required to disclose conflicts and potential conflicts, as well as relationships with clients, prospects, suppliers, and other interests.

Companies within the BPI group are also covered by this overarching Related Party Transactions Policy of the Bank.

Related party transactions are properly disclosed in the Bank's audited financial statements, and other applicable fillings in accordance with the relevant rules and issuances of the BSP, SEC, and other regulatory bodies. If needed, the RPT Committee may also call on independent experts to help with valuation issues to ensure that the interests of the Bank and its stakeholders are protected.

A more detailed discussion on related party transactions can be found in Note 26 of the 2018 Audited Financial Statements. The Related Party Transactions Policy is disclosed in the Manual on Corporate Governance and may also be read on our website at www.bpi.com.ph (Recommendation 7.1, 8.5, 8.7 SEC CG Code for PLCs)

Mergers, Acquisitions, and/or Takeovers

The Board and senior management exercise appropriate due diligence and good faith in the review and consideration of all material issues with respect to strategy, opportunities and risks, pricing or valuation, compliance and legal obligations, including diligence on the parties involved before entering into extraordinary transactions, such as mergers, acquisitions, and takeovers. The Bank engages the service of independent and qualified third-party firms and consultants to evaluate the fairness of the transaction price and terms and conditions. (Recommendation 8.6 SEC CG Code for PLCs)

The Bank exercised such diligence and transparency in its (1) 2016 acquisition of a minority stake in rural lender Rizal Bank Inc. (RBI), a member institution of CARD Mutually Reinforcing Institutions, and (2) purchase of the ownership interests of Ayala Corporation (20%) and Globe Telecom, Inc. (40%) in BPI Direct BanKo, Inc., A Savings Bank, which was founded in February 2000 as BPI Globe BanKo.

Suppliers and Contractors

BPI has established processes for accreditation, vendor selection, and suppliers audit to ensure qualified suppliers are given equal opportunity when bidding for projects with the Bank. All employees, departments, and divisions are also regularly advised to update and review their respective lists of suppliers to meet accreditation requirements. Employees must also review the Bank's detailed policies on outsourcing services where applicable. BPI complies with outsourcing regulations mandated by the BSP which requires banks to put in place appropriate processes, procedures, and information systems that can adequately identify, monitor, and mitigate operational risks arising from the outsourced activities.

In this regard, BPI's Board and senior management established policies on outsourcing to ensure that all outsourced activities are conducted in a safe and sound manner and in compliance with applicable laws, rules, and regulations.

From a governance standpoint, commercial transactions with suppliers should be economically beneficial to all parties involved and relationships should be based on the principle of fair and honest dealings. Compliance with internal policies must be in place to stop fraud, money laundering, bribery, and corruption and adhere to local or international laws and regulations. From an ESG standpoint, the Bank's goal is to work collaboratively with supply chain partners on sustainability. BPI's supply chain management policies ensure that the Bank's supply chain is not only sustainable but is also geared towards improving the lives of workers, their communities, and the environment. The Bank also engages suppliers who promote sustainable development and who comply with national laws and internationally recognized standards and conventions for ethical, environmental, and social conditions.

Creditors

As a financial institution and an active participant in the capital markets, BPI respects the rights of its creditors. In 2018, the Bank continued diversifying its funding sources and lengthening the maturity profile of its borrowings through a series of fundraising activities, tapping both offshore and onshore debt markets. These included its US $600 million debut US-dollar bond issuance in August 2018 through a drawdown from its US $2-billion medium-term note program, the largest debt issuance by a Philippine bank in the offshore debt market. These fundraising activities also included the Bank's Php 25 billion BPI Bonds issuance, which is the largest single bond listing in PDEx to date and forms part of the Bank's Php 50 billion bond and commercial paper program.

The Bank complies with all covenants of its debt and equity issuances and respects the rights of its bondholders and stockholders. BPI also complies with statutory requirements with respect to post-issuance continuing disclosure, tax compliance, and other duties, responsibilities, or actions it is obligated to perform or is prohibited from performing, for the respective capital market issuance. The Bank also has an Investor Relations Program to respond to investors' need for information. It keeps rating agencies informed of material events and responds to other requests for information.

Data Privacy. BPI has a strong Data Privacy Policy in place. This policy describes to whom it applies to, what personal data the Bank collects, and how such data is collected, and how the Bank may use personal data for core business and marketing purposes. The policy also covers how the Bank may disclose and share such personal data, how such personal data is stored and retained, and how such data can be accessed or corrected. The Data Privacy Policy or Statement is posted on the company website and complies with the requirements of the Data Privacy Act and the NPC.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE MATTERS

BPI understands that ESG issues are tied directly to a company's operations or products, or indirectly through stakeholder actions across the entire value chain, and can, thus, impact company financial performance. Volatility in the global business environment due to ESG shocks - financial risks, regulatory uncertainty, extreme weather, business interruption costs, and social media, among others - demand that companies build new capabilities such as preparedness for the unknown, and the ability to execute a business strategy without incurring too much risk. Left unmanaged, such ESG shocks can result in critical harm to any company's management, culture, and financial well-being.

ESG Reporting. In reporting material, non-financial issues, the Bank has adopted a globally recognized standard and framework, International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework, as well as references the Global Reporting Initiative (GRI) Standards 2016 series. (Recommendation 10.1 SEC CG Code for PLCs).

Materiality. ESG covers a broad range of issues. It is important to note that not all ESG issues are of strategic significance to banks, such as BPI, or companies that are in the financial services industry. Given the divergent views and barriers that the ESG language can create, it is important to reframe the discussion in business terms relevant to a bank, particularly risk, opportunity, efficiency, and financial performance.

Failing to factor in ESG issues puts the Bank's operations at risk, which can include: negative financial consequences (e.g., fines, penalties); negative operational impacts (e.g., employee strikes or CBA lock-outs, high staff turnover); reputational damage to the company; and increased cost of doing business. On the other hand, effectively addressing ESG issues reduces uncertainties in the Bank's operations and that of associated third parties. It also allows the Bank to avoid costs and minimize potential remedial actions related to ESG issues and incidents. Opportunities include avoidance of penalties for non-compliance, greater employee retention and productivity, lower cost of capital and operations, and access to premium markets and new revenue streams. Any of these alternatives impact the Bank's efficiency and ability to create value.

Key ESG issues for the banking sector can therefore be categorized into the following: (1) Resilience, (2) Business Ethics, (3) Responsible Finance, (4) Financial Product Governance, and (5) Human Capital[1].

BPI believes that the proper management of these key ESG issues is a vital component of strategy, essential to the execution of its core business processes and to being able to deliver returns with greater certainty. By identifying and assessing these key ESG issues in terms of their materiality to its business, and responding accordingly (i.e., strategic rethinking of the business, new product innovation, business model changes, etc.), BPI is able to build a better, more resilient, and more valuable bank. By adapting to changes in the business environment, and not merely to operational or financial risks, the Bank demonstrates recognition and management of the key ESG issues as a long-term driver of market value.

See Material Topics and Stakeholder Engagement section for more information.

Stakeholder Expectations. In the conduct of BPI's materiality analysis, stakeholder expectations are a primary driver of its ESG focus. The Bank takes into consideration environmental issues, employee and social matters, human rights, anti-bribery and anti-corruption, and corporate governance when making business decisions, whether these have to do with the provision of financing, investments, or advice. It takes into consideration the impact of its own operations on the environment. BPI also acknowledges that having a diversified, competent, and satisfied workforce that acts in accordance with established ethical standards is critical to sustainability, noting that poor labor practices can lead to fines, penalties, lost operational time, and high employee turnover. In the same way, the right decisions about talent and supply chain practices will realize lower costs and greater productivity, and thus BPI positions itself well to attract the best talent and to ensure that suppliers adhere to the Bank's social and environmental standards. Changes in customer needs and in the marketplace also call for the Bank's adjustment to the change in consumer and commercial expectations. In this respect, the Bank takes such opportunities to highlight its investment in or lending to borrowers who can make positive impact to the environment, as well as the social benefits of their products and services.

The Bank's engagement with stakeholders takes on various forms and is carried out through a range of information, communication, and consultative activities and disclosures. The Bank conducts dialogues about its role in society, products and services, business performance, and other issues.

This active engagement has allowed BPI to identify its most significant stakeholder groups and their specific interests, and determine the most significant issues from

[1] Based from Sustainalytics Thematic Research, "Key Issue Report Series - No. 2, Banks& Responsible Finance", August 2014

the economic, environmental, and social sustainability perspective. See Material Topics and Stakeholder Engagement section for more information.

KEY ESG ISSUES FOR THE BANK	
Resilience	• Board leadership and internal management processes • Executive pay, audit and internal controls, and shareholder rights • Integration of environmental and social issues into strategy formulation • Partnerships with organizations to advance sustainable development (Philippine Business for the Environment, International Finance Corporation, etc.) • Management of the environmental impacts and carbon footprint of our buildings and branches • Positive environmental and social impact of our supply chain
Business Ethics	• Code of conduct, conflict of interest • Anti-bribery and anti-corruption, financial crime • Anti-money laundering • Related party transactions, Insider trading • Fraud prevention, Whistleblowing
Responsible Finance	• Financing companies in sustainable development – sustainable products and services (SEF) • Enhancing access to finance for the underserved (BanKo) • Strong growth of Impact Investing (CARD MRI, Rizal Bank) • Responsible Investment products
Financial Product Governance	• Engagement with retail customers and consumer organizations • Fair and transparent marketing and advertising • Consumer protection, customer service and complaints handling
Human Capital	• Talent attraction, retention and development • Compensation and benefits for our employees • Labor and working conditions • Health, welfare and safety • Culture and human rights

It has also allowed the Bank to become more responsive in addressing a wide range of concerns, from customer service to financial solutions, shareholder return, operational strategies, business outlook, regulatory compliance, and employee compensation.

The outcomes of the Bank's stakeholder engagement influence its risk-management processes, allowing it to address potential risks and align the management of issues with business processes and strategies. Finally, the stakeholder engagement also helps the Bank improve and innovate its products, services, systems, operational processes, and practices. (Recommendation 14.1, 14.2, 14.3, 16.1 SEC CG Code for PLCs)

Resilience

The Board has the primary role and responsibility for setting and overseeing the environmental, social, and governance agenda of the Bank. The Board's oversight of these issues is reflected in the Strategies and Policies drawn up by the Board. In this respect, the Board ensures that its membership is diverse and includes directors who have the skills and past or present work, board experience or engagement to understand the key ESG-related issues for the banking sector and the implications or impact on the business.

Currently, oversight of these matters is managed at the full board level, as introducing a dedicated committee would increase the complexity of ESG risk governance. The various ESG-related issues are discussed at sub-committee level and reported to the committees or the full Board. These committees include but are not limited to: Audit, Corporate Governance, Risk Management, Related Party Transactions, PerCom, and Nomination Committees. The relevant board-level committees discuss specific issues that fall under their committee charter, report and provide feedback, and recommend approval of any policies to the full board. Decision-making authority and accountability remain with the Board.

At management level, BPI has a Sustainability Office which has oversight for the sustainability initiatives of the Bank. The Sustainability Office has in place a 'fit for purpose' ESG management system which monitors and tracks the Bank's ESG performance against key metrics, delivering valuable information to business units to enhance and improve decision-making and practices. The Sustainability Office supports and works closely with the Strategic Corporate Planning Division of the Bank in identifying material environmental and social sustainability issues and trends relevant to the Bank's operations and assessing their materiality and implications on the business. These are then incorporated into the long-term strategies, as well as capital allocation decisions of the Bank. The Sustainability Office works with the Corporate Governance Department of the Bank with respect to Governance issues. It also communicates to shareholders and other key stakeholders the Bank's Shared Value approach to value creation and how this drives or supports the overall financial inclusion and digitalization goals.

The Sustainability Office is headed by the Bank's Chief Sustainability Officer. The Head of the Sustainability Office reports to the Head of the Enterprise Services Group and Chief Operating Officer who, in turn, reports directly to the President and CEO. The Sustainability Office ensures that it also has the right people with the right skillsets to evaluate and monitor these environmental and social issues as well as track and measure performance in this area.

Business Ethics
Please see the discussions on the Code of Business Conduct and Ethics, Company Policies and Standards elsewhere in this report, under pages 140-142.

Responsible Finance
BPI promotes investments in businesses, industries, and projects that contribute to the Sustainable Development Goals (SDGs), in the form of loans, capital raising, leasing arrangements, technical support, and client education. In 2018, the Bank financed Php 196.92 billion projects identified to contribute to the SDGs.

In 2016, BPI acquired a minority stake in rural lender Rizal Bank Inc. (RBI), a member institution of CARD Mutually Reinforcing Institutions (MRI) which is a group with the goal of eradicating poverty in the Philippines and uplifting the lives of Filipinos. The partnership made BPI the exclusive local equity partner in the CARD MRI Banking Group and deepened the Bank's reach in the microfinance space, benefiting more unserved and underserved Filipinos. This also reaffirmed BPI's vision to be the leading bank with a strong focus on financial inclusion and sustainable growth. RBI's emphasis on forging trust and building relationships with its clients are aligned with BPI's own customer-centric efforts.

In the same year, BPI also purchased the ownership interests of Ayala Corporation (20%) and Globe Telecom, Inc. (40%) in BPI Direct BanKo, Inc., A Savings Bank ("BanKo"), which was founded in February 2000 as BPI Globe BanKO. Following a merger with BPI Direct Savings Bank, Inc. in December 2016, BanKo is now wholly-owned by the BPI group and serves its microfinance customers through branch, electronic, and partnership channels.

Financial Product Governance
BPI is committed to ensuring that its customers have all the information they need and the right advice to make decisions about their finances. Whenever the Bank develops a new product, it follows a stringent process to ensure it is described fully and accurately and sold responsibly. The Bank has an overarching General Product Management Policy, supported by a Product Approval Process, as well as procedures for Client Suitability Assessment. Product branding, as well as marketing communications and promotions are also conducted in accordance with set standards. Employees of business units that are involved in the development and delivery of the Bank's products and services undergo the requisite training to acquire and enhance their skills and competencies.

Through these guidelines and activities, the Bank ensures that customer experience is consistent across all channels and the delivery of its products and services is compliant with regulations. Operating policies and procedures supporting the delivery of products and services are evaluated at least annually to identify areas for improvement and product or service gaps. Risk management, compliance, and assurance activities are also regularly conducted to monitor and ensure integrity of these policies and processes, and financial product governance.

Financial Consumer Protection Program. In 2015, the Bank, established its Customer Experience Management Office (CXMO) as part of the BPI Financial Consumer Protection Program required under BSP Circular No. 857. In compliance with the circular, BPI's CXMO created the Customer Assistance Program (CAP) to build an enabling environment and to define safety nets for recognition and protection of consumer rights. The CAP promotes a culture of fair dealing and embeds responsible business practices in the Bank's operations, in accordance with the BSP's consumer protection regulations and standards of conduct. The CAP also equips Bank employees with the required education and training, and institutionalizes appropriate communication avenues as well as mechanisms for consumers to be able to provide feedback, ask questions, obtain information and clarifications, file complaints, or seek redress effectively and efficiently.

The CXMO is led by the Head of Customer Care and reports, functionally, to the Board through the Executive Committee and, administratively, to the Chief Operations Officer, who also heads the Bank's Enterprise Services Group. The CXMO reports to the senior management and the Board every month.

The Bank complies with product and service information and labeling regulations and voluntary codes for consumer protection such as the Banking Code for Consumer Protection of the Bank Marketing Association of the Philippines (BMAP) and its Council of Advisors and product governance such as Markets in Financial Instruments Directive II (MiFID II). BPI has also continuously taken corrective and remedial action in case of any deficiencies or areas for improvement.

In 2018, there were no confirmed incidents of non-compliance.

See Customer Experience for more information.

Human Capital.
As a key ESG issue, Human Capital impacts the Bank's reputational and operational risks. It also has business impacts on employee motivation and the Bank's hiring capability. The Bank also needs to strategically manage the sustainability impact of its Human Capital with respect to labor rights and conditions, human rights and society. (Recommendation 15.1 SEC CG Code for PLCs)

Employee Welfare, Health, and Safety.
Having engaged and competent employees is BPI's goal for delivering best-in-class customer experiences and for achieving its vision of being the most trusted partner and financial advisor. The Bank strives to be an employer of choice among Philippine financial institutions. With strengths in three main employee engagement drivers of career development and opportunities, goal clarity, and leadership, the Bank introduced more initiatives to boost competency development among its officers and staff, worked to accelerate promotions, and identified the right metrics to better align human resource measures with corporate strategy. Moreover, BPI strives to provide a safe, secure, and conducive working environment for its employees, to continually safeguard their rights and provide equal opportunity for everyone. (Recommendation 2.9 of the SEC CG Code for PLCs)

Employee Training and Development. Employee training and education are essential to the Bank's growth strategy. By ensuring that its staff, specialists, and officers are trained, steeped in best practices, and exposed to an environment that nurtures continuous learning, the Bank is able to provide the highest quality of service to its clients. BPI has a wide array of training programs, aligned with the Bank's business objectives, to hone the skills and capabilities of its employees and prepare them to be the next leaders in the organization. These programs include (1) the new employee orientation and values orientation workshops for new hires; (2) officers training programs, which initiate new officers into their leadership roles; (3) sales officers training programs; (4) advanced leadership programs for officers; (5) courses on financial advisory; and (6) programs designed to help employees comply with regulatory requirements, among others. (Recommendation 15.1 of the SEC CG Code for PLCs)

The Bank uses a blended learning approach that includes workshops, coaching/mentoring, instructor-led training sessions, and web-based training courses. It also designs and facilitates leadership and management training programs for supervisors, functional managers, and senior managers to support the Bank's investment in leadership development. Major focus areas of these programs include:

1. Leadership and Management Development – Programs that provide opportunities for BPI leaders to develop their ability to lead, inspire, and motivate their team members and organization. This covers Professional Effectiveness Programs that develop Personal Leadership.

2. Functional – Programs that develop and strengthen specific functional and technical competencies required from individuals so they can perform their tasks effectively.

3. Core and Team Effectiveness – Programs that provide foundational knowledge and competencies for any employee. These also cover programs and interventions for teams in BPI.

The Bank requires every employee to undertake a minimum of five training days every year, ensuring continuous professional improvement and keeping them abreast of industry developments.

For 2018, the Bank conducted at least 125 programs. Here are only some of the highlights of the above-mentioned recent trainings of the Bank:

Course Name	Number of Employees	
	2017	2018
Conflict of Interest	4,689	4,224
BPI Service Plus	2,707	2,874
Information Security Awareness Program 1	6,342	4,221
Information Security Awareness Program 2	5,731	4,610
Risk Management Overview/ **Operational Risk Overview**	4,563	9,005
Values Orientation Workshop	2,461	2,466
Data Privacy 1*	N/A	10,322
Data Privacy 2*	N/A	10,071

* First implemented in July 2018

Employee Welfare. Consistent with the Bank's goal of being the employer of choice, it has adopted a compensation policy that is competitive with industry standards in the Philippines. Regular employees are provided with a comprehensive pay and benefits package, which is reviewed periodically and adjusted to retain current employees and attract new talent.

Tied to this is a performance management system that calls for the alignment of individual key results, competencies, and development plans with the Bank's overall business targets and strategy. Officers and employees undergo regular performance evaluations based on their individual accomplishments vis-a-vis their responsibilities, as well as that of the business unit or the Bank. This takes into consideration the Bank's earnings performance, asset quality, business volume, customer satisfaction, corporate governance, and the long-term strategy, goals, and outlook. Deserving officers are granted an annual performance bonus, which is determined by the Bank's annual earnings. The performance bonuses are based not only on an employee's individual productivity and performance relative to assigned targets, but also on a relative comparison to the performance of peers within their rank.

Another testament to BPI's commitment to offer greater value to employees is its equity-linked incentive plan for its officers, from assistant managers and up (with eligibility requirements): Executive Stock Purchase Plan (ESPP), which was launched in 2013. The ESPP program offers officers the opportunity to purchase BPI shares at a discount to the prevailing market price, and to pay for such purchase over a prescribed period of time. This also promotes ownership culture within the Bank that fosters a sense of belonging among officers and develops their direct interest in the Bank. Management believes that this stronger alignment between the interests of BPI officers and shareholders will benefit all stakeholders. This helps achieve more robust earnings and a healthier balance sheet, reflecting a higher stock valuation.

BPI also extends the inherent benefits of being a financial institution by offering its employees and their families the Bank's products and services at affordable terms. These include low-interest rates for auto and housing loans, emergency loans, medical and group term insurance, and salary and emergency loans. In addition, the Bank provides financial security to employees even after their retirement through its retirement benefit plan. BPI has a Defined Benefit Retirement Plan under which employees will receive an amount dependent on their age, years of service, and compensation. The Bank also has a Defined Contribution Retirement Plan, where the defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary of the employee at normal retirement age, with the required years of service based on the provisions of Republic Act No. 7641. All non-unionized employees hired on or after the effective date are automatically enrolled under the new Defined Contribution Plan. Employees hired prior to the effective date have the option to elect into the new Defined Contribution Plan. Funds for both retirement plans are held in trusts, governed by local regulations and practice in the Philippines.

The Bank also looks after its retiring employees through the conduct of annual seminars on estate planning, investment opportunities in and outside of the Bank, and transition from being an employee to an entrepreneur. There are also counseling programs that help employees face life during retirement. The Bank also strengthened its off-boarding program to further equip BPI retirees in this transition. Processing of documents has been made more convenient.

BPI strictly complies with labor laws and regulations and implement best practices in the workplace. The Bank recognizes the existence of company unions and the rights to freedom of association and collective bargaining, and maintains harmonious relations with these unions. BPI also does not discriminate on gender, religion, age, race, color, political stand, or social background. It strictly enforces non-employment of minors and is against forced compulsory labor. The Bank also has an open-door communications policy to address concerns among employees immediately before escalation.

As a requirement in their certification process, the Bank also regularly trains security personnel, who are not formally part of its workforce and belong to third-party agencies, every two years on human rights-related topics. This is to ensure that they uphold the rights not only of the Bank's employees but also of its clients, suppliers, and other stakeholders that do business with the Bank.

BPI also has various interest clubs to allow employees to pursue their passions and explore talents outside of work while building camaraderie and esprit de corps.

Employee Health and Safety. The Bank believes it must create an environment where its employees have opportunities to develop both mind and body. Hence, the Bank provides a comprehensive medical program which provides for in-patient and out-patient benefits for employees and their dependents. Year-round, there are also sports, recreational, and health and wellness programs (i.e., running, bowling, volleyball, golf, aerobics, and dancing, etc.). The Bank runs education and training programs on serious illnesses such as cancer awareness, stroke prevention, and first aid and basic life support. Wellness fairs are also conducted regularly in the head offices and provincial business centers where employees and their families avail of free or discounted services such as vaccinations, bone screening, and physical examinations.

The Bank ensures that all its premises follow proper health and safety protocols (i.e., ban on smoking, ban on firearms, pest prevention, and more). Regular disaster preparedness activities are also conducted bank- and group-wide (fire, earthquake, etc.) and frequent notices and reminders are broadcast regularly through the Bank's intranet or posted where employees can easily read them. BPI also has quality circles which regularly conduct audits and heighten awareness about best practices on workplace management.

Because of its policy of strict compliance with labor laws and regulations and implementation of best practices in the workplace, the Bank has not identified and recorded any incidents and complaints of labor discrimination, compulsory labor, child labor and employment of minors, forced labor, or human rights abuses.

While the Bank has not been a party to legal cases arising from any of these labor issues, it has a grievance mechanism embedded in the Collective Bargaining Agreement to promptly dispose and amicably settle all grievances. Steps are clearly defined until the level of arbitration.

Being a financial services company, the Bank's employees are less exposed to occupational health and safety issues usually associated with manufacturing and industrial companies. There are no notable recorded incidents of injury, occupational diseases, serious work-related diseases, and other fatalities in the Bank.

Employee volunteerism. BPI has a built-in volunteerism program called BPI BAYAN, which encourages and organizes employees to devote some of their personal time to help communities relevant to BPI and its clients. BPI BAYAN is self-sustaining, using a seed fund granted by the Bank in 2009 to finance community development projects the employee volunteers organize. For more details, see pages 82-83 or visit www.bpifoundation.org.

Employee Awareness and Compliance with Policies. Policies and guidelines on employee welfare, health and safety, conflict of interest standards, anti-bribery and anti-corruption, insider trading, related-party transactions, whistleblowing, data privacy, consumer protection, and others are included in the Bank's employee manuals available in the internal electronic database. In addition, these policies are regularly communicated to ensure awareness of the need to comply with said policies. See Social Perforance under Managing Capitals section (Engaging our Employees) for more information on Policies, Activities and Data on Health, Welfare and Safety of Employees.

CONTINUOUS DISCLOSURE AND TRANSPARENCY

BPI values opportunities to communicate its initiatives, policies, operations, financial performance, and goals to all of its stakeholders. The Bank believes that dialogue with stakeholders is essential in ensuring their active engagement with the Bank. This provides them with timely, balanced, and understandable information, which is also integral in fulfilling the Bank's role and responsibilities as a global financial institution. In adherence to Recommendation 8.1 of the SEC CG Code for PLCs, the Policy of Disclosure and Transparency is disclosed in its Manual on Corporate Governance and is likewise published in www.bpi.com.ph.

The Bank aims to enhance disclosure and transparency levels and works to improve the usefulness of information to match the different needs of stakeholders. More importantly, it also carefully considers the varied and increasing degrees in granularity of disclosures required by developing market practices and greater regulatory focus on specific areas of the business. Consequently, the Banks strives to present disclosures in a way that is more informative to its audience and to add value beyond minimum standards and requirements.

The Bank also recognizes its continuous disclosure obligations under PSE Listing Rules and to the SEC under the SRC. As a PLC, the Bank's corporate actions are disclosed to these two bodies.

In 2018, the Bank listed its debut peso fixed rate bonds on the Philippine Dealing & Exchange Corp. (PDEx) organized secondary market[1]. The Php 25-billion BPI bonds, which form part of BPI's Php 50-billion bond and commercial paper program, is the largest single bond issue listed in PDEx. This peso bond completed the Bank's third fund raising in the capital markets in 2018. In April, BPI raised Php 50 billion in equity via rights offering while it raised US $600 million via a debut US dollar bond issuance in August through a drawdown from its US $2-billion medium-term note program, in the offshore debt market. As a result of these capital market issuances, BPI also makes the necessary disclosures to exchanges such as the PDEx and Singapore Exchange (SGX)[2].

Corporate actions of the Bank are approved by the Board and/or Executive Committee.

BPI also practices regular disclosure of financial results. Quarterly financial results are presented to the Audit Committee and the Board before disclosure and are immediately disclosed after the approval by the Board to the SEC, PSE, PDEx, and SGX. Quarterly and year-end financial statements and detailed management discussion and analysis are filed within the mandated 45 and 105 calendar days, respectively, from the end of financial period, if not earlier. The company's financial reporting disclosures are in compliance with BSP, SEC, PSE, PDEx, and SGX requisites. These reports are made available to investors and analysts after disclosure and are posted as well on the websites of the various exchanges where BPI capital market issuances are traded and on www.bpi.com.ph.

The Bank also supports the recommendations and guidance of BSP to broaden and deepen the disclosures of banks in a number of areas, including governance, risk, and compliance. It is the Bank's view that best-in-class disclosures will continue to evolve in light of ongoing pursuit of greater market and stakeholder engagement within the banking sector.

[1] Philippine Dealing & Exchange Corp is the country's sole and exclusive electronic trading platform for fixed-income securities and foreign-exchange markets.
[2] Singapore Exchange Limited is a multi-asset exchange operating equity, fixed income and derivatives markets that also provides listing, trading, clearing, settlement, depository and data services.

Key disclosure principles:

- BPI is committed to provide clear, timely, accurate, and balanced disclosure of all material information about the Bank and to provide fair and equal access to such information. BPI, however, treats all information pertaining to the company, business transactions and operations, and products and services as strategic in nature. Therefore, the Bank, in the provision of its disclosures, safeguards its proprietary information and competitive position.
- The Board requires that management has processes in place to support its policy of full, comprehensive, understandable, and timely disclosure of financial results, significant developments, and other material information to both its internal and external publics, such as clients, shareholders, regulators, employees, suppliers, rating agencies, analysts, and stock exchanges.
- Required disclosures of market-sensitive information are coursed through the proper regulatory agency and also released to the public through various cost-efficient and appropriate modes of communication.
- Disclosures should be consistent over time, unbiased, and comparable across the industry.
- In the disclosure process, BPI is guided by internal governance, risk, and compliance standards which serve to ensure information disclosure conforms with the Bank's established rules and procedures to identify, assess, and mitigate any possible risks or damages to the Bank, its counterparties, or partners as a result of any improper disclosure.
- BPI also, at all times, gives due consideration to any matters related to the confidentiality of any information affecting clients' or counterparties' interests. The Bank respects the rights of its clients and counterparties as related to the protection of confidential information.

Company Website, Social Media, and Mobile Banking Platforms. The Bank maintains an official company website in accordance with the SEC-prescribed format and template to ensure a comprehensive, cost-efficient, transparent, and timely manner of disseminating relevant information to the public. Apart from the company website, the Bank maintains official company sites that utilize social media-based platforms. BPI also has a mobile app which can be downloaded through IOS and Android, where banking transactions can be done safely and securely, anytime and anywhere. As with the company website, certain information on the Bank is also available on the mobile app.

More information on BPI's policies and practices on continuous disclosure and transparency may be found on www.bpi.com.ph.

SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights

BPI treats capital as a most valuable asset and seeks to generate superior returns for its stockholders, while being prudent in risk-taking, spending, and investment. The Bank treats all its stockholders equitably and equally, whether they have majority or minority interest. The Board is committed to respect the rights of stockholders, recognized in the Corporation Code, including, among others:

Voting rights. Shareholders have the right to elect, remove, and replace directors and vote on certain corporate acts.

- Cumulative voting is used in the election of directors, who may be removed with or without cause. Directors shall not be removed without cause if it would deny minority shareholders representation in the Board. Removal of directors requires an affirmative vote of two-thirds of the outstanding capital of BPI.
- No stockholders' meeting may conduct business unless a majority of the outstanding and subscribed capital stock entitled to vote is represented, except to adjourn from day to day until such time may be deemed proper.
- The Bank also strictly complies with the rules and regulations of the SEC and the BSP, in relation to sending out the notice of meeting at least two weeks prior to the meeting, right to vote, and right to appoint a proxy.
- BPI adheres to the "One Share, One Vote" rule. Its Amended By-Laws state that stockholders are entitled to voting rights equivalent to the number of shares they hold, i.e., voting is by shares of stock and not "per capita".

Pre-emptive rights. All stockholders have pre-emptive rights, unless there is a specific denial of this right in the Articles of Incorporation or an amendment thereto. They have the right to subscribe to the capital stock of BPI. The Bank's Articles of Incorporation lays down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which are protected by law as long as they are not in conflict with the Corporation Code.

Right of inspection. Shareholders should be allowed, within certain reasonable limits, to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code. They shall be provided with an annual report, including financial statements.

Right to information. Upon request and for a legitimate purpose, a shareholder shall be provided with periodic reports which disclose personal and professional information about the directors and officers, and certain other matters such as their holdings of BPI's shares, dealings with BPI, relationships among directors and key officers, and the aggregate compensation of directors and officers. The Information Statement and Proxy Forms where these are stated must be distributed to the shareholders before ASMs and in the Registration Statement and Prospectus in case of registrations of shares for public offering with the SEC.

Right to dividends. Stockholders have the right to receive dividends subject to the discretion of the Board. However, the SEC may direct BPI to declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except:

- When justified by definite corporate expansion projects or programs approved by the Board;
- When BPI is prohibited under loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without the creditors' consent, and such consent has not been secured; or
- When it can be clearly shown that retention of earnings is necessary under special circumstances, such as when there is a need for a special reserve for probable contingencies.

Appraisal right. In accordance with the Corporation Code, stockholders may exercise appraisal rights under the following circumstances:

- In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- In case of sale, lease, exchange, transfer, mortgage, pledge, or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- In case of merger or consolidation.

Alternative Dispute Mechanism. It is the policy of the Bank to resolve disputes or differences with stockholders, regulatory authorities and other third parties, if and when such disputes or differences arise, through mutual consultation or negotiation, mediation or arbitration. If the agreement between the Bank and third parties has an arbitration clause, arbitration is the ADR system being adopted. If none, the Bank initiates conciliation- earnest effort to arrive at amicable settlement. If everything fails, and the dispute progresses into court litigation, the Bank strictly adheres to and complies with Supreme Court A.M. No. 11-1-6-SC-PHILJA dated January 11, 2011 [Consolidated and Revised Guidelines to Implement the Expanded Coverage of Court-Annexed Mediation (CAM) and Judicial Dispute Resolution (JDR)]. (Recommendation 13.4 SEC CG Code for PLCs)

Relative to regulatory authorities, the Bank adopts and complies with the alternative modes of dispute resolution they are using or promoting such as, but not limited to, mediation, conciliation and arbitration, in compliance with Republic Act No. 9285 (Alternative Dispute Resolution Act of 2004).

More information on BPI's policies and practices to protect and uphold shareholder rights are disclosed in the Manual on Corporate Governance and disclosed on the company website at www.bpi.com.ph. (Recommendation 13.1 SEC CG Code for PLCs)

INVESTOR RELATIONS

BPI believes that transparent and accurate reporting of operating and financial results, major business decisions, and developments gives shareholders and investors the relevant inputs to their investment decisions. In addition, such reporting provides the basis for the sound and robust market valuation of its shares and a proper view to all stakeholders of possible future losses or gains.

The Bank's Investor Relations Unit, which is part of its Strategic and Corporate Planning Division, is tasked with a program of proactive, uniform, appropriate, and timely communication and reporting. Full disclosure is done in compliance with the SRC, SEC, PSE, PDEx and SGX rules, regulations, and disclosure guidelines in light of the Bank's capital market issuances. (Recommendation 13.5 SEC CG Code for PLCs)

Apart from structured disclosures, the Bank also discloses information not required under the disclosure rules if, in the Bank's estimation, such matters have an impact on investment decisions by interested parties. Such matters are disclosed as promptly and comprehensively as possible by appropriate methods.

With the introduction of the Markets in Financial Instruments Directive II (MiFID II), the Investor Relations Unit has been gearing up for a more active role in direct engagement of the Bank's European investors who are covered by the new regulations.

Outside of the stockholders' meetings, BPI engaged and kept its investors, stockholders and stakeholders informed, through disclosures and activities led by its Investor Relations Office. For the year, the Investor Relations Office conducted 58 one-on-one meetings, 12 investor conferences and road shows with 175 participants, and 23 conference calls, and posted 140 structured and unstructured disclosures. This is to encourage and engage its individual and institutional stockholders, including those located outside the Philippines, to participate in the meetings and activities of the company.

The Investor Relations Unit also provides company presentations in the ASM and works with the Bank's corporate communications team for media briefings and press releases. Such information on the company is shared regularly with the investing public, analysts, and members of the media. Statements in these presentations describing BPI's objectives, projections, estimates, and expectations may be forward-looking. (Recommendation 11.1 SEC CG Code for PLCs)

Actual results may differ materially from the statements made in the presentations, whether expressed or implied.

All investor relations presentations and press releases distributed, including presentations of the Chairman and the President and CEO at the ASM, may be viewed at www.bpi.com.ph.

Annual Stockholders Meeting. The Bank gives great importance to effective, timely, and regular communication with its shareholders and the wider investment community and sees this systematic engagement as a critical component of its governance strategy. To this end, a number of means are used constructively to promote greater understanding, clarity, and dialogue with its shareholders, one of which is the ASM.

The ASM allows the Bank's shareholders to advise and adopt resolutions on important matters affecting the Bank on which they have legal sovereignty, such as: the appropriation of profit; ratification of all acts and resolutions of the Board and Management adopted during the preceding year; approval of the Report of the President and Bank's Statement of Condition; amendments to the Articles of Incorporation or By-Laws; and election of Board of Directors and external auditor, as well as measures to amend the shareholders' equity.

The ASM also continues to be a key communications event for our Board and Management. It is a primary opportunity for meaningful discussion of the company's narrative, to engage with its shareholders and investors on the key issues facing the Bank, review fiscal information for the past year, and respond to any questions regarding goals and directions the Bank's business will take in the future. BPI's Board, including the Chairman, Chairman of the Audit Committee, Independent Directors, and senior executive officers, led by the President and CEO, CFO, and Heads of Risk, Control, and Compliance, are always in attendance and available for informal discussion before and after the formal business of the ASM. The Chairman and members of the Board, chairmen and members of the Board-level Committees, and senior executive officers led by the President and CEO, CFO, and Heads of Risk, Control, and Compliance, including the Corporate Secretary, and the Investor Relations Officer attended the 2018 ASM. (Recommendation 13.3, 13.5 SEC CG Code for PLCs)

For the benefit of all the stockholders, the Chairman of the Board and the Corporate Secretary discussed the Rules of Conduct and Procedures for the meeting after the requisite call to order, certification of notice of meeting, and determination of quorum. The Rules of Conduct and Procedures were also detailed in the explanations of agenda items in the Notice of ASM. All items in the agenda requiring approval by the stockholders, including the election of the Board, need the affirmative vote of stockholders representing at least a majority of the issued and outstanding voting stock. Voting is considered on a poll, by shares of stock; that is, one share entitles the holder to one vote, two shares to two votes. Cumulative voting as provided for in the Corporation Code may be applied in the election of the Board. The Office of the Corporate Secretary tabulates all votes received and the Bank's external auditor validates the results.

The Bank proactively encourages the full participation of its shareholders, including institutional shareholders, at the ASM. Stockholders may participate in person or through their authorized representative. For the 2018 ASM, only stockholders of record as of March 2, 2018 were entitled to the notice and to vote at the meeting. Stockholders who could not personally attend the meeting designated their authorized representative by submitting a proxy instrument to the Office of the Corporate Secretary not later than 5:00 P.M. of April 5, 2018. Validation of proxies was held at the same office on April 6, 2018 at 4:00 P.M. Shareholders are encouraged, recognized, and given sufficient time to ask questions at the ASM to ensure accountability and identification with the Board's and Management's strategy and goals of the Bank. Questions or comments of stockholders, as well as responses of the Board and management, were duly recorded in the Minutes of the Meeting.

The Board ensures that the ASM is held in an easy to reach and cost-efficient venue and location in Metro Manila. The ASM was held on Thursday, April 19, 2018, 9:00 A.M., at Ballroom 2, Fairmont Makati, 1 Raffles Drive, Makati Avenue, Makati City 1224.

Notice of ASM and Definitive Information Statement. The Bank sends the Notice of the ASM to its shareholders well before the meeting date to give them ample time to review the meeting's agenda as well as to provide them with sufficient information regarding issues to be decided on during the meeting.

The Bank's Notice of ASM and Definitive Information Statement is written in English as this is an official language in the Philippines. The Bank provides the rationale and explanation for each agenda item which requires shareholders' approval in the Notice of ASM. In the same way, each resolution in the ASM deals with only one item, i.e., there is no bundling of several items into the same resolution. The profiles of directors seeking election or re-election (including information such as age, qualifications, date of first appointment, experience, and directorships in other listed companies) are included in the Notice of ASM. The external auditor seeking appointment or re-appointment is also clearly identified. When dividends are one of the agenda items, an explanation of the dividend policy is also included. The Notice of ASM also includes proxy forms which can be downloaded by stockholders from www.bpi.com.ph. For the 2018 ASM, the proxy forms included instructions as well as the deadline for submission of proxies to the Office of the Corporate Secretary, which was on or before April 5, 2018

The Definitive Information Statement (DIS), or SEC Form 20-IS is issued in accordance with the Bank's Amended By-laws and SRC Rule 20. Stockholders as of record date of the annual or special stockholders meeting are sent the DIS or SEC Form 20-IS at least 15 business days before the meeting. The Bank, as an issuer subject to the reporting requirements of SRC Section 17, must issue the DIS to notify stockholders of the written notice of the date, time, place, and purpose of the meeting; the DIS provides other specific information relevant to the meeting.

The Bank is always transparent on matters of this nature and encourages stockholders, including institutional investors, to attend the meeting by sending individual notices, publication in the newspaper, posting in the Bank's website, and notice to PSE and SEC.

The DIS or SEC Form 20-IS is deemed to have been given at the time when delivered personally, deposited in the post office, or sent via e-mail. Stockholders who prefer to receive hard copies of the DIS can request for paper copies.

In 2018, the Notice, including the DIS, was sent out to stockholders of record by March 8, 2018, 42 days before the ASM. The SEC Form 20-IS was also sent out to stockholders of record by March 8, 2018, and disclosed via PSE EDGE on the same date. No new item was included in the agenda at the 2018 ASM. Likewise, no amendments were made to the SEC Form 20-IS after the aforementioned disclosure on the PSE EDGE.

The Notice of ASM for the stockholder's meeting on April 19, 2018, included explanations for all agenda items such as: (1) Rules of Conduct and Procedure, (2) Approval of the Minutes of the Annual Meeting of the Stockholders on April 20, 2017, (3) Approval of the Annual Report and Audited Financial Statements as of December 31, 2017, (4) Election of the Board of Directors (including the Independent Directors), (5) Election of the external auditor and fixing of remuneration, and (6) Increase in Authorized Capital Stock from 4.9 billion shares to 7.0 billion shares and corresponding amendment of Article VII of the Bank's Articles of Incorporation. (Recommendation 13.2 SEC CG Code for PLCs)

The Notice of ASM and DIS or SEC Form 20-IS for the current and prior years may be viewed at www.bpi.com.ph.

Minutes of the ASM. The Minutes of the ASM includes all information pertinent to the meeting: date, time, and location of the annual meeting; qualified participants, attendance, and quorum present to conduct business; approval of prior minutes; general report of the President and CEO; record of action items in the meeting including election of the Board, any pertinent discussions, and actual votes; and corporate resolutions that were adopted. The minutes also records the dialogue between stockholders and the Board and Management, facilitating Board and Management's responses to stockholders' questions and clarifications, as well as determining any follow up actions that need to be taken by the Board and Management in the future.

Minutes of the previous year's ASM are provided to shareholders prior to the start of the meeting of the current year. Minutes of the 2018 ASM were likewise posted on the company website within five calendar days from the date of the ASM. (Recommendation 13.3 SEC CG Code for PLCs)

Minutes of the ASM for the current and prior years may be viewed at www.bpi.com.ph.

Voting Results. The results of the voting of the ASM are counted and tabulated by an independent external third-party auditor. For the 2018 ASM, the Bank's independent external third-party auditor, Isla Lipana & Co., performed this task.

Voting results for the 2018 ASM are as follows:

Total Number of Votes (Present and Proxy) - 3,153,023,117			
Total Issued and Outstanding Shares - 3,943,731,478			
Percentage of Attendees - 79.95%			
Resolution	**For**	**Against**	**Abstain**
Approval of Minutes of ASM held on April 20, 2017	3,152,530,702 99.98%	12,035 0.00%	480,380 0.02%
Approval of Annual Report and Audited Financial Statements as of December 31, 2017.	3,148,724,249 99.86%	343,503 0.01%	3,955,365 0.13%
Election of External Auditor and Fixing of their Remuneration	3,136,607,919 99.48%	15,924,274 0.51%	415,824 0.01%
Increase in Authorized Capital Stock and Amendment of Article VII of the Bank's Articles of Incorporation	2,881,240,170 73.06%	271,291,486 6.88%	416,361 0.01%
Election of 15 Members of the Board of Directors			
Jaime Augusto Zobel de Ayala II	3,096,251,590 98.20%	18,847,856 0.60%	37,923,546 1.20%
Fernando Zobel de Ayala	3,087,470,159 97.92%	19,059,316 0.60%	46,493,417 1.47%
Gerardo C. Ablaza, Jr.	3,096,189,947 98.20%	32,474,306 1.03%	24,358,864 0.77%
Romeo L. Bernardo	3,098,273,113 98.26%	32,511,146 1.03%	22,238,858 0.71%
Ignacio R. Bunye	3,150,279,097 99.91%	2,248,304 0.07%	495,716 0.02%
Cezar P. Consing	3,141,603,387 99.64%	408,730 0.01%	11,011,000 0.35%
Octavio V. Espiritu	3,122,121,746 99.02%	19,568,754 0.62%	11,332,617 0.36%
Rebecca G. Fernando	3,116,122,657 98.83%	15,700,134 0.50%	21,200,326 0.67%
Delfin C. Gonzalez, Jr.	3,110,668,840 98.66%	19,394,134 0.62%	22,960,143 0.73%
Xavier P. Loinaz	3,100,091,491 98.32%	32,511,146 1.03%	20,420,480 0.65%
Aurelio R. Montinola III	3,096,320,286 98.20%	32,299,686 1.02	24,403,145 0.77%
Mercedita S. Nolledo	3,116,122,657 98.83%	15,700,134 0.50%	21,200,326 0.67%
Antonio Jose U. Periquet	3,098,685,023 98.28%	15,562,586 0.49%	38,775,508 1.23%
Astrid S. Tuminez	3,152,527,401 99.98	0 0.00%	495,716 0.02%
Dolores B. Yuvienco	3,152,527,401 99.98%	0 0.00%	495,716 0.02%

Voting results are submitted to the SEC and disclosed on the websites of the various exchanges, where BPI capital market issues are traded, and made publicly-available on the company website as well by the next working day or sooner (Recommendation 13.3 of the SEC CG Code for PLCs). The voting results for the 2018 ASM, as well as that of prior years, may be viewed at www.bpi.com.ph.

Annual and Quarterly Reports. The Bank's Annual, Quarterly, and Current Reports are its primary disclosure mechanisms used to impart knowledge about the Bank to all its stakeholders in an informative, structured, and cost-effective manner. The Annual and Quarterly accountability reports effectively detail its performance during the period under review and put that performance in context of the objectives of the Bank, its strategies, and future direction. The Current Reports similarly provide timely updates on significant corporate actions undertaken by the Bank.

The Annual, Quarterly, and Current Reports are regularly submitted to the SEC pursuant to SRC Section 17, which also prescribes format and content.

These Reports are also disclosed on the websites of the various exchanges, as previously mentioned. These may also be viewed at www.bpi.com.ph.

General Information Sheets. Under Sections 26 and 141 of the Corporation Code, corporations are required to submit the General Information Sheet (GIS) annually to the SEC, within 30 days after the corporation's annual or special stockholders' meeting. Containing, among other information, the names, nationalities, and addresses of the directors, trustees, and officers of the company, the GIS is accompanied by a certification under oath by the Corporate Secretary, President or CEO.

The Bank's latest GIS, as well as that of prior years, may be viewed at www.bpi.com.ph.

SHARE INFORMATION

Stock Information
BPI common shares are listed in the PSE under the ticker symbol of BPI. At Php 423.23 billion as of December 31, 2018, its market capitalization is among the largest in the Philippine banking industry. BPI is a member of the benchmark Philippine Stock Exchange Composite Index (PSEi).

Listing Date: October 12, 1971
Class of Shares: Common shares
Voting Rights: One vote per share
Authorized: 7,000,000,000 shares as of December 31, 2018
Outstanding: 4,502,449,501 shares as of December 31, 2018

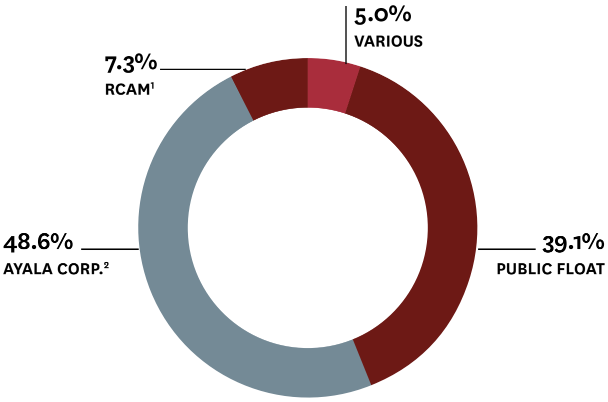
Rights, obligations, and restrictions attaching to shares
The rights and obligations attaching to each class of ordinary, common, and non-cumulative preference shares in BPI's share capital are set out in full in its Articles of Incorporation which may be amended by special resolution of the shareholders and can be found on www.bpi.com.ph.

Restrictions on Ownership
Foreign ownership is subject to a limit of 40%.

Minimum Public Ownership
As of December 31, 2018, listed securities held by the public were at 39.1% of BPI's issued and outstanding shares. This is well above the minimum required public float level of 10%.

Ownership Structure
BPI's founding shareholders were primarily charities and endowments associated with the Roman Catholic Church, and its directors consisted of government officials and prominent businesspersons, including Antonio de Ayala, a partner in the predecessor firm of today's Ayala Corporation.

Shareholders



[1] *Roman Catholic Archdiocese of Manila*
[2] *Includes Liontide Holdings, Inc. share*

Sharelots Statistics as of December 31, 2018

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 100	1,555	12.3530%	58,475	0.0013%
101 - 500	4,233	33.6273%	1,079,079	0.0240%
501 - 1,000	2,166	17.2069%	1,585,924	0.0352%
1,001 - 5,000	3,057	24.2850%	6,617,948	0.1470%
5,001 - 10,000	613	4.8697%	4,208,456	0.0935%
10,001 - 50,000	658	5.2272%	14,135,279	0.3139%
50,001 - 100,000	119	0.9453%	8,148,340	0.1810%
100,001 - 500,000	145	1.1519%	29,123,944	0.6468%
500,001 - 1,000,000	13	0.1033%	8,763,129	0.1946%
1,000,001 - 5,000,000	16	0.1271%	41,642,678	0.9249%
5,000,001 - 10,000,000	3	0.0238%	21,221,237	0.4713%
10,000,001 - 50,000,000	2	0.0159%	63,481,023	1.4099%
50,000,001 - UP	8	0.0636%	4,302,383,989	95.5565%
Grand Total	**12,588**	**100.0000%**	**4,502,449,501**	**100.0000%**

Equity Ownership of Foreigners on Common Shares as of December 31, 2018

Nationality	No. of Shareholders	%	No. of Shares	%
Filipino	12,487	99.1976%	3,072,191,468	68.2338%
Non-Filipino	101	0.8024%	1,430,258,033	31.7662%
Grand Total	**12,588**	**100.0000%**	**4,502,449,501**	**100.0000%**

Shareholdings of Directors and Management as of December 31, 2018

Please see table under Corporate Governance section which sets forth the beneficial ownership of shares of the Company’s common stock as of December 31, 2018 by the Bank’s current directors and named executive officers and as a group.

Beneficial Ownership Reporting Compliance. Under SRC Section 23, the SEC requires a PLC’s directors and executive officers, and persons who beneficially own: (1) qualifying but not more than 100 shares; (2) more than 100 shares but less than 5% of the outstanding common stock; or (3) more than 5% but less than 10% of the outstanding common stock, to file reports with the SEC regarding initial ownership and changes in ownership of the common stock.
In this respect, the PSE also requires, under Section 13.1 of the Revised Disclosure Rules on Disclosure on Transactions of Directors and Principal Officers in the Issuer’s Securities, that the Exchange be furnished with a copy of the respective SEC filing within five trading days.

In this respect, the PSE also requires, under Section 13.1 of the Revised Disclosure Rules on Disclosure on Transactions of Directors and Principal Officers in the Issuer's Securities, that the Exchange be furnished with a copy of the respective SEC filing within five trading days.

As a practical matter, the Bank assists its directors and officers in the filing of the required SEC Form 23-A or B reports on their behalf.

The Table below sets forth information as to any known to the Bank to be the beneficial owner of more than five percent (5%) of the Company's common stock as of December 31, 2018.

Beneficial Owners Holding 5% or More of BPI

Title of Class	Name/Address of Record Owner & Relationship w/ Issuer	Name of Beneficial Owner & Relationship w/ Record Owner	Citizenship	No. of Shares	Percent of Holdings
Common	**PCD Nominee Corporation**[1] - **Non-Filipino** - **Filipino** 37/F Tower 1, The Enterprise Center 6766 Ayala Avenue corner Paseo de Roxas, Makati City	PCD Participants acting for themselves or for their customers	Various Filipino	 1,037,239,747 628,049,101 1,665,288,848	 23.0372% 13.9491% 36.9863%
Common	**Ayala Corporation**[2] 33rd Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Ayala Corporation[3]	Filipino	1,000,261,934	22.2160%
Common	**Liontide Holdings, Inc.**[4] 33rd Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Liontide Holdings, Inc.[5]	Filipino	904,194,682	20.0823%
Common	**AC International Finance Limited** c/o Ayala Corporation 34th Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Ayala Corporation[6]	Cayman Islands	390,269,162	8.6679%
Common	**Roman Catholic Archbishop of Manila** c/o Ayala Corporation 34th Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Roman Catholic Archbishop of Manila[7]	Filipino	327,904,251	7.2828%

[1] PCD Nominee Corporation (PCD), now known as the Philippine Depository and Trust Corporation (PDTC), Non-Filipino and Filipino, is the registered owner of the shares beneficially owned by participants in the PDTC. The Board of Directors of each participant generally has the power to decide on how shares are to be voted. Out of the 1,665,288,848 common shares registered in the name of PCD, 495,875,029 shares or 11.0134% and 439,697,395 shares or 9.7657% are for the accounts of Deutsche Bank Manila and The Hongkong and Shanghai Banking Corporation, respectively.

[2] Mermac, Inc. owns 47.04% of common shares and 55.47% of total voting shares, while Mitsubishi Corporation owns 8.65% of common shares and 9.97% of total voting shares, respectively, of the outstanding shares of Ayala Corporation (AC).

[3] The Board of Directors of AC has the power to decide how AC's shares in BPI are to be voted.

[4] AC owns 84.16% of the outstanding shares of Liontide Holdings, Inc. (formerly Ayala DBS Holdings, Inc.), which translates to 78.07% economic ownership and 15.68% effective ownership in BPI.

[5] The Board of Directors of Liontide Holdings, Inc. ("Liontide") has the power to decide how Liontide's shares in BPI are to be voted.

[6] Under a Voting Trust Agreement dated October 12, 2017, the Board of Directors of AC International Finance Limited (AC International) has the power to decide how AC International's shares in BPI are to be voted.

[7] The Archbishop of Manila has the power to decide how the Roman Catholic Archbishop of Manila's shares in BPI are to be voted.

Voting Trust Holders of 5% or More
AC has a Voting Trust Agreement with AC International.

Payment of dividends

Dividend declaration is ultimately the responsibility of the Bank and the BPI Board which has the authority to declare dividends as it may deem appropriate. Under BSP regulations, no bank shall declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. The net amount available for dividends shall be the amount of unrestricted or free retained earnings less loss provisioning which takes into account relevant capital adjustments including losses, bad debts, and unearned profits or income.

Per BSP Circular 888, banks that meet the prequalification criteria including capital adequacy requirements and applicable laws and regulations of the BSP can declare and pay dividends without prior BSP verification. However, banks must ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

As approved by the Company's Board, the Bank declares cash dividends to its common stockholders. The dividend payout history shows a distribution of at least P1.80 per share in annual dividends. This is designed to provide shareholders the balance that they seek between current income and capital appreciation. The Bank's ability to return capital to shareholders, at the same time adhering to risk and capitalization standards, is a testament to BPI's fiduciary prudence.

While the Bank does not foresee any impediments to its ability to pay dividends on common equity in the medium-term, it evaluates dividend payments from time to time in accordance with business and regulatory requirements, and cannot make explicit warranties about the quantum of future dividend payments.

Historical Dividends (Cash and Stock)
Cash dividends declared and paid during the years 2016 to 2018 are as follows:

Date Declared	Date of Payment	Amount of Dividends	
		Per Share	Total (in M Php)
December 16, 2015	January 27, 2016	0.90	3,539
June 15, 2016	July 20, 2016	0.90	3,543
December 14, 2016	January 20, 2017	0.90	3,543
June 15, 2017	July, 27, 2017	0.90	3,545
December 15, 2017	January 19, 2018	0.90	3,546
June 20, 2018	July 25, 2018	0.90	4,052
December 19, 2018	January 29, 2019	0.90	4,052

Credit Ratings
Availability and cost of capital market financing are influenced by credit ratings. Declines in these ratings could have an adverse effect on the Bank's access to liquidity sources, increase the cost of funds, trigger additional collateral or funding requirements and decrease the number of investors and counterparties willing to lend to the Bank.

In 2018, credit rating agencies, namely, Fitch Ratings, Moody's, and Capital Intelligence, affirmed their respective ratings on BPI.

SUPPLEMENTARY SCHEDULES ON CAPITAL AND RISK MANAGEMENT DISCLOSURES PURSUANT TO THE BANGKO SENTRAL'S MEMORANDUM M-2014-007

Capital Structure

The Bank's qualifying capital for the years ended 2018 and 2017 were Php 234.2 billion and Php 166.5 billion, respectively. The Bank's total qualifying capital for 2018 and 2017 were largely composed of CET1 capital at 94.4% and 93.0%, respectively.

The table below shows the composition of the Bank's capital structure and total qualifying capital.

Capital Structure (Php Mn)	December 31, 2018			December 31, 2017		
	CET1/ Tier 1	Tier 2	TOTAL	CET1/ Tier 1	Tier 2	TOTAL
Core Capital	**244,276**	**13,116**	**257,392**	**177,172**	**11,682**	**188,855**
Paid-up common stock	44,961		44,961	39,336		39,336
Additional paid-in capital	74,100		74,100	29,690		29,690
Retained earnings	103,249		103,249	90,514		90,514
Undivided profits	22,923		22,923	22,528		22,528
Net unrealized gains or losses on AFS securities	-144		-144	-3,381		-3,381
Cumulative foreign currency translation	-212		-212	-187		-187
Remeasurement of net defined benefit liability (asset)	-1,155		-1,155	-1,764		-1,764
Minority interest [1]/	553		553	435		435
General loan loss provision [2]/		13,116	13,116		11,682	11,682
Deductions	**23,152**	**-**	**23,152**	**22,371**	**-**	**22,371**
Total O/S unsecured credit accommodations [3]/	1,774		1,774	1,296		1,296
Total O/S unsecured loans [4]/	100		100	32		32
Deferred tax assets	8,363		8,363	8,955		8,955
Other intangible assets	2,792		2,792	2,178		2,178
Defined benefit pension fund assets	66		66	49		49
Investments in equity [5]/	2,379		2,379	2,287		2,287
Significant minority investments [6]/	3,805		3,805	3,775		3,775
Other equity investments [7]/	3,873		3,873	3,799		3,799
TOTAL QUALIFYING CAPITAL	**221,124**	**13,116**	**234,240**	**154,801**	**11,682**	**166,484**
% to Total	**94%**	**6%**	**100%**	**93%**	**7%**	**100%**

[1]/ Minority interest in subsidiary banks, which are less than wholly-owned

[2]/ General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio

[3]/ Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)

[4]/ Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates

[5]/ Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable) and investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)

[6]/ Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases)

Credit risk-weighted assets. Using the Basel regulatory standardized approach, our total credit risk-weighted assets as of December 31, 2018 amounted to Php 1.31 trillion, and are composed of on-book credit exposures after risk mitigation of Php 1.30 trillion, off-balance sheet risk-weighted assets of Php 9.6 billion, counterparty risk-weighted assets in the banking book of Php 878 million, counterparty risk-weighted assets in the trading book of Php 3.8 billion, and risk-weighted securitization exposures of Php 684 million.

The table below provides a summary of the Bank's credit risk-weighted assets for 2018 and 2017:

Credit RWAs (Php Mn)	Amount	
	2018	**2017**
Total RWA (On-balance sheet) °/	1,296,645	1,154,999
Total RWA (Off-balance sheet) °/	9,587	7,389
Total counterparty RWA (banking book) 1/	878	1,454
Total counterparty RWA (trading book)	3,821	4,388
Total risk-weighted securitization exposures	684	
Total Gross RWA	**1,311,614**	**1,168,230**
Deductions: General loan loss provision 2/	-692	-1,647
Total Credit RWAs	**1,310,922**	**1,166,583**

°/ Risk-weighted assets
1/ For derivatives and repo-style transactions
2/ In excess of the amount permitted to be included in upper Tier 2

The Bank's credit risk exposures on both on- and off-balance sheet assets after mitigation, broken down by risk buckets, for 2018 and 2017 are as follows:

Schedule A

December 31, 2018								
		Risk Weights						
(Php Mn)	Exposure after risk mitigation	0%	20%	50%	75%	100%	150%	Total CRWA 1/
Cash on hand	43,269	43,269	-	-	-	-	-	43,269
Checks and other cash items	267	-	267	-	-	-	-	267
Due from BSP	225,917	225,917						225,917
Due from other banks	10,888		866	9,543	-	479	-	10,888
Available-for-sale (AFS)	36,717	31,975	831	2,207		1,704		36,717
Held-to-maturity (HTM)	287,676	173,198	15,429	77,131	-	21,917	-	287,676
UDSCL 2/								-
Loans and receivables 3/	1,302,401	24,804	108,347	57,914	55,093	1,044,115	12,127	1,302,401
Sales contract receivables	360					360		360
ROPA 4/	2,609	-	-	-	-		2,609	2,609
Sub-total	**1,910,103**	**499,163**	**125,741**	**146,794**	**55,093**	**1,068,575**	**14,736**	**1,910,103**
Other assets	35,335					35,335		35,335
Total exposures, plus other assets	**1,945,439**	**499,163**	**125,741**	**146,794**	**55,093**	**1,103,911**	**14,736**	**1,945,439**
Total risk-weighted OBSA (no CRM) °/ 5/	-	-	25,148	73,397	41,320	1,103,911	22,104	1,265,880
Total risk-weighted OBSA (with CRM) 5/	-	-	2,135	16		28,614		30,764
Total RWA (On-Balance Sheet)	**-**	**-**	**27,283**	**73,413**	**41,320**	**1,132,524**	**22,104**	**1,296,645**

December 31, 2017								
					Risk Weights			
(Php Mn)	Exposure after risk mitigation	0%	20%	50%	75%	100%	150%	Total CRWA [1]/
Cash on hand	34,876	34,876	-	-	-	-	-	34,876
Checks and other cash items	256		256	-	-	-	-	256
Due from BSP	255,962	255,962						255,962
Due from other banks	13,078		589	12,147	-	343	-	13,078
Available-for-sale (AFS)	22,516	13,306	1,314	4,414		3,481		22,516
Held-to-maturity (HTM)	276,950	165,303	10,602	63,129	-	12,644	-	251,679
UDSCL [2]/								-
Loans and receivables [3]/	1,113,359	7,299	81,587	50,903	56,434	910,559	6,578	1,113,359
Sales contract receivables	278					278		278
ROPA [4]/	2,891	-	-	-	-	-	2,891	2,891
Sub-total	**1,720,166**	**476,746**	**94,349**	**130,592**	**56,434**	**927,305**	**9,468**	**1,694,895**
Other assets	36,562					36,562		36,562
Total exposures, plus other assets	**1,756,729**	**476,746**	**94,349**	**130,592**	**56,434**	**963,868**	**9,468**	**1,731,458**
Total risk-weighted OBSA (no CRM) [o]/ [5]/	-	-	18,870	65,296	42,326	963,868	14,202	1,104,562
Total risk-weighted OBSA (with CRM) [5]/	-	-	215	286	-	49,937	-	50,437
Total RWA (On-Balance Sheet)	**-**	**-**	**19,084**	**65,582**	**42,326**	**1,013,804**	**14,202**	**1,154,999**

[o]/ On-balance sheet assets
[1]/ Credit risk-weighted assets
[2]/ Unquoted debt securities classified as loans
[3]/ Inclusive of loans and receivables arising from repurchase agreements, certificate of assignment/participation with recourse, and securities lending and borrowing transactions
[4]/ Real and other properties acquired
[5]/ Not covered by, and covered by credit risk mitigants, respectively

Schedule B

December 31, 2018								
					Risk Weights			
RWA (Off-Balance Sheet) (Php Mn)	CEA [o]/	0%	20%	50%	75%	100%	150%	Total CRWA [1]/
Direct credit substitutes [2]/	5,802	-	133	-	625	4,302	-	5,061
Transaction-related contingencies [3]/	2,401	-	10	-	166	2,130	-	2,306
Trade-related contingencies [4]/	2,383	-	33	-	94	2,094	-	2,221
Total RWA (Off-Balance Sheet)	**-**	**-**	**176**	**-**	**885**	**8,526**	**-**	**9,587**

December 31, 2017								
				Risk Weights				
RWA (Off-Balance Sheet) (Php Mn)	CEA °/	0%	20%	50%	75%	100%	150%	Total CRWA ¹/
Direct credit substitutes ²/	4,404	-	132	-	657	2,868	-	3,657
Transaction-related contingencies ³/	1,534	-	10	-	35	1,438	-	1,483
Trade-related contingencies ⁴/	2,282	-	4	-	45	2,200	-	2,249
Total RWA (Off-Balance Sheet)		**-**	**146**	**-**	**737**	**6,506**	**-**	**7,389**

°/ Credit equivalent amount

¹/ Credit risk-weighted assets

²/ Such as general guarantees of indebtedness and acceptances

³/ Such as performance bonds, bid bonds, warrantees and stand-by LCs related to particular transactions

⁴/ Arising from movement of goods, such as documentary credits collateralized by the underlying shipments, and commitments with an original maturity of up to one year

Schedule C

December 31, 2018							
				Risk Weights			
Counterparty Assets Banking Book (Php Mn)	Net Amount °/	0%	20%	50%	100%	150%	Total CRWA ¹/
Derivative exposures:							
Interest rate							
Exchange rate							
Equity contracts							
Credit derivatives							
Counterparty Exposures arising from Financial Assets ²/							
Available-for-Sale							
Held-to-Maturity	1,943	-	122	578	178	-	878
Total RWA (Off-Balance Sheet)		**-**	**122**	**578**	**178**	**-**	**878**

December 31, 2017							
				Risk Weights			
Counterparty Assets Banking Book (Php Mn)	**Net Amount °/**	**0%**	**20%**	**50%**	**100%**	**150%**	**Total CRWA ¹/**
Derivative exposures:							
Interest rate							
Exchange rate							
Equity contracts							
Credit derivatives							
Counterparty Exposures arising from Financial Assets ²/							
Available-for-Sale							
Held-to-Maturity	2,907	-	-	1,454	-	-	1,454
Total RWA (Off-Balance Sheet)		**-**	**-**	**1,454**	**-**	**-**	**1,454**

°/ Net Exposures After CRM (Uncovered Portion)
¹/ Credit risk-weighted assets
²/ Sold/Lent under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreement (Repo-style Transactions)
³/ Risk-weighted assets

Schedule D

December 31, 2018							
				Risk Weights			
Counterparty Assets Trading Book (Php Mn)	**Net Amount °/**	**0%**	**20%**	**50%**	**100%**	**150%**	**Total CRWA ¹/**
Derivative exposures:							
Interest rate	3,793	-	29	1,805	40	-	1,873
Exchange rate	3,358	-	37	1,265	643	-	1,945
Equity contracts	3	-	-	-	3	-	3
Credit derivatives	0	-	-	-	0	-	-
Total counterparty RWA ²/ of derivatives transactions		**-**	**66**	**3,069**	**686**	**-**	**3,821**

December 31, 2017							
				Risk Weights			
Counterparty Assets Trading Book (Php Mn)	**Net Amount °/**	**0%**	**20%**	**50%**	**100%**	**150%**	**Total CRWA ¹/**
Derivative exposures:							
Interest rate	2,580	-	28	1,200	38	-	1,266
Exchange rate	5,848	-	234	1,879	920	-	3,033
Equity contracts	5	-	-	-	5	-	5
Credit derivatives	167	-	-	83	-	-	83
Total counterparty RWA ²/ of derivatives transactions		**-**	**262**	**3,163**	**963**	**-**	**4,388**

°/ Credit equivalent amount
¹/ Credit risk-weighted assets
²/ Risk-weighted assets

Market risk-weighted assets. In terms of capital usage following the Basel standardized approach, total market risk-weighted assets stood at Php 22.2 billion as of end-2018, of which foreign exposures accounted for more than 80%, followed by interest rate exposures and equity exposures, respectively.

The table below presents the breakdown of the Bank's market risk-weighted assets for 2018 and 2017:

MARKET RWA (Php Mn)	AMOUNT	
	2018	2017
Using standardized approach:		
Interest rate exposures	3,441	4,409
Equity exposures	485	672
Foreign exchange exposures	18,300	17,394
Options		
TOTAL MARKET RWA °/	**22,226**	**22,475**

°/ Risk-weighted assets

Operational risk-weighted assets. BPI currently uses the Basel regulatory basic indicator approach to quantify operational risk-weighted assets, by using the historical total annual gross income as the main measure of risk. In 2018, the Bank's total operational risk-weighted assets stood at Php 122.6 billion.

The table below presents the Bank's operational risk-weighted assets for the years 2018 and 2017:

OPERATIONAL RWA (Php Mn)	AMOUNT	
	2018	2017
Gross income (a)	73,284	63,794
Capital requirement [1]/	10,993	9,569
Average capital requirement (b) [2]/	9,808	9,428
Adjusted capital charge (c) [3]/	12,260	11,785
TOTAL OPERATIONAL RWA [4]/	**122,598**	**117,849**

°/ Risk-weighted assets
[1]/ (a) multiplied by 15 percent
[2]/ Average of 15 percent of (a) for the past 3 years
[3]/ (b) multiplied by 125 percent
[4]/ (c) multiplied by factor 10

BOARD OF **DIRECTORS**

JAIME AUGUSTO
ZOBEL DE AYALA
Chairman

FERNANDO
ZOBEL DE AYALA
Vice Chairman

CEZAR
P. CONSING
President & CEO

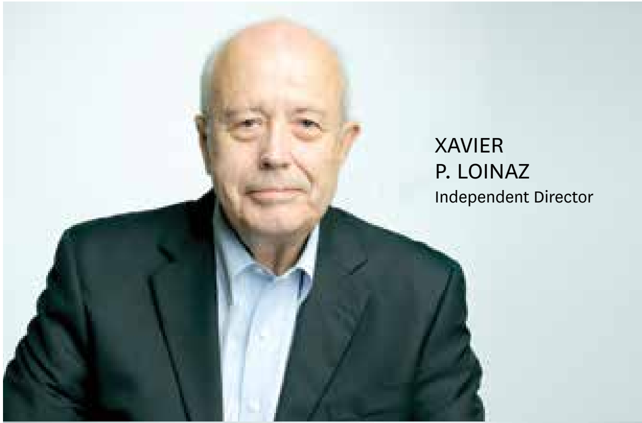
ROMEO
L. BERNARDO
Independent Director

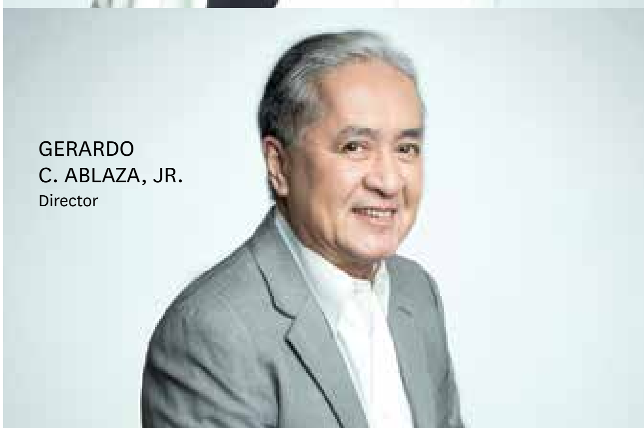
IGNACIO
R. BUNYE
Independent Director

OCTAVIO
V. ESPIRITU
Independent Director

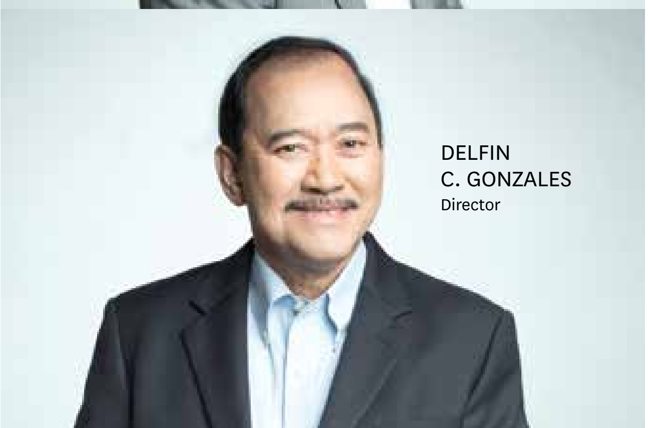
ANTONIO JOSE
U. PERIQUET
Independent Director


DOLORES
B. YUVIENCO
Independent Director


XAVIER
P. LOINAZ
Independent Director


GERARDO
C. ABLAZA, JR.
Director


REBECCA
G. FERNANDO
Director


DELFIN
C. GONZALES
Director


MERCEDITA
S. NOLLEDO
Director


AURELIO
R. MONTINOLA III
Director


JOSE TEODORO
K. LIMCAOCO
Director

ADVISORY
COUNCIL

ARTEMIO
V. PANGANIBAN
Member, Advisory Council

OSCAR
S. REYES
Member, Advisory Council

DELFIN
L. LAZARO
Member, Advisory Council

RAMON
L. JOCSON
Executive Vice President & Chief Operating Officer

MARIA THERESA
MARCIAL JAVIER
Executive Vice President & Chief Finance Officer

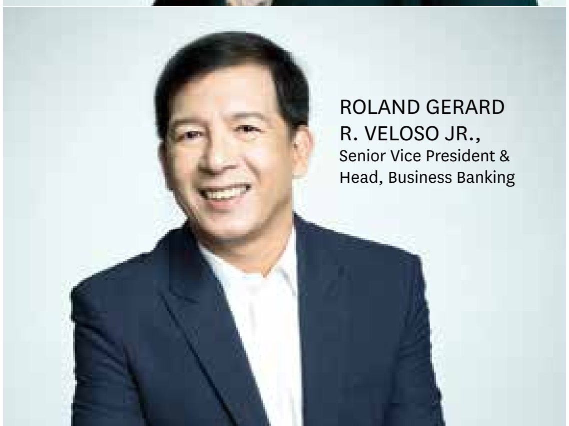
ANTONIO
V. PANER
Executive Vice President & Treasurer

SIMON
R. PATERNO
Executive Vice President & Head, Financial Products and Alternative Solutions

SENIOR
MANAGEMENT


MARY CATHERINE ELIZABETH P. SANTAMARIA
Senior Vice President & Chief Marketing Officer


JUAN CARLOS L. SYQUIA
Executive Vice President & Head, Corporate Clients Segment


ROLAND GERARD R. VELOSO JR.,
Senior Vice President & Head, Business Banking


JOSEPH ANTHONY M. ALONSO
Senior Vice President & Chief Credit Officer


MARIA CRISTINA L. GO
President, BPI Family Savings Bank


ANGELIE O. KING
Senior Vice President & Head of Branch Sales and Service Channels


MARITA SOCORRO D. GAYARES
Senior Vice President & Chief Risk Officer

MATERIAL TOPICS AND STAKEHOLDER ENGAGEMENT

We conducted a comprehensive materiality assessment in 2015 to identify focus areas where we are most competent in, including matters that have the most impact to create long-term value to our stakeholders. We have regularly updated this to address dynamic economic, social, and environmental issues that affect our business and the changing expectations of our stakeholders.

In 2018, we engaged key bank employees to review and update economic, social, and environmental issues relevant to them. Information was obtained through roadshows and e-mail exchanges. Stakeholder data such as customer feedback, employee engagement results, and investor briefing materials were used to validate identified material topics. Material topics are consolidated into our sustainability strategy framework and aligned with the overall purpose of the Bank as embodied in our Credo. See page 147 for more information.

MATERIALITY

Value to our Capitals	Impacted Stakeholders	Material Topic	Corresponding Disclosure	Relevance
Social and Relationship Capital: Building trust	- Business Operations - Clients - Government and Regulators	- Anti-corruption - Marketing and Labeling - Customer Privacy - Customer Service - Compliance	- 103-2 on Anti-corruption - 417-2 - 103-2 on Data Privacy - Complaint Intensity/% of resolved complaints/Brand Health Survey - Corporate Governance - Compliance	We believe our first responsibility is to our Clients. If we understand and address our clients' financial needs, we will be trusted with their most important financial transactions, and we will build lasting relationships. We do well when our clients do well.
Human Capital: Empowering our People	- Employees and Indirect Hires	- Employment - Training and Education - Diversity and Equal Opportunity - Non-discrimination - Freedom of Association and Collective Bargaining	- 102-8 - 401-1 - 401-2 - 404-1 - 405-1 - 406-1 - 102-41	We believe in our responsibility to our People. We seek to hire the best people for each job, provide them with the means to perform at a high level and reward them fairly. We value integrity, professionalism, and loyalty. We promote a culture of mutual respect, meritocracy, performance, and teamwork. We strive to be the employer of choice among Philippine financial institutions.

Value to our Capitals	Impacted Stakeholders	Material Topic	Corresponding Disclosure	Relevance
Financial Capital: Contributing to Economic Development	- Business Operations - Shareholders - Government and Regulators - Suppliers - Communities	- Economic Performance - Supply Chain Management - Financial Inclusion and Wellness - Scaling up Enterprises - Financing Sustainable Development	- 201-1 - 102-9 - Financial products and services for underbanked and SEMEs - Financial products and services for underbanked and SMEs - Total amount of loans disbursed contributing to sustainable development	We believe in our responsibility to our Shareholders. We treat capital as a most valuable asset, and seek to generate superior returns while being prudent in risk taking, spending, and investment.
Social and relationship Capital: Empowering our Society	- Communities - Civil Society and NGOs	- Corporate Social Responsibility - Volunteerism	- Financial literacy programs and beneficiaries - Scaling up MSMEs and social enterprises programs and beneficiaries - Environment sustainability programs and beneficiaries - Volunteer hours and employee-led volunteer activities	We believe in our responsibility to our Country. Our prosperity is greatly dependent on the well-being of our nation. We aim to be inclusive and responsible in nation building. Through BPI Foundation, we are committed to the welfare and sustainability of the communities we serve.
Manufactured and Intellectual Capital: Strengthening our delivery infrastructure	- Business Operations - Clients	- Branch footprint upgrade and expansion - Digitalization - Security Practices - Physical and Information Security	- Number of new branches and additional teller workspace - Uptime - 410-1 - 103-2 on Information and Physical Security	We recognize the importance of building strong capabilities by increasing effective client access points in both digital and branch distribution platforms. We ensure that our traditional and electronic channels are easily accessible, always available, and tightly secured.
Natural Capital: Promoting efficient resource management	- Business Operations - Clients - Government and Regulators - Civil Society and NGOs	- Energy - Emissions - Sustainable energy financing	- 302-1 - 305-2 - 305-3 - Sustainable energy financing loans disbursed	We track and implement measures to become more eco-efficient in our day-to-day operations. We contribute to nation building through investments and/or funding businesses that have direct impact to the environment.

STAKEHOLDER ENGAGEMENT

Guided by our Credo, client trust is a fundamental pillar for us. As such, we always strive to understand our clients' needs and address them effectively and adequately. Thus, high regard and strict adherence to values and ethics in the daily conduct of our business is of primary importance in all our dealings.

Acknowledging our stakeholders' impact on our business and how they are directly impacted by it, we have set up formal platforms of engagement to help identify diverse matters that are relevant to them. This ensures a level and frequency of engagement appropriate for each stakeholder group. See page 147-148 for more information.

How We Engage Them	Their Concerns	How We Respond
	CLIENTS	
- Daily customer touch points - branches, personnel, phone, e-mail, and social media channels - Annual and periodic satisfaction surveys - Regular visits to existing clients, including area briefings	- Quality and availability of service - Accessible electronic services - Convenient, affordable, reliable, and efficient delivery of products and services - Relevant products suited to their needs, including transparent product requirements and processes - Competence of personnel to address concerns - Sound or customized financial advice - Turn-around time of applications - Data privacy	- Proactive approach to client concerns (e.g. proper allocation of manpower resources, review of outsourcing services, set up of more effective contact centers, and continuous process improvements) - Constant monitoring and upgrade of systems - On-going personnel capacity building through product briefings, seminars, and trainings - Timely provision of customized feedback, advice and/or solutions to inquiries - Economic and product briefings, financial and investment education seminars
	INVESTORS	
- Regular investor meetings and conference calls - Annual stockholders' meetings	- Shareholder return - Financial performance - Business growth and continuity - Responsible financing	- Transparent and timely disclosures
	EMPLOYEES	
- Online portals, face-to-face meetings, and learning sessions - Annual performance appraisals - Periodic engagement survey - Town halls - Quarterly Labor Management Conferences - HR caravans	- Capability building across all levels - Opportunities for career development - Clear understanding of the bank's strategy and direction - Pay for performance/meritocracy - Competitive compensation and benefits - Work-life balance - Rewards and recognition - Outsourcing programs	- Leadership development programs, Harvard management mentor (on-demand type of learning), moving towards digital learning - Career mobility and officers' development program, shortened time in rank average - Town hall meetings - Promotions, performance bonuses, and salary increases are tied to performance, non-financial rewards - Salary reviews to ensure competitiveness of compensation against market - Semi-flexible work hours (head offices) - Rewards and recognition programs are anchored on reinforcing the core values of the Bank

How We Engage Them	Their Concerns	How We Respond
SUPPLIERS AND CONTRACTORS		
- Accreditation - E-mails, letters, and memos - Weekly meeting with facility maintenance agencies - Monthly meeting with security agencies	- Procurement policies (requirements, criteria for evaluation) - Other procurement-related concerns (cost, terms of payment, mode of shipment, warranties)	- Cascade of policies - Real-time updates
GOVERNMENT AND REGULATORY AGENCIES		
- Annual bank examination - Regular audits and follow-up, (e.g. BIR, DOLE) - Regular correspondence through letters and email (Interaction with regulators must only be made by authorized and appropriately trained individuals. This covers all forms of communications, whether formal, informal or social interaction in relation to the Bank's business including any kind of correspondence such as in-person, electronic media and/or written correspondence)	- Compliance with relevant national laws and regulations, including BSP regulations and guidelines - Transparency and accountability - Feedback on the Bank's operations	- Transparent and timely disclosures and reports - Report on compliance to regulations - Conduct of external and internal audits - Formal explanations and responses to queries (The bank has established policies to protect interests of regulators: Related Party Transactions Policy, Conflict of Interest Policy, Whistleblower Policy, Insider Trading Policy. It also has a policy for dealings with regulators: Anti-Bribery and Anti-Corruption Policy)
COMMUNITIES, NON-GOVERNMENT, AND CIVIL SOCIETY GROUPS		
- Partnerships and agreements - Regular correspondence through e-mails, letters, memos, meetings, text message, phone calls - Updates through the website, social media pages, print and online platforms - Assessment and feedback on partnership and engagement - Partners' Night	- New projects and initiatives - Update and expansion of existing projects - Takeaways from activities conducted - Opportunities for capacity building and access to financial and non-financial resources - Responsible financing	- Organize events for beneficiaries and external partners, such as workshops, summits, symposiums, etc. - Accomplishment reports - Attendance in meetings and real-time updates

GRI CONTENT INDEX

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102-22	Composition of the highest governance body and its committees	95-121	
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102-24	Nominating and selecting the highest governance body	103-105	
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102-26	Role of highest governance body in setting purpose, values, and strategy	103	
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Disclosure Number	Disclosure Title	Page	Omission
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102-42	Identifying and selecting stakeholders	176-177	
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	GRI 200: ECONOMIC 2016 Scope and Boundary: All are consolidated figures of BPI which include all local and international subsidiaries (BPI Group)		
	201: Economic Performance		
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	GRI 300: ENVIRONMENTAL 2016 Scope and Boundary: Environmental indicators include all BPI Group branches and offices in the Philippines, excluding BanKo branches and BLUs due to insufficient system to capture BanKo data		
	302: Energy		
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	308: Supplier Environmental Assessment Scope and Boundary: All Facilities Sevices Group-managed suppliers of the BPI Group, excluding international offices		
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Disclosure Number	Disclosure Title	Page	Omission
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406: Non-discrimination			
103	Management approach	152, 174-177	
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414: Supplier Social Assessment Scope and Boundary: All Facilities Sevices Group-managed suppliers of the BPI Group, excluding international offices			
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414-1	New suppliers that were screened using social criteria	88	
417: Marketing and Labeling Scope and Boundary: All processes and parties involved in the BPI Groups' Customer Assitance Program			
103	Management approach	86-87, 149-150, 174-177	
417-2	Incidents of non-compliance concerning product and service information and labeling	149-150	

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR NON-FINANCIAL DATA

The Management of the Bank of the Philippine Islands (BPI) collaborated and thought through the preparation of BPI's 2018 Integrated Report. This report adheres to the International Integrated Reporting Council (IIRC)'s Integrated Reporting <IR> Framework and Bangko Sentral ng Pilipinas (BSP) guidelines on the submission of Annual Reports, and references the Global Reporting Initiative (GRI) Standards 2016 series.

The Management supervised the publication of this report, and is responsible for ensuring integrity of the report and disclosures on the Bank's website.

This report contains certain forward-looking statements that may involve risks or uncertainties as they relate to future events and circumstances that may be beyond BPI's control.

In addition, regulations of the Philippine Stock Exchange (PSE) prohibit making price-sensitive forecasts without considerable independent review. The management therefore advises readers to use caution when interpreting any forward-looking statements in this report.

CEZAR P. CONSING
President and
Chief Executive Officer

MARIA THERESA MARCIAL JAVIER
Executive Vice-President and
Chief Finance Officer

SUMMARY OF FINANCIAL PERFORMANCE

RESULTS OF OPERATIONS

In 2018, BPI realized net profits of Php 23.1 billion, Php 661 million, or 3.0% higher than the Php 22.4 billion attained in the same period last year. This increase was achieved through a Php 7.5 billion increase in total revenues, partly reduced by increases in operating expenses and loss provisions of Php 5.1 billion and Php 1.1 billion, respectively. The Bank's comprehensive income ended at Php 21.9 billion, 2.4% lower than the same period last year, on account of the lower market valuation of the Bank's investment securities.

Reflecting the impact of the dilution from the May 2018 Php 50 billion stock rights offering (SRO), the Bank posted a return on equity of 10.2% and return on assets of 1.2%, lower than the previous year's 12.7% and 1.3%, respectively.

Total revenues of Php 78.5 billion, increased 10.6% from last year's Php 71.0 billion, propelled by the improvement in the Bank's core intermediation business. Net interest income grew 16.2% to Php 55.8 billion from last year's Php 48.0 billion, attributable to the Php 158.0 billion or 9.0% increase in average asset base, and a 21-basis point expansion in net interest margin.

The Bank earned higher fee income from its transaction-based service charges, credit card and rental businesses. However, lower trust and investment management fees, corporate finance fees, and securities trading income tempered the overall non-interest income results, ending at Php 22.7 billion.

In January 2018, the Bank adopted the expected credit loss (ECL) models required under the Philippine Financial Reporting Standards (PFRS 9) as the basis for the provisioning for loan losses. Reporting under this new regulation, the Bank's impairment losses increased Php 1.1 billion, or 29.7%, to Php 4.9 billion.

Operating expenses ended at Php 43.6 billion, up Php 5.1 billion or 13.2%, from last year's Php 38.5 billion. Compensation and fringe benefits increased Php 1.4 billion or 10.2%, due to increased head count. Other operating expenses was likewise higher by Php 1.8 billion or 13.9%, on higher volume-driven transaction costs, regulatory costs, marketing costs, and management and other professional fees. Occupancy and equipment-related expenses also increased Php 1.8 billion or 15.9%, driven mainly by significant spending on technology and increased rent, depreciation, and amortization. Cost-to-Income ratio was 55.5%, up from 54.3% in 2017, reflecting the impact of the Bank's continued investments in digitalization and the microfinance network.

FINANCIAL CONDITION

The Bank's total resources ended at Php 2.1 trillion, Php 181.3 billion or 9.5% higher than last year's Php 1.9 trillion. The increase was driven by the Php 83.4 billion or 99.8% growth in bills payable and other borrowed funds which ended at Php 166.9 billion, as a result of the Bank's issuance of US$600 million in senior unsecured bonds in August 2018, and the issuance of Php 25 billion in peso fixed rate bonds in December 2018. Total deposits ended flat to last year at Php 1.6 trillion. Current and savings deposits grew Php 27.1 billion or 2.4%, while time deposits decreased Php 3.5 billion, or 0.8%.

BPI's capital funds increased Php 67.8 billion or 37.5% to Php 248.5 billion from 2017's Php 180.7 billion. This was due to this year's SRO, which also boosted the Bank's capital adequacy ratio (CAR) and common equity tier 1 (CET1) ratio to 16.1%, and 15.2%, respectively, levels well above regulatory limits. BPI's market capitalization remained one of the largest in the industry, at Php 423.2 billion. As of December 31, 2018, the Bank's share price closed at Php 94.00, representing a 1.7x multiple to book value.

Loans, net of impairment losses, amounted to Php 1.4 trillion, Php 152.6 billion or 12.7% higher than last year's Php 1.2 trillion. In terms of asset quality, the Bank also adopted BSP Circular No. 941 which amended regulations on past due and non-performing loans (NPL). Under this new reporting classification, the Bank ended the year with an NPL ratio of 1.85% and NPL reserve cover of 88.3%. The Bank's total loss coverage, including allowances for contingent liabilities, stood at 91.3%.

Liquid assets at Php 328.9 billion was a 0.1% decrease from Php 329.4 billion in the prior year, largely from lower deposits with the BSP.

Investment securities at Php 324.8 billion increased Php 24.0 billion, or 8.0%, from last year's Php 300.8 billion. Financial assets at amortized cost, which comprised 85% of the Bank's securities portfolio, increased, Php 10.0 billion or 3.6%, to Php 287.6 billion. Financial assets at fair value through other comprehensive income increased Php 13.9 billion or 59.6% to Php 37.2 billion.

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS
BANK OF PHILIPPINE ISLANDS
FOR THE YEAR ENDED DECEMBER 31, 2018

The role and responsibilities of the Audit Committee are defined in the Board-approved Audit Committee charter. In accordance with this charter, the Committee assists the Board of Directors in fulfilling its oversight responsibilities to the shareholders with respect to:

- Systems of internal controls, risk management and governance process of the Bank,
- Integrity of the Bank's financial statements and financial reporting process
- Performance of the internal audit function and the external auditor
- Compliance with bank policies, applicable laws, rules and regulatory requirements

The Committee is composed of three (3) qualified non-executive and independent directors, all with necessary background, knowledge, skills, and/or experience to carry out its functions. It held 12 regular and 4 special meetings in 2018. Highlights of the Committee's activities were as follows:

1. **Financial Statements:**

   a) Reviewed and discussed with Management and the external auditor, Isla Lipana & Co., a member firm of Price Waterhouse Coopers, the audited consolidated financial statements of Bank of the Philippine Islands (BPI) and the related disclosures for the year ended December 31, 2018, including the assessment of the internal controls relevant to the financial reporting process. The review was performed in the following context:

   - that Management is responsible for the preparation and fair presentation of the financial statements in accordance with the prescribed financial reporting framework, and

   - that Isla Lipana has audited the financial statements in accordance with the Philippine Standards on Auditing and is responsible for expressing an opinion on the fairness of the presentation, including the results of its independent review of the Bank's business models and valuation techniques, estimates and assumptions used relative to the adoption of Philippine Financial Reporting Standards (PFRS) 9 .

   After obtaining assurance on the external auditor's independent and thorough review of the financial statements, the Committee endorsed the audited financial statements for approval by the Board and for inclusion in the 2018 Annual Report to the Stockholders.

   b) Discussed with Management and the internal auditors, the quarterly unaudited consolidated financial reports of BPI Group including the results of operations and endorsed the financial statements to the Board of Directors for approval.

2. **External Audit:**

   a) Reviewed the audit plan and the scope of work of the external auditors, ensuring that areas of focus were appropriately covered and there were no significant gaps in the scope between external and internal audits to ensure effective use of resources.

   The Committee also reviewed the audit results focusing on significant items with financial impact and key control issues through the Management Letter of Comments and ensured that corrective actions are taken by Management. The Audit Committee also held an annual executive session with the external auditor to discuss any other concerns relating to its financial reporting and attestation process.

   b) Assessed the overall performance and effectiveness of the external auditor, Isla Lipana and its audit process. The Committee ensures that lead audit partner is rotated every five (5) years and that Isla Lipana & Co. had reaffirmed its independence from BPI and its subsidiaries and are in compliance with the relevant ethical and professional standards. In consultation with Management, the Committee, recommended for consideration and endorsement of the Board of Directors to the stockholders, the re-engagement of Isla Lipana & Co for BPI and its subsidiaries and affiliates for year 2019 and the related audit fees for 2019.

3. **Internal Audit:**

a) Reviewed and approved the annual work plan of Internal Audit including its charter, risk assessment model and audit rating framework. The Committee ensures that the internal audit function is independent, has adequate and competent resources, and has appropriate authority to be able to effectively discharge its duties. The members of the Audit Committee also had regular discussions with the Chief Audit Executive during the year on significant control and/or risk issues arising from the audit reviews.

b) Reviewed and discussed the reports from internal audit and other management assurance units ensuring that Management is taking the appropriate corrective actions in a timely manner. The Audit Committee also held meetings in joint session with the Risk Management Committee to discuss the new PFRS 9 standard and other key risk areas particularly on information technology, cyber security threats and compliance with regulatory requirements as well as Management updates on its implementation plans to address the identified control gaps or significant issues noted.

c) Reviewed the minutes of meetings of the different Audit Committees of the BPI subsidiaries, to ensure that identified control weaknesses, operational risks and compliance issues are monitored and acted upon.

d) Evaluated the performance of the Chief Audit Executive. The Committee also ensures that Internal Audit activities continuously conform with the International Standards for the Professional Practice of Internal Auditing and Code of Ethics through internal and external quality assessment reviews.

4. **Regulatory Compliance:**

a) Reviewed the effectiveness of the system for monitoring compliance with laws and regulations through the regular reports from the Group Compliance Office on the results of their compliance reviews and Management's actions to address the issues.

b) Discussed the results of the post-implementation reviews of related party transactions (RPTs), ensuring that any significant issues had been appropriately addressed.

c) Discussed the 2017 BSP Report of Examination and reviewed the replies and actions taken by Management on the findings, observations and recommendations making sure that committed actions are implemented.

In compliance with the SEC requirement and the BPI Corporate Governance Manual, the Audit Committee:

- Attended the annual SEC accredited workshop and other seminars on corporate governance, risk management and updates on new relevant laws, accounting standards, tax rules, and other regulatory requirements.
- Reviewed the Audit Committee Charter to ensure that it is updated and aligned with the regulatory requirements.
- Performed the annual self-assessment and reviewed its performance against its charter.and other regulatory mandates. The result was validated by the Compliance Officer and discussed in the Corporate Governance Committee. The process confirmed a satisfactory performance of the Audit Committee.

Based on the results of the assurance activities performed by the Bank's Internal Audit and the external auditor's unqualified opinion on the financial statements, the Committee assessed that the Bank's systems of internal controls, risk management, and governance processes continue to be adequate and generally effective. This overall assessment states, among others, that the audit scope and coverage are sufficient, comprehensive, and risk-based, that Management is aware of its responsibility for internal control, and that there is no interference with the accomplishment of audit activities and reporting of issues and other relevant information to Management, Audit Committee, and the Board of Directors.

XAVIER P. LOINAZ
Chairman - Audit Committee

OCTAVIO V. ESPIRITU
Member

MA. DOLORES B. YUVIENCO
Member

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PHILIPPINE ISLANDS

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

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

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

Jaime Augusto Zobel De Ayala
Chairman of the Board

Cezar P. Consing
President and
Chief Executive Officer

Maria Theresa Marcial Javier
Executive Vice-President and
Chief Financial Officer

SUBSCRIBED AND SWORN to before me at Makati City, Metro Manila this MAR 1 9 2019 affiants exhibited to me their Passport with the following details:

Name	Passport No.	Date/Place of Issue	Valid Until
Jaime Augusto Zobel de Ayala	EC4856934	Aug 04 2015/DFA Manila	Aug 03 2020
Cezar P. Consing	P6868155A	Apr 17, 2018/DFA NCR South	Apr. 16, 2028
Maria Theresa Marcial Javier	EC0890218	Apr 22, 2014/DFA Manila	Apr. 21, 2019

Doc. No. 162;
Page No. 34;
Book No. L;
Series of 2019.

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

pwc

Isla Lipana & Co.

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.

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 845 2728, F: +63 (2) 845 2806, www.pwc.com/ph

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		Parent	
		2018	2017	**2018**	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

Parent

	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

	Change in assumption	**Impact on defined benefit obligation**	
		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

	Change in assumption	Impact on defined benefit obligation	
		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

	Change in assumption	**Impact on defined benefit obligation**	
		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

	Change in assumption	Impact on defined benefit obligation	
		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	 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	-	-	-	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:

Consolidated

		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**

Parent

		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.

APPENDICES

DNV·GL

INDEPENDENT ASSURANCE STATEMENT

Introduction

DNV GL Business Assurance Philippines Branch ('DNV GL'), part of DNV GL Group has been commissioned by the management of the Bank of the Philippine Islands ('BPI' or 'the Bank', (Securities and Exchange Commission Identification Number PW-121) to undertake an independent assurance of sustainability/non-financial disclosures in BPI's 2018 Integrated Report *Building the Future Together* (the 'Report') in its printed format for the year ended 31st December 2018. The intended users of this assurance statement are the management of the Bank.

We performed our work using DNV GL's assurance methodology VeriSustain™[1], which is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements (ISAE) 3000 Revised*, along with the Global Reporting Initiative's (GRI's) Principles for Defining Report Content and Quality. The verification engagement was carried out during February 2019 – April 2019.

We understand that the reported financial data and related information are based on statutory disclosures, which are subject to a separate independent statutory audit process. We did not review financial disclosures and data as it was not within the scope of our work.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion related to non-financial sustainability disclosures in this Report. We are providing a 'limited level' of assurance based on DNV GL VeriSustain and no external stakeholders were interviewed as part of this assurance engagement.

The engagement excludes the sustainability management, performance and reporting practices of BPI's associated companies, suppliers, contractors and any third-parties mentioned in the Report. The Bank's position statements, the statements for the management approach, and case studies and examples are excluded from the scope of our work.

Responsibilities of the Management of BPI and of the Assurance Provider

The Board of BPI has sole responsibility for the preparation of the Report and is responsible for all information provided in the Report as well as the processes for collecting, analysing and reporting the information presented in the Report. BPI has stated in this Report that this report is based on International <IR> Framework of the International Integrated Reporting Council (IIRC) (the '<IR> Framework') and has adopted general disclosures and selected performance indicators for disclosures related to identified material topics from the GRI's Sustainability Reporting Standards 2016 (GRI Standards).

DNV GL's assurance engagements are based on the assumption that the data and information provided by the Bank to us as part of our review have been provided in good faith, true and free from material misstatements. Because of the selected nature (sampling) and other inherent limitation of both procedures and systems of internal control, there remains the unavoidable risk that errors or irregularities, possibly significant, may not have been detected. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Our verification engagement included a limited level of verification of sustainability performance disclosures for identified material topics of BPI's operations as brought out in the Report in the section '*Material Topics and Stakeholder Engagement*' and covering the reporting boundaries mentioned in the section '*About the Report*'. Our verification applies a ±5% uncertainty threshold towards errors and omissions.

Basis of our Opinion

A multi-disciplinary team of sustainability and assurance specialists performed assurance at the Bank's Head Office and branches in Makati Central Business District, Manila. We undertook the following activities:

- Review of the non–financial sustainability disclosures presented in this Report;
- Review of approach to materiality determination and stakeholder engagement and recent outputs although we did not carry out any direct engagement with stakeholders;
- Review of information provided to us by the Bank on its reporting and management processes related to sustainability performance for the reporting year based on the reporting framework adopted;

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[1] *The VeriSustain protocol is available from the DNV GL website (www.dnvgl.com)*
* *Assurance Engagements other than Audits or Reviews of Historical Financial Information.*

- Interviews with selected members of the leadership team, and senior managers responsible for management of sustainability issues and review of selected evidence to support issues discussed. We were free to choose interviewees and interviewed those with overall responsibility for the programmes to deliver the targets for the Bank's vision, mission and milestones;
- Desk review of selected sustainability parameters were carried out and findings were discussed with Sustainability Team;
- Review of supporting evidence for key claims and data disclosed in the Report. Our verification processes were prioritised based on our risk-based approach i.e. relevance of identified material topics and sustainability context of the business;
- Review of the processes for gathering and consolidating the performance data and, for a sample, checking the data consolidation at site and corporate levels;
- The reporting topic boundaries based on the materiality assessment covering the operations of various businesses under BPI, as stated in the Report.

The procedures performed in a limited assurance engagement vary in nature and timing, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained if a reasonable assurance engagement had been performed. During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement.

Opinion and Observations

On the basis of the work undertaken, we provide a limited level of assurance over the non-financial disclosure presented in BPI's 2018 Integrated Report and nothing has come to our attention to suggest that the Report does not properly describe the sustainability performance of identified material topics based on reporting requirements of the <IR> Framework and the identified GRI Standards.

Without affecting our assurance opinion, we also provide the following observations. We have evaluated the Report's adherence to the following principles:

Stakeholder Inclusiveness

The participation of stakeholders in developing and achieving an accountable and strategic response to Sustainability.

BPI identifies clients, investors, employees, suppliers and contractors, government and regulatory agencies, and communities and civil society groups as its significant stakeholder groups. The Report brings out key platforms for engagement with these stakeholder groups which the Bank has established to identify and respond on their key concerns and relevant matters. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Stakeholder Inclusiveness.

Materiality

The process of determining the issues that are most relevant to an organization and its stakeholders.

BPI had conducted a comprehensive process of materiality determination in 2015 to identify areas which have the most impact to create long-term value to stakeholders. This process is regularly updated to address changing stakeholder expectations and concerns, and during the reporting period, the Bank engaged key employees and considered key inputs from other stakeholder groups to review and validate its list of material topics and issues. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Materiality.

Responsiveness

The extent to which an organization responds to stakeholder issues.

The Report brings out its formal and informal processes for engagement with the Bank's key stakeholder groups and how their significant concerns and expectations are addressed through the Bank's management processes. The Report has brought out responses to the identified material topics and fairly discloses its strategies and management approaches through descriptions of its business model, policies, management systems and governance mechanisms. Going forward, the Bank may disclose how the Bank aims to create value along its identified capitals on the short, medium and long terms, linked to related goals and objectives. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Responsiveness.

Reliability and Accuracy

The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems.

The majority of data and information verified at the Head Office and sampled branches, and those resulting out of desk review were found to be identifiable and traceable to the source and nothing came to our attention to suggest that reported data have not been properly collated and consolidated at the Group level, nor that the assumptions used were inappropriate. Some of the data inaccuracies identified during the verification process at sampled locations were found to be attributable to interpretation and aggregation errors and the errors have been communicated for correction and corrected upon. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principles of Reliability and Accuracy.

Completeness
How much of all the information that has been identified as material to the organization and its stakeholders is reported.
The Report has fairly brought out the non-financial disclosures along with disclosures on governance, risks and opportunities for its identified material topics based on the <IR> Framework, including the disclosures on strategy, management approach and performance indicators for the reporting boundary identified by BPI for the year 2018. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness.

Neutrality
The extent to which a report provides a balanced account of an organization's performance, delivered in a neutral tone.
The Report identifies and brings out non-financial issues, challenges, concerns and performance matters in a fairly neutral tone in terms of content and presentation, and considering the general sustainability context and external environment. Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Neutrality.

Statement of Our Competence and Independence

DNV GL applies its own management standards and compliance policies for quality control, in accordance with ISO/IEC 17021:2011 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the DNV GL Code of Conduct[2] during the assurance engagement and maintain independence where required by relevant ethical requirements.

This engagement work was carried out by an independent team of sustainability assurance professionals. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV GL maintains complete impartiality toward stakeholders interviewed during the assurance process.

DNV GL has provided assurance to Ayala Land Inc., Globe Telecom Inc, Manila Water Corporation and Ayala Corporation. In our opinion, there is no conflict of interest in the assurance engagement provided to the business units. DNV GL did not provide any services to the Bank of Philippine Islands during 2018 that could compromise the independence or impartiality of our work.

For and on behalf of DNV GL Business Assurance AS Philippines Branch

Kiran Radhakrishnan Lead Verifier DNV GL – Business Assurance Limited	Heng Chwin Mak Operations Manager – South East Asia DNV GL Business Assurance Singapore Pte. Ltd.	Vadakepatth Nandkumar Head - Sustainability Operations DNV GL – Business Assurance India Private Limited.

3rd April 2019, Manila, Philippines

DNV GL Business Assurance AS Philippines Branch is part of DNV GL – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnvgl.com

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[2] *The DNV GL Code of Conduct is available from the DNV GL website (www.dnvgl.com)*

LEADERS' BIOGRAPHIES

BOARD OF DIRECTORS

JAIME AUGUSTO ZOBEL DE AYALA

Filipino, 60 years old, has been a Non-Executive Director of BPI since March 1990 and Chairman of its Board of Directors since March 2004. He also served as Vice-Chairman from 1995 to March 2004. Mr. Zobel is currently Chairman of the Bank's Executive Committee and member of the Nomination Committee.

Mr. Zobel is the Chairman of AC Education, Ayala Retirement Fund Holdings, Inc., AC Industrial Technology Holdings, Inc., AC Ventures Holdings Corp., AC Infrastructure Holdings Corporation and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Light Rail Manila Holdings, Inc. and AG Holdings Limited. Outside the Ayala group, he is a member of various international and local business and socio-civic organizations, including the JP Morgan International Council, JP Morgan Asia Pacific Council, Mitsubishi Corporation International Advisory Council, and Council on Foreign Relations. He sits on the board of the Singapore Management University, the Global Advisory Board of University of Tokyo, and on various advisory boards of Harvard University, including the Global Advisory Council, HBS Board of Dean's Advisors, and HBS Asia-Pacific Advisory Board, which he chairs. He is Chairman Emeritus of the Asia Business Council, Co-Vice Chairman of the Makati Business Club, Chairman of Endeavor Philippines, and a board member of Eisenhower Fellowships.

He was awarded the Presidential Medal of Merit in 2009, the Philippine Legion of Honor with rank of Grand Commander in 2010, and the Order of Mabini with rank of Commander in 2015 by the President of the Philippines in recognition of his outstanding public service. In 2017, he was recognized as a United Nations Sustainable Development Goals Pioneer by the UN Global Compact for his work in sustainable business strategy and operations. The first recipient of the award from the Philippines, he was one of 10 individuals recognized for championing sustainability and the pursuit of the 17 SDGs in business.

He received his B.A. in Economics (with honors) from Harvard University in 1981 and completed his MBA at Harvard Business School in 1987.

Other Philippine Stock Exchange-Listed Companies:
Ayala Corporation – Chairman and Chief Executive Officer
Globe Telecom, Inc. – Chairman of the Board
Integrated Micro-Electronics, Inc. – Chairman of the Board
Ayala Land, Inc. – Vice-Chairman of the Board
Manila Water Company, Inc. – Vice-Chairman of the Board

FERNANDO ZOBEL DE AYALA

Filipino, 59 years old, has been a Non-Executive Director of BPI since October 1994 and was elected Vice Chairman in April 2013. He also serves as Chairman of the Bank's Personnel and Compensation Committee, Vice-Chairman of the Executive Committee, and member of the Nomination Committee. He is also a member of the Board of BPI Asset Management and Trust Corporation and Chairman of the Board of Trustees of BPI Foundation, Inc.

Mr. Zobel is the Chairman of AC International Finance Ltd. and AC Energy Holdings, Inc.; Co-Chairman of Ayala Foundation, Inc.; and Director of LiveIt Investments, Ltd., Ayala International Holdings Limited, and Honda Cars Philippines, Inc.

Mr. Zobel is a member of the Board of Georgetown University and INSEAD. He is a member of the World Presidents' Organization and the Chief Executives Organization. He is a Board member of the Habitat for Humanity International and chairs the steering committee of its Asia Pacific Capital Campaign. He also serves on the board of the Asia Society and is a member of the Asia Philanthropy Circle, a board member of the Philippine National Museum and Pilipinas Shell Foundation.

He holds a liberal arts degree from Harvard College and a CIM from INSEAD, France.

Other Philippine Stock Exchange-Listed Companies:
Ayala Corporation – Director and President and Chief Operating Officer
Globe Telecom, Inc. – Co-Vice Chairman of the Board
Integrated Micro-Electronics, Inc. – Director
Ayala Land, Inc. – Chairman of the Board
Manila Water Company, Inc. – Chairman of the Board
Pilipinas Shell Petroleum Corp. – Independent Director

CEZAR P. CONSING

Filipino, 59 years old, has been a President and Chief Executive Officer, has served on BPI's board of directors for 16 years, first becoming a member of the board in February 1995. A Senior Managing Director of Ayala Corporation, BPI's controlling shareholder, he represented J.P. Morgan & Co., then BPI's second largest shareholder, on the BPI board from 1995-2000, was an Independent Director from August 2004-2007 and then rejoined the board in April 2010, becoming its President and CEO in April 2013. Mr. Consing serves as Chairman of BPI's thrift bank, investment bank, UK bank, property and casualty insurance, leasing, and rental subsidiaries, and Vice Chairman of its Foundation; and is also a board director of BPI's life insurance, asset management and micro finance subsidiaries. Mr. Consing is a member of BPI's Executive Committee, and is Chairman of its Credit and Management Committees.

Mr. Consing serves as President and board director of Bancnet, Inc., and board director of LGU Guarantee Corporation, three industry consortium institutions where BPI is a minority shareholder. Outside his association with BPI, Mr. Consing serves on the boards of four private companies: The Rohatyn Group, Sqreem Technologies, FILGIFTS.com and Endeavor Philippines. He has also served as an independent board director of CIMB Group Holdings (2006 - 2013) and First Gen Corporation (2005 - 2013). He is also a board director of the US-Philippines Society and a trustee of the Manila Golf Club Foundation. Mr. Consing has been a member of the Trilateral Commission since 2014.

Mr. Consing first worked for BPI, in corporate planning and corporate banking, from 1980 - 1985. He worked for J.P. Morgan & Co., based in Hong Kong and Singapore, from 1985 - 2004, rising to co-head and head the firm's investment banking business in Asia Pacific from 1997 - 2004, the last five years as President of J.P. Morgan Securities (Asia

Pacific) Ltd. As a senior Managing Director of J.P. Morgan, Mr. Consing was a member of the firm's global investment banking management committee and its Asia Pacific management committee. Mr. Consing was a partner at The Rohatyn Group from 2004 - 2013, headed its Hong Kong office and its private investing business in Asia, and was a board director of its real estate, and energy and infrastructure private equity investing subsidiaries.

Mr. Consing received an A.B. Economics degree (Accelerated Program), magna cum laude, from De La Salle University, Manila, in 1979. At university, he was a member of the student council, the student newspaper and the varsity track and field team. In recent years, he has served on the advisory committees of the university and its school of economics. Mr. Consing obtained an M.A. in Applied Economics from the University of Michigan, Ann Arbor, in 1980.

Other Philippine Stock Exchange-Listed Companies:
National Reinsurance Corporation of the Philippines – Chairman of the Board
Jollibee Foods Corporation – Independent Director

GERARDO C. ABLAZA JR.

Filipino, 65 years old, was elected as a Non-Executive Director of BPI in April 2017. He is a member of the Bank's Personnel & Compensation Committee and a Director of BPI Family Savings Bank, Inc. and BPI Capital Corporation.

Mr. Ablaza is currently a Management Consultant at the Ayala Corporation and a member of the Board of Directors in a number of Ayala's subsidiaries including PSE-listed Manila Water Company, Inc. (Non-Executive Director), AC Energy, AC Health, AC Infrastructures and Ayala Foundation. From 1998 to April 2009, he was President and CEO of Globe Telecom, Inc. During this period, he took the company from being the fourth-ranked mobile services provider to the second-largest full-service telecom operator with a subscriber base of 25 million in 2008. From 2010 to 2017, he was the President and CEO of Manila Water Company and was responsible for overseeing the financial and operational growth within Manila Water's service areas in the Metro Manila East Zone and in its expansion areas.

In 2004, Mr. Ablaza was recognized by CNBC as the Asia Business Leader of the Year, making him the first Filipino CEO to win the award. He was also awarded by Telecom Asia as the Best Asian Telecom CEO. In 2013, he was recognized for his consistent leadership and innovation across the banking, investment, telecommunications and utility service industries through the Citi Distinguished Alumni Award for Leadership and Ingenuity. He was the first Filipino to be awarded with such an honor. In June 2015, he became a member of the International Advisory Panel of the Institute for Water Policy under the Lee Kuan Yew School of Public Policy in Singapore. In 2017, he became a member of the Board of Directors and Executive Committee of Advance Info Services, PLC based in Thailand.

Mr. Ablaza graduated summa cum laude from the De La Salle University in 1974 with a degree in Liberal Arts, major in Mathematics (Honors Program). As one of the most accomplished graduates of his alma mater, he sits as a member of the Board of Trustees in various De La Salle schools in the country.

Other Philippine Stock Exchange-Listed Companies:
Manila Water Company, Inc. – Non-Executive Director

ROMEO L. BERNARDO

Filipino, 64 years old, Independent Director, has served as a member of the Board of Directors of BPI since February 1998, qualifying as an Independent Director since August 2002. He is the Chairman of the Bank's Nomination Committee and a member of the Personnel & Compensation, Related Party Transaction, and Risk Management Committees. He also serves as Independent Director of BPI Capital Corporation, BPI/MS Insurance Corporation, BPI-Philam Life Assurance Corporation and BPI Asset Management and Trust Corporation. He is also Chairman of the Board of Directors (Independent) of Ayala Life Fixed-Income Fund; the Peso, Dollar, Euro, Growth, Money Market Bond Funds. He also serves as a Board Director of Management Association of the Philippines and Finex Foundation. He is likewise a public advocate of good corporate and national governance and frequently writes on the subject in his capacity as Vice-Chairman and Co-Founder of the Foundation for Economic Freedom and the Philippine Partner of GlobalSource Partners, Inc., a worldwide association of country-based experts providing insights on global emerging markets.

Mr. Bernardo is a former undersecretary of the Department of Finance and founded his consultancy practice, Lazaro Bernardo Tiu & Associates in 1997. He has been advisor to various multilateral institutions such as the World Bank, International Finance Corporation, Asian Development Bank, and Japan International Cooperation Agency. He has also worked with government institutions and the National Economic Development Authority (NEDA) in policy matters involving pension reform, capital markets reform, and fiscal and debt management.

Mr. Bernardo graduated with a B.S. Business Economics degree, magna cum laude, from the University of the Philippines in 1974. He obtained his M.A. Development Economics at Williams College, Williamstown, Massachusetts, graduating as valedictorian in 1977.

Other Philippine Stock Exchange-Listed Companies:
Aboitiz Power Corporation – Independent Director
National Reinsurance Corporation of the Philippines – Independent Director
RFM Corporation – Independent Director
Globe Telecom, Inc. – Non-Executive Director

IGNACIO R. BUNYE

Filipino, 74 years old, Independent Director, became a member of the BPI Board in April 2016. He is the Chairman of the Bank's Related Party Transaction Committee and a member of the Corporate Governance Committee. He serves as an Independent Director of BPI Asset Management and Trust Corporation and BPI Direct BanKo, Inc., A Savings Bank.

Mr. Bunye was a member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2008 to 2014. He previously held the positions of Presidential Political Adviser in 2008, Presidential Spokesperson in 2003, and Press Secretary in 2002. He also worked in BPI's Treasury and Corporate Finance departments from 1983 before he began his government service in the City of Muntinlupa (then a municipality) as officer-in-charge and mayor between 1986 and 1998.

During his twelve-year stewardship in Muntinlupa, Mr. Bunye founded the Muntinlupa Polytechnic College (now Pamantasan ng Lungsod ng Muntinlupa) and laid the foundation for the establishment of the Ospital ng Muntinlupa. In a concurrent capacity, he also served as Chairman of the Metropolitan Manila Authority (now Metropolitan Manila Development Authority) between 1991 and 1992, and was a member of the House of Representatives representing Muntinlupa between 1998 and 2001. A former print and broadcast journalist, he now writes a regular weekly column for Manila Bulletin, Tempo, People's Tonight, Sun Star, BusinessWeek Mindanao, Panay News and Filipino Reporter (in New York).

Mr. Bunye is a member of the Philippine Integrated Bar. He obtained his Bachelor of Arts degree and Bachelor of Laws degree from the Ateneo de Manila University in 1964 and 1969 respectively. He passed the Philippine Bar Examination in 1969. Significant awards and recognition received by Mr. Bunye include the Asian Institute of Management Honor and Prestige Award, the Bangko Sentral Service Excellence Medal, the Gran Oden de Isabela Catolica, and the Order of Lakandula. Mr. Bunye is not a Director in any other publicly-listed company.

OCTAVIO V. ESPIRITU

Filipino, 75 years old, Independent Director, has been a member of Board of Directors of BPI since April 2000. He is the Chairman of the Bank's Risk Management Committee and a member of the Audit Committee.

Mr. Espiritu is a member of the Board of Directors of Philippine Dealing System Holdings Corporation and Subsidiaries; Philippine Stratbase Consultancy, Inc., Pueblo de Oro Golf & Country Club, and The Country Club, Inc.

Mr. Espiritu was the former President and Chief Executive Officer of Far East Bank & Trust Company, and also the President of the Bankers Association of the Philippines for three consecutive terms. He was the Chairman of the Board of Trustees of Ateneo de Manila University for 14 years.

He graduated with an A.B. Economics degree from the Ateneo de Manila University in 1963 and obtained his M.A. Economics degree from Georgetown University, U.S.A in 1966.

Other Philippine Stock Exchange-Listed Companies:
International Container Terminal Services, Inc. – Independent Director

REBECCA G. FERNANDO

Filipino, 70 years old, Non-Executive Director, first served on the BPI board from October 1995 to 2007 and from March 2009 up to the present. Ms. Fernando is a member of the following Committees in BPI: Executive Committee, Related Party Transaction Committee and Retirement/Pension Committee. She is also a member of the Board of Directors of BPI Capital Corporation, BPI Family Savings Bank, Inc., and BPI Asset Management and Trust Corporation.

Ms. Fernando is the Financial Consultant and Member of the Finance Boards of The Roman Catholic Archbishop of Manila and of The Roman Catholic Archbishop of Antipolo.

She graduated with a BSBA degree major in accounting from the University of the Philippines in 1970. She took further studies for an MBA at the University of the Philippines and attended an Executive Program on Transnational Business at the Pacific Asian Management Institute at the University of Hawaii. She is a Certified Public Accountant. Ms. Fernando is not a Director in any other publicly-listed company.

DELFIN C. GONZALEZ, JR.

Filipino, 69 years old, was elected as a Non-Executive Director of BPI in April 2016. He is a member of the Bank's Personnel & Compensation Committee and Retirement/ Pension Committee and the Board's representative in the IT Steering Committee.

Mr. Gonzalez was the Chief Finance Officer of Ayala Corporation from 2010 to 2015, and previously served in the same capacity at Globe Telecom Inc. from 2000 to 2010, and San Miguel Corporation from 1975 to 1999.

Mr. Gonzalez is an independent financial consultant and the Chairman and President of D.C. Gonzalez Inc. He is also a member of the Board of Trustees of De La Salle Santiago Zobel School.

He graduated with a Bachelor of Science degree in Chemical Engineering from De La Salle College in 1971, and obtained his Master's degree in Business Administration from the Harvard Business School in 1975. Mr. Gonzalez is not a Director in any other publicly-listed company.

JOSE TEODORO K. LIMCAOCO

Filipino, 57 years old, was elected Non-Executive Director of BPI in February 2019. Previously, he served as President of BPI Family Savings Bank from 2010-2015 and President of BPI Capital Corporation from 2007-2010. He was also Officer-in-Charge for Ayala Life Assurance, Inc. in 2009 and Director/Chairman of Ayala Plans, Inc. in 2010-2011.

He is currently the Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer and Finance Group Head of Ayala Corporation, a PSE-listed company. He is an Independent Director of SSI Group, Inc., Chairman of Darong Agricultural and Development Corporation and Zapfam Inc., President and CEO of AC Ventures Holdings, Inc., (formerly Water Capital Works, Inc.), AYC Finance Limited, Bestfull Holdings Limited, and Purefoods International Limited. He is the Vice Chairman of Lagdigan Land Corporation, President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., AC Infrastructure Holdings Corporation, Ayala Aviation Corporation. AC Education, Inc., Asiacom Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc. (formerly Ayala Automotive Holdings Corporation), A.C.S.T. Business Holdings, Inc., LICA Management Inc. and Just For Kids, Inc. He is the Treasurer of Ayala Retirement Fund Holdings, Inc.

Mr. Limcaoco joined Ayala Corporation as a Managing Director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including Trustee and Treasurer of Ayala Foundation, Inc., President of myAyala.com, and CFO of Azalea Technology Investments, Inc. He served as the President of the Chamber of Thrift Banks from 2013-2015. He was named as the ING-Finex CFO of the Year in 2018. He has held prior positions with JP Morgan & Co. and with BZW Asia.

He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

Other Philippine Stock Exchange-Listed Companies:
Globe Telecom, Inc. – Non-Executive Director
Integrated Micro-Electronics, Inc. – Non-Executive Director

XAVIER P. LOINAZ

Filipino, 75 years old, Independent Director, has been a member of the Board of Directors of the Bank since March 1982 and an Independent since March 2009. He previously held the position of President and Chief Executive Officer of the Bank for 22 years from 1982 to 2004. He is the Chairman of the Bank's Audit Committee and a member of the Nomination Committee. He is also an Independent Director of BPI Family Savings Bank, Inc. and BPI/MS Insurance Corporation.

Mr. Loinaz is a member of the Board of Directors/Trustees of DAOI Condominium Corporation and E. Zobel Foundation; Chairman of the Board of Alay Kapwa Kilusan Pangkalusugan; Chairman and President of XPL Manitou Properties, Inc.; and Vice-Chairman of XPL MTJL Properties Inc.

He graduated with an A.B. Economics degree from the Ateneo de Manila University in 1963, and obtained his MBA Finance at the Wharton School of Pennsylvania in 1965.

Other Philippine Stock Exchange-Listed Companies:
Ayala Corporation – Independent Director

AURELIO R. MONTINOLA III

Filipino, 67 years old, Non-Executive Director, has been a member of the Board of Directors of BPI since January 2004. Mr. Montinola also served as President and Chief Executive Officer of BPI for eight years from 2005 to 2013, and BPI Family Savings Bank, Inc. for twelve years from 1992 to 2004. He is a member of the Bank's Executive, Risk Management, Personnel & Compensation and Nomination Committees. Among the several BPI subsidiaries and affiliates, Mr. Montinola serves as member of the Board of Directors of the following: BPI Capital Corporation, BPI Direct BanKo, Inc., BPI Family Savings Bank, Inc. and BPI/MS Insurance Corporation.

Mr. Montinola is the Chairman of the Roosevelt Colleges, Inc., East Asia Computer Center Inc., Amon Trading Corporation, and the Kabang Kalikasan ng Pilipinas Foundation, Inc. He is also a member of the Board of Trustees of BPI Foundation Inc. and Philippine Business for Education Inc. where he sits as Vice-Chairman.

Significant awards received by Mr. Montinola include Management Man of the Year 2012 (Management Association of the Philippines), Asian Banker Leadership Award (twice), and Legion d'Honneur (Chevalier) from the French Government.

He obtained his Bachelor of Science in Management Engineering degree at the Ateneo de Manila University in 1973 and his MBA from the Harvard Business School in 1977.

Other Philippine Stock-Exchange-Listed Companies:
Far Eastern University, Incorporated – Chairman of the Board
Roxas and Company, Inc. – Independent Director

MERCEDITA S. NOLLEDO

Filipino, 78 years old, Non-Executive Director, has been a member of the Board of Directors of BPI since November 1991. She is the Chairman of the Bank's Retirement & Pension Committees and a member of the Executive Committee and Corporate Governance Committee. Ms. Nolledo is also a Director in the following BPI subsidiaries and affiliates: BPI Investment Management, Inc., where she sits as Chairman; BPI Family Savings Bank, Inc., BPI Capital Corporation and BPI Asset Management and Trust Corporation.

Ms. Nolledo serves as Director of the following companies: Ayala Land Commercial REIT, Inc., Michigan Holdings, Inc., and Anvaya Cove Beach and Nature Club, Inc.

She is a member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc. as well as Vice-President of Sonoma Properties, Inc. She was a member of the Board of Directors of Ayala Corporation from 2004 until September 2010.

Ms. Nolledo graduated with the degree of Bachelor of Science in Business Administration major in Accounting (magna cum laude) from the University of the Philippines in 1960 and placed second at the Certified Public Accountant Licensure Board Examination administered in the same year. In 1965, she obtained her Bachelor of Laws degree (cum laude) also from the University of the Philippines where she also placed second at the Bar Examination held in the same year.

Other Philippine Stock Exchange-Listed Companies:
Xurpas, Inc. – Non-Executive Director
D&L Industries, Inc. – Independent Director

ANTONIO JOSE U. PERIQUET

Filipino, 58 years old, Independent Director, has been an Independent Director of BPI since April 2012. He is a member of the Bank's Executive Committee and is the Chairman/Independent Director of BPI Asset Management and Trust Corporation and also serves as an Independent Director of BPI Capital Corporation and BPI Family Savings Bank, Inc.

Mr. Periquet is the Chairman of the Campden Hill Group, Inc. and Pacific Main Holdings and an Independent Director of Albizia ASEAN Tenggara Fund. He is a trustee of Lyceum University of the Philippines and a member of the Dean's Global Advisory Council at the University of Virginia's Darden School of Business.

Mr. Periquet graduated from the Ateneo de Manila University with an AB Economics degree in 1982. He also holds a Master of Science degree in Economics from Oxford University and an MBA from the University of Virginia.

Other Philippine Stock Exchange-Listed Companies:
ABS-CBN Corporation – Independent Director
ABS-CBN Holdings Corporation – Independent Director
Ayala Corporation – Independent Director
DMCI Holdings, Inc. – Independent Director
Max's Group of Companies – Independent Director
Philippine Seven Corporation – Independent Director

DOLORES B. YUVIENCO

Filipino, 71 years old, Independent Director, became a member of the Board of Directors of BPI on April 2014 and qualified as an independent in April 2016. She is a member of the Audit Committee and Chair of the Corporate Governance Committee.

In April 2018, Ms. Yuvienco was elected as Independent Director of First Consolidated Bank (Thrift Bank), and was chosen to chair the Nomination and Governance Committee.

Ms. Yuvienco worked for 41 years with the Bangko Sentral ng Pilipinas (formerly known as Central Bank of the Philippines) under various capacities until her compulsory retirement in March 2013as Assistant Governor in the Supervision and Examination Sector. Her exposure at the BSP was largely in bank supervision where her responsibilities ranged from the crafting of policies/regulations on banking supervision to on-site examination and off-site monitoring of BSP-supervised entities. As a ranking official in the BSP, she had opportunities to meet and share ideas with her counterparts in other central banks in the region. Owing to her experience, she was tapped as a resource speaker in various training programs of the Southeast Asian Center for Banking in Kuala Lumpur.

Ms. Yuvienco graduated from St. Theresa's College, Quezon City in 1967, with a degree of Bachelor of Science in Commerce, major in Accounting. She took up post graduate studies at the University of the Philippines Diliman. She is a Certified Public Accountant and a Career Executive Service Professional. Ms. Yuvienco is not a Director in any other publicly-listed company.

ANGELA PILAR B. MARAMAG

Corporate Secretary

Filipino, 49 years old, was appointed Corporate Secretary on April 8, 2015. She is also the Corporate Secretary or Deputy Corporate Secretary of various BPI subsidiaries and affiliates, including BPI Family Savings Bank, BPI Capital, BPI Forex, BPI/MS Insurance Corp., and BPI Century Tokyo Lease and Finance Corp.

Prior to joining BPI, Ms. Maramag was Senior Counsel at the Bank for International Settlements (BIS) in Basel, Switzerland, from 2001 to 2008, and Head of Finance and Administration at the BIS Representative Office in Hong Kong from 2008 to 2011. She was a Legal Officer at the United Nations Compensation Commission in Geneva, Switzerland, from 1998 to 2001.

Ms. Maramag was admitted to the Philippine Bar (1995) and New York State Bar (1998). She received her Master in Laws (LL.M) from the University of Chicago in 1997, Juris Doctor (J.D) in 1994 from Ateneo de Manila School of Law, and AB Honors Program in Economics in 1990 from Ateneo de Manila University.

SENIOR MANAGEMENT

RAMON L. JOCSON

Executive Vice President & Chief Operating Officer

Filipino, 59 years old, Mr. Jocson is concurrently the Bank's Chief Operating Officer and the Head of BPI's Enterprise Services Segment which serves as the enterprise backbone of the organization that includes Human Resources, Centralized Operations, Information Systems, Digital Channels, Business Transformation and Quality, Facilities Services, and Corporate Affairs and Communications. He chairs the Bank's IT Steering Committee and is a member of the Bank's Management Committee.

Mr. Jocson is also currently the Vice-Chairman of the CyberSecurity Committee of the Bankers Association of the Philippines.
He began his career in Manila in 1982, joining IBM Philippines as a Systems Analyst, and subsequently taking on more responsibility as he assumed different positions, including Information Systems Manager, Systems Engineering Manager and Manager of Quality. In 1995, he was assigned in Singapore where he led IBM's Applications/Systems Integration business in ASEAN and South Asia. In 1996, he was appointed as Managing Director for IBM Philippines.

In 2000, he took on a new assignment as Vice President and GM of IBM Global Services, ASEAN and South Asia. He was then appointed as Vice President and GM of IBM Global Services for Industrial Sector for Asia Pacific in 2005. Two years later, in 2007, Mr. Jocson took on the role of Vice President and GM of Application Services for the Growth Market Unit, where he led IBM's Applications Management and Application Integration Services in Asia Pacific, Central and Eastern Europe, Latin America and Middle East/Africa. He was then appointed as VP & GM of Integrated Technology Services for Asia Pacific in 2010.

In 2013, Mr. Jocson was appointed as VP & GM of IBM Global Services for Central and Eastern Europe based in Prague, Czech Republic. In this capacity, he was responsible for IBM's services portfolio in Russia/CIS, Turkey, Poland & Baltics, Central Europe and South East Europe. From January 2015 until he joined BPI in September 2015, he was back in Singapore as IBM Asia Pacific VP & GM for Strategic Outsourcing, which catered to major regional banks, telcos and airlines as major clients.

Mr. Jocson was also a member of IBM's Growth & Transformation Team, which is composed of the top senior leaders in IBM which worked directly with the Chairman on key/strategic initiatives. He has served on several external boards, including the Economic Development Board of Singapore, Philamlife and iPeople. Mr. Jocson obtained his BS Industrial Engineering degree from the University of the Philippines in 1982. He also has an MBA from the Ateneo Graduate School of Business.

MARIA THERESA MARCIAL JAVIER

Executive Vice President & Chief Finance Officer

Filipino, 48 years old, Ms. Marcial is the Chief Financial Officer and Head of Strategy and Development of BPI. She is responsible for strategic and corporate planning, accounting and financial control, capital management, investor relations, corporate legal affairs, and management of bank assets. She joined the bank in 1995.
She has 24 years of banking experience with expertise in investment management and trust business, corporate banking, debt and equity capital markets, and strategic planning. She is a member of BPI's Management Committee, Asset & Liability Committee, Credit Committee, and chairs the Capital Expenditure Committee. She previously served on the BPI Trust Committee and the board of BPI Investment Management, Inc. Prior to her banking career, she worked for the National Economic and Development Authority, and Agricultural Policy Credit Council.

Ms. Marcial obtained her Masters Degree in Economics in 1995 from the University of the Philippines Diliman and BS Economics, cum laude, from the University of the Philippines Los Banos in 1990. She completed the Advanced Management Program at Harvard Business School in 2010 and the CFA Institute Investment Management Workshop also at Harvard Business School in 2006.

She previously served as President of Fund Managers Association of the Philippines, President of Trust Officers Association of the Philippines, Vice-Chairman of Capital Markets Development Committee of FINEX, and Alternate Governor of the Market Governance Board of Philippine Dealing and Exchange Corporation. She is a Fellow of Foundation for Economic Freedom. She is a Member of the National Advisory Council of World Wide Fund for Nature (WWF) Philippines.

ANTONIO V. PANER

Executive Vice President & Treasurer

Filipino, 60 years old, Mr. Paner serves as Treasurer and Head of the Bank's Global Markets Segment. As such, he is responsible for managing the Bank's interest rate and liquidity gaps, as well as its fixed income and currency market-making, trading, and distribution capabilities, in the Philippines and internationally. Mr. Paner is Chairman of the Bank's Asset & Liability Committee and is a member of the Management Committee and Asset Management Investment Council. Mr. Paner is Chairman of BPI Forex Corporation, and also serves on the boards of BPI Europe Plc, BPI International Finance Ltd. and BPI Direct Savings Bank, Inc.

Mr. Paner joined BPI in 1985, when the Bank acquired Family Savings Bank and performed various Treasury and Trust positions until 1989. Between 1989 and 1996, he worked at Citytrust, then the consumer banking arm of Citibank in the Philippines, which BPI acquired in 1996. At BPI, he has been responsible for various fixed income-related businesses of the bank, including Risk Taking, Local Currency Portfolio Management, and Money Management. Mr. Paner served as President of the Money Market Association of the Philippines (MART) in 1998 and remains an active member of the Bankers Association of the Philippines' (BAP) Open Market Committee. He is also a member of the Money Markets Association of the Philippines, Makati Business Club, Management Association of the Philippines, British Chamber of Commerce, and the Philippine British Business Council.

He obtained an A.B. Economics degree from Ateneo de Manila University in 1979 and completed various courses in Business and Finance from Harvard Business School, including Strategic Financial Management in 2006, as well as its Advanced Management Program in 2009.

SIMON R. PATERNO

Executive Vice President & Head, Financial Products and Alternative Solutions

Filipino, 60 years old, Mr. Paterno serves as Head of Financial Products Segment. As such, he is responsible for building and managing BPI's service capabilities across all asset, liability, payments, and bancassurance platforms. He also serves on the Bank's Management, Asset & Liability, Credit Committees, as well as on the Board of BPI Century Tokyo Lease and Finance Corporation, BPI Century Tokyo Rental Corporation, BPI Capital Corporation, and BPI/MS Insurance Corporation.

Prior to joining BPI, Mr. Paterno represented CIMB in its search for a Philippine bank investment, having joined the group in late 2012 as CEO-designate of Bank of Commerce, which was targeted for acquisition by CIMB. Between 2004 and 2012, he was Managing Director and Country Manager of Credit Suisse, where he also founded and served as Chairman of Credit Suisse Securities Philippines, Inc., the firm's securities broker/dealer subsidiary. Between 2002 and 2004, Mr. Paterno was President and CEO of Development Bank of the Philippines and concurrently Chairman of the LGU Guarantee Corp. and other DBP subsidiaries.

Prior to DBP, Mr. Paterno was a Managing Director at J.P. Morgan, where he spent 18 years in various capacities, rising from Head of Philippine Banking to Head for Sovereign Clients in all of Asia. During the Asian Financial Crisis, he led the project teams that advised the Indonesian Bank Restructuring Agency and its Malaysian counterpart, Danaharta.

Mr. Paterno received his MBA from Stanford University in 1984 and his AB Honors Program in Economics, cum laude, from the Ateneo de Manila University in 1980.

JUAN CARLOS L. SYQUIA

Executive Vice President & Head, Corporate Clients Segment

Filipino, 52 years old, Mr. Syquia is Head of the Corporate Clients Segment of the Bank. He was the former President of BPI Capital Corporation, the Bank's investment banking subsidiary. He has over 28 years of work experience in the financial services industry.
Prior to joining BPI Capital Corporation in June 2016, Mr. Syquia was the Country Head of Corporate Clients for Standard Chartered Bank in the Philippines serving in that role from late 2011. In that role, he was principally responsible for wholesale banking coverage strategy of the bank in the Philippines.

Mr. Syquia spent 17 years with the ING Group where he started with the Baring Brothers & Co. group in 1994. Within the banking group of ING, he took on various roles in relationship management, corporate finance origination, and investment banking execution. His last role in ING Bank was as the Head of Corporate Finance at ING Bank Manila. In 2007, he moved to a regional role as Head of Strategy and Business Development at ING Asia Pacific Ltd., the regional hub of ING Group's life insurance and asset management practice.

Mr. Syquia is a product of the Bank's Officer Training Program which he completed in 1990 during his first stint at the Bank of the Philippine Islands. In 1991, he was assigned to Cebu where he was part of a two-man team that established the Corporate Banking Division desk in Cebu. He carries an MBA Degree (Honors) with a concentration in Finance and International Business from Fordham University, NY, NY as well as an AB degree in Management Economics from the Ateneo de Manila University.

JOSEPH ANTHONY M. ALONSO

Senior Vice President & Chief Credit Officer

Filipino, 53 years old, Mr. Alonso is currently the Chief Credit Officer of BPI since January 2017. As Chief Credit Officer, he is responsible for managing the aggregate risk in the BPI Group's loan portfolio - ensuring that portfolio quality and profitability is maintained across the lending units within the BPI Group through establishment of procedures and guidelines that facilitate effective decision making based on overall risk appetite and compliance with internal policies and regulatory requirements. He also serves as Vice Chairman of the Bank's Credit Committee and a member of the Fraud Committee. He is also a Board member of BPI Century Tokyo Lease & Finance Corporation and BPI Century Tokyo Rental Corporation.

Mr. Alonso was involved with Corporate Relationship Management for most of his 22 year career in BPI, having started as a Market Head in the Asian Division and eventually becoming Division Head of the Asian Corporates/PEZA Division. The Division also included the Special Projects Team under the Financial Institutions Group and BPI Leasing Corporation and BPI Rental Corporation prior the its merger with Tokyo Century Corporation of Japan.

Mr. Alonso started his banking career with The Mitsubishi Bank, Ltd. in Tokyo in 1990 as a management trainee, holding positions in branch, treasury and international operations and SME and multinational relationship management. Prior to joining BPI in January 1997, Mr. Alonso headed the Japan Desk in the World Corporation Group of Citibank, N.A. Manila Branch from 1994.

Mr. Alonso obtained his BS Business Administration degree at the Faculty of Economics of Oita University in Japan in 1990 under a scholarship grant from the Japan Ministry of Education. He was also a scholar of the National Science and Technology Authority while attending the College of Engineering at the University of the Philippines.

ANGELIE O. KING

Senior Vice President & Head of Branch Sales and Service Channels

Filipino, 57 years old, Ms King is the Head of Branch Sales and Service Channels of BPI. She is responsible for the Unibank's Branch Network nationwide, Direct Sales, Retail Enterprise Services, Branch Network and Administration and Strategic Planning. She joined the bank through the Citytrust merger in 1996.

Ms. King has 34 solid years of sales and branch service management experience. She began her career in Citytrust as a contractual specialist hire Field Sales Account Manager. Successfully introducing innovation and exceeding performance benchmarks, she was promoted through the ranks holding different positions to lead and take on bigger areas of responsibility. After the merger in 1996, Ms. King continued to take on expanded areas of responsibility and more senior roles in the organization. She currently leads close to 9,000 employees across the Unibank.

Over the years, she chaired the Unibank WOW Committee responsible for improving the experience of customers in the branches and the Unibank Excellence Retail Awards Committee. She was also an active member of Unibank Strategy Planning Committee, and Unibank VP Nomination Committee. She is an advocate of social responsibility by spearheading fund raising programs to support public school and orphanage, cleft palate surgery for children, and rehabilitation programs for the Typhoon Yolanda and Marawi siege victims. She served as BFSB Director (2015-2017) and Chairman of BPI Remittance Centre (HK) Ltd (2016-2018).

Ms. King obtained her BS Commerce major in Management of Financial Institutions from De La Salle University in 1983. She also completed the Ayala Leadership Acceleration Program (2011).

MARY CATHERINE ELIZABETH P. SANTAMARIA

Senior Vice President & Chief Marketing Officer

Filipino, 52 years old, Ms. Santamaria is the Chief Marketing Officer of BPI. She is responsible for Core and Mass Retail Customer Strategy, Branch Channels Marketing & Support, Institutional Brand Marketing and Digital, Customer Data & Insighting, Operational Data and Reporting, Data Governance, CRM and Loyalty and Strategic Marketing Project Management. She joined the Bank in 2011 and is currently a member of the Management Committee.

With over 30 years of marketing experience, Ms. Santamaria began her career in the advertising industry with Adformatix, where she was awarded as rookie of the year. Throughout her career she has worked with leading companies such as Philippine Airlines, Monterey and Wyeth-Suaco. Most notable among these was her stint at Kraft Foods Philippines where she held different marketing positions and was appointed Marketing Director with added responsibility for Southeast Asia's consumer insighting projects with major interfaces across Sales, Operations, Research & Development, Finance, Supply Chain and the region office. While here, she received the prestigious Asia Pacific's President Award and Kraft Foods International's President Award, Best Asia Pacific Advertising in Cheese, and achieved "Super Ads" across campaigns developed. She was then appointed to Kraft Foods International headquarters as Director, Business Development where she identified business opportunities for specific market categories across Central Eastern Europe, Brazil, Australia, China and Saudi Arabia. She was also subsequently appointed as General Manager for Kraft Foods Jaya, leading Singapore, Malaysia and Brunei. Prior to joining BPI, Ms. Santamaria was Head of Touch Mobile at Globe Telecom which she successfully repositioned. She was also appointed as Segment Head for the Mobile Business and led the Globe rebranding. She also defined a more effective spending, put together a Marketing Leadership Academy and reformed marketing processes for the telecom leader.

She served as Vice President for the Bank Marketing Association of the Philippines (BMAP) in 2018.

Ms. Santamaria obtained her Bachelor of Science in Business Administration (Cum Laude) from the University of the Philippines in 1988. She also has a Certificate of Strategic Business Economics (with Distinction) and Master in Business Economics from the University of Asia and the Pacific (Philippines) in 2001. She also took a course from the Chicago Business School (Feb 2006, Chicago) and completed a Telecoms Marketing Mini MBA from Informa Telecoms and Media (April 2006, London).

ROLAND GERARD R. VELOSO JR.

Senior Vice President & Head, Business Banking

Filipino, 55 years old, Mr. Veloso is Head of the newly-established Business Banking segment of the Bank. Prior to his appointment to this role, he established and headed the Corporate Credit Products Group and before this, was Head of Corporate and Transaction Banking. As part of the Bank's senior management team, Mr. Veloso sits in the Management Committee and Asset & Liability Committee. Prior to joining BPI, Mr. Veloso was Head of Corporate Banking in HSBC Philippines where he was responsible for the bank's institutional, corporate. commercial and transaction banking businesses. As a member of HSBC's senior management team, he sat in various management committees, and was chairman/director in a number of its subsidiaries and affiliates.

Mr. Veloso obtained a Bachelor of Science in Commerce degree, major in Accounting from De La Salle University. He is a Certified Public Accountant and placed in the top 1% of the Accountancy Board exams in 1985. He attended the Ateneo Graduate School of Business and the Harvard Business School's Advanced Management Programme.

MARIA CRISTINA L. GO

President, BPI Family Savings Bank

Maria Cristina L. Go, Filipino, 49 years old, has been the President of BPI Family Savings Bank since June 1, 2017. Prior to that, she served as Group Head of Retail Loans at BPI Family Savings Bank.

For 11 years, she was the Head of BPI's Payments and Unsecured Lending Group. She led initiatives and innovations that have differentiated BPI in the industry, such as leading the launch of the first EMV-compliant credit cards and Real Thrills, the first instant rewards program. Before joining BPI, Ms. Go was Vice President at Citibank Philippines managing the bank's Retail Bank Marketing then at Citibank Credit Cards Cross Sell Division in New York. She also worked in Ayala Land, Inc. as Head of its Market Planning and Development Division. She started her career in Procter & Gamble as Brand Assistant then promoted to Assistant Brand Manager, managing brands such as Mr. Clean, Perla, Star and Dari Crème.

She graduated magna cum laude with a degree in BS Business Administration and Accountancy from the University of the Philippines Diliman, was awarded one of the Ten Outstanding Students of the Philippines, placed first in the CPA licensure exam in 1991, and earned a Master's degree from the Harvard Business School with honors in 1996. She was also awarded as one of UP College of Business Distinguished Alumni in 2012 and one of the Most Influential Filipina Women by the Global Filipina Women's Network in 2016.

She currently serves as the Secretary and Trustee of the Chamber of Thrift Banks, Chairman of the BPI Payments Holdings, Inc. and a Director of the Board of TransUnion Philippines. She is part of the Ayala Group's Innovation Advisory Council since it was organized in 2013.

CONTROL, RISK MANAGEMENT AND COMPLIANCE

ROSEMARIE B. CRUZ

Senior Vice President & Chief Audit Executive

Filipino, 56 years old, Ms. Cruz is the Chief Audit Executive of BPI since January 2012 and leads the Bank's Internal Audit Division. She also serves as the Chief Audit Executive for BPI subsidiaries including BPI Family Savings Bank, BPI Capital Corporation, BPI Securities Corporation, BPI Century Tokyo Lease and Finance, BPI Century Rental Corp, BPI Direct BanKO, BPI Asset Management and Trust Corporation, BPI Investment Management Inc., BPI International Finance Ltd., BPI Forex, BPI MS Insurance and BPI Ayala Plans. As such, she oversees the audit of the different units, systems and processes of BPI and these subsidiaries and provides assessment on the adequacy and effectiveness of their internal control systems, risk management and governance processes. She supports the Audit Committee in the discharge of its oversight function and also works closely with the Chief Risk Officer, Chief Compliance Officer, external auditor and other assurance units for a comprehensive review of risks and compliance systems in the Bank. She also sits as non-voting member in the board-level Related Party Transactions Committee and the management level Fraud and Irregularities Committee.

Ms. Cruz joined BPI in 2000, when the Bank acquired Far East Bank and Trust Company, where she was previously in charge of the audit of the retail banking, lending operations and other backroom support operations. She also headed the special examination unit in charge of investigation of fraud and irregularities.

Ms. Cruz is a Certified Public Accountant and obtained her BSBA-Accounting degree from Philippine School of Business Administration. She completed her Advanced Bank Management program at Asian Institute of Management in 1996. Ms. Cruz currently also serves as a member of the Audit Committee of Ayala Multi-Purpose Cooperative.

MARITA SOCORRO D. GAYARES

Senior Vice President & Chief Risk Officer

Filipino, 57 years old, Ms. Gayares is the Chief Risk Officer of BPI and Head of its Risk Management Office since January 2018. As Chief Risk Officer, she is primarily responsible for the overall management of the BPI Group's enterprise risks – ensuring that all relevant financial and non-financial risks are appropriately identified, measured, monitored, and controlled within the Bank's approved risk appetite and commensurate to returns on capital. She provides executive and strategic risk support to the Bank's Board of Directors through the Risk Management Committee (RMC) in fulfilling its risk management function and ensuring that the Bank has an established, sound and robust enterprise risk management (ERM) framework. She works closely with the Chief Audit Executive and Chief Compliance Officer for effective risk management governance, compliance and control processes across the Bank. She serves either as Chairperson and/or Member of the Bank's Operational Risk Management Committee, Crisis Resiliency Committee, Fraud and Irregularities Committee, Anti-Money Laundering Evaluation Committee, Data Governance Committee (co-Chair), and Information Technology Steering Committee (advisory capacity).

With career stints in the areas of Corporate Banking, Credit and Transaction Banking, Loans Operations, Project Management, Systems, and Financial Control, and having previously served as the Bank's Chief Compliance Officer, Ms. Gayares's extensive and diverse 33-year banking experience has been instrumental in transforming the Bank's compliance, AML, corporate governance and data privacy frameworks, methods and processes, and in becoming one of the leading and most reputable in the PH banking industry in the areas of governance, risk and compliance (GRC).

Ms. Gayares is a graduate of the University of the Philippines with a Bachelor's degree in Business Economics. She completed her Master's degree in Business Administration (major in Finance and Investments) at George Washington University in Washington, D.C. She has successfully completed the Strategic Compliance in the Banking industry certification program by the Association of Bank Compliance Officers (ABCOMP) and De La Salle University (DLSU) Manila, as well as completed corporate governance modules facilitated by the Institute of Corporate Directors (ICD). She has previously served as Director and Treasurer of the ABCOMP, Voting Member of the Bankers Institute of the Philippines (BAIPHIL), and at present, Member of the Risk Management Committee of the Bankers' Association of the Philippines, and Board of Advisors/Executive Committee Member of the Enterprise Risk Management (ERM) Council of the Ayala Group of Companies.

NORAVIR A. GEALOGO

Vice President & Chief Compliance Officer

Filipino, 55 years old, Atty. Gealogo is the Chief Compliance Officer of BPI and Head of the Bank's Compliance Division which oversees the implementation of the Bank's enterprise-wide compliance programs and is composed of the following departments: Regulatory Compliance, AML Compliance, AML Systems and Special Projects, FATCA Compliance, Corporate Governance and the Data Privacy Office. The Compliance Division is also empowered by 21 Group Compliance Officers (GCOs), who are embedded in operational units throughout the Bank.

Having been with Far East Bank and Trust Company (FEBTC) since 1991, which then merged with BPI in 2000, she has 28 years of banking experience. Previously a legal officer of FEBTC, the Head of the Legal Advisory Department of BPI and Legal Officer and Head of Compliance of BPI Capital Corporation, she has extensive business, legal and/or compliance exposure in the areas of corporate and retail banking, corporate finance, project finance, securities distribution, mergers and acquisition, correspondent banking, remittance and trade finance. She is currently a non-voting member of BPI's board-level Related Party Transactions Committee and chairs the management level MSB (Money Service Business) Governance Committee and MLEC (Money Laundering Evaluation Committee).

Atty. Gealogo obtained her Bachelor of Laws from the University of the Philippines Diliman in 1988 and AB History from the University of the Philippines Diliman in 1984. She completed the Development Lawyers Course at the International Development Law Institute in Rome, Italy in 1994 and the Certificate Course in Strategic Compliance for the Banking Industry at the Center for Professional Development in Business of the De La Salle University in 2017. She has regularly undergone corporate governance courses and training provided by the Institute of Corporate Directors (ICD), Bankers Institute of the Philippines (BAIPHIL) and Good Governance Advocates and Practitioners of the Philippines (GGAPP).

She is currently also the Treasurer and a Member of the Board of Directors of the Association of Bank Compliance Officers of the Philippines (ABCOMP).

PRODUCTS AND SERVICES

DEPOSITS

Peso
Checking
Savings
Time
Foreign Currency
Savings
Time
Deposit Substitute

LOANS

COMMERCIAL

AgriBusiness
- Agricultural Production
- Post-Harvest Facilities

Trade and Supply Chain Finance
A. Trade
  - Trust Receipt Loans
  - Export Advance Loans
  - Export Bills Purchase

B. Supply
  - Supplier Finance
  - Receivable Finance

Structured Finance
  - Project Finance
  - Cross Border
  - Other Structured Credits

Sustainable Energy Financing
Specialized Lending
Guarantee Facilities
Funding Facilities

LEASING

Finance Lease
Operating Lease
Full Service Operating Lease
Term Loan
Receivables Financing

MICROFINANCE

BanKo NegosyoKo Loan
Microdeposits

CONSUMER

Auto Loans (BFSB)
Housing Loans (BFSB)
Ka-Negosyo Loans (BFSB)
Personal Loans (BPI)

FINANCIAL SERVICES

(HONG KONG)
Global Securities
Foreign Fixed Income
Bonds/Credits
Collective Investment Schemes/Funds
Equities
Investment Management Account
Multi-Currency Time Deposits
Short Term Loans
Foreign Exchange Spot

PAYMENTS AND SETTLEMENTS

Electronic Channels
BPI Online Banking
BPI Mobile Banking
BPI Phonebanking
BPI ATM
BPI Cash Accept Machine (CAM)
BPI Online Banking Kiosks
Unsecured Lending and Cards
Credit Cards
Debit Cards
Prepaid Cards
Remittance
Funds Transfer
Inward Remittance
- Credit to Account
- Cash Pick-Up

Outward Remittance
Cash Management
Collections
- Bills Collection
- Automatic Debit Arrangement
- Cash and Check Pick-Up
- Corporate Cash Deposit Machine
- Electronic Invoice Presentment and Payment

Disbursements
- Payroll
- Check Disbursements
- Pay BPI Accounts

Account and Liquidity Management
- Funds Transfer
- Account Sweeping

FI Depository Services

ASSET MANAGEMENT & TRUST

INSTITUTIONAL FUND MANAGEMENT

Fund Management Solutions
- Corporate and Institutional Funds
- Pension and Provident Funds

Other Fiduciary Solutions
- Bond Trusteeship
- Loan Agency
- Escrow Agency
- Mortgage Trust Indenture

Wealth Management
- Personal Management Trust
- Investment Management Account
- Custody Account

Personal Equity & Retirement Account (PERA)
- BPI PERA Money Market Fund
- BPI PERA Equity Fund
- BPI PERA Government Bond Fund
- BPI PERA Corporate Income Fund

Investment Funds
BPI Investment Funds
PHP
  - BPI Short Term Fund
  - BPI Money Market Fund
  - BPI Premium Bond Fund
  - BPI Balanced Fund
  - ABF Philippines Bond Index Fund
  - BPI Philippine High Dividend Equity Fund
  - BPI Equity Value Fund
  - BPI Philippine Equity Index Fund
  - BPI Philippine Infrastructure Equity Index Fund
  - BPI Philippine Consumer Equity Index Fund
  - BPI Fixed Income Portfolio Fund-of-Funds
  - BPI Catholic Values Global Equity Feeder Fund
  - BPI Bayanihan Balanced Fund

USD

- BPI US Dollar Short Term Fund
- BPI Global Bond Fund-of-Funds
- Philippine Dollar Bond Index Fund
- BPI Global Equity Fund-of-Funds
- BPI US Equity Index Feeder Fund
- BPI European Equity Feeder Fund
- BPI US Dollar Income Feeder Fund

Odyssey Funds

PHP

- Odyssey Peso Medium Term Bond Fund
- Odyssey Peso Bond Fund
- Odyssey Diversified Capital Fund
- Odyssey Diversified Balanced Fund
- Odyssey Philippine Equity Fund
- Odyssey Philippine High Conviction Equity Fund

USD

- Odyssey Philippine Dollar Bond Fund
- Odyssey Asia Pacific High Dividend Equity Fund

BPI INVESTMENT MANAGEMENT INC.

ALFM Mutual Funds
ALFM Money Market Fund
ALFM Peso Bond Fund
ALFM Dollar Bond Fund
ALFM Euro Bond Fund
ALFM Growth Fund
Philippine Stock Index Fund
Other BIMI-Managed Mutual Funds
Ekklesia Mutual Fund
Solidaritas Fund

INDICES

Bond Indices
Philippine Government Bond Index
Philippine Government Bond 1-3 Year Index
Philippine Government Bond 1-5 Year Index
Philippine Government Bond 5+ Year Index
Philippine Government Liquid Bond Index
Philippine Government Money Market Index
Philippine Corporate Bond Index

Equity Indices

Philippine Equity Total Return Index
Philippine Consumer Equity Index
Philippine Infrastructure Equity Index
Philippine High Dividend Equity Total Return Index

INVESTMENT BANKING

Capital Raising

Debt underwriting
Equity underwriting
Private placements
Loan syndication
Project finance
Acquisition financing
Securitization
Structured debt

Financial Advisory

Mergers and acquisitions
Corporate restructuring
Asset and liability management
Business divestment
Strategic advisory
Fairness Opinions

Proprietary Investments

Merchant Banking

Securities Distribution and Trading

Philippine Sovereign Debt

- Treasury Bills and Notes
- Retail Treasury Bonds

Private Securities

- Bank issues
- Commercial paper
- Corporate promissory notes and bonds
- Equities
- Hybrids

Broker/Dealer of the Philippine Equities

Online Trading
Broker-Assisted Advisory
Settlement and Custody
Market and Equity Research
Corporate Actions
Financial Education and Client Support

Treasury Solutions

Foreign Exchange

- FX Notes & Competitive Pricing
- Multi-currency Fixed Income Securities

Derivatives & Hedging Solutions

- Forward Contracts (Deliverable Forwards and Non-deliverable Forwards)
- Swap Contracts (Foreign Exchange Swaps, Interest Rate Swaps, Cross Currency Swaps, Non-Deliverable Swaps)

INSURANCE

Individual Account

Family Care Plus (joint life term insurance)
Build Estate Plus
Life Ready Plus
Assure Protect
Life Protect
Accident Guard 24/7
Life Extreme Protect
Critical Care Max
Critical Care Plus
Health Save 10
Life Protect Health
Build Life Plus
Invest Peso Max
Invest Dollar Max
Preferred Life Plus

BPI-Philam Direct

Smart Shield
Life Protect Health Direct
Smart Health Shield Series

Corporate Solutions

Corporate Essentials
Health Essentials
Corporate Personal Accident
Credit Life
Voluntary Solutions (Group Term Life, Group Accident, Group Credit Life, Group Critical Illness)

Non-Life

Fire
Motor
Personal Accident
Casualty
Marine and Aviation
Engineering
Surety Bond
Microinsurance
Health Insurance

AWARDS AND CITATIONS

2018 AWARDS

INSTITUTIONAL

- 2017 Best Bank in the Philippines, The Corporate Treasurer Awards 2017
- Silver Anvil for PR Program on a Sustained Basis, 53rd Anvil Awards – BPI Trusted Advice Campaign
- Silver Anvil for PR Tools, 53rd Anvil Awards – 2016 Annual Report
- Award of Excellence for 2017 Annual Report, 2018 Philippine Quill Awards
- Award of Merit for Institutional Campaign, 2018 Philippine Quill Awards
- Optimal Creative Champion Award – Facebook Solution Awards 2018

RISK MANAGEMENT

- House of the Year – Philippines, Asia Risk Awards 2018

CORPORATE AND INVESTMENT BANKING

- 2018 Best Corporate and Investment Bank in the Philippines, Asiamoney

RETAIL BANKING

- Philippines Domestic Retail Bank of the Year, Asian Banking and Finance Awards 2018
- Award of Merit for BPI Direct BanKo, 2018 Philippine Quill Awards

BANKO

- Finalist, Financial Inclusion Champion, 2018 Awarding Ceremony for BSP Stakeholders

GLOBAL MARKETS

- 2017 Best Fixed Income Economist, 2nd place, Fund Managers' Association of the Philippines Annual Awards - Emilio S. Neri, Jr.
- 2017 Best Equities Economist, 2nd place, Fund Managers' Association of the Philippines Annual Awards - Emilio S. Neri, Jr.
- 2017 Best Individual in Research, Philippines (Rank #2), Asian Local Currency Bonds and Research, Sales & Trading 2018 Awards, The Asset Benchmark Research - Emilio S. Neri, Jr.
- 2018 Best FX Bank for Corporates & FIs in the Philippines
- VP Jennifer Gayle P. Singian cited as The Region's Best Local Currency Bond – Individuals Trading 2018 (Rank #5)
- 2017 Top Sell-Side Individuals in Research on Asian Local Currency Bond Benchmark Review (Rank #3), The Asset Benchmark Research - Emilio S. Neri, Jr.
- 2017 Best FX Bank in the Philippines, The Asian Banker
- 2017 Top Investment House for Asian Local Currency Bonds (Rank #1), The Asset Benchmark Research
- 2018 The Region's Best Local Currency Bond – Individuals Trading 2018 (Rank #5), The Asset Benchmark Research – Jennifer Gayle P. Singian

BPI Foundation

- Gold Anvil for PR Programs on a Sustained Basis - Education, 53rd Anvil Awards - BPI SHAPE
- Silver Anvil for PR Program on a Specialized Public Relations Program - Advocacy Campaign - BPI Bayan 2.0
- 2018 Best Bank for CSR in the Philippines, Asiamoney
- Top CSR Advocate, Asia Corporate Excellence and Sustainability Awards (ACES) Awards by MORS Group

COMPLIANCE

- Top Performing Companies under the ASEAN Corporate Governance Scorecard (ACGS) in 2017

HUMAN RESOURCES

- Gold Anvil for PR Tools - Exhibits and Special Events, 53rd Anvil Awards – BPI Excellence Awards

PRIVATE BANKING

- Best Bank for Family Offices in the Philippines for 2018, Euromoney Awards

BPI CAPITAL

- Best Securities House for the investment bank category, Philippine Dealing System (PDS) 2018 Annual Awards Night
- Top 5 Fixed-income Brokering Participant (Ranking 4th), Philippine Dealing System (PDS) 2018 Annual Awards Night
- Top 5 Corporate Issue Manager/Arranger (Investment House Category, Ranking 3rd), Philippine Dealing System (PDS) 2018 Annual Awards Night
- Cesar E.A. Virata Award Best Securities House (Investment House Category), Philippine Dealing System (PDS) 2018 Annual Awards Night
- Asia Pacific M&A – Acquisition of Chevron's Indonesian Geothermal Assets, IJGlobal Awards 2017
- Deal of the Year for the Republic of the Philippines-Retail Treasury Bonds 20th Tranche, 3rd IHAP Awards 2018
- Best Fixed Income Deal for the AYC Finance Limited US$400 Million Guaranteed Notes, 3rd IHAP Awards 2018
- Best Project Finance Deal: Star Energy Geothermal (Salak-Darajat) B.V. USD1.25 Billion Secured Term Loan, 3rd IHAP Awards 2018
- Best Fixed Income Deal for Republic of the Philippines Retail Treasury Bonds, 3rd IHAP Awards 2018
- Domestic Project Finance Bank Of The Year - Philippines Award: for the project "Star Energy Consortium's Acquisition of Chevron's Geothermal Power Operations", ABF Wholesale Banking Awards 2018
- Debt Deal of the Year Award - Philippines for the AYC Finance Limited US$ 400 Million Perpetual Notes, ABF Wholesale Banking Awards 2018
- The Philippines' best investment bank, Euromoney Awards for Excellence 2018
- Best Investment Bank in the Philippines, FinanceAsia Country Awards 2018
- Best ECM House in the Philippines, FinanceAsia Country Awards 2018
- Best Philippines Deal: San Miguel Food and Beverage's Php 34.1 billion (US$ 637 million) follow-on, FinanceAsia Achievement Awards 2018
- Renewable energy deal of the year, Indonesia - Star Energy consortium's acquisition of Chevron's geothermal and power business in Indonesia and the Philippines, The Asset Triple A Asia Infrastructure Awards 2018
- PPP project of the year, Philippines - Unisys Managed Services Corporation, The Asset Triple A Asia Infrastructure Awards 2018
- Renewable energy deal of the year, Regional - Star Energy consortium's acquisition of Chevron's geothermal and power business in Indonesia and the Philippines, The Asset Triple A Asia Infrastructure Awards 2018
- Philippines Domestic Project Finance Bank of the Year, Asian Banking and Finance Awards 2018
- Best Bond House in the Philippines, Alpha Southeast Asia - Best Financial Institution Awards 2018
- Top arrangers - Investors' Choice for primary issues - Corporate bonds, Asian Local Currency Bond Benchmark Review 2018
- Best rights issue, Philippines: Robinsons Land Corporation 20 billion pesos stock rights offering, The Asset Triple A Country Awards 2018
- Best follow-on, Philippines: Cirtek Holdings Philippines Corporation US$ 67 million preferred shares, The Asset Triple A Country Awards 2018
- Best new bond, Philippines: Bank of the Philippine Islands US$ 600 million bond, The Asset Triple A Country Awards 2018
- Best multilateral bond, Philippines: IFC 4.804 billion pesos green bond, The Asset Triple A Country Awards 2018
- Best Corporate Bond Deal in Southeast Asia 2018: San Miguel Corp's PhP 10 billion (US$ 190 million) Bond, Alpha Southeast Asia - 12th Annual Best Deal & Solutions Awards 2018
- Best Project Finance Deal in Southeast Asia 2018: GN Power Dinginin's PhP 22 billion (US$ 420 million) Project Finance Facility, Alpha Southeast Asia - 12th Annual Best Deal & Solutions Awards 2018

BPI INVESTMENT MANAGEMENT INC. (BIMI)

- 1-Year Return and 3-Year Return, 2nd place at the Money Market Fund Category, 12th PIFA Annual Awards Night
- ALFM Money Market Fund 5-Year Return, 1st place at the Money Market Fund Category, 12th PIFA Annual Awards Night
- ALFM Peso Bond Fund's 3-Year Return, 2nd place at the Bond Fund Category – Peso Dominated, 12th PIFA Annual Awards Night
- ALFM Peso Bond Fund's 10-Year Return and Ekklesia Mutual Fund's 3-Year Return, 3rd place, 12th PIFA Annual Awards Night
- ALFM Dollar Bond Fund's 3-Year Return, Bond Fund Category – Foreign Currency Denominated, 1st place at the 12th PIFA Annual Awards Night
- ALFM Dollar Bond Fund's 5-Year Return, Bond Fund Category, 1st place at the 12th PIFA Annual Awards Night
- ALFM Euro Bond Fund's 5-Year Return, 2nd place at the 12th PIFA Annual Awards Night
- Solidaritas Fund, Balanced Fund Category – Peso Dominated, 1st place at the 12th PIFA Annual Awards Night
- Solidaritas Fund's 5-Year Return, 2nd place at the 12th PIFA Annual Awards Night
- Philippine Stock Index Fund Corp.'s 5-Year Return, Equity Fund Category – Peso Dominated, 2nd place at the 12th PIFA Annual Awards Night

REMITTANCE AND FUND TRANSFERS GROUP

- "The Remittance Product and Service of the Year" BPI Pamana Product- The Asian Banker Philippine Country Awards 2018
- Outstanding Philippine Payments and Settlements System (PhilPaSS) REMIT Participant, 15th Awards Ceremony and Appreciation Lunch for BSP Stakeholders 2018
- Outstanding Achievement of Best-in-Class MT103 STP Rate 98.69%, JPMorgan Chase's 2018 Quality Recognition Awards
- Outstanding Achievement of Best-in-Class MT202 STP Rate 99.20%, JPMorgan Chase's 2018 Quality Recognition Awards

ASSET MANAGEMENT AND TRUST CORPORATION

- "Certification to the Asset Manager Code" by Chartered Financial Analyst Institute
- "Best Asset and Fund Manager in the Philippines" by 12th Annual Alpha Southeast Asia Best Financial Institution Awards (4th consecutive year)
- "Best Managed Fund for Dollar Equity Fund" category for its BPI Global Equity Fund-of-Funds by Chartered Financial Analyst Society of the Philippines
- Reader's Digest Trusted Brand Gold Award 2018

TRADE FINANCE AND SUPPLY CHAIN

- Best Trade Finance Bank and Best Supply Chain Finance Service Provider, The Asset 2018
- Best Trade Finance Bank, Alpha Southeast Asia

Credit Cards

- Best New Retail Product Launch, BPI Visa Signature Card, 2018 Visa Annual Awards

BPI PHILAM

- Best Life Insurance Company in the Philippines

MEMBERSHIP INDUSTRY ASSOCIATIONS

ACI Philippines The Financial
Association of Bank Compliance Officers
Association of Bank Remittance Officers
Association of Fraud Examiners
Association of Philippine Correspondent Banking Officers Inc.
Bank Marketing Association of the Philippines
Bankers Association of the Philippines
Bankers Institute of the Philippines
British Chamber of Commerce Philippines
Business Continuity Managers Association of the Philippines
Chamber Of Thrift Banks, Inc.
Credit Card Association of the Philippines
Credit Management Association of the Philippines
Financial Executive Institute of the Philippines
Fund Managers Association of the Philippines
Good Governance Advocates and Practitioners of the Philippines
Information Security Group
Institute Of Internal Auditors
Integrated Bar Of The Philippines
International Association of Business Communicators
Investment House Association of the Philippines
IT Interaction Philippines
Management Association of the Philippines
Money Market Association of the Philippines
Philippine Association of National Advertisers,Inc.
Philippine Association of Stock Transfer
Philippine Business for the Environment
Public Relations Society of the Philippines
Philippine Finance Association
Philippine Payments Management Inc
Philippine Stock Exchange Centre
Philippine Stock Exchange, Inc.
Rural Bankers Association of the Philippines
The American Chamber of Commerce of the Philippines
The Insular Life Assurance Company, Ltd.
The Japanese Chamber of Commerce & Industry in the Philippines
Trust Officers Association of the Philippines
Various Local Business Clubs

BPI Foundation, Inc.
Association Of Foundations, Phils. Inc.
Corporate Network for Disaster Response
League of Corporate Foundations
Philippine Council For NGO Certification

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Expiry date of accreditation: June 20, 2021

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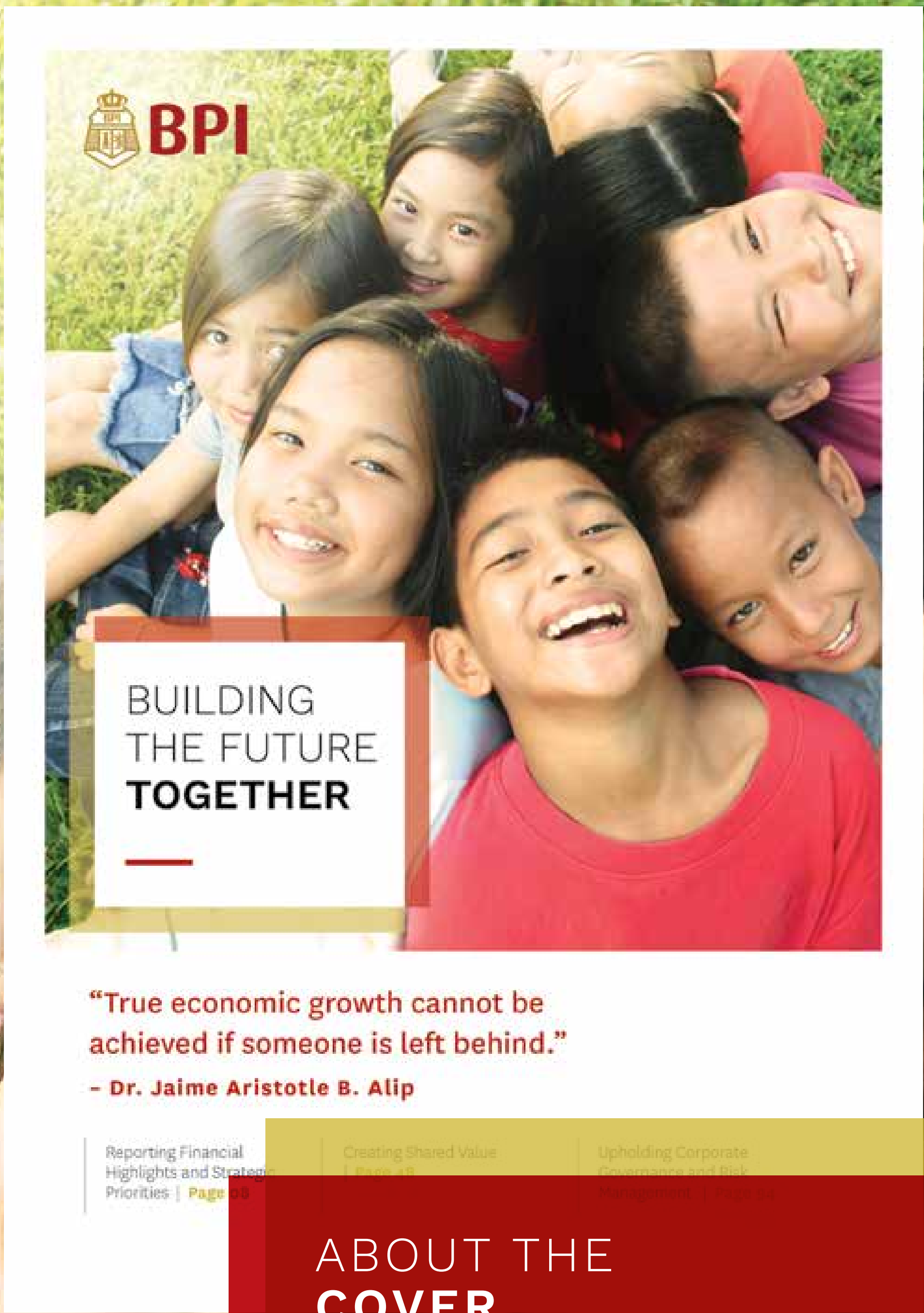

ABOUT THE **COVER**

BPI sees a future where every Filipino has access to financial services. That reassuringly bright vision is captured by the headline, Building the Future Together, as well as the cheerful faces of a group of children who represent the future of the nation. A burst of light illuminates from the upper left corner, signifying that this bright future is possible.

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“Phase Two of our digitalization journey will be focused
on establishing a baseline in what we refer to
as the three Es: Engage, Empower, Experience.

Digitalization will allow us to become more financially-inclusive
by significantly increasing our engagement
with segments of the market where the banking system
as a whole is woefully under-represented.”

– Cezar P. Consing, BPI President & CEO