



*(incorporated with limited liability in the Republic of the Philippines)*

### **₱3,119,900,000 Long Term Negotiable Certificates of Time Deposit Due 2025**

The Bank of the Philippine Islands (the **Issuer** or the **Bank**) is offering Three Billion One Hundred Nineteen Million Nine Hundred Thousand Pesos (₱3,119,900,000.00) worth of Long Term Negotiable Certificates of Time Deposit (the **CDs**), pursuant to the authority granted by the Bangko Sentral ng Pilipinas (**BSP**) to the Bank on 29 August 2019, the General Banking Law of 2000 (Republic Act No. 8791), Section 217 of the Manual of Regulations of Banks, and other related circulars and issuances as may be amended from time to time, the terms of the Master Registry and Paying Agency Agreement dated 04 October 2019 entered into by and between the Bank and the Philippine Depository & Trust Corp. (**PDTC**), the latter acting as both registrar and paying agent (the **Registrar** or **Paying Agent**), which shall be subject to and governed by the terms and conditions in the Tranche Certificate. The issuance of the CDs is exempt from the registration requirement under the Securities Regulation Code (**SRC**) pursuant to Section 9.1(e) of the said law.

The CDs will bear a fixed interest at the rate of 4% per annum from and including 25 October 2019 (**Issue Date**). Interest will be payable quarterly in arrear at the end of each interest period on 25 January, 25 April, 25 July, and 25 October of each year (each an **Interest Payment Date**), except for the last interest period which will end on 25 April 2025 (**Maturity Date**). If the Interest Payment Date is not a Business Day, interest will be paid on the next succeeding Business Day, without adjustment to the amount of interest to be paid.

Unless previously redeemed, the CDs will be redeemed at their principal amount on the Maturity Date. The CDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Bank, and will, at all times, rank *pari passu* and without any preference among themselves and at least equally with all other present and future direct, unconditional, unsecured and unsubordinated obligations of the Bank, except obligations mandatorily preferred by law.

The CDs cannot be terminated by any holder of the CDs (the **Holder**) before the Maturity Date. However, the Issuer shall have the option, but not the obligation, to redeem all (but not less than all) of the CDs by giving not less than 30 but not more than 60 days' prior written notice to the Holders, the Philippine Dealing & Exchange Corp. (**PDEX or Exchange**), the Registrar and the appropriate supervision and examination department of the BSP. Negotiations / transfers / assignments from one (1) holder to another do not constitute pre-termination. The CDs will be issued in scripless form in denominations of ₱1,000,000.00 and integral multiples of ₱100,000.00 thereafter and will be registered and lodged with the Registrar in the name of the Holders. The CDs will be represented by a Tranche Certificate deposited with the Registrar. The Electronic Registry Book (the **Registry Book**) shall serve as the best evidence of ownership with respect to the CDs. The Registrar will also issue a Registry Confirmation identifying the Holders of the CDs.

Upon issuance, the CDs will be listed on PDEX to allow for secondary market trading pursuant to the BSP rules. Upon listing of the CDs on PDEX, all negotiations / transfers / assignments of the CDs must be coursed through the trading participants of PDEX for execution on the PDEX trading platform in accordance with the rules, conventions and guidelines of PDEX and PDTC, as these may be amended or supplemented from time to time. The listing with the Exchange does not guarantee an active or liquid secondary market trading for these CDs (Please refer to "*Investment Considerations – Considerations Relating to the CDs*").

The CDs are and shall be, while outstanding, insured with the Philippine Deposit Insurance Corporation (**PDIC**) for up to the maximum insurance coverage set out in and subject to PDIC's applicable rules, regulations, terms and conditions, as may be amended from time to time.

As of 30 June 2019, the Bank has a Local Long-Term Bank Deposit Rating of Baa2 from Moody's and a Long-Term Local Currency Issuer Default Rating of BBB- from Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned.

**See "*Investment Considerations*" for a discussion of certain factors to be considered in connection with an investment in the CDs.**

*Sole Arranger and Participating Selling Agent*



*Sole Selling Agent*



The date of this Final Offering Circular (**Offering Circular**) is 25 October 2019.

This Offering Circular has been prepared solely for the information of the intended recipients of The Hongkong And Shanghai Banking Corporation Limited as Sole Arranger and Participating Selling Agent (**Arranger**), and BPI Capital Corporation as Sole Selling Agent (together with the Arranger, the **Selling Agents**), with respect to the CDs to be issued by the Bank. This Offering Circular shall not be reproduced in any form, in whole or in part, for any purpose whatsoever nor shall it be transmitted to any other person.

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

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

No representation, or warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger or the Selling Agents as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Bank in connection with the CD or their distribution. Neither the delivery of this Offering Circular nor the offer of CDs shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank or the Group since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof.

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

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

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

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The audited consolidated financial statements of the Bank and its subsidiaries as of and for the years ended 31 December 2016, 2017 and 2018 and reviewed consolidated financial statements as of and for the six months ended 30 June 2019 included in this Offering Circular have been prepared in accordance with accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks and Philippine Financial Reporting Standards (PFRS), respectively. PFRS is substantially based on International Financial Reporting Standards. The Bank's financial statements as of and for the years ended 31 December 2016, 2017 and 2018 were audited by Isla Lipana & Co., independent auditors, in accordance with Philippine Standards on Auditing (PSA) and the Bank's financial statements as of and for the six months ended 30 June 2018 and 2019 were reviewed by Isla Lipana & Co., independent auditors, in accordance with the Philippine Standard on Review Engagements (PSRE).

### CERTAIN DEFINITIONS

Unless the context clearly indicates otherwise, any reference to the **Bank** refers to Bank of the Philippine Islands and its subsidiaries on a consolidated basis, while **Parent Company**, **BPI** or the **Issuer** refers to Bank of the Philippine Islands on a standalone basis. The information contained in this Offering Circular relating to the Bank, its operations and those of its subsidiaries and associates has been supplied by the Bank, unless otherwise stated herein. To the best of its knowledge and belief, the Bank (which has taken all reasonable care to ensure that such is the case) confirms that, as of the date of this Offering Circular, the information contained in this Offering Circular relating solely to the Bank, its operations and those of its subsidiaries and associates is true and that there is no material misstatement or omission of fact which would make any statement in this Offering Circular misleading in any material respect and that the Bank hereby accepts full and sole responsibility for the accuracy of the information contained in this Offering Circular with respect to the same. Unless otherwise indicated, all information in this Offering Circular is as of the date of this Offering Circular. Neither the delivery of this Offering Circular nor any sale made pursuant to this Offering Circular shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Bank since such date. Neither the Lead Arranger nor the Dealers assume any liability for information supplied by the Bank in relation to this Offering Circular.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the **Philippines** are references to the Republic of the Philippines. All references to the **Government** herein are references to the Government of the Republic of the Philippines. All references to the **BSP** herein are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to **United States** or **U.S.** herein are to the United States of America, its territories and possessions, any State of the United States and the District of Columbia. All references to **Peso** and **₱** herein are to the lawful currency of the Philippines and all references to **U.S. Dollars** or **US\$** herein are to the lawful currency of the United States. Unless the context indicates otherwise, references to a particular **fiscal** year are to the Bank's financial year ended 31 December of such year.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

### FORWARD-LOOKING STATEMENTS

The Issuer has included statements in this Offering Circular which contain words or phrases such as "will", "would", "aimed", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "will achieve", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "seeking to", "target", "propose to", "future", "objective", "goal", "project", "should", "can", "could", "may" and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the expectations of the Issuer with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its allowance for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to implement its dividend policy, the impact of Philippine banking regulations on it, which includes the assets and liabilities of the Issuer, its ability to roll over its short-term funding sources, its exposure to market risks and the market acceptance of and demand for internet banking services.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Offering Circular include, but are not limited to general economic and political conditions in the Philippines, southeast Asia, and the other countries which have an impact on the Issuer's business activities or investments, political or financial instability in the Philippines or any other country caused by any factor including any terrorist attacks in the Philippines, the United States or elsewhere or any other acts of terrorism worldwide, any anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, the monetary and interest rate policies of the Philippines, political or financial instability in the Philippines or any other country or social unrest in any part of the Philippines, inflation, deflation, unanticipated turbulence in interest rates, changes in the value of the Peso, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets and level of internet penetration in the Philippines and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and the pricing environment in the Philippines and regional or general changes in asset valuations. For a further discussion on the factors that could cause actual results to differ, see the discussion under "*Investment Considerations*" contained in this Offering Circular.

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## OFFERING CIRCULAR SUMMARY

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

### Description of the Bank

Bank of the Philippine Islands (**BPI** or the **Bank**) is a universal bank with an expanded banking license. Together with its subsidiaries, the Bank offers a wide range of financial products and services that include corporate banking, retail banking, investment banking, asset management, securities distribution, insurance services, credit cards, payments and leasing. Such services are offered to a wide range of customers, including multinationals, government entities, large corporates, small-and-medium sized enterprises (**SMEs**) and individuals.

According to data available from the *Bangko Sentral ng Pilipinas* (**BSP**, the central bank of the Philippines), the Bank is the third largest universal bank in the country in terms of total assets which stood at ₱2,135 billion as of 30 June 2019. The Bank also holds a significant market share in the deposit, lending, and asset management markets. According to industry data on Philippine banks, the Bank is the Philippines' second largest in terms of deposits and third largest in terms of loans with market shares of 12.9% and 14.5%, respectively, as of 30 June 2019, and second largest in terms of asset management with market share of 17.8% as of 31 March 2019. BPI Family Savings Bank, the Bank's primary subsidiary in consumer lending, is the Philippines largest savings bank, in terms of total assets. The Bank also enjoys a significant presence in the finance and operating lease business, government securities dealership, securities distribution and foreign exchange business. It is also a market leader in electronic banking where it has been a first mover and innovator in the use of automated teller machines (**ATMs**), cash acceptance machines (**CAMs**), point-of-sale debit systems, kiosk banking, phone banking, internet banking and mobile banking.

As of 31 December 2016, 2017 and 2018 and 30 June 2019, the Bank had a network of 834, 945, 1,059 and 1,094 branches (which include full service branches, express banking centres (**EBCs**) and branch-lite units) respectively, which was among the largest branch networks among Philippine banks. Of the Bank's 1,094 branches, as of 30 June 2019, 1,091 branches were located in the Philippines, of which 699 were BPI branches, 162 were BPI Family Savings Bank branches, and 230 were BPI Direct BankKo branches and branch-lite units. In terms of geographic distribution (excluding BPI Direct BankKo), 457 of the branches were located in Metro Manila, 239 of the branches in Luzon (excluding Metro Manila), 99 of the branches in the Visayas and 66 of the branches in Mindanao. The Bank also provides 24 hour banking services through its call centre and network of 2,463 ATMs and 552 CAMs as of 30 June 2019, the second largest network owned by a single bank in the Philippines, which were located in both branches and off site locations, such as shopping malls and high density office buildings. The Bank's overseas network includes one banking location in Hong Kong and two in London. The Bank also has one representative office in Tokyo and another in Dubai, which market and promote certain of the Bank's products and services. The Bank has three remittance centres in Hong Kong and maintains over 141 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

Over the past three years, the Bank has enjoyed recognition from various award giving bodies. In 2017, alone, the Bank was named Best Foreign Exchange Bank by both *Asiamoney* and the *Asian Banker*, Best Asset Manager in the Philippines by *International Finance Magazine*, Microfinance Initiative of the Year by the *Asian Banker*, Asset Management Company of the Year at the *Fund Management and Investor Awards* and Best Asset Manager by *International Finance Magazine*. Further, in 2018, the Bank was awarded 2017 Best Bank in the Philippines by the Corporate Treasurer Awards for the year 2017. In 2019, the Institute of Corporate Directors recognised the Bank based on the ASEAN Corporate Governance Scorecard (which ranks based on right of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency and responsibilities of the board) and BPI received a Golden Arrow Award as a result of this achievement.

The Bank's consolidated common equity tier 1 (**CET1**) ratio stood at 15.55% while CAR stood at 16.44%, as of 30 June 2019. These are above the minimum regulatory capital requirements set by the BSP under Basel III. As of 30 June 2019, the Bank had a market capitalisation on the Philippine Stock Exchange (**PSE**) of ₱353.8 billion (based on the closing price on the PSE of ₱78.50 per Share on 30 June 2019). The Bank's significant shareholders include Ayala Corporation (**Ayala**), one of the Philippines' oldest and largest conglomerates, the Roman Catholic Archbishop of Manila, and the Government of Singapore Investment Corp. (**GIC**).

### **Competitive Strengths**

Over the course of its long history, BPI believes it has established a preeminent franchise that embodies financial strength and prudent risk management. The Bank believes that it is one of the best-equipped banks to deal with any downturn, be it in the financial sector or in the domestic or global economies. The Bank's well-established reputation is anchored on the following key strengths:

#### ***Preeminent banking brand in the Philippines***

With nearly 170 years of operations, the Bank has a deep rooted history and has developed one of the Philippines' most trusted and widely-recognised brands in the financial services industry. Established on 1 August 1851 as "El Banco Español Filipino de Isabel II", the Bank is the oldest operating Bank in the Philippines. The Bank's shareholder base includes some of the most prominent companies domestically and internationally such as the Ayala Group, one of the oldest and largest companies in the Philippines, the Roman Catholic Archbishop of Manila and GIC, Singapore's sovereign wealth fund.

Through the years, the Bank has maintained long-standing relationships with the largest domestic and multinational corporates in the country, providing comprehensive financial services from traditional lending, payroll services, cash management, and foreign exchange, to financial advisory, capital markets, and insurance.

The BPI brand also has the highest corporate equity among local banks and second highest among selected Philippine companies.

The strength of the Bank's brand is validated by its growing client base, which almost doubled since 2010 to 8.3 million customers as of 30 June 2019. The Bank has likewise won numerous awards in recognition of its outstanding client service and innovative product offerings. In 2018, BPI Capital was awarded Best Investment Bank and Best ECM House in the Philippines from the *Finance Asia Country Awards* as well as the Renewable Energy Deal of the Year (Indonesia and Regional) and PPP Project of the Year (Philippines) in the last *Asia Infrastructure Awards by The Asset*.

Through the years, the Bank has proven its ability to weather economic downturns and benefit from investors' flight to quality.

#### ***Strong track record of profitability and cost management***

Historically, the Bank has been known as one of the most cost-efficient banks with the lowest operating leverage in the industry. As of 30 June 2019, its cost-to-income ratio stood at 52.9% and its cost-to-assets ratio at 2.4%, one of the lowest among Philippine banks based on publicly available financial data. The Bank's cost discipline coupled with its investments in its digital platforms has allowed it to maintain its cost leadership, remain resilient through downturns, and continuously improve productivity and cost-efficiency through the years.

Coupled with its strong income generating capabilities and deposit franchise, the Bank's cost-leadership has allowed it to produce industry leading returns for its equity holders. As of 30 June 2019, its return-on-equity (**ROE**) and return-on-assets (**ROA**) stood at 10.7% and 1.3% respectively, one of the highest in the Philippine Banking industry according to BSP data.

Moreover, the Bank has maintained a strong track record of profitability and creating shareholder value, consistently generating earnings for its shareholders every year for the past 20 years.

#### ***Well-capitalised with sufficient liquidity***

The Bank's stock rights offering in May 2018 brought the Bank's Common Equity Tier 1 ratio (**CET1**) and CAR to 15.55% and 16.44%, respectively, as of 30 June 2019, which the Bank believes these ratios are ahead of most banks in the Philippines and comfortably above the BSP's minimum CET1 and CAR ratios of 6% and 10%, respectively.

The Bank believes that its strong capital base, which primarily consists of common equity, provides sufficient protection to the Bank's current and prospective creditors. The Bank's strong capital base coupled with its deposit franchise has also allowed it to limit reliance on debt funding and maintain comparatively low leverage levels

versus its peers with its debt/total liabilities as of 30 June 2019, at 7.3% (calculated as bills payable over total liabilities).

Aside from its strong capital base, the Bank maintains sufficient liquidity levels with its liquidity coverage ratio and leverage ratio well above minimum prescribed ratios set by the BSP.

### ***High quality and diversified asset base driven by prudent risk management***

As of 30 June 2019, 7.5% of the Bank's loan book consist of loans to what the Bank believes to be high quality domestic corporate and multinational customers. Over the past five years, the Bank's loan growth has primarily been driven by corporate loans, which grew at a compound annual growth rate (CAGR) of 17.6% for that period, as compared to the Bank's retail loans, which grew by 11.8% over the same period.

The Bank's strong risk management framework coupled with its prudent approach to growth has allowed it to significantly improve its asset quality metrics, with gross 90-day non-performing loan (NPL) ratios declining from 3.11% as of 31 December 2010 to 1.86% as of 30 June 2019, and NPL coverage increasing from 82.3% as of 31 December 2010 to 97.5% as of 30 June 2019. With the implementation of the BSP Circular 941 effective 1 January 2018, the Bank's NPL ratio and coverage were restated at 1.72% and 100.34%, respectively. The NPL amount increased because under BSP Circular 941, adversely classified accounts (ACAs) are required to be reported as NPLs even if the account is current or without any missed contractual payments since ACAs are considered impaired under existing accounting standards. The Bank's prudent risk management and continuous efforts in this area have been recognised by *Risk Asia* in 2018 with the House of the Year-Philippines' Risk Management Award. This was the first time this award was given to a Philippine bank.

The Bank believes that its asset base is strategically diversified. It lends to customers in a wide variety of industries including real estate, manufacturing, wholesale and retail, utilities and financial intermediaries, among others. As of 30 June 2019, the Bank's top 20 clients comprised 31.3% of the Bank's loan book. Internally, the Bank abides by strict single borrower limits, with no single customer accounting for more than 3.0% of the Bank's loan book as of 30 June 2019.

### ***Stable and diversified revenue sources***

The Bank has been able to grow its net interest income (NIM) by a CAGR of 13% from 2013 to 2018. In the last five years, the Bank's NIM has been trending downward, because of the impact of the declining interest rate environment during such period. However, starting 2017, the Bank has seen a reversal in the trend as the Bank's average asset base expanded and its loan yield and cost of funds improved.

Over and above its core lending business which generates NIM, the Bank generates (i) trading income from securities and foreign exchange and (ii) fees and commission income from various sources.

Over the years, the Bank's fee-based income, has remained as a stable source of income for the bank, growing by 11.8% since 2013. The Bank's fee generation is backed by its (i) asset management and trust business, which has historically been the largest contributor to fee based income, with assets under management at ₱675.7 billion as of 30 June 2019, (ii) credit card business, which has the second highest number of credit card users with 1.588 million credit cards in circulation as of 30 June 2019 based on data from the Credit Cards Association of the Philippines (iii) operating lease business, which has provided a steady stream of income for the Bank, and (iv) insurance joint ventures with Mitsumi Sumitomo Insurance Group for non-life insurance (BPI/MS Insurance Corporation), and Philippine American Life and General Insurance Company (BPI Philam Life Assurance, Corp. or BPLAC) for life insurance, with BPLAC being the Philippines' leader in bancassurance, according to the Philippine Insurance Commission, and is continuously growing alongside the increasing BPI branches nationwide.

The Bank believes its sources of fee income are diversified, ranging from asset and trust management, credit cards to rental, and the these sources will continue to provide a stable source of income that will complement income from its core deposit taking and lending businesses.

### ***Stable funding base supported by its extensive physical and digital distribution network***

The Bank's primary source of funding has been and is expected to always be its depositors. Over the past five years, deposits have accounted for over 90% of the Bank's funding base.



The Bank has been successful in maintaining long-term relationships with its client base, with customer retention rates increasing from 90.3% in 2012 to 96.8% for the first half of 2019.

While the cost of deposits is largely driven by interest rate movements, the Bank has kept its average cost of deposits relatively low by improving its CASA (i.e., demand and savings accounts) to deposits ratio over the past five years. As of 30 June 2019, the Bank's CASA deposits accounted for 68.3% of the Bank's total deposit base, a 7.1% improvement from its 31 December 2012 level of 61.2%. The Bank also believes that its CASA to deposit ratio is one of the highest in the Philippines. The Bank's depositors also typically roll over their deposits at maturity, effectively providing the Bank with a stable base of core liquidity.

The Bank's strong deposit franchise is made possible by its extensive physical and digital distribution networks. The Bank has one of the largest branch networks in the Philippines with 1,091 branches (which include full service branches, express banking centres (**EBCs**), and branch-lite units), as of 30 June 2019. The Bank's overseas network includes one banking location in Hong Kong and two in London, two representative offices and three remittance centres in Hong Kong. The Bank also maintains over 141 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

As of 30 June 2019, the Bank had the second largest ATM and CAM network in the Philippines, with 2,463 ATMs and 552 CAMs under its *BPI ATM* brand. The Bank also founded the Philippines' first ATM interbank network and is a member of *BancNet*, the Philippines' largest ATM interbank network with over 21,000 ATMs nationwide as of 30 June 2019.

To efficiently serve its customers, the Bank complements its physical distribution network with its digital platforms, particularly online and mobile banking facilities which provide clients with 24/7 access to a broad range of banking services.

### ***Experienced Management and strong performance culture***

The Bank believes it has a highly qualified and experienced management team, with significant experience and proven track records in the banking industry. The Bank's senior management (comprising officers with the rank of vice-president or higher) have an average tenure with the Bank of over 18 years. In addition, the Bank's executives and officers have a broad range of experience in their respective areas of banking and finance, with certain executives and officers acquiring international banking experience with some of the leading global financial institutions. To ensure the continued strength of its team, the Bank has established a succession plan to avoid significant disruptions caused by the loss of any members of senior management.

The Bank also fosters a strong performance culture by providing performance-based incentives such as employee stock option and stock purchase plans, and competitive compensation packages that are constantly reviewed to attract and retain top talent. It also has a wide array of training programmes and activities from which employees benefit throughout the course of their careers with the Bank. These programmes range from workshops for new hires to advanced leadership programmes for officers as well as courses on financial advisory.

### **Strategies**

The Bank intends to leverage its preeminent brand name and continue to innovate and offer value-added products and services to address the complex needs of its clients, while further enhancing client convenience and satisfaction by delivering services through integrated physical, electronic and call centre channels.

The following are selected key elements of the Bank's strategy:

#### ***Maintain its leading position in the corporate segment***

The Bank plans to maintain its leading position in the corporate segment by continuing to provide a full suite of banking products to large corporates and multinationals. It will focus on improving risk-adjusted returns capitalising on strong cross-selling opportunities of its leading corporate banking franchise to offer other services such as the investment banking products of BPI Capital to its corporate clients while maintaining its prudent approach to underwriting. This aims to improve the profitability of the Bank's traditional lending business, generate additional fee income and provide clients with solutions that go beyond credit and cash management facilities.

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

The Bank plans to continue to tap opportunities in (i) the growing market of middle-class Filipinos, and (ii) thriving SME segments. While the untapped potential of these segments is significant, the Bank plans to pursue these opportunities in a prudent manner without compromising its stringent risk management standards and overall asset quality.

#### *SME*

The Bank recognises that SMEs are important engines of growth in the Philippines. The Bank will primarily focus on (i) growing the relationship with existing SME clients of the Bank by expanding its product offering to these specific customers and (ii) developing relationships with SMEs who do business with existing corporate customers.

To spearhead this initiative, the Bank established the SME 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, as well as helping them achieve their long-term goals through quick, simple and convenient solutions. The Bank has built a team of focused and well-trained relationship managers in order to gain a better understanding of the needs of the large, growing and underserved SME market segment, and address its needs holistically. The added focus and understanding is anticipated to result in better risk management for the SME sector and overall improved returns.

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

#### *Consumer lending*

As of 30 June 2019, only 207,930, or 2.7%, of BPI's retail depositors have availed of the Bank's loan products. The Bank expects strong growth in the consumer lending market due to (i) the stable growth of the Philippine economy and (ii) the passage of the Philippine Tax Reform for Acceleration and Inclusion (**TRAIN**) law reduced personal income tax rates and resulted in higher disposable incomes for middle class Filipinos, which can also lead to higher demand for vehicles and family homes.

In 2017, the Bank intentionally paused growth in its consumer lending business to focus on improving its internal processes and developing internal systems. In particular, innovative auto and housing loan facilities, highly automated loan processing systems and prudent risk management. With the new and improved processes in place, the Bank believes that it is now better equipped to more effectively evaluate and manage risk to prudently grow its consumer lending business.

#### *Microfinance*

Recognising the need for the unbanked market to have access to credit facilities, the Bank repositioned its microfinance business (primarily conducted through its subsidiary, BPI Direct BanKo) from a mobile-based business model to a more traditional in-person business model that (i) focuses on effective coverage of a specific market identified as the self-employed microentrepreneurs (**SEMEs**); (ii) implements an efficient collection process; (iii) provides business loans; (iv) grants loans based on well-grounded credit parameters; and (v) provides quick turnaround times and lower interest rates versus traditional money lenders. The shift in a more traditional business model allows BPI Direct BanKo to more effectively conduct its necessary know-your-customer processes and risk standards and lead to improved collections and reduction in NPLs.

### ***Enhance deposit franchise and delivery infrastructure***

CASA growth is a key priority of the Bank and it intends to continue to improve its CASA deposits by employing a dual-pronged approach of (i) capitalising on its extensive physical and digital distribution network, and (ii) continuing to provide competitive deposit based products to acquire new clients and attract and retain deposits.

As its extensive branch network is a key driver of new account openings, the Bank intends to expand its branch network in key provincial cities showing potential for increasing consumer spending and infrastructure investments, as well as in new township developments.

To increase deposits in the corporate, SME business and retail banking segments, the Bank aims to present itself as a provider of an integrated suite of products and services to its 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.

### ***Elevating its digital infrastructure to deliver superior customer experience and cost efficiencies***

The Bank recognises 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, automation and manage cost-efficiency.

In line with this, the Bank intends to continue to make investments in its digitalization strategy, with its roadmap milestones in various stages of completion.

- Focus on cybersecurity to protect our clients' trust in the Bank's digital channels and the Bank's adherence to relevant privacy rules and regulations. The Bank has established the first cybersecurity operations center in the banking industry, and continues to invest in threat analytics and forensics.
- Build resiliency by investments in IT systems, such as core banking system upgrades, to ensure 24/7 availability and stability of electronic services. This is to support the Bank's substantial improvements in its digital infrastructure, and to provide a solid foundation for the Bank's digitalization initiatives over the next five years as it aims to (i) continuously enhance the overall customer experience, and (ii) maintain its cost advantage over other banks in the Philippines.
- Implement Agile@scale, which is a workforce retraining programme that will endeavour to foster a culture where people are focused on re-engineering business processes around technological aids, thereby improving time-to-market deployment of new processes and systems across the organisation.
- Provide a 360-degree view of the client, which allows the Bank to effectively gather information and utilise its analytic capabilities and to pre-emptively address the needs of its clients. This ultimately leads to the development of an omni-channel client experience, which provides a consistent interface for clients to navigate through different channels and deliver a seamless transaction experience across various products, transactions and channels.
- Foray into Open Banking allows the Bank to be more financially inclusive through much greater engagement with counterparties. Open Banking refers to making the Bank's services available as application programming interfaces, or APIs, to fintech and e-commerce companies. This initiative is fast gaining traction with the increasing number of the Bank's APIs and merchant partners for a variety of platforms that facilitate online shopping, travel, payment of utilities, and the transfer of funds to e-wallets.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information of the Bank and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular and the section entitled "Description of the Bank" in this Offering Circular. The selected financial information presented below as of and for the years ended 31 December 2016, 2017 and 2018 were derived from the audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks, and audited by Isla Lipana & Co., in accordance with PSA. The selected financial information presented below as of and for the six months ended 30 June 2018 and 2019 were derived from the unaudited condensed consolidated financial statements prepared in accordance with accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks, and reviewed by Isla Lipana & Co. in accordance with PSRE. The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date.

### SELECTED CONSOLIDATED STATEMENTS OF INCOME

	For the years ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	(₱ millions, except for earnings per share) (audited)			(₱ millions, except for earnings per share) (reviewed)	
<b>Interest income on</b>					
Loans and advances .....	47,132	54,615	69,401	31,775	43,924
Investment securities.....	9,220	9,185	9,616	4,643	5,776
Deposits with BSP and other banks .....	1,960	2,049	1,173	530	803
	<b>58,312</b>	<b>65,849</b>	<b>80,190</b>	<b>36,948</b>	<b>50,503</b>
<b>Interest and finance charges</b>					
Deposits .....	15,301	16,660	21,255	10,004	14,542
Bills payable and other borrowings.....	634	1,150	3,092	871	3,599
	<b>15,935</b>	<b>17,810</b>	<b>24,347</b>	<b>10,875</b>	<b>18,141</b>
<b>Net interest income</b> .....	<b>42,377</b>	<b>48,039</b>	<b>55,843</b>	<b>26,073</b>	<b>32,362</b>
<b>Impairment losses</b> .....	<b>4,800</b>	<b>3,795</b>	<b>4,923</b>	<b>1,913</b>	<b>3,482</b>
<b>Net interest income after impairment losses</b>	<b>37,577</b>	<b>44,244</b>	<b>50,920</b>	<b>24,160</b>	<b>28,880</b>
<b>Other income</b>					
Fees and commissions .....	7,425	7,716	8,224	3,717	4,358
Income from foreign exchange trading....	1,748	2,136	2,128	1,060	1,165
Income attributable to insurance operations	1,360	1,413	1,223	602	727
Trading gain on securities .....	5,192	923	719	567	1,318
Other operating income.....	8,449	10,793	10,387	5,201	5,972
	<b>24,174</b>	<b>22,981</b>	<b>22,681</b>	<b>11,147</b>	<b>13,540</b>
<b>Other expenses</b>					
Compensation and fringe benefits.....	13,463	13,897	15,315	7,595	8,603
Occupancy and equipment-related expenses	10,156	11,344	13,146	6,608	7,927
Other operating expenses .....	11,322	13,292	15,141	7,017	7,747
	<b>34,941</b>	<b>38,533</b>	<b>43,602</b>	<b>21,220</b>	<b>24,277</b>
<b>Income before income tax</b> .....	<b>26,810</b>	<b>28,692</b>	<b>29,999</b>	<b>14,087</b>	<b>18,143</b>
<b>Provision for income tax</b>					
Current.....	5,419	6,418	7,404	3,243	4,716
Deferred.....	(884)	(462)	(734)	(276)	(436)
	<b>4,535</b>	<b>5,956</b>	<b>6,670</b>	<b>2,967</b>	<b>4,280</b>
<b>Net income</b> .....	<b>22,275</b>	<b>22,736</b>	<b>23,329</b>	<b>11,120</b>	<b>13,863</b>
Attributable to:					
Equity holders of the Bank.....	22,050	22,416	23,078	11,026	13,737
Non-controlling Interest .....	225	320	251	94	126
<b>Net income</b> .....	<b>22,275</b>	<b>22,736</b>	<b>23,329</b>	<b>11,120</b>	<b>13,863</b>

## Selected Consolidated Financial Information

	For the years ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
				(₱ millions, except for earnings per share) (reviewed)	
	(₱ millions, except for earnings per share) (audited)				
<b>Basic and Diluted Earnings Per Share Attributable to Equity Holders of the Bank</b>	5.60	5.69	5.35	2.45	3.05

## STATEMENTS OF CONDITION

	As of 31 December			As of 30 June
	2016	2017	2018	2019
		(₱ millions) (audited)		(₱ millions) (reviewed)
<b>Resources</b>				
Cash and other cash items .....	35,692	35,132	43,536	30,967
Due from BSP .....	239,514	255,948	225,907	217,415
Due from other banks .....	23,037	14,406	12,477	10,422
Interbank loans receivable and securities purchased under agreements to resell .....	15,236	18,586	34,323	28,716
Financial assets at fair value through profit or loss .....	17,596	10,313	16,721	34,624
Financial assets at fair value through other comprehensive income.....	-	-	37,206	76,972
Investment securities at amortized cost, net .....	-	-	287,571	295,706
Available-for-sale securities, net.....	24,301	23,313	-	-
Held-to-maturity securities .....	268,483	277,472	-	-
Loans and advances, net .....	1,040,720	1,202,338	1,354,896	1,354,350
Assets held for sale, net .....	3,667	3,578	3,363	3,355
Bank premises, furniture, fixtures and equipment, net .....	13,809	15,056	16,252	16,168
Investments in subsidiaries and associates, net .....	6,818	6,386	5,659	6,818
Assets attributable to insurance operations .....	16,326	17,406	16,582	16,368
Deferred income tax assets, net.....	7,543	8,091	8,536	8,761
Other assets, net.....	12,954	15,880	22,199	34,103
<b>Total resources</b> .....	<b>1,725,696</b>	<b>1,903,905</b>	<b>2,085,228</b>	<b>2,134,745</b>
<b>Liabilities and Capital Funds</b>				
<b>Liabilities</b>				
Deposit liabilities .....	1,431,300	1,562,200	1,585,746	1,658,450
Derivative liabilities.....	3,112	4,788	3,891	3,235
Bills payable .....	61,973	83,517	166,901	136,577
Due to BSP and other banks .....	670	1,218	3,988	3,123
Manager's checks and demand drafts outstanding .....	7,579	7,022	6,931	7,378
Accrued taxes, interest and other expenses .....	6,853	7,117	9,057	10,236
Liabilities attributable to insurance operations .....	14,367	14,513	14,056	13,222
Deferred credits and other liabilities .....	32,158	39,979	43,120	39,382
<b>Total liabilities</b> .....	<b>1,558,012</b>	<b>1,720,354</b>	<b>1,833,690</b>	<b>1,871,603</b>
<b>Capital funds attributable to the equity holders of the Bank</b>				
Capital stock .....	39,308	39,336	44,961	44,979
Paid-in-surplus .....	29,591	29,771	74,181	74,307
Reserves .....	2,711	254	4,096	3,729
Surplus .....	98,602	116,415	127,459	137,750
Accumulated other comprehensive loss .....	(5,078)	(5,088)	(2,176)	(888)
	<b>165,134</b>	<b>180,688</b>	<b>248,521</b>	<b>259,877</b>
<b>Non-controlling interest</b> .....	<b>2,550</b>	<b>2,863</b>	<b>3,017</b>	<b>3,265</b>
Total capital funds .....	167,684	183,551	251,538	263,142
<b>Total liabilities and capital funds</b> .....	<b>1,725,696</b>	<b>1,903,905</b>	<b>2,085,228</b>	<b>2,134,745</b>

## Selected Consolidated Financial Information

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### SELECTED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	(P millions) (audited)			(P millions) (reviewed)	
Net cash provided by (used in) operating activities .....	4,505	7,070	(104,550)	(55,631)	51,533
Net cash provided by (used in) investing activities .....	(9,635)	(10,349)	(30,130)	17,844	(48,953)
Net cash provided by (used in) financing activities .....	34,125	14,662	125,821	14,585	(30,184)
Cash and cash equivalents at beginning of the year .....	281,751	310,746	322,129	322,129	313,270
Cash and cash equivalents at end of the year .....	310,746	322,129	313,270	298,927	285,670

**SELECTED CONSOLIDATED FINANCIAL RATIOS AND PER SHARE DATA**

	As of and for the years ended 31 December			As of and for the six months ended 30 June	
	2016	2017	2018	2018	2019
Return on average assets <sup>(1)</sup> .....	1.4%	1.3%	1.2%	1.2%	1.3%
Return on average equity <sup>(2)</sup> .....	13.8%	12.8%	10.2%	10.8%	10.7%
Net interest margin <sup>(3)</sup> .....	2.9%	2.9%	3.1%	3.0%	3.4%
Cost-to-income ratio <sup>(4)</sup> .....	52.5%	54.3%	55.5%	57.0%	52.9%
Gross loans to deposits <sup>(5)</sup> .....	72.7%	77.0%	85.4%	79.7%	81.7%
Tier 1 capital adequacy ratio <sup>(6)</sup> .....	12.1%	11.8%	15.2%	16.4%	15.55%
Total capital adequacy ratio <sup>(7)</sup> .....	13.0%	12.7%	16.1%	17.3%	16.44%
Total tangible capital funds to total tangible assets <sup>(8)</sup> .....	9.7%	9.6%	11.8%	12.7%	12.0%
Total gross non-performing loans (90-day) to total gross loans <sup>(9)</sup> .....	1.5%	1.3%	1.9%	1.8%	1.9%
Allowances for credit losses to total gross loans <sup>(10)</sup> .....	1.7%	1.7%	1.7%	1.8%	1.8%
Allowances for credit losses to total gross non-performing loans (90-day) <sup>(11)</sup> .....	118.7%	129.2%	88.3%	97.1%	97.5%
Specific provisions to gross loans .....	1.8%	1.7%	1.7%	1.8%	1.9%
Dividend payout ratio <sup>(12)</sup> .....	38.9%	32.2%	36.2%	34.7%	36.8%
Dividend per Share (₱) .....	₱1.80	₱1.80	₱1.80	₱0.90	₱0.90
Earnings per Share (₱) <sup>(13)</sup> .....	₱5.60	₱5.69	₱5.35	₱2.45	₱3.05

**Notes:**

- (1) Net income divided by average total assets for the period indicated. Average total assets is based on the monthly average balance of total assets for the years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2018 and 2019.
- (2) Net income divided by average total equity for the period indicated. Average total equity is based on the monthly average balance of equity for the years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2018 and 2019.
- (3) Net interest income divided by average interest-earning assets.
- (4) Total operating expenses (net of provision for credit and impairment losses) divided by net interest and other income.
- (5) Total receivable from customers divided by total deposit liabilities.
- (6) Net Tier 1 capital divided by total risk weighted assets (under Basel III).
- (7) Total qualifying capital less deductions divided by total risk weighted assets (under Basel III).
- (8) Total Equity, net of deferred charges divided by total assets, net of deferred charges.
- (9) Total gross non-performing loans (90-day NPLs) divided by total receivable from customers net of unearned interest and discount. Data as of 30 June 2019 is based on BSP Circular No. 941.
- (10) Total allowance for credit losses on receivable from customers divided by receivable from customers.
- (11) Total allowance for credit losses on receivable from customers divided by total gross 90-day NPLs.
- (12) The ratios were computed as total dividend declared during the year divided by prior year's net income.
- (13) Net income divided by total weighted average number of shares outstanding.

## INVESTMENT CONSIDERATIONS

*An investment in the CDs involves a number of foreseeable and unforeseeable risks and other investment considerations. You should carefully consider all the information contained in this Offering Circular including the investment considerations described below, before any decision is made to invest in the CDs. The Bank's business, financial condition and results of operations could be materially adversely affected by any of these investment considerations. The market price of the CDs could decline due to any one of these risks, and all or part of an investment in the CDs could be lost.*

***The following discussion is not intended to be a comprehensive description of the risks and other factors and is not in any way meant to disclose all risks or other significant aspects of investing in the CDs. Prospective Holders are encouraged to make their own independent legal, financial, and business examination of the Bank and the market. Neither the Bank nor the Arranger make any warranty or representation on the marketability or price on any investment in the CDs.***

### **Risks Relating to the Bank and its Business**

***The Bank may not be successful in implementing new business strategies or penetrating new markets.***

As part of its strategy, the Bank intends to:

- maintain its leading position in the corporate segment;
- diversify its asset base and improve risk-adjusted returns by prudently accelerating growth in higher margin small-and-medium-sized enterprise (SME) and consumer lending;
- enhance deposit franchise and delivery infrastructure;
- elevate its digital infrastructure to deliver superior customer experience and cost efficiencies; and
- maintain prudent balance sheet management.

While this strategy is expected to diversify the Bank's revenue sources, it may likewise expose the Bank to a number of risks and challenges including, among others, the following:

- new and expanded business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- the Bank's competitors may have substantially greater experience and resources for the new and expanded business activities; and
- economic conditions, such as rising interest rates or inflation and regulatory changes, such as changes in banking and tax regulations, could hinder the Bank's expansion.

In addition, new business endeavours may require knowledge and expertise which differ from those used in the current business operations of the Bank, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. The Bank may not be successful in developing such knowledge and expertise. Furthermore, managing such growth and expansion requires significant managerial and operational resources, which the Bank may not be able to procure on a timely basis or at all. The Bank's inability to implement its business strategy and adequately managing the related risks could have a material adverse effect on the business, financial condition and results of operations of the Bank.

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



## Investment Considerations

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As of 30 June 2019, the Bank's total exposure to borrowers was ₱1.4 trillion. The ten largest individual borrowers in aggregate accounted for approximately 11.3% of the Bank's total exposure, and its ten largest borrower groups in aggregate accounted for approximately 21.4% of the Bank's total exposure. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth. The Bank is committed to ensure strict compliance with laws, regulations and reporting requirements relating to single borrower limits. The largest borrower group as of 30 June 2019 accounted for approximately 3.4% of the Bank's total exposure and for 18.0% of the Bank's net worth. Credit losses on these large single borrower and group exposures could adversely affect the business, financial condition and results of operations of the Bank.

The Bank extends loans to several sectors in the Philippines. As of 30 June 2019, the Bank's top five industries loan exposure account for 72.2% of the Bank's total loan portfolio, namely real estate, manufacturing, wholesale and retail trade, electricity, gas and water, and financial institutions. The Bank's aggregate exposure to these industries amounted to ₱989 billion. The Bank's largest loan exposure is to the real estate industry, which accounted for 23.7% of the Bank's loan portfolio as of 30 June 2019. Although the Bank continues to adopt risk controls and diversification strategies to minimise risk concentrations, financial difficulties in these industries could increase the level of non-performing assets and restructured assets, and adversely affect the Bank's business, its financial condition and results of operations.

***The Bank may face increasing levels of NPLs, provisions for impairment losses and delinquencies in its loan portfolio, which may adversely affect its business, financial condition, results of operations and capital adequacy.***

The Bank's results of operations have been, and continue to be, affected by the level of its non-performing loans (NPLs). The Bank's total gross NPLs were equal to ₱15,368 million, ₱15,713 million and ₱25,391 million as of 31 December 2016, 2017 and 2018, respectively, and ₱25,459 million as of 30 June 2019. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, the Bank's provisions for credit losses on receivables from customers were ₱4,955 million, ₱4,317 million, ₱4,828 million, ₱1,748 million and ₱3,369 million respectively, representing approximately 11.7%, 9.0%, 8.6%, 6.7% and 10.4% of the Bank's net interest income for these periods, respectively. The Bank plans to continue to expand its microfinance, SME and consumer loan operations, including credit card services. Such expansion plans will increase the Bank's exposure to microfinance, SME and consumer debt and volatile economic conditions in the Philippines may adversely affect the future ability of the Bank's borrowers, including microfinance and SME borrowers and credit card holders, to meet their obligations under their indebtedness and, as a result, the Bank may continue to experience increasing levels of non-performing loans and provisions for impairment losses in the future.

Volatile economic conditions in the Philippines and overseas, including volatile exchange and interest rates, may adversely affect many of the Bank's customers, causing uncertainty regarding their ability to fulfil obligations under the Bank's loans and significantly increasing the Bank's exposure to credit risk. These and other factors could result in an increased number of NPLs and delinquencies in the Bank's credit card portfolio in the future. Any significant increase in the Bank's NPLs or delinquencies in the Bank's credit card portfolio would have a material adverse effect on its business, financial condition, results of operations and capital adequacy.

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

As of 30 June 2019, the Bank's secured loans represented 32.6% of the Bank's total loans, and 54.1% of the collateral on these secured loans consisted of real property. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realised value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its provisions for credit losses may be inadequate and the Bank may need to increase such provisions. Any increase in the Bank's provisions for credit losses could adversely affect its business, its financial condition, results of operations and capital adequacy ratio (CAR).

In addition, the Bank may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system. To foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements which may be more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to the deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank's ability to realise the value of its collateral and therefore the effectiveness of taking security for the loans it makes. The Bank initially carries the value of the foreclosed properties at the lower of loan exposure or fair value of the properties at the time of foreclosure. Subsequently, the foreclosed properties are carried at the lower of amount initially recognised or fair value less cost to sell. While the Bank, at each balance sheet date, provides for impairment losses on its foreclosed properties in accordance with PFRS, it may incur further expenses to maintain such properties and to prevent their deterioration. In realising cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realisation. There can be no assurance that the Bank will be able to realise the full value, or any value, of any collateral on its loans.

***The Bank's provisioning policies with respect to NPLs require significant subjective determinations which may increase the variation of application of such policies.***

BSP regulations require that Philippine banks classify NPLs based on four different categories corresponding to levels of risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears, the type of loan, the terms of the loan and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank to such classifications and to the factors relevant thereto.

For financial reporting purposes, the Bank assesses at each reporting date whether there is a significant increase in credit risk on the loan or group of loans. The level of provisions currently recognized by the Bank in respect of its secured loan portfolio depends largely on the estimated value of the collateral coverage of the portfolio, as well as the Bank's evaluation of the creditworthiness of the borrower and the risk classification of a loan. If the Bank's evaluations or determinations are inaccurate, the level of the Bank's provisions may not be adequate to cover actual losses resulting from its NPL portfolio. The Bank may also have to increase its level of provisions if there is any deterioration in the overall credit quality of the Bank's existing loan portfolio, including the value of the underlying collateral.

In addition, the level of loan loss provisions which the Bank recognises may increase significantly in the future due to the introduction of new accounting standards or a turn in the credit cycle.

***The Bank relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain them may negatively affect the business.***

The Bank's success depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some of the Bank's key management, and senior executives, some of whom will be reaching retirement age in 2019, or an inability to attract or retain other key individuals could materially and adversely affect the Bank's business, financial condition and results of operations.

***Increased enforcement by the BSP related to priority lending for the agrarian reform and agricultural sectors, as well as lending to micro-, small-and-medium-sized enterprises (MSME), could adversely affect the Bank's business, financial condition and results of operations.***

In support of certain Government policies, BSP has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts, equivalent to a certain percentage of its total loan portfolio to agrarian beneficiaries and the agricultural sectors (**Agri-Agra**) of the Philippines. In addition, for a period of ten years until 16 June 2018, BSP requires banks to allocate a certain percentage of its total loan portfolio for loans to MSMEs. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. These fines are calculated based on the relevant rate multiplied by the prescribed Agri-Agra or

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MSME loan amount shortfall. As of 30 June 2019, the amount of loans that should have been extended to Agri-Agra and MSMEs was ₱214.6 billion and ₱112.2 billion, respectively. For the years ended 31 December 2016, 2017, and 2018 and six months ended 30 June 2019, the Bank was fined ₱387.4 million, ₱424.4 million, ₱491.7 million and ₱281.0 million, respectively, for its failure to fully comply with Agri-Agra mandated lending. With respect to MSME loans, for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the Bank was fined ₱0.78 million, ₱1.02 million, ₱0.25 million and ₱0.26 million, respectively, for failure to comply with mandated lending to MSMEs. Because the Bank is unable to generate sufficient exposure to the Agri-Agra and MSMEs sectors that meet its credit and risk management standards, the Bank has paid fines in the past and may continue to do so in the future. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or the Bank is forced to extend loans to the Agri-Agra or MSMEs sectors that are inconsistent with the Bank's credit and risk management policies, its business, financial condition and results of operations could be adversely affected.

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

The Bank is subject to risks relating to its information and technology systems and processes. The hardware and software used by the Bank in its information technology is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers and telephone companies. For example, in June 2017, an error by one of the Bank's system programmers resulted in double-posting of transactions, which affected some 1.5 million Bank customers. Although the incident was resolved within 36 hours and did not result in material loss or expense to the Bank, there can be no assurance that future similar incidents will not result in material adverse losses or expenses to the Bank. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in customer suits, loss of income, regulatory investigations, penalties and fines and decreased consumer confidence in the Bank. These may, in turn, adversely affect the Bank's business, financial condition and results of operations.

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

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

To the extent any of the instruments and strategies the Bank uses to manage its exposure to market or credit risk is not effective, the Bank may not be able to mitigate effectively its risk exposures, in particular to market environments or against particular types of risk. The Bank's balance sheet growth will be dependent upon economic conditions, as well as upon its determination to securitise, sell, purchase or syndicate particular loans or loan portfolios. The Bank's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. The Bank's earnings are dependent upon the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, the Bank could suffer higher than anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing its liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the Bank to effectively manage its credit, market and liquidity risk could have a negative effect on its business, financial condition and results of operations.

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

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As of 30 June 2019, the Bank has a local long-term bank deposit rating of Baa2 from Moody's and a long-term local currency issuer default rating of BBB- from Fitch. On 27 August 2019, S&P assigned a long-term issuer credit rating of BBB+ to the Bank. In the event of a downgrade of the Bank by one or more credit rating agencies, the Bank may have to accept terms that are not as favourable in its transactions with counterparties or may be unable to enter into certain transactions. This could have a negative impact on the Bank's treasury operations and also adversely affect its financial condition and results of operations. Rating agencies may reduce or indicate their intention to downgrade the ratings at any time. The rating agencies can also decide to withdraw their ratings altogether, which may have the same effect as a downgrade of ratings. Any downgrade in the Bank's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce the Bank's liquidity and negatively impact its operating results and financial condition.

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

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

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

The Bank is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm the Bank's business, reputation or standing in the market place or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. Furthermore, there can be no assurance that (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of the Bank's insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial condition or results of operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

***The Bank faces risks and challenges associated with acquisitions and investments.***

From time to time, the Bank acquires companies or businesses, enters into strategic alliances and joint ventures and makes investments, and will continue to seek opportunities to do so in the future as part of its expansion plan. In order to pursue this strategy successfully, the Bank must effectively identify suitable targets for, and negotiate and consummate, acquisition or investment transactions, some of which may be large or complex, and manage post-closing issues such as the integration of acquired businesses, products, services or employees.

Risks associated with business combination and investment transactions include the following, any of which could adversely affect the Bank's revenue, gross margin and profitability:

- managing business combination and investment transactions often requires significant management resources, which may divert the Bank's attention from other business operations;
- the Bank may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for realizing benefits of a business combination and investment transaction may depend partially upon the actions of employees, advisors, suppliers or other third parties;
- business combination and investment transactions may result in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs,

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employee benefit costs, goodwill and asset impairment charges, charges from the elimination of duplicative facilities and contracts, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans;

- the Bank's due diligence process may fail to identify significant issues with the acquired company's product quality, financial disclosures, accounting practices or internal control deficiencies;
- the Bank may borrow to finance business combination and investment transactions, and the amount and terms of any potential future acquisition-related or other borrowings, as well as other factors, could affect the Bank's liquidity and financial condition; and
- if disputes arise in connection with business combination and investment transactions, such disputes may lead to litigation, which may be costly and divert the Bank's resources.

### Risks Relating to the Philippine Banking Industry

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

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including, in some instances, competitors that have greater financial and other capital resources, greater market share and greater brand name recognition than the Bank. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalisation, including liberalisation of foreign ownership restrictions, such as the lifting in 2014 of restrictions that previously barred the full entry and operation of foreign banks in the Philippines. Since 2014, several foreign banks have entered the Philippine banking market. In addition, the establishment of ASEAN economic integration, which envisions providing a platform for ASEAN banks to enjoy greater market access and operational flexibility across ASEAN member states, including the Philippines, could further increase competition from foreign banks.

According to data published by the BSP, there were a total of 46 domestic and foreign universal and commercial banks operating in the Philippines as of 30 June 2019.

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

- other large Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- foreign banks, due to, among other things, relaxed foreign bank ownership standards permitting large foreign banks to set up their own branches in the Philippines or expand their branch network through acquiring domestic banks;
- ability of the Bank's competitors to establish new branches in Metro Manila due to the removal of the existing new branch license restriction scheme in 2014;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- continued consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

The ongoing mergers and consolidations in the banking industry, as well as the liberalisation of bank foreign ownership restrictions, have allowed the emergence of foreign and bigger local banks in the market. This is expected to increase the level of competition both from Philippine and foreign banks and may impact the Bank's operating margins.

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There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank to increase the size of its loan portfolios and deposit bases and may cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, ability to pass on increased costs of funding, results of operations and financial position.

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

The Philippine banking industry has recovered from the global economic crisis as evidenced by the steady decrease in average NPL ratios (including interbank loans) in the Philippine banking system from 3.6% in 2010 to 2.2% as of May 2019. The Bank has realised some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank margins, low loan growth and potential or actual under-capitalisation of the banking system. Disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking industry in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

***The Bank may have to comply with strict rules and guidelines issued by regulatory authorities in the Philippines, including the BSP, the PSEC, the NPC, the PSE, the BIR and international bodies, including the FATF.***

The Bank's banking interests are regulated and supervised principally by the BSP, to which the Bank has reporting obligations. The Bank is also subject to banking, corporate, taxation, data privacy laws and other relevant laws and regulations in effect in the Philippines, administered by agencies such as the Bureau of Internal Revenue (the **BIR**), the Philippine Securities and Exchange Commission (**PSEC**), the Philippine Stock Exchange (the **PSE**), the National Privacy Commission (**NPC**) and the Anti-Money Laundering Council (**AMLC**). The Bank is also subject to recommendations and pronouncements of international bodies such as the Financial Action Task Force (**FATF**) which have been adopted, incorporated, or referred to by the BSP in its regulatory issuances.

In recent years, existing BSP and BIR rules have been modified, new regulations and rules have been enacted and reforms have been implemented by the BSP and the BIR which are intended to provide tighter control and added transparency in the Philippine banking sector. Rules governing banks' capital adequacy and reserve requirements, ceilings on loans to subsidiaries and affiliates, as well as limits on the amount of loans, credit accommodations and guarantees to a single borrower have also evolved over the years. Guidelines on the monitoring and reporting of suspected money laundering activities were incorporated into the BSP Manual. Institutions that are subject to the Anti-Money Laundering Act, as amended (**AMLA**) are required to establish and record the identities of their clients based on official documents. In addition, under the AMLA regulations, all records of customer identification and transaction documents are required to be maintained and stored for a minimum of five years from the date of a transaction. Records of closed accounts must also be kept for at least five years after their closure. The AMLA regulations also require covered institutions to report covered and suspicious transactions as defined under the relevant law.

The BSP has also ordered universal, commercial and thrift banks to conduct real estate stress tests to determine whether their capital is sufficient to absorb a severe shock. The Real Estate Stress Test Limit (**REST Limit**) combines a macro-prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. If the explanation is deemed insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame. If a bank fails to submit an action plan or persistently breaches the REST Limits due to non-compliance with the commitments in its submitted action plan, it may be considered to be engaging in unsafe or unsound banking which may subject it to appropriate sanctions.

In June 2016, the BSP implemented the interest rate corridor (**IRC**) which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the "special deposit account" prior to the implementation of the IRC, was replaced by the "overnight deposit facility" with a current rate of 4.25%, and forms the lower bound of the IRC. Meanwhile, the rate for the "overnight lending facility", which replaced the previous repurchase facility, and forms the upper bound of the IRC, is currently at 5.25%. The BSP likewise



introduced the “term deposit facility” to serve as the main tool for absorbing liquidity through weekly term deposit facility auctions, the frequency for which may be changed depending on the BSP’s liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

Additionally, the BSP pursuant to BSP Circular No. 1041 (Series of 2019) reduced the rates of required reserves against deposit and deposit substitute liabilities for universal and commercial banks commencing on reserve week 31 May 2019, as follows: (a) 17% against demand deposits, savings deposits (excluding basic deposit accounts), time deposits and deposit substitutes, negotiable certificates of time deposits (**CTDs**), long-term non-negotiable tax-exempt CTDs, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 17% against negotiable order of withdrawal (**NOW**) accounts; (c) 0% against deposit substitutes evidenced by repurchase agreements; (d) 4% against long-term negotiable certificates of time deposits (**LTNCDs**); (e) 6% against bonds; and (f) 0% against basic deposit accounts as defined under Section X222 of the Manual of Regulations for Banks and for interbank call loan transactions (**IBCL**) (Sec. 315). Beginning 28 June 2019, the 17% reserve rates will be reduced to 16.5% across the board, and further reduced to 16% beginning 26 July 2019.

The BIR has also promulgated rules on the submission of an alphabetical list of portfolio investors receiving income payments and dividends. The BIR requires all withholding agents to submit such list of payees on income payments subject to creditable and withholding taxes and prohibit the lumping into a single amount and account of various income payments and taxes withheld. The Supreme Court, however, issued a temporary restraining order against the said BIR rule on 9 September 2014 insofar as they prohibit the naming of an entity called the Philippine Central Depository (**PCD**) Nominee, or any other securities intermediaries representing the beneficial owner, as the payee for dividend payments made by listed companies.

The Bank’s failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines or significant compliance and monitoring costs resulting from current or future regulations and guidelines could have a material adverse effect on the Bank’s business, financial condition and results of operations. In addition, as a result of a failure to comply with any current or future regulations and guidelines, the Bank may become subject to sanctions, warning or reprimand and incur monetary penalties.

### *The Bank may experience difficulties due to the implementation of Basel III in the Philippines.*

On 1 July 2007, Circular No. 538, which was issued by the BSP on 4 August 2006, took effect. This circular contains the implementing guidelines of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

On 15 January 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process (**ICAAP**) which supplements the BSP’s risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e. credit concentration risk); and (iii) evaluates the quality of capital.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the Basel Committee on Banking Supervision (**Basel Committee**) containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.

In 2011, the BSP issued BSP Circular 709, which aligns with the Basel Committee on the eligibility criteria on Additional Group Concern Capital and Tier 2 Capital to determine eligibility of capital instruments to be issued by Philippine banks/quasi-banks as Hybrid Tier 1 Capital and Lower Tier 2 Capital. In January 2012, the BSP announced that the Philippines’ universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014.

Further, in January 2013, the BSP issued Circular No. 781 as the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect in January 2014, highlights of which include:

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- adopting a new categorisation of the capital base;
- adopting eligibility criteria for each capital category that is not yet included in Circular 709;
- as applicable, allowing the BSP to adopt regulatory deductions in Basel III;
- keeping minimum CAR at 10%, and prescribing:
  - a minimum Common Equity Tier 1 (**CET1**) ratio of 6.0%;
  - a minimum Tier 1 ratio of 7.5%; and
  - a capital conservation buffer of 2.5%;
- by 1 January 2014, rendering ineligible existing capital instruments as of 31 December, 2010 that do not meet eligibility criteria for capital instruments under the revised capital framework;
- by 1 January 2016, rendering ineligible regulatory capital instruments issued under circulars 709 and 716 before the revised capital framework became effective; and
- by subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On 29 October 2014, the BSP issued Circular No. 856, or the “Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks (**DSIBs**) under Basel III”, as amended by BSP Circular No. 1051 to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the Philippine banking industry. Banks identified as DSIBs will be required to have higher loss absorbency capabilities, in addition to minimum CET1 capital and capital conservation buffer requirements. Identified DSIBs will need to put up an additional 1.5% to 2.5% of common equity Tier 1 depending on their classification. Transitional arrangements for the higher loss absorbency requirements will also be implemented.

In May 2015, the BSP issued Circular No. 881 setting out the approved guidelines for the implementation of Basel III leverage ratio. Subsequently, guidelines were issued by the BSP requiring universal and commercial banks to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III.

Furthermore, banks face new liquidity requirements under Basel III’s new liquidity framework (which was recently amended by BSP Circular No. 1035), namely, the Liquidity Coverage Ratio (**LCR**) and the Net Stable Funding Ratio (**NSFR**). On 10 March 2016, the BSP issued Circular No. 905 providing new liquidity requirements under Basel III’s new liquidity framework, namely, the LCR and the NSFR. The amendments introduced by BSP Circular No. 1035 provide enhancements to the LCR and Minimum Liquidity Ratio (**MLR**) guidelines. In the LCR framework, the previous treatment of reporting expected cash flows for each derivative contract in gross amounts has been revised. Under the new policy, cash inflows and outflows from each derivatives contract shall now be recognized on a net basis consistent with valuation methodologies for derivatives contracts and the Basel III LCR framework. Likewise, the method for computing the MLR was revised. The revised MLR computation converges with the LCR framework as interbank placements are now counted as eligible liquid assets. The LCR requires banks to hold a sufficient level of high-quality liquid assets (**HLQA**) to enable them to withstand a 30 day-liquidity stress scenario, while the NSFR measures the ability of a bank to fund its liquidity needs over one year. As of 1 January 2018, the LCR threshold that banks are required to meet is 90% and will be increased to 100% beginning 1 January 2019. The NSFR requires that banks’ assets and activities are structurally funded with long-term and more stable funding sources. On 4 June 2018, the BSP announced the Monetary Board’s approval of the adoption of the NSFR for universal and commercial banks. Beginning 1 January 2019, covered institutions are required to maintain an NSFR of 100.0% on both solo and consolidated bases. On 15 March 2019, the Monetary Board approved the extension of the observation period for the LCR and NSFR for subsidiary banks and quasi banks of universal and commercial banks until 31 December 2019, moving the effectivity dates of said ratios to 1 January 2020. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70% LCR and NSFR, which shall increase to 100% on 1 January 2020. On 15 March 2019, the Monetary Board also approved amendments to the LCR framework and minimum liquidity ratio guidelines, and disclosure requirements of information related to LCR starting 2019 for



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universal and commercial banks. Although these measures are aimed at strengthening the ability of banks to withstand liquidity stress and promote resilience of the banking sector, compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

The BSP Monetary Board subsequently approved the adoption of a minimum leverage ratio requirement for universal banks, commercial banks and their subsidiary banks and quasi-banks. Beginning on 1 July 2018, covered institutions must maintain a leverage ratio of no lower than 5%. The leverage ratio is a non-risk based measure, which serves as a backstop to the CAR.

The BSP introduced the leverage ratio framework on 5 June 2015 under Circular No. 881 with the implementation limited to monitoring purposes. With the Monetary Board's recent decision, the leverage ratio will form part of the Basel III minimum capital requirements, along with the 6% CET1 Ratio, 7.5% Tier 1 Ratio and the 10% CAR.

In addition, Basel III capital rules for banks include setting up a countercyclical capital buffer wherein banks build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. The countercyclical capital buffer will require banks to hold additional common equity or other fully loss absorbing capital in amounts ranging from 0% to 2.5% of the risk-weighted assets. Under the Bank for International Settlements, the countercyclical capital buffer was phased in beginning on 1 January 2016 and became fully effective on 1 January 2019. The BSP, however, has yet to release the guidelines on the countercyclical capital buffer.

As of 30 June 2019, the Bank had CAR of 16.44%, Tier 1 ratio of 15.55% and capital conservation buffer of 9.55%. Compliance with these ratios may further increase competition among banks for deposits as well as high quality liquid assets.

Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital or liquidity requirement due to the implementation of ICAAP and Basel III may result in BSP imposed monetary and non-monetary sanctions, including prohibition on the declaration of dividends, and may impact the Bank's ability to grow its business and may even require the Bank to withdraw from or to curtail some of its current business operations, which could materially and adversely affect the Bank's business, financial condition and results of operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future at all or on terms favourable to it. There can be no assurance that the Bank will be able to meet the requirements of Basel III as implemented by the BSP. In addition, the limitations or restrictions imposed by the BSP's implementation of Basel III could materially and adversely affect the Bank's business, financial condition and results of operations.

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

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

***The Bank is subject to interest rate risk.***

The Bank realises income from the margin between interest-earning assets (due from BSP on balances above the minimum reserve requirement, due from other banks, interbank loans receivable and securities purchased under resale agreement with BSP, investment securities and loans and receivables), and interest paid on interest-bearing

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liabilities (deposit liabilities, bills payable and subordinated debt, and other forms of borrowings). Fluctuations in domestic market interest rates, which are neither predictable nor controllable, can have a significant impact on the Bank by affecting its interest income, cost of funding and general performance of its existing loan portfolio and other assets. In a period of rising domestic interest rates, the Bank may be required to compete aggressively to attract deposits by offering higher rates to depositors in order to increase the Bank's loanable funds, which may result in a decrease in the Bank's profitability. As interest rates increase, the Bank's profitability may decrease as a result. Increased interest rates on the Bank's customers' floating rate loans can also potentially negatively affect the Bank's business by increasing default rates among the Bank's borrowers, which could in turn lead to increases in the Bank's NPL portfolio and its real and other properties acquired (**ROPA**). Likewise, rising interest rates may impact the value of the Bank's investment securities resulting in unrealised marked to market losses in its trading and fair value through other comprehensive income (**FVOCI**) investment portfolios. Furthermore, the Bank may suffer trading losses as a result of the decline in value of these securities. Finally, continued increases in market interest rates could adversely affect the liquidity levels of the Bank and the Philippine banking industry in general, which have in recent years been supported by the relatively low interest rate environment in the Philippines. As a result, fluctuations in interest rates could have an adverse effect on the Bank's margins and volumes and in turn adversely affect the Bank's business, financial condition and results of operations.

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

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

### ***The implementation and effects of PFRS 9 and any future changes in accounting standards may affect the financial reporting of the Bank.***

The Philippines Financial Reporting Standards Council (**PFRSC**), or other regulatory bodies, periodically introduce modifications to financial accounting and reporting standards under which the Bank prepares its consolidated financial statements. There can be no assurance as to the implementation of new accounting standards in the Philippines and the significance of the impact it may have on the Bank's financial statements in the future.

For example, PFRS 9, *Financial Instruments* replaced PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The revised standard, which took effect on 1 January 2018, introduced new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option is not invoked, be subsequently measured at: (a) amortised cost, if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal; or (b) at FVOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For financial liabilities measured using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the fair value option.

PFRS 9 also introduced a new expected loss impairment model that will require more timely recognition of expected credit losses. Under the impairment approach in PFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses,

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and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

PFRS 9 also replaced the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

The Bank's PFRS 9 classification model assists the Bank in categorising its financial assets into amortised cost, FVOCI and FVTPL. In addition, the standards assist the Bank in determining its expected credit loss measurement and achieving a significant increase in credit risk determination, each of which enables the Bank to estimate its expected credit loss for each of the three credit risk stages for financial assets measured at amortised costs and FVOCI.

On 26 July 2018, the BSP also issued BSP Circular No. 1011, Series of 2018 setting out the Guidelines for the Adoption of PFRS 9.

PFRS 15, *Revenue from Contracts with Customers*, supersedes PAS 11 *Construction Contracts*, PAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under PFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Bank adopted PFRS 15 to all its contracts as at 1 January 2018.

The mandatory effective date of PFRS 16, *Leases*, is for annual periods beginning 1 January 2019. The Bank is still in the process of completing its inventory and assessment to facilitate the calculation and eventual booking of PFRS 16 transition adjustment.

The implementation and effects of PFRS 9, or any other future changes to PFRS, may materially impact the means by which the Bank reports financial information and which in turn may affect the Bank's business, financial condition and results of operations.

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

The sovereign credit ratings of the Philippines directly affect companies resident and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies—Fitch (BBB-), Standard and Poor's (BBB-) and Moody's (Baa3). In 2014, S&P and Moody's upgraded their ratings to "BBB" with a positive outlook and "Baa2" in May and December, respectively, with Moody's affirming its rating in May 2019. Meanwhile, Fitch upgraded the Philippines' credit rating from "BBB-" to "BBB" in December 2018, and affirmed the rating in May 2019. In addition, S&P also further upgraded the country's rating by a notch from "BBB" to "BBB+" in April 2019 brought about by the country's solid economic fundamentals. All ratings are above investment grade and the highest that the country has received so far.

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as the Bank. There is no assurance that Fitch, Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Banks, to raise additional financing, and will increase borrowing and other costs.

### ***The Philippine banking industry is generally exposed to higher credit risks and greater market volatility than that of more developed countries.***

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

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- the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- the vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances
- the large foreign debt of the Government and the corporate sector, relative to the gross domestic product (GDP) of the Philippines; and
- volatility of interest rates and U.S. Dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine Universal and Commercial banking industry were 1.4%, 1.4%, 1.3% and 1.7% as at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively.

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

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

***If the Bank were not to comply with FATCA, this may cause material and adverse impact on the Bank's business, financial conditions and results of operations.***

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

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

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

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

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

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on 30 June 2014 as an Expanded Affiliate Group i.e., Bank of the Philippine Islands (lead financial institution) and subsidiaries. The Bank subsequently updated its FATCA status and registered as a Reporting Financial Institution under a Model 1 Intergovernmental Agreement (IGA). The Bank's FATCA ID and Global Intermediary Identification Number is CUC041.00000.LE.608.

Under the IGA, the Secretary of Finance or Commissioner of Internal Revenue is the competent authority to receive FATCA information for reporting to the U.S. Internal Revenue Service. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force.

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

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

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

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

In 2015, the effect of the devaluation of the Renminbi by the People's Republic of China, coupled with the slowing of economic growth in various regions around the world, has had an impact on the prospective economic growth in the global financial markets and downward pressure on equity prices. Moreover, the continued appreciation of the U.S. dollar relative to a number of emerging economy currencies (including the Peso) in 2016 resulted in capital outflows from these economies. Meanwhile, the three-year bailout granted by the Eurozone leaders in August 2015 provides Greece a temporary relief from its liquidity pressure, but concerns remain on whether the Greek government will be successful in implementing the proposed austerity measures and necessary economic reforms to satisfy the conditions of the bailout and its creditors.

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

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The broad ramifications of “Brexit” to the UK, the EU and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. In addition, the uneven and divergent conditions across major economies and the resulting desynchronisation in policy environment persist, with the US continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the protracted economic slowdown in China, the ongoing geopolitical crises that include among others, Syrian civil war and terrorist acts committed by ISIS.

The results of the last US Presidential elections shocked global markets, significantly affecting stock and futures indices and currencies globally, on and shortly after election day. Moreover, the election of Donald J. Trump as the US President has been believed by certain economists as creating uncertainties in the direction of the US economy and US trade policies, which could adversely affect the global market.

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

### Risks Relating to the Philippines

***Political instability in the Philippines may have a negative effect on the general economic conditions in the Philippines which could have a material adverse impact on the results of operations and financial condition of the Bank.***

The Philippines has from time to time experienced political and military instability. In recent history, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations. There can be no assurance that acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy.

In August 2019, there was a widespread public outrage against the early release of convicted murderer and rapist former Mayor Antonio Sanchez (**Mayor Sanchez**) pursuant to the retroactive application of Republic Act No. 10592 which increased good conduct time allowance for prisoners. The Philippine Bureau of Corrections and the Office of the President have since issued statements that Mayor Sanchez will not be released. In July 2019, sedition, inciting to sedition, libel, cyber-libel, harboring a criminal and obstruction of justice cases and other criminal cases were filed against several personalities including incumbent Vice President Leni Robredo, former senator Antonio Trillanes, IV, incumbent senators Risa Hontiveros and Leila de Lima, Catholic Archbishops Socrates Villegas and Pablo David, De La Salle University President, Armin Luistro, and seven opposition senatorial candidates who lost in the May 2019 elections – Jose “Chel” Diokno, Romulo Macalintal, Florin Hilbay, Samira Gutoc, and Erin Tanada. In February 2019, journalist Maria Ressa was ordered arrested on charges of cyber libel. Her arrest elicited concern from the international community and has been criticised by various groups as an attempt by the government to silence critical press coverage against President Rodrigo Duterte and his administration. In December 2018, Senator Antonio Trillanes III was ordered arrested in connection with a libel case filed by presidential son Paolo Duterte. In February 2017, Senator Leila de Lima was arrested after charges were filed in court accusing her of orchestrating a drug-trafficking ring during her term as Secretary of the Department of Justice from 2010 to 2015. Senator Trillanes and Senator de Lima are outspoken critics of the Duterte administration. In May 2018, the Supreme Court ruled against Maria Lourdes P. Sereno in the quo warranto proceedings initiated by the Office of the Solicitor General, removing her from the post of Chief Justice of the Supreme Court. On June 2018, former President Benigno Aquino III was indicted for usurpation of legislative powers concerning the Disbursement Acceleration Program during his term. Moreover, several individuals who were high-ranking officers under the administration of President Aquino have also been indicted for graft and corruption charges and drug trafficking among other offenses. In addition, according to the United Nations Human Rights Council (UNHRC), there is an “extraordinarily high number of deaths – and persistent reports of extrajudicial killings – in the context of campaigns against drug use” in the Philippines. In July 2019, the UNHRC approved a resolution calling for an investigation into the drug war to prevent more extra-judicial killings.



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The Philippine Presidential elections were held in May 2016, and on 30 June 2016 President Rodrigo Duterte assumed the presidency with a mandate to advance his “Ten-Point Socio-Economic Agenda” focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte administration has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups.

There can be no assurance that the Duterte administration will continue to implement social and economic policies favoured by the previous administration. Major deviation from the policies of the previous administration or fundamental change of direction, including a change in the form of government, may lead to an increase in political or social uncertainty and instability.

President Duterte’s unconventional methods may also raise risks of social and political unrest. An unstable political environment, whether due to the impeachment of government officials, imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Bank’s business, financial condition and results of operations.

In addition, the Bank may be affected by political and social developments in the Philippines and changes in the political leadership and/or government policies in the Philippines. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact the Bank’s business.

No assurance can be given that any changes in such regulations or policies imposed by the Government from time to time or the future political environment in the Philippines will be stable or that current or future administrations will adopt economic policies conducive to sustaining economic growth. Political instability in the future could reduce consumer demand for retail and consumer goods to the Bank’s disadvantage, or result in inconsistent or sudden changes in regulations and policies that affect the Bank’s business operations, which could have a material adverse impact on the results of operations and financial condition of the Bank.

***A substantial portion of the Bank’s business activities and assets are based in the Philippines, which exposes the Bank to risks associated with the country, including the performance of the Philippine economy.***

Historically, the Bank has derived a substantial portion of its operating income and operating profits from the Philippines and, as such, it is highly dependent on the state of the Philippine economy. Demand for banking services is directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from overseas Filipinos. Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- foreign exchange rate fluctuations;
- foreign exchange controls;
- inflation or increase in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Philippine government’s fiscal policies;
- Philippine government budget deficits;
- a re-emergence of SARS, bird flu, or H1N1, or the emergence of other similar diseases in the Philippines or in other countries in Southeast Asia;

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- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect the Bank's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Bank's financial position and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets and its ability to implement the Bank's business strategy. Therefore, changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition or results of operations.

***Natural or other catastrophes, including severe weather conditions, may materially disrupt the Bank's operations and result in losses not covered by its insurance.***

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

For example, the Central Philippines experienced a severe typhoon, Typhoon Haiyan (Yolanda) in November 2013, which caused extensive damage and claimed thousands of lives and damaged several branches of the Bank located in the region and had a significant effect on the economy of the region affected by the typhoon, which, among other things, led to an increase in inflation, a decrease in the pace of economic growth and/or a reduction in consumer spending, all of which would have had an adverse effect on the Bank's results of operations.

***Acts of terrorism could destabilise the country and could have a material adverse effect on the Bank's business, financial position and results of operations.***

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with various groups which has been identified as being responsible for kidnapping and terrorist activities in the Philippines as well as clashes with separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in January 2019, bombs were detonated in the Jolo Cathedral in the Municipality of Jolo, Sulu and a Mosque in Zamboanga City, Zamboanga del Sur. In May 2017, a clash erupted in Marawi, Lanao del Sur between government security forces and the ISIS affiliated-Maute group, following the government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared Martial Law in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on 22 July 2017, both Houses of Congress voted to extend Martial Law until the end of 2017. On 17 October 2017, President Duterte declared the liberation of Marawi City. The clashes resulted in the loss of lives of civilians, soldiers and ISIS-inspired extremists, as well as damage to property and livelihood of Marawi residents and the reconstruction of the city is on-going. On 13 December 2017, both Houses of Congress again granted President Duterte's request to extend Martial law in Mindanao until 31 December 2018. For the third time on 17 December 2018, Martial Law was extended by both Houses of Congress until 31 December 2019. In January 2019, separate petitions were filed with the Supreme Court challenging the third extension of Martial Law in Mindanao.

An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilisation could cause interruption to parts of the Company's businesses and materially and adversely affect its financial conditions, results of operations and prospects.



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The Duterte administration has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups.

A new version of the BBL was crafted under the Duterte administration, which was signed into law by President Rodrigo Duterte on 26 July 2018. The Bangsamoro Organic Law (**BOL**) abolished the Autonomous Region in Muslim Mindanao and created the Bangsamoro Autonomous Region in Muslim Mindanao (**BARMM**). The BARMM will be parliamentary-democratic in form, and will be headed by a chief minister, who will preside over an 80-member parliament. The BOL was ratified in a plebiscite held on 25 January 2019.

These continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the AFP, which could destabilise parts of the Philippines and adversely affect the Philippine economy. There can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, which could have a material adverse effect on the Company's business, financial condition, and results of operations.

Similar attacks or conflicts between the Government and armed or terrorist groups could lead to further injuries or deaths of civilians and police or military personnel, which could destabilise parts of the country and adversely affect the country's economy. An increase in the frequency, severity, or geographic reach of terrorist acts could adversely affect the country's economy. Any such destabilisation could cause interruption to parts of the Bank's businesses and materially and adversely affect its financial conditions, results of operations and prospects. An increase in the frequency, severity or geographic reach of terrorist acts could adversely affect the country's economy.

***The proposed amendment of the Philippine Constitution, advocated by the Duterte Administration, has caused, and may continue to cause, political unrest which could adversely affect the Bank's financial condition, results of operations, and cash flows.***

Despite constitutional reform being a divisive issue in the Philippines, the Duterte Administration has considered it a legislative priority to amend the Philippine Constitution primarily to change the form of the Philippine government from a unitary one to a federal one (**Charter Change**). The shift to a federal form of government was among President Duterte's key promises during his election campaign in 2016. President Duterte believes that the shift would promote peace most especially in conflict-torn Mindanao, curb poverty nationwide, and empower local government units in the Philippines.

The House of Representatives has already taken the initial steps toward the establishment of a Philippine federal structure of government. On 16 January 2018, the House of Representatives passed the Joint Resolution No. 9, proposing that both the Senate and the House of Representatives transform into a Constitutional Assembly with the authority to amend the Constitution. On 17 January 2018, the subcommittee on constitutional amendments of the House of Representatives presented its proposed amendments to political provisions of the current Constitution, including the establishment of a Federal Republic divided into five states: Luzon, Metro Manila, Visayas, Bangsamoro, and Mindanao. Each state, under the said proposal, would have a unicameral state assembly with legislative powers and a premiere with executive powers. The subcommittee likewise proposed to establish a parliament with a 300-member Federal Assembly as national legislative department and a Senate as the regional legislative body. Meanwhile, the President would remain as head of the state under the proposal and would have a term of five years and allowed to be re-elected for another term, whereas a Prime Minister would be constituted as the head of the Philippine government, and would be elected by members of the Philippine parliament.

With respect to the proposed amendments to the economic provisions of the current Constitution, the House of Representatives subcommittee proposed to delete certain provisions in the current Constitution providing foreign nationality restrictions, particularly in the following areas: exploitation, development and utilisation of natural resources, ownership of alienable lands, franchise on public utilities, practice of profession, ownership of educational institutions, mass media, and advertising. Business groups in the Philippines believe that such amendments will enable the Government to achieve its goal of sustainable and inclusive economic growth, and that an increase in foreign investments would create more job opportunities for Filipinos.

The Speaker of the House of Representatives has posited that the House of Representatives alone may proceed to amend the Constitution even without the concurrence of the Senate, but the Senators insist that the lower house of Congress must wait for the Senate concurrence to formally begin proposing amendments to the Constitution. The impasse between the two chambers has resulted to a crisis of government administration, causing conflicts

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among different political groups. The recent elections have resulted in a higher number of Senators supporting the programmes and approach of President Duterte.

Due to the Bank's business being subject to extensive regulation from the Government and dependence on economic stability, the potential for instability and unrest may have a material adverse effect on the Bank and its financial condition, results of operations, and prospects.

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

In April 2009, an outbreak of the H1N1 virus, commonly referred to as "swine flu," occurred in Mexico and spread to other countries, including the Philippines. In August 2014, the World Health Organisation declared the Ebola outbreak that originated in West Africa as an international health emergency in view of the rising death toll due to the disease. While Ebola-free, the Philippines, however, remains vulnerable to exposure and spread of the disease for the following reasons: a) the considerable number of OFWs in the Ebola-hit West African countries; b) the impact of international travel which raises the probability of transmission; and c) lack of the necessary infrastructure to contain the spread of the disease. In March 2016, the Director-General of the World Health Organisation terminated the Public Health Emergency of International Concern in regards to the Ebola virus disease outbreak.

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

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

In August 2017, an outbreak of bird flu from a poultry farm in Central Luzon was confirmed, and the avian influenza strain was later found to be transmissible to humans. In response to the outbreak, restrictions on the transport and sale of birds and poultry products produced outside a seven-kilometre radius control area surrounding the affected site were imposed. The Philippines has since been cleared of any human infection of the avian influenza virus.

As early as September 2018, in its efforts to respond to the outbreak of African Swine Fever (**ASF**), the government issued directives to ban the importation of domestic and wild pigs and their products and by-products including pork meat, pig skin and semen originating from the following countries: Belgium, Bulgaria, China, Czech Republic, Hungary, Latvia, Moldova, Poland, Romania, Russia, South Africa, Ukraine, and Zambia. In addition, January 2019, the Department of Agriculture (**DA**) issued a temporary ban on the importation of domestic and wild birds and their products including poultry meat, day old chicks, eggs and semen originating from India due to outbreaks of H5N1 (avian influenza). Furthermore, in February 2019, imports of pork products from Vietnam were included. In March 2019, the Department of Health (**DOH**) issued a temporary ban on the importation of processed porcine animal proteins originating from ASF-infected countries. Products of the ban included processed porcine/pork meal for animal feed use. In May 2019, the Food and Drug Administration reiterated the temporary ban on importation, distribution and sale of all processed pork meat products from the following countries suspected to be affected by ASF virus: Belgium, Bulgaria, Cambodia, China, Czech Republic, Hungary, Latvia, Moldova, Mongolia, Poland, Romania, Russia, South Africa, Ukraine, Vietnam, and Zambia. In July 2019, the Food and Drug Administration further expanded this list to include Hong Kong, North Korea, Laos, and Germany.

If the outbreak of the Ebola virus, MERS-CoV, Zika virus, ASF, avian influenza or any public health epidemic becomes widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

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

The Philippines, China and several Southeast Asian nations have been engaged in a series of longstanding territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognised principles of international law consistent with the United Nations Convention on the Law of the Sea (UNCLOS). Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. Actions taken by both sides have threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, a temporary suspension of tours to the Philippines by Chinese travel agencies and the rejection by China of the Philippines' request for arbitral proceedings administered in accordance with the UNCLOS to resolve the disputes.

In 2016, the Permanent Court of Arbitration ruled in favour of the Philippines against China over territorial disputes in the West Philippine Sea. The arbitral tribunal unanimously ruled, among others, that (a) China has "no historical rights" to the resources within the sea areas falling within the "nine-dash line;" (b) Chinese reclamation activity in the West Philippine Sea has caused irreparable damage to the environment, obligating the Chinese government to stop further activities in the West Philippine Sea; and (c) China has violated the Philippines' sovereign rights in its exclusive economic zone by interfering with Philippine fishing and petroleum exploration, constructing artificial islands, and failing to prevent Chinese fishermen from fishing in the zone. However, China has said it will not recognise the ruling. With no formal enforcement mechanism in place, the territorial dispute in the West Philippine Sea remains contentious and unresolved.

There had been other occurrences of territorial disputes with Malaysia and Taiwan. In March 2013, several hundred armed Filipino-Muslims illegally entered Malaysia in a bid to enforce an alleged historical claim on the territory. Clashes between the Filipino-Muslim individuals and the Malaysian armed forces resulted in casualties on both sides. Taiwan imposed economic sanctions on the Philippines as a result of an incident in May 2013, whereby a Taiwanese fisherman was unintentionally killed by a Philippine coast guard ship that opened fire on his vessel in a disputed exclusive economic zone between Taiwan and the Philippines. The sanctions were eventually lifted after a formal apology was issued by the Philippine government. On 18 May 2018, China's People's Liberation Army Air Force announced that it has sent an H-6K bomber in the Paracel Islands in the South China Sea.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Bank's operations could be adversely affected as a result.

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

Although a principal objective of Philippine securities laws is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. As a result, public shareholders of the Bank may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Bank complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Securities Regulation Code of the Philippines requires the Bank to have at least two independent Directors or such number of independent Directors as is equal to 20.0% of the Board, whichever is the lower number. The Bank currently has seven independent Directors. Many other jurisdictions may require more independent directors.

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

## Investment Considerations

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

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱29.00 to US\$1.00 in July 1997 to ₱56.18 to US\$1.00 by December 2004.

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As at 31 December 2018, according to BSP data, the Peso depreciated to ₱52.724 per US\$1.00 from ₱49.923 per US\$1.00 as at the end of 2017. As at 30 June 2019, the Peso was at ₱51.358 against the U.S. dollar.

### **Risks Relating to an Investment in the CDs Generally**

#### ***Limited right to accelerate***

The CDs constitute direct, unconditional, unsecured and unsubordinated obligations of the issuer, enforceable according to the terms and conditions, and shall at all times rank *pari passu* and without any preference or priority among themselves and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

The rights of the Holders are limited in certain respects. If any one or more Acceleration Events (as defined in the Terms and Conditions; these include loss of the Issuer's primary corporate franchise or other material licenses, payment default, insolvency or dissolution, and cross-default) shall have occurred and be continuing, then any Holder may, by notice to Issuer and the Registry and Paying Agent, declare the principal and all accrued interest (including default interest, as specified in the Terms and Conditions) on the CD held by such Holder and other charges thereon (including any incremental tax that may be due on the interest income already earned under the CDs), if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable by the Issuer, without need for any further presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Issuer, and, without prejudice to the other remedies available to the other Holders. If any one or more of the Events of Default not constituting an Acceleration Event (as defined in the Terms and Conditions) shall have occurred and be continuing, after any applicable cure period shall have lapsed, then only Holders representing at least a majority of the then aggregate outstanding principal amount of the CDs may, by notice to Issuer and the Registry and Paying Agent, declare the principal and all accrued interest (including default interest, as specified in the Terms and Conditions) on the CDs and other charges thereon (including any incremental tax that may be due on the interest income already earned under the CDs), if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable by the Issuer, without need for any further presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Issuer, and, without prejudice to the other remedies available to the other Holders.

#### ***PDIC Insurance Coverage of the CDs***

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

- (a) Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (₱500,000.00) per depositor.
- (b) PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.

## Investment Considerations

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

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

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

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

(iii) copy of the board resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.

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

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

### ***The CDs may not be a suitable investment for all investors.***

Each potential investor in the CDs must determine the suitability of investing in the CDs in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the CDs, the merits and risks of investing in the CDs and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the CDs and the impact the CDs will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the CDs, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the CDs and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

***If an investor holds CDs which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any CDs could result in an investor not receiving payments on those CDs.***

## Investment Considerations

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The Bank will pay principal and interest on the CDs in Philippine Pesos. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the CDs; (2) the Investor's Currency equivalent value of the principal payable on the CDs; and (3) the Investor's Currency equivalent market value of the CDs.

The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. The Bank is not aware of any pending proposals by the Government relating to such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon sale of the CDs or receipt of any dividends.

### *The CDs may have limited liquidity.*

The Issuer intends to list the CDs for trading in PDEX on the Issue Date. No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, CDs issued under the Programme. If an active trading market for any CDs does not develop or is not maintained, the market price and liquidity of such CDs may be adversely affected. If such a market were to develop, the CDs could trade at prices that may be higher or lower than the price at which the CDs are issued depending on many factors, including:

- prevailing interest rates;
- the Bank's results of operations and financial condition;
- political and economic developments in and affecting the Philippines;
- the market conditions for similar securities; and
- the financial condition and stability of the Philippine financial sector.

Upon listing of the CDs with PDEX, investors shall course their secondary market trades through the PDEX Trading Participants, as defined in the PDEX Rules, for execution in the Trading Platform in accordance with the PDEX Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (**DvP**) basis in accordance with PDEX Settlement Rules and Guidelines. These Settlement Rules and Guidelines include guidelines on minimum trading lots and record dates. The secondary trading of CDs in PDEX may be subject to such fees and charges of PDEX, the PDEX trading participants, and other providers necessary for the completion of such trades. The PDEX rules and conventions are available in the PDEX website ([www.pds.com.ph](http://www.pds.com.ph)). An investor Frequently Asked Questions (**FAQ**) discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEX website. As with other fixed income securities, the CDs trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Bank's operations, and the overall market for debt securities, among others. It is possible that a selling Holder would receive sales proceeds lower than his initial investment should a Holder decide to sell his CDs prior to maturity.

Subject to the "Events of Default" in the Terms and Conditions, the CDs cannot be pre-terminated at the instance of any Holder before Maturity Date. However, the Bank may, subject to the General Banking Law of 2000, Section 217 of the Manual of Regulations for Banks and other related BSP circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to

## **Investment Considerations**

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Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

### ***Transfers subject to rules and transaction related fees***

The transfer of CDs will be subject to guidelines for holding and trading of the CDs as prescribed by the BSP, including maintaining the minimum denomination for the CDs and guidelines on prohibited holders. The CDs may not be issued or transferred to any Prohibited Holder. The Registry is authorized to refuse any transfer or transaction in the Registry Book that may be in violation of these restrictions.

Furthermore, all transfers or assignments of the CDs shall be coursed through a PDEX Trading Participant, subject to PDEX Rules. Consequently, the parties to a transfer will be subject to the guidelines of PDEX and the payment to the relevant fixed income exchange and the Registrar and Paying Agent of any reasonable fees and applicable taxes.

Any transfer between investors with a different tax status with respect to the CDs will be subject to applicable rules as may be issued from time to time by PDEX.

There is no assurance that the secondary trading of the CDs may not be affected given these restrictions.

### ***Taxation of the CDs***

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

The 4<sup>th</sup> package of the Tax Reform for Acceleration and Inclusion (**TRAIN Package 4**) or House Bill No. 304, also known as the Passive Income and Financial Intermediary Taxation Act (**PIFITA**), has introduced reforms to the taxation of passive income, financial intermediaries, and financial transactions. One of the reforms introduced is the unification the tax rates of passive income through the imposition of a uniform rate of 15 percent (from 20 percent) on interest income, dividends, and capital gains on the sale of shares of stock, debt instruments, and other securities not traded in a local exchange or an organized marketplace; and the removal of some exemption and preferential tax treatment to broaden the tax base, which includes the repeal of the exemption of interest income and gains from long-term deposits and investments. On December 3, 2018, the House of Representatives passed House Bill (HB)No. 8645, or Package 4 of the TRAIN bill, on third reading. There can be no assurance that the exemption from the final withholding tax on interest income from long-term deposits or investments earned by certain individuals or that the graduated rates applicable in case of pre termination as discussed above in the Taxation section of this circular will be maintained.

Under the terms of the CDs, if any payments of principal and/or interest under the CDs shall be subject to deductions or withholding for or on account of any taxes, duties, assessments, or governmental charges of whatever nature (including any additional or new taxes, duties, assessments, or governmental charges arising from changes in tax laws (e.g., Passive Income and Financial Intermediary Taxation Act or TRAIN 4) and regulations or from changes in the interpretation thereof) that may be levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to documentary stamp, income, value-added or similar taxes, including interest, surcharges, and penalties thereon (the **Taxes**), then all such Taxes shall be for the account of the relevant Holder. In the event that TRAIN Package 4 removes the current exemption or imposes a different rate of tax for instruments such as the CDs, the Holders expected yield may be affected.

All sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Issuer through the Registrar and Paying Agent (see "Philippine Taxation" section for a discussion on the taxation of the CDs).

## **Investment Considerations**

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As issuer of the CDs, the withholding of final tax on the interest due on the CDs is the responsibility of the issuer pursuant to Section 57 of the National Internal Revenue Code, Section 2.57 of Revenue Regulations No. 2-98, BIR Revenue Regulations No. 11-2018.



## **PURPOSE OF THE ISSUANCE**

The purpose of the issuance is to support the Bank's business expansion plans and to diversify funding sources.

## SUMMARY OF THE OFFER

The following summary of the offer does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular.

<b>ISSUER</b>	Bank of the Philippine Islands
<b>Issuer Rating</b>	Baa2 (Moody's) / BBB+ (S&P) / BBB- (Fitch)
<b>Arranger and Participating Selling Agent</b>	The Hongkong and Shanghai Banking Corporation Limited (Manila Branch)
<b>Sole Selling Agent</b>	BPI Capital Corporation
<b>Registry and Paying Agent</b>	Philippine Depository & Trust Corp. (PDTC)
<b>Instrument</b>	Long Term Negotiable Certificates of Time Deposit (LTNCTDs)
<b>Currency</b>	Philippine Peso (Php)
<b>Tenor</b>	5 ½ years
<b>Offer Period</b>	07 October 2019 to 18 October 2019
<b>Maturity Date</b>	25 April 2025
<b>Issue Size</b>	₱3,119,900,000
<b>Interest Rate</b>	4% per annum
<b>Interest Payment Frequency</b>	Quarterly
<b>Minimum Investment</b>	₱1,000,000.00 in increments of ₱100,000.00 thereafter
<b>Issue and Listing Date</b>	25 October 2019
<b>Secondary Market Trading</b>	Negotiations / transfers can be done via PDEX.
<b>Pre-Termination</b>	The CDs cannot be terminated by the Holders before their respective Maturity Dates. However, Holders may transfer or assign their CDs to another Holder who is not a Prohibited Holder. Negotiations or transfers of CDs from one Holder to another do not constitute pre-termination, but will be subject to: (i) the pertinent provisions of the National Internal Revenue Code, as amended; and (ii) applicable BSP Rules.
<b>Insurance</b>	CDs are covered by the Philippine Deposit Insurance Corp. (PDIC) for up to ₱500,000.00 per depositor, subject to PDIC rules.
<b>Listing and Trading</b>	Upon issuance, the CDs will be listed in the PDEX. All negotiations/transfers of the LTNCTDs must be coursed through the Trading Participants of PDEX for execution in the PDEX Trading Platform and in accordance with the PDEX Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time.

## TERMS AND CONDITIONS OF THE CDS

*The statements of the terms and conditions of the CDs as set out herein do not purport to be a complete listing of all the rights, obligations and privileges of the CDs. The rights, obligations and privileges of the CDs are set out in the Terms and Conditions, which provisions prevail in case of conflict with the terms and conditions of this Offering Circular.*

The Issuer shall pay the holders of the CDs the principal and interest due thereon under the terms and conditions set out in these Terms and Conditions. Unless otherwise specifically defined herein or the context otherwise requires, capitalized terms shall have the meanings given to them in the Master Registry and Paying Agency Agreement executed in connection with the offering of the CDs (the **Registry and Paying Agency Agreement**) executed between the Issuer and the PDTC as Registrar and Paying Agent (the **Registrar or Paying Agent**, which expression shall, wherever the context permits, include all other persons or companies for the time being acting as registrar and paying agent under the Registry and Paying Agency Agreement).

The issuance of up to Fifty Billion Pesos (₱50,000,000,000) worth of Long-Term Negotiable Certificates of Time Deposit (the **CDs**) in one or multiple tranches over the course of one year from the date of BSP approval, was authorized by resolutions adopted by the board of directors of Bank of the Philippine Islands (the **Issuer**) on 29 May 2019 and by Resolution No. 1312 of the Monetary Board of the BSP dated August 29, 2019 (the “**BSP Approval**”).

The CDs shall be issued in one or more tranches (each a “**Tranche**”). The initial Tranche of the CDs with an aggregate principal amount of up to Three Billion One Hundred Nineteen Million Nine Hundred Thousand Pesos (₱3,119,900,000) shall be issued on 25 October 2019 or such other date as may be agreed by the Issuer and The Hongkong And Shanghai Banking Corporation Limited (an **Issue Date**), acting in its capacity as the sole arranger of the issuance (the **Arranger**). The Issue Date is indicative and may be adjusted at the determination of the Bank (following consultation with the Arranger) if necessary to achieve an orderly settlement with investors of the CDs.

Each Tranche of the CDs shall be entitled to interest at the Interest Rate specified by the Issuer in the relevant Tranche Certificate from and including the Issue Date of such Tranche, up to and excluding the Early Redemption Date or Maturity Date (whichever occurs earlier), less the amount of any applicable withholding taxes.

Investment in the CDs will be for a minimum amount of ₱1,000,000 and in increments of ₱100,000 thereafter.

The issuance of the CDs shall be made pursuant to and under the terms and conditions of the Registry and Paying Agency Agreement and the Placement Agreement dated as of 04 October 2019 (the **Placement Agreement**) among the Issuer, the Arranger and the Selling Agents (collectively, the **CD Agreements**).

These Terms and Conditions may be qualified by, and are subject to, the detailed provisions of the CD Agreements and the BSP Rules. Copies of the CD Agreements, these Terms and Conditions, the Offering Circular and the Tranche Certificate for each Tranche are available for inspection during regular business hours at the offices of the Issuer at 16th Floor, Ayala North Exchange Tower One, 6796 Ayala Avenue corner Salcedo Street, Makati City 1229, Philippines.

The Holders are entitled to the benefits of, are bound by and are deemed to have notice of, these Terms and Conditions and all the provisions of the CD Agreements applicable to them.

**1. Eligible Holders and Minimum Purchase**

(a) *Eligible Holders*

All prospective purchasers of the CDs other than those specified as Prohibited Holders (each such prospective purchaser, an **Eligible Holder**) may invest in the CDs.

As used herein, a **Prohibited Holder** means any of the following:

- i. the Issuer, its subsidiaries and affiliates, and the wholly- or majority-owned or -controlled entities of such subsidiaries and affiliates. For purposes of this definition: (1) a “subsidiary” of the Issuer is a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its subsidiaries or affiliates and (2) an “affiliate” of the Issuer is an entity at least twenty percent (20%) but not more than fifty percent (50%) of the outstanding voting stock of which is owned by the Issuer;
- ii. any other person whose acquisition, holding or transfer of the CDs would violate any applicable law or regulation, including but not limited to the rules of the PDEX, BSP, AMLC or other government regulation in any relevant jurisdiction;
- iii. any person classified as a U.S. person under the FATCA which includes:
  - a. a U.S. citizen;
  - b. a U.S. resident alien for U.S. tax purposes;
  - c. a U.S. partnership;
  - d. a U.S. corporation;
  - e. any U.S. estate;
  - f. any U.S. trust if: (1) a court within the U.S. is able to exercise primary supervision over the administration of the trust; or (2) one or more U.S. persons have authority to control all substantial decisions of the trust; and
  - g. any other person that is not considered a non-U.S. person under the FATCA..
- iv. a non-resident alien not engaged in trade or business in the Philippines; or
- v. a non-resident foreign corporation.

(b) *Documentary Requirements*

Each Eligible Holder shall be required to submit the following documents to purchase and subscribe to the CDs:

(i) Documents to be provided by individuals:

- (1) photocopy of at least one valid and subsisting identification card issued by an official authority, e.g., the applicant’s (a) passport; (b) driver’s license; (c) Social Security System identification card; (d) Government Service and Insurance System e-Card; (e) Professional Regulatory Commission identification card; and (e) company identification cards issued by private entities

## Terms and Conditions of the CDs

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or institutions registered with or supervised or regulated by the BSP, the Securities and Exchange Commission, or the Insurance Commission;

- (2) two fully-executed specimen signature cards in the form attached to the Application to Purchase; and
- (3) in the case of foreign individual applicants, Alien Certificate of Registration duly issued by the Bureau of Immigration and consularised or apostilled (as relevant) proof of tax domicile issued by the tax authority of the applicant.

(ii) Documents to be provided by corporate and institutional applicants:

- (1) copies, certified by the PSEC (or equivalent regulatory body) or corporate secretary of the applicant, of the certificate of incorporation, articles of incorporation and by-laws or equivalent charter or constitutive documents of the applicant, as amended to date;
- (2) copies, certified by the corporate secretary or other appropriate officer of the applicant, of the resolutions adopted by the applicant's board of directors or equivalent body, authorizing the applicant to purchase the CDs, and certifying names and specimen signatures of the applicant's duly authorized signatories for that purpose; and
- (3) two fully executed specimen signature cards of authorized signatories in the form attached to the Application to Purchase.

(iii) Documents to be provided by Tax-Exempt Holders or Holders Entitled to Preferential Rates

- (1) valid original or certified true copy of the tax exemption certificate, letter, ruling or opinion issued by the BIR confirming the Holder's exemption from taxation of interest income from fixed income securities;
- (2) indemnity undertaking executed by the Holder in the form attached as **Schedule 4** to the Registry and Paying Agency Agreement, upon the terms of which the Holder claiming the tax-exemption shall instruct the Issuer and the Registrar and Paying Agent not to withhold any taxes from interest payments due to such holder, and shall undertake to indemnify the Issuer and the Registrar and Paying Agent for any tax or other charges that may later on be assessed against the Issuer by the BIR on account of the non-withholding of taxes on the CDs held by the Holder;
- (3) For corporations/banks/trust departments or units of banks holding individual trust funds, which are revocable and directional, or directional investment management accounts on behalf of qualified individual investors, a duly notarized declaration (in the form attached as **Schedule 4** to the Registry and Paying Agency Agreement) warranting its tax-exempt status and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax.

## Terms and Conditions of the CDs

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In addition, the Arranger and the Selling Agents may each request such other documents from an Eligible Holder in order to establish his/her/its eligibility as Holder of the CDs, and/or exemption from taxation of interest income from fixed income securities or to comply with applicable requirements of the AMLA or the BSP Rules.

### 2. Form and Denomination; Listing

- (a) The CDs will be issued in scripless form and will be maintained in electronic form with the Registrar, subject to the payment by the Holder of applicable fees to the Registrar, and in compliance with the provisions of Republic Act No. 8792, otherwise known as the Electronic Commerce Act, particularly on the existence of assurances on the integrity, reliability, and authenticity of the CDs in electronic form. A Registry Confirmation will be issued by the Registrar to the Holders in accordance with the BSP Rules and shall be subject to the relevant fees of PDEX and PDTC.
- (b) Each Tranche of the CDs will be represented by a Tranche Certificate to be issued in an amount equivalent to the aggregate principal amount of such Tranche. Not later than 11:00 a.m. of the Issue Date, the Issuer shall deliver the duly executed Tranche Certificate to the Registrar to be authenticated and retained by the latter in custody.
- (c) Investment in the CDs will be in the minimum amount of ₱1,000,000 and in increments of ₱100,000 thereafter.
- (d) In accordance with BSP Rules, the Issuer shall list the CDs for trading through the facilities of the Exchange. Secondary market trading in PDEX shall follow the applicable PDEX rules, conventions, and guidelines governing trading and settlement between Holders of different tax status.

### 3. Payment

Payment may be in the form of deposits of cash, manager's checks payable to "BPI LTNCD – 2025", or debit instructions, and must cover the entire purchase price.

### 4. Interest

- (a) Each Tranche of the CDs shall bear interest on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be), at the applicable Interest Rates.
- (b) Interest in respect of the CDs will be calculated by the Registrar on an annual basis and will be paid in arrear quarterly on the last day of each successive interest period (each such day, an **Interest Payment Date**).
- (c) Interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each month and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.
- (d) Interest shall be paid to the Holders recorded in the Registry as of the Record Date.

### 5. Redemption at Maturity

Unless earlier redeemed accordance with Clause 6, on the relevant Maturity Date (as specified in the Tranche Certificate for each Tranche), the CDs shall be redeemed by the Issuer at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon.

**6. Early Redemption Option**

- (a) Subject to the BSP Rules, for each Tranche, the Issuer shall have the option (the **Early Redemption Option**), but not the obligation, to redeem all (but not less than all) of the CDs comprising such Tranche on any Interest Payment Date (such date, the **Early Redemption Date**) at an amount equal to the aggregate issue price thereof, plus accrued and unpaid interest thereon as of the Early Redemption Date (the **Early Redemption Amount**).
- (b) In exercising the Early Redemption Option, the Issuer shall give not less than 30 but not more than 60 days' prior notice (the **Early Redemption Notice**) to the Holders, the Exchange, the Registrar and the appropriate supervision and examination department of the BSP. The Issuer shall also cause the publication of such notice at least once a week for two consecutive weeks in at least two newspapers of general circulation in the Philippines. Such notice shall be irrevocable and shall be binding on the Issuer.
- (c) After the issuance of the Early Redemption Notice, the Issuer shall be obliged to repay all of the CDs to be redeemed (the **Early Redemption CDs**) at the Early Redemption Amount on the Early Redemption Date and, upon confirmation by the Paying Agent that the Early Redemption Amount has been paid, the Registrar shall transfer all of the interests of the Holders in the Early Redemption CDs to the Issuer. All Early Redemption CDs shall then be deemed fully redeemed and cancelled. If, as a consequence of the exercise of the Early Redemption Option, interest income already earned under the Early Redemption CDs shall be subjected to incremental taxes, such taxes shall be for the account of the Issuer.

**7. No Pre-termination**

- (a) Except as otherwise permitted under Clause 16 below, no Holder shall have the right to require the Issuer to redeem and repay any or all of the CDs before the Maturity Date.
- (b) The CDs cannot be terminated by the Holders before their respective Maturity Dates. However, Holders may transfer or assign their CDs to another Holder who is not a Prohibited Holder. Negotiations or transfers of CDs from one Holder to another do not constitute pre-termination, but will be subject to: (i) the pertinent provisions of the National Internal Revenue Code, as amended; and (ii) applicable BSP Rules.
- (c) The Issuer may exercise the Early Redemption Option and redeem the CDs prior to the Maturity Date, subject to the conditions set out in Clause 6.

**8. Manner of Payment**

- (a) Any payment of principal or interest under the CDs shall be made through the Paying Agent.
- (b) On each Payment Date, the Issuer shall deposit into the Payment Account the amounts then payable on the CDs
- (c) Payment of principal and interest shall be remitted to the designated cash settlement accounts of the Holders. If the Registrar is unable to credit or is prevented from causing the crediting of the account of any Holder due to a reason attributable to such Holder (such as but not limited to a situation where the details of the payment option information indicated in the Sales Report are incomplete or erroneous), the Registrar shall, within five Banking Days upon the Registrar and Paying Agent's receipt of advice from the relevant Cash Settlement Bank on the relevant Payment Date, through email or such other manner

practical and convenient for the Registrar, inform the affected Holder (through such Holder's agent, representative or the relevant Trading Participant, as applicable) of such failure of payment. Thereafter, such Holder (through its Selling Agent or the relevant Trading Participant, as applicable) must correct or update the details of its mode of receiving payments with the Registrar.

- (d) None of the Issuer, Registrar and Paying Agent or any of the Selling Agents or Trading Participants shall be liable to any Holder for any failure or delay in effecting any payment due under the CDs, where such failure or delay in payment arises from or in connection with any failure or delay by such Holder in correcting or updating the details of its mode of receiving payments as contemplated by Clause 8(c).
- (e) No amounts due to but not claimed by a Holder on a Payment Date shall bear any interest.

### **9. Taxation**

- (a) If any payments of principal and/or interest under the CDs shall be subject to deductions or withholding for or on account of any taxes, duties, assessments, or governmental charges of whatever nature (including any additional or new taxes, duties, assessments, or governmental charges arising from changes in tax laws (e.g., the Passive Income and Financial Intermediary Taxation Act or TRAIN 4) and regulations or from changes in the interpretation thereof) that may be levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to documentary stamp, income, value-added or similar taxes, including interest, surcharges, and penalties thereon (the **Taxes**), then all such Taxes shall be for the account of the relevant Holder; *provided*, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or other duties, assessments or government charges, subject to the submission by the relevant Holder claiming the exemption of evidence of such exemption reasonably acceptable to the Issuer and relevant Selling Agent; and *provided, further*, that documentary stamp tax for the primary issue of the CDs, if any, shall be for the Issuer's account.
- (b) The Issuer shall list the CDs on the Exchange. The Holder agrees to comply with any conditions and provide information and documents that may be required by the BIR in relation to and as a consequence of the listing of the CDs.

### **10. Status and Ranking: Insurance**

- (a) The CDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, enforceable according to the terms and conditions set out in these Terms and Conditions, and shall at all times rank *pari passu* and without any preference or priority among themselves and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.
- (b) The CDs are insured by the Philippine Deposit Insurance Corporation up to a maximum amount of ₱500,000, subject to applicable law, rules and regulations, as the same may be amended from time to time.

### **11. Title and Transfer**

- (a) *Registration*



## Terms and Conditions of the CDs

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The beneficial interest of each Holder in and to the CDs or Tranche thereof will be shown on and recorded in the Registry Book maintained by the Registrar. The Registrar shall issue a Registry Confirmation in respect of each Tranche of the CDs to each registered Holder as recorded in the Registry Book.

(b) *Transfer*

- (i) All secondary trading of the CDs arising from Trade-Related Transactions and Non-Trade-Related Transactions shall be coursed through or effected using the trading facilities of the Exchange, subject to compliance with the applicable rules of such Exchange and the payment of the Holder of applicable fees to the Exchange and the Registrar and Paying Agent. All transfers of CDs shall only be effective upon the receipt by the Registrar of a duly accomplished Trade-Related Transfer Form or Non-Trade Related Transfer Form (as applicable) in the forms attached to the Registry and Paying Agency Agreement from the relevant Trading Participant and other required documentation and the registration and recording by the Registrar of such assignment or transfer in the Registry Book; *provided*, that no such registration and recording shall be allowed during the Closed Period.
- (ii) Where a transfer or assignment of the CDs will result in a change in the tax treatment of the interest income derived from the CDs (such as but not limited to transfers between a taxable and non-taxable person), and is deemed a pre-termination solely for withholding tax purposes, the transferor Holder shall be liable for any and all taxes that may be due on interest income earned on the CDs. The amount of such taxes shall be calculated by the Exchange based on the length of time the transferor Holder shall have held such CDs, and an amount equal to such taxes will be deducted from the purchase price due to the transferor Holder. Thereafter, the interest income of a transferee CD Holder who is an individual shall not be treated as income from long-term deposit or investment certificates, unless the purchased CDs have a remaining term to maturity of at least five years. For purposes of this Clause 11(b)(ii), a transfer or assignment will be deemed to result in a change in the tax treatment of interest income derived from the CDs if such transfer or assignment: (1) is made by a Holder who is a citizen, resident individual, non-resident individual engaged in trade or business in the Philippines, or a trust which complies with the conditions for exemption as specified in Revenue Regulations No. 14-12 (or the tax regulations applicable at the time of determination); and (2) under the BSP Rules, is not considered a pre-termination of the CDs; and (3) under relevant tax laws or revenue regulations then prevailing, will result in the interest income on the CDs being subject to the graduated tax rates imposed on long-term deposit or investment certificates on the basis of the holding period of the investment instrument.
- (iii) No partial transfers of title, interest and rights of the Holder in or to any CDs shall be allowed unless as a result thereof: (1) the transferor shall either retain CDs with an aggregate principal amount of at least ₱1,000,000 in its Registry Account (or cease to be a registered holder of the CDs altogether); and (2) the transferee shall have CDs with an aggregate principal amount of at least ₱1,000,000 in its Registry Account.
- (iv) Any and all taxes, as well as settlement fees and other charges (other than registration fees which shall be paid by the Issuer) that may be imposed by the Exchange or relevant Trading Participant (as applicable) and the Registrar and Paying Agent in respect of any transfer or change of beneficial title to the CDs, including the settlement of documentary stamp taxes, if any, shall be for the account of the transferring Holder, unless such cost is otherwise assumed by the transferee in writing under the terms of the relevant transfer agreement executed between the transferring Holder and its transferee.

- (v) The following documents shall be submitted to the Registrar through the relevant Trading Participant in order to effect the transfer of the CDs:
- (1) the Purchase Advice provided to the transferee;
  - (2) the Registry Confirmations of both the transferor and the transferee (if any);
  - (3) the relevant Trade-Related Transfer Form or Non-Trade-Related Transfer Form, as the case may be, duly accomplished by the transferor and endorsed by the Trading Participant, substantially in the forms set out in **Schedules 5** and **6** of the Registry and Paying Agency Agreement, respectively;
  - (4) the Written Consent of the transferee, substantially in the form set out in **Schedule 8** of the Registry and Paying Agency Agreement;
  - (5) the Investor Registration Form, substantially in the form set out in **Schedule 9** of the Registry and Paying Agency Agreement;
  - (6) if either the transferor or the transferee is a corporation or other juridical entity, a notarized certificate of the corporate secretary or other authorized officer of such party: (a) attesting to its authority to transfer (or acquire, as the case may be) its interests in the CDs (whether by assignment or donation), and (b) certifying the names, titles, signing procedures and specimen signatures of its authorized signatories for such transfer; and
  - (7) from the transferee, the documents listed in sub-clauses (i), (ii) or (iii) of Clause 1(b) of these Terms and Conditions, as applicable.
- (vi) In case of Non-Trade-Related Transactions, the following documents shall also be submitted to the Registrar through the relevant Trading Participant in order to effect the transfer of the CDs:
- (1) in the case of succession, a court order of partition or deed of extrajudicial settlement, together with the proper documentation evidencing the payment of applicable taxes and a certificate from the BIR authorizing the transfer of the CDs;
  - (2) in case of donations, a valid deed of donation presented by the donor and proof of acceptance of the donation; *provided*, that if the donee is a minor, the acceptance of the donation of the CDs should be made by the transferee's parents or legal guardian on his or her behalf, in which case documents showing the relationship between the transferee and his or her parents or guardians must likewise be submitted, together with documents to evidence the payment of applicable taxes and a certificate from the BIR authorizing the transfer of the CDs;
  - (3) in the case of requests for recording or annotation of security interests or liens on the CDs, a proper contract of pledge or escrow agreement presented by the pledgor or the beneficiary of the escrow agreement, respectively;
  - (4) such other documents that may be required by the Registrar and Paying Agent for transfers arising from "free-of-payment" transactions; *provided*, that such transfer is

not in violation of any law or regulation or made in circumvention thereof; provided, further, that the burden of proving the validity of a “free of payment” transaction rests with the transferor of the CDs; and

(5) such other documents as may reasonably be required by the Registrar.

(c) *Determination of Qualifications*

- (i) Each Selling Agent (in the case of initial issuance of the CDs) and the relevant Trading Participant (in the case of secondary trading of the CDs) shall verify the identity and other relevant details of each prospective investor and ascertain that the proposed holder or transferee of a CD is not a Prohibited Holder. The Registrar shall also monitor compliance with the prohibition against Prohibited Holders owning any CDs, as required by the BSP Rules.
- (ii) Each Trading Participant shall verify the respective aggregate amounts of the CDs held by the transferor and the transferee to determine compliance with Clause 11(b)(iii) through the Registry Confirmations to be provided by each of the transferor and the transferee.
- (iii) Prospective holders in CDs shall immediately submit any and all information reasonably required by the Selling Agents or Trading Participants (as applicable) and Registrar in order to determine that such prospective investor is not a Prohibited Holder.

**12. Representations and Warranties**

The Issuer hereby makes the following representations and warranties in favor of the Holders:

- (a) No order preventing or suspending the use of any Offering Circular has been issued by the BSP. Each Offering Circular: (i) is compliant and will remain compliant in all material respects with relevant BSP Rules; (ii) contains all material information and particulars required to be provided to potential investors in order to make an informed assessment of the financial position and prospects of the Issuer in its entirety and the rights attaching to the CDs; and (iii) does not contain any untrue statement of a material fact nor omit to state a material fact required to be stated or necessary to make the statements not misleading under the circumstances. All reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.
- (b) No order suspending the effectiveness of the BSP Approval has been issued, and no proceeding for that purpose has been instituted or, to the best knowledge of the Issuer, threatened by the BSP. The application for authority and additional requirements set forth in the BSP Rules, at the time they were rendered effective: (i) complied, and as of the effective date of any of their supplements, amendments or modifications, will comply, in all material respects with the BSP Rules; and (ii) do not and will not, as of the effective date of any of their amendments, supplements, or modifications, contain any untrue statement of a material fact nor omit to state any material fact required to be stated or necessary to make the statements not misleading.
- (c) The statements, forecasts, estimates and expressions of opinion contained in each Offering Circular including but not limited to the profits, prospects, dividends, indebtedness, assets, liabilities, cash flow and working capital of the Issuer have been made after due and proper consideration, and represent reasonable and fair expectations honestly held based on facts known to the Issuer.

## Terms and Conditions of the CDs

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- (d) All information supplied or provided by the Issuer to the Arranger for the due diligence review and other purposes is true, correct, complete and binding on the Issuer, and may be fully relied upon by the Arranger without any obligation or liability to ascertain their truth, validity, enforceability, legality, or binding effect on the Issuer. No material information has been withheld or otherwise not made available by the Issuer to the Arranger.
- (e) Since the respective dates as of which information is given in each Offering Circular, there has not been any material change, or any development involving a prospective material change, in or affecting the general affairs, business, prospects, management, financial position, stockholders' equity, or results of operations of the Issuer otherwise than as disclosed in such Offering Circular. Except as disclosed in the relevant Offering Circular, the Issuer has not, since the dates indicated, entered into any material transaction or agreement (whether or not in the ordinary course of business) which would have a material adverse effect in its financial position, stockholders' equity, or operations.
- (f) The Issuer and each of its subsidiaries and affiliates is a corporation duly organized, validly existing, and in good standing under and by virtue of the laws of its place of incorporation, has its principal office at the address indicated in the Offering Circulars, is registered or qualified to do business in every jurisdiction where registration or qualification is necessary, and has the corporate power and authority to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business.
- (g) All corporate authorizations, approvals, and other acts legally necessary for the execution and delivery by the Issuer of the CD Agreements, the offer and issuance by the Issuer of the CDs, the circulation by the Issuer of the preliminary and final Offering Circulars for each Tranche of the CDs and the Issuer's compliance with its obligations under the CD Agreements and the CDs have been obtained or effected and are in full force and effect.
- (h) All government authorizations, approvals, rulings, registrations, and other acts legally necessary for the execution and delivery by the Issuer of the CD Agreements, the offer, issuance, and payment by the Issuer of the CDs, and the Issuer's compliance with its obligations under the CD Agreements and the CDs, have been obtained and are in full force and effect or will be obtained at the relevant time when such government authorizations, approvals, rulings and registrations are required to be obtained.
- (i) All conditions imposed or required under the BSP Rules and other applicable laws and regulations in respect of the execution and delivery of the CD Agreements and the offer, issuance, and payment of the CDs have been complied with or will be complied with by the Issuer as of the date and/or time that they are required to be complied with.
- (j) None of the information, data, or submissions provided or made by the Issuer to any government agency, or to the Arranger, Selling Agents, Registrar or Holders in connection with the CDs violates any applicable statute, rule, or regulation. Such information, data, and submissions are true, complete, and accurate in all material respects. There is no fact, matter or circumstance which has not been disclosed to the Arranger, Selling Agents, Registrar or Holders which renders any such information, data or submissions untrue, inaccurate or misleading in any material respect, or which might reasonably affect the willingness of such parties to proceed with the transactions contemplated by the CDs and these Terms and Conditions.
- (k) The obligations of the Issuer under the CD Agreements and (upon their issuance) the CDs constitute the Issuer's legal, valid, binding, direct, and unconditional obligations, enforceable in accordance with their terms, and the compliance by the Issuer with its obligations under the CD Agreements and the CDs will

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not conflict with, nor constitute a breach or default of, the articles of incorporation, by-laws, or any resolution of the board of directors of the Issuer, or any rights of the stockholders of the Issuer, or any contract or other instrument by which the Issuer or its properties is bound, or any law of the Republic of the Philippines, or any regulation, or judgment or order of any office, agency, or instrumentality applicable to the Issuer.

- (l) The CDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, enforceable according to the terms and conditions in these Terms and Conditions, and shall at all times rank *pari passu* and without any preference or priority among themselves and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.
- (m) Except as disclosed in the Offering Circular, there are no legal, administrative, or arbitration actions, suits, or proceedings pending or threatened against or affecting the Issuer or its subsidiaries or affiliates which, if adversely determined, would have a material adverse effect on the business operations, properties, assets, or financial or other conditions of the Issuer, or which would enjoin or otherwise adversely affect the execution, delivery or performance of the CD Agreements or the offer, issuance or performance of the CDs. To the best of the Issuer's knowledge, no such proceedings are threatened or contemplated by government authorities or threatened by others.
- (n) The audited financial statements of the Issuer as of 31 December 2018, 2017 and 2016 and the unaudited condensed consolidated financial statements as of 30 June 2019 are complete and correct in all material respects and have been prepared in accordance with Philippine Financial Reporting Standards (**PFRS**) applied on a consistent basis and fairly represent the Issuer's financial condition and results of operations as of the dates indicated. Since 30 June 2019, there has been no material change in the financial condition or results of operations of the Issuer sufficient to impair its ability to perform its obligations under the CDs according to their terms.
- (o) Except as may be disclosed in the Offering Circular and its audited financial statements as of and for the year ended 31 December 2018 and the six months ended 30 June 2019, the Issuer has, as of the date hereof, no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or to become due, and whether incurred in respect of or measured by any income for any period prior to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under the CDs.
- (p) Since the issuance of the BSP Approval, there has been no change in the financial condition, assets, and liabilities of the Issuer, other than changes that do not materially and adversely affect the Issuer's ability to discharge its obligations under the CDs.
- (q) No event has occurred and is continuing which constitutes a default by the Issuer under or in respect of any agreement binding upon the Issuer or its properties, and no event has occurred which, with the giving of notice, lapse of time, or other condition, would constitute a default by the Issuer under or in respect of such agreement, which default shall materially and adversely affect the Issuer's ability to comply with the terms of the CDs and pay the principal and interest that may be due on the CDs.
- (r) The Issuer has good and valid title to all its properties, free and clear of liens, encumbrances, restrictions, pledges, mortgages, security interest, or charges, except for the following: (i) any liens, encumbrances, restrictions, pledges or mortgages over its properties existing prior to the date of and disclosed in the Offering Circular or in its audited financial statements as of and for the period ended 31 December 2018

and the six months ended 30 June 2019; (ii) any lien over those properties which are acquired by the Issuer through any legal action or proceedings or which are conveyed to the Issuer via *dacion en pago* or other similar arrangement in the course of the ordinary business of the Issuer; (iii) liens arising in the ordinary course of its business, or imposed or arising solely by operation of law (other than any statutory preference or priority under Article 2244(14) of the Civil Code of the Philippines), such as carrier's, warehousemen's and mechanic's liens and other similar liens arising in the ordinary course of business; (iv) liens for taxes, assessments or governmental charges on properties or assets of the Issuer if the same shall not at the time be delinquent or thereafter can be paid without penalty or which in any case or in the aggregate, will materially and adversely affect the Issuer's ability to discharge its obligations under the CDs, (v) liens arising from workmen's compensation laws, pensions and social security legislations; (vi) any lien which secures foreign currency and interest rate swap and derivative transactions undertaken by the Issuer in the ordinary course of its business; (vii) any lien with respect to any netting or set-off arrangement entered into by the Issuer in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances; (viii) purchase-money liens on any property acquired by the Issuer; (ix) any lien arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Issuer; (x) any extension, renewal or replenishment in whole or in part of the foregoing liens; and (xi) liens contemplated by the Registry and Paying Agency Agreement.

- (s) The Issuer and each of its subsidiaries and affiliates is conducting its business and operations in compliance with applicable laws and regulations, has filed true, complete, and timely tax returns, and has paid all taxes due in respect of the ownership of its properties and assets or the conduct of its operations, except to the extent that the payment of such taxes is being contested in good faith and by appropriate proceedings.
- (t) The Issuer and each of its subsidiaries and affiliates is compliant with all applicable Philippine laws, statutes, regulations, and circulars, including without limitation the circulars, rules, regulations, and orders issued by the BSP.
- (u) The Issuer has in good faith complied with, corrected, and successfully and effectively implemented, to the satisfaction of the BSP, all final findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Issuer.
- (v) The Issuer and each of its subsidiaries and affiliates has obtained all the necessary authorizations, approvals, licenses, permits or privileges required from all governmental and regulatory bodies for the conduct of its business and operations as well as those of its subsidiaries and affiliates as currently conducted, and shall have free and continued use thereof, where non-compliance therewith would affect the Issuer's ability to discharge its obligations.
- (w) The Issuer and each of its subsidiaries and affiliates maintains insurance with responsible and reputable insurance companies in such amounts, covering such risks as are prudent and appropriate and as are usually carried by companies engaged in similar business and owning similar properties in the same geographical areas as those in which the Issuer operates. There are no claims pending or threatened against the Issuer or any of its subsidiaries and affiliates by any employee or third party, in respect of any accident or injury not fully covered by insurance.
- (x) The Issuer and its subsidiaries and affiliates have conducted and will continue to conduct their businesses in compliance with all applicable statutes, laws, rules, regulations, judgments, orders or decrees relating to anti-bribery or other corrupt practices and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, compliance therewith, and

will not use the proceeds of the offering, directly or indirectly, in violation of applicable anti-bribery or anti-corruption laws. There are no pending or (to the best knowledge of the Issuer and its subsidiaries and affiliates after due and careful inquiry) threatened actions, suits or proceedings by or before any court or governmental agency, authority or body or any arbitrator alleging such corrupt practices against any of the Issuer and its subsidiaries and affiliates.

- (y) The operations of the Issuer and its subsidiaries and affiliates are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of all applicable laws, and in compliance with all applicable anti-money laundering and anti-terrorism financing statutes, the rules and regulations thereunder (collectively, the **Anti-Money Laundering and Anti-Terrorism Financing Laws**) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving any of the Issuer or its subsidiaries or affiliates with respect to the Anti-Money Laundering and Anti-Terrorism Financing Laws is pending or, to the best knowledge of the Issuer and its subsidiaries and affiliates after due and careful inquiry, threatened. The proceeds hereof shall not be used directly or indirectly in violation of the Anti-Money Laundering and Anti-Terrorism Financing Laws.
- (z) The Issuer and each of its subsidiaries maintains systems of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the Philippines and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) the Issuer and each of its subsidiaries have made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Issuer's consolidated financial statements in accordance with generally accepted accounting principles of the Philippines; and the Issuer's current management information and accounting control system has been in operation for at least 12 months during which none of the Issuer nor any of its subsidiaries has experienced any material difficulties with regard to (i) through (v) above.
- (aa) The Issuer and its subsidiaries have no outstanding guarantees or contingent payment obligations in respect of indebtedness of third parties except those issued in the ordinary course of business or as described in the Offering Circular for this Tranche of the CDs; the Issuer and its subsidiaries are in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circulars.
- (bb) The Offering Circular for this Tranche of the CDs accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, which the Issuer believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Issuer nor any of its subsidiaries has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Issuer or any other subsidiary, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Issuer or its subsidiaries or the availability thereof or the requirements of the Issuer or its subsidiaries for capital resources.
- (cc) All information provided by the Issuer to its external auditors required for the purposes of their comfort letters in connection with the offering and sale of this Tranche of the CDs has been supplied, or as the

case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect.

- (dd) Except as otherwise disclosed in the Offering Circular for this Tranche of the CDs, the Issuer has, as of the Issue Date, no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or, to the best of Issuer's knowledge, to become due, and whether incurred in respect of or measured by any income for any period to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under this Tranche of the CDs.
- (ee) Except as specifically described in the Offering Circular for this Tranche of the CDs, the Issuer and its subsidiaries legally and validly own or possess, all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, **Intellectual Property**) necessary to carry on the business now operated by them, and they have not received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect its interests therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in a material adverse effect.
- (ff) Each of the Issuer and its subsidiaries is Solvent. As used in this paragraph, the term **Solvent** means, with respect to a particular date, that on such date (i) the present fair market value (or present fair saleable value) of its assets is not less than the total amount required to pay its liabilities on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) it is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) it is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) it is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which it is engaged; (v) it will be able to meet its obligations under all its outstanding indebtedness as it falls due; and (vi) it is not a defendant in any action that would result in a judgment that it is or would become unable to satisfy.

These representations and warranties are true and correct as of the relevant Issue Date and shall remain true and correct as long as the CDs remain outstanding, by reference to the facts and circumstances then existing.

### 13. Covenants

For as long as the CDs or any portion thereof remain outstanding, the Issuer shall:

- (a) pay and discharge all taxes, assessments, and government charges or levies imposed upon it or upon its income or profits or upon any properties belonging to it prior to the date on which penalties are assessed thereto; pay and discharge when due all lawful claims which, if unpaid, might become a lien or charge upon any of the properties of the Issuer; and take such steps as may be necessary in order to prevent its properties or any part thereof from being subjected to the possibilities of loss, forfeiture, or sale; *provided*, that the Issuer shall not be required to pay any such tax, assessment, charge, levy, or claim which is being



## Terms and Conditions of the CDs

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contested in good faith and by proper proceedings or as could not reasonably be expected to have a material adverse effect on the condition, business, or properties of the Issuer. The Registrar shall be notified by the Issuer within 30 days from the date of the receipt of written notice of the resolution of such proceedings;

- (b) preserve and maintain its corporate existence or, in the case of a merger, consolidation, reorganization, reconstruction or amalgamation, ensure that the surviving corporation or the corporation formed thereby effectively assumes without qualification or condition, the entire obligations of the Issuer under the CDs and for such corporation to preserve and maintain its corporate existence;
- (c) maintain adequate financial records and prepare all financial statements in accordance with PFRS, consistently applied and in compliance with the regulations of the government body having jurisdiction over it;
- (d) comply with all the requirements, terms, covenants, conditions, orders, writs, judgments, indentures, mortgages, deeds of trust, agreements, and other instruments, arrangements, obligations, and duties to which it, its business or its assets may be subject, or by which it, its business, or its assets are legally bound where non-compliance would have a material adverse effect on the business, assets, condition, or operations of the Issuer, or would materially and adversely affect the Issuer's ability to duly perform and observe its obligations and duties under the CDs;
- (e) satisfactorily comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations; and satisfactorily take all corrective measures that may be required under BSP audit reports on its operations;
- (f) promptly and satisfactorily pay all indebtedness and other liabilities and perform all contractual obligations pursuant to all agreements to which it is a party to or by which it or any of its properties may be bound, except those being contested in good faith and by proper proceedings or as could not reasonably be regarded to have a material adverse effect on its business, assets, condition, or operations;
- (g) pay all amounts due under the CDs at the times and in the manner specified herein, and perform all its obligations, undertakings, and covenants under the CDs;
- (h) exert its best efforts to obtain at its sole expense the withdrawal of any order delaying, suspending or otherwise materially and adversely affecting the transactions with respect to the CDs at the earliest time possible;
- (i) ensure that any documents related to the CDs will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;
- (j) make available to the Holders financial and other information regarding the Issuer by filing with the Securities and Exchange Commission (PSEC), PDEX) and/or the Philippine Stock Exchange (PSE) at the time required or within any allowed extension, the reports required by the SEC, PDEX and/or PSE, as the case may be, from listed companies in particular and from corporations in general;
- (k) maintain the services of its current external auditor and where the current external auditor of the Issuer shall cease to be the external auditor of the Issuer for any reason, the Issuer shall appoint another reputable, responsible and internationally accredited external auditor;

## Terms and Conditions of the CDs

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- (l) not permit any creditor with indebtedness which shall be or purport to be unsecured and unsubordinated obligations of the Issuer to receive any priority or preference arising under Article 2244(14)(a) of the Civil Code of the Philippines over the claims of the Holders hereunder, which claims shall at all times rank *pari passu* in all respects with all other unsecured unsubordinated obligations of the Issuer; provided, that the term “lien” as used in this paragraph shall not include liens, pledges, mortgages, or encumbrances in existence on the date hereof;
- (m) not engage in any business except as may be allowed or permitted or authorized by its articles of incorporation;
- (n) except with the consent of the Majority Holders, or if the Issuer is the surviving entity and provided that such event will have no material adverse effect on the financial condition of the Issuer, not effect any merger, consolidation, or other material change in its ownership, or character of business;
- (o) not sell, transfer, convey, lend, or otherwise dispose of all or substantially all of its assets except in the ordinary course of business;
- (p) except as may be allowed under existing Issuer policies and practices pursuant to benefits, compensation, reimbursements, and allowances and BSP Rules and regulations, not extend any loan or advances to its directors and officers;
- (q) not assign, transfer, or otherwise convey or encumber any right to receive any of its income or revenues unless in its ordinary course of business;
- (r) not declare or pay any dividends (other than stock dividends) during an Event of Default or if declaration or payment of such dividends would result to an Event of Default;
- (s) not voluntarily suspend all or substantially all of its business operations;
- (t) not enter into any management contracts, profit-sharing, or any similar contracts or arrangements whereby its business or operations are managed by, or its income or profits are, or might be shared with, another person, firm or company, which management contracts, profit-sharing or any similar contracts or arrangements will materially and adversely affect the Issuer’s ability to perform its material obligations under the CDs;
- (u) not amend its articles of incorporation or by-laws if such amendments have the effect of changing the general character of its business from that being carried on at the date hereof;
- (v) not, and shall not permit or authorize any other person to, directly or indirectly, use, lend, make payments of, contribute or otherwise make available, all or any part of the proceeds of the CDs or other transaction(s) contemplated by these Terms and Conditions and the CD Agreements to fund any trade, business or other activities: (i) involving or for the benefit of any Restricted Party, or (ii) in any other manner that would reasonably be expected to result in the Issuer being in breach of any Sanctions (if and to the extent applicable to it) or becoming a Restricted Party; and
- (w) as long as any obligations under the CDs remain outstanding, not create, issue, assume, guarantee, or otherwise incur any bond, note, debenture, or similar security which shall be or purport to be unsecured and unsubordinated obligations of the Issuer, unless such obligations rank *pari passu* with, or junior to, the Issuer’s obligations under the CDs in any proceedings in respect of the Issuer for insolvency, winding up, liquidation, receivership, or other similar proceedings.

The covenants of the Issuer shall survive the issuance of the CDs and shall be performed fully and faithfully by the Issuer at all times while the CDs or any portion thereof remain outstanding.

### 14. Events of Default

The Issuer shall be considered in default under the CDs and the Registry and Paying Agency Agreement in case any of the following events (each an **Event of Default**) shall occur and is continuing:

- (a) *Non-payment.* The Issuer defaults in the repayment of any principal in respect of the CDs on the due date for payment thereof or default is made in the payment of any amount of interest in respect of the CDs within 10 days of the due date of payment thereof.
- (b) *Insolvency Default.* The Issuer: (i) is (or could be deemed by law or a court or the BSP to be) insolvent or bankrupt or unable to pay its debts; (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due); or (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts. In addition, if a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, such agreement or declaration shall also constitute an Event of Default under this Clause 14(b).
- (c) *Cross-default.* The Issuer: (i) defaults in the repayment of any amount of principal and premium (if any) or interest, in respect of any contract (other than the CDs) executed by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default, or with the giving of notice or the passage of time would constitute an event of default, under said contract; or (ii) violates any other term or condition of a contract, law, or regulation, which is irremediable or, if remediable, (x) is not remedied by the Issuer within 30 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*) or is otherwise not contested by the Issuer, and (y) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity.
- (d) *Winding-Up Proceedings.* The Issuer takes any corporate action or other steps are taken or legal proceedings are started for its winding up, bankruptcy, dissolution or reorganization (except in any such case for the purposes of a merger, consolidation, reorganization, reconstruction or amalgamation upon which the continuing corporation or the corporation formed thereby effectively assumes the entire obligations of the Issuer under the CDs or for the appointment of a receiver, administrator, administrative receiver, Registrar or similar officer of it or of any or all of its revenues and assets).
- (e) *Illegality.* Any act or condition or thing required to be done, fulfilled, or performed at any time in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform the obligations expressed to be assumed by it under the CDs, or (ii) to ensure that the obligations expressed to be assumed by the Issuer hereunder are legal, valid and binding, is not done, fulfilled or performed at such time.
- (f) *Representation/Warranty Default.* Any representation and warranty of the Issuer or any certificate or opinion submitted by the Issuer in connection with the issuance of the CDs is untrue, incorrect, or misleading in any material respect and the same is irremediable or, if remediable, is not remedied by the Issuer within 30 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*).

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- (g) *Covenant Default.* The Issuer fails to perform or violates its covenants under the CDs, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of 30 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*).
- (h) *License Default.* Any governmental consent, license, approval, authorization, declaration, filing, or registration which is granted or required in connection with the CDs expires or is terminated, revoked, or modified and the result thereof is to make the Issuer unable to discharge its obligations hereunder or thereunder, if the same is remediable and is not remedied by the Issuer within 30 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*).
- (i) *Expropriation Default.* The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Issuer, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Issuer or any substantial portion of its properties or assets and the same is not discharged or dismissed within a period of 60 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*).
- (j) *Judgment Default.* Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within 30 days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement and such final judgment, decree or award shall have a material adverse effect on the Issuer's ability to perform its obligations under the CDs.
- (k) *Writ and Similar Process Default.* Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Issuer's assets, singly or in the aggregate, and such writ, warrant, or similar process shall not be released, vacated, or fully bonded within 30 days after its issue or levy.
- (l) *Closure Default.* The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of 30 days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or force majeure; *provided*, that in any such event, there is no material adverse effect on the business operations or financial condition of the Issuer.

### 15. Notice of Default

- (a) The Registrar shall, no later than the Banking Day immediately following its receipt through personal delivery from a Holder of written notice of the occurrence of any Acceleration Event or Event of Default, send a copy of such notice to the Issuer, also through personal delivery; *provided*, that the relevant Selling Agent or Trading Participant shall have verified in writing that based on its own records, the person executing the notice is a Holder or its authorized representative. Upon the delivery of such notice to the Issuer by the Registrar, Clause 15(b) shall apply.
- (b) The Issuer covenants that upon:
  - (i) its receipt from the Registrar of the notice referred to in Clause 15(a); or
  - (ii) its receipt from any Holder of notice of the occurrence of any Acceleration Event or Event of Default; or

- (iii) the occurrence of any event or circumstance which would, with the giving of any notice or with the lapse of time (or both), constitute a default by the Issuer under the CD Agreements or any other agreements of the Issuer with any other party;

then the Issuer shall promptly and in no event later than five Banking Days from the occurrence of any of the foregoing, deliver written notice to the Registrar and Paying Agent via personal delivery, advising the latter of the Issuer's receipt of such notice or the occurrence of such default (as applicable), and specifying the details and the steps which the Issuer is taking or proposes to take for the purpose of curing the default, including the Issuer's estimate of the length of time to correct the same or the fact that the Issuer has cured or addressed such default.

- (c) The Registrar shall, no later than the Banking Day immediately following the lapse of the five-Banking Day period contemplated by Clause 15(b), forward the notice of the occurrence of any Acceleration Event or Event of Default (together with any notice sent by the Issuer to the Registrar pursuant to Clause 15(b)) to the BSP via personal delivery. The parties hereby acknowledge and agree that the Registrar shall be required to forward to the BSP's Supervision and Examination Sector any notice it may receive from a Holder under Clause 15(a) and any notice it may receive from the Issuer under Clause 15(b), regardless of whether the Issuer responds as contemplated by Clause 15(b) and notwithstanding any instructions to the contrary by the Issuer.

For this purpose, the Issuer hereby agrees that upon its receipt of a copy of any notice referred to in Clause 15(a) or 15(b), the Issuer will be deemed to have irrevocably instructed the Registrar to forward a copy of such notice to the BSP Supervision and Examination Sector, in accordance with this Clause 15(c). For the avoidance of doubt, the Registrar shall not be liable for any delivery of notice to the BSP Supervision and Examination Sector in accordance with this Clause 15, and the Issuer hereby agrees to indemnify and hold the Registrar free and harmless from any and all claims or damages arising from the Registrar's compliance with its obligations under this Clause 15, except to the extent such claims or damages arise solely as a result of the Registrar's own bad faith or gross negligence.

- (d) The Registrar shall advise the Issuer in writing if the Holders sending notice of the occurrence of an Acceleration Event or other Event of Default under Clause 15(a) constitute the Majority Holders. The Issuer shall likewise confirm whether or not it agrees with the determination that the Holders calling the meeting constitute the Majority Holders. The Registrar agrees that if (and only if) instructed to do so by the Issuer, the Registrar shall cause the publication in a newspaper of general circulation once a week for two consecutive weeks (at the expense of the Issuer) of a notice to the Holders that an important notice regarding the CDs is available for pick up by the Holders or their authorized representatives at the principal office of the Registrar during reasonable hours on Banking Days upon presentation of sufficient and acceptable identification. To the extent commercially allowable, the first publication shall be done no later than three Banking Days from the date the Registrar receives the instructions to publish from the Issuer. For the avoidance of doubt, the Registrar shall not accumulate notices from individual holders until the threshold for Majority Holders is reached for purposes of notifying other holders on an occurrence of an Acceleration Event or other Event of Default.
- (e) The Issuer agrees to indemnify PDTC, and to hold PDTC free and harmless against all charges, costs, damages, losses, claims, liabilities, expenses, fees and disbursements, that PDTC may suffer or incur, whether direct or indirect, for or in respect of any action taken or omitted to be taken or anything suffered by it in full reliance upon any notice, direction, consent, certificate, affidavit, statement or other document, or any telephone or other oral communication, relating to its duties set out in this Clause 15 reasonably believed by it to be genuine and correct and to have been delivered, signed, sent, sworn or made by or on behalf of the Issuer.

**16. Consequences of Default**

(a) If any one or more of the Events of Default shall have occurred and be continuing, after any applicable cure period shall have lapsed, then:

- (i) In the case of a breach of any of the Issuer's covenants referred to in Clauses 13(b) and 13(g) above or any of the Events of Default referred to in Clauses 14(a), 14(b), 14(c), 14(d) and 14(h) above (any such breach or Event of Default, an **Acceleration Event**), a Holder may, without need of any notice, demand, presentment, waiver, consent, or approval from any other Holder, by notice personally delivered to the Issuer and the Registrar stating the Event of Default relied upon, declare the principal and all accrued interest (including default interest, as specified below) and other charges (including any incremental tax that may be due on the interest income already earned under the CDs), if any, insofar as the particular CDs registered under such Holder's name in the Registry Book are concerned, to be immediately due and payable.

Upon any such declaration of default under this Clause 16(a)(i), the particular CDs registered under such Holder's name in the Registry Book shall be immediately due and payable by the Issuer, notwithstanding anything contained in the Transaction Documents (as defined below) to the contrary, without need for any further presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer, and, without prejudice to the other remedies available to the other Holders.

For the avoidance of doubt, a Holder need not be joined with any other Holder to declare the Issuer in default under this Clause 16(a)(i) with respect to the particular CDs registered under its name as appearing in the Registry Book. Nothing herein, however, shall be construed as conveying upon a Holder the right and privilege to declare the principal or accrued interest including default interest, as specified below, or other charges (including any incremental tax that may be due on the interest income already earned under the relevant CDs), if any, on any or all other CDs as immediately due and payable.

- (ii) Upon the occurrence of any Event of Default other than an Acceleration Event, then at any time thereafter, if any such event shall not have been waived by the Majority Holders as set out below, the Majority Holders may, by notice to the Issuer and the Registrar stating the Event of Default relied upon, declare the principal and all accrued interest (including default interest, as specified below) on all the CDs and other charges thereon (including any incremental tax that may be due on the interest income already earned under the CDs), if any, to be immediately due and payable; *provided*, that the Majority Holders may, by written notice to the Issuer thereafter rescind and annul such declaration and its consequences or waive any past default of the Issuer under the CDs (other than a breach of any Acceleration Event), upon such terms, conditions and agreements, if any, as they may determine; but no such rescission and annulment shall extend or shall affect any subsequent default or shall impair any right arising therefrom. Any such waiver shall be conclusive and binding upon all the Holders and upon all future holders and owners of such CDs, or of any CD issued in lieu thereof or in exchange therefor, irrespective of whether or not notation of such waiver is made upon the CDs.

(b) In case any amount payable by the Issuer under the CDs, whether for principal, interest, or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest, and other amounts, pay interest on the defaulted amount(s) at the rate of twelve percent (12%) per annum,

net of applicable withholding taxes (the **Default Interest**) from the time the amount falls due until it is fully paid.

### 17. Payment in the Event of Default

Subject to the applicable laws of the Philippines on bankruptcy, winding-up or liquidation and the preferences established by law and under these Terms and Conditions, the Issuer covenants that, upon the occurrence of any Event of Default, then in any such case, the Issuer will pay to the Holders entitled to such payment, through the Registrar and Paying Agent, the whole amount which shall then have become due and payable on all such outstanding CDs with interest at the rate borne by the CDs on the overdue principal, net of applicable withholding taxes, and with Default Interest thereon, when applicable, and, in addition thereto, the Issuer will pay to the Registrar and Paying Agent the actual amounts to cover the cost and expenses of collection, including reasonable compensation to the Registrar and Paying Agent, its agents, attorneys and counsel, and any reasonable and documented expenses (to the extent practicable) or liabilities incurred without gross negligence or bad faith by the Registrar and Paying Agent hereunder.

### 18. Application of Payments

Upon the occurrence of an Event of Default, any money collected or delivered to the Registrar and Paying Agent and any other funds held by it, subject to any other provision of the CD Agreements relating to the disposition of such money and funds, shall be applied by the Registrar in the order of preference as follows:

- (a) *first*: to the pro-rata payment of the costs, expenses, fees and other charges of collection, including reasonable compensation to the Registrar and Paying Agent, PDEx, Arranger, Selling Agents, and their respective agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursement made by them without gross negligence or bad faith;
- (b) *second*: to the payment of all outstanding interest (including any Default Interest and incremental tax thereon), in the order of maturity of such interest;
- (c) *third*: to the payment of the whole amount then due and unpaid on the CDs for principal; and
- (d) *fourth*: the remainder, if any, shall be paid to the Issuer, its successors or assigns, or to whosoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

### 19. Remedies

- (a) All remedies conferred by the CD Agreements and these Terms and Conditions upon the Holders shall be cumulative and not exclusive and shall not be so construed as to deprive the Holders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce the CD Agreements, subject to the provisions of Clause 20 below.
- (b) No delay or omission by the Holders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the CD Agreements to the Holders may be exercised from time to time and as often as may be necessary or expedient.

### 20. Ability to File Suit

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No Holder shall have any right, by virtue of or by availing of any provision of the CD Agreements or these Terms and Conditions, to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest, and other charges, or for the appointment of a receiver or registrar, or for any other remedy hereunder unless: (a) such Holder previously shall have given to the Issuer and the Registrar and Paying Agent written notice of the occurrence of an Acceleration Event or an Event of Default; (b) the event subject of the notice is an Acceleration Event or, if not an Acceleration Event, the Majority Holders shall have accelerated payment under the CDs pursuant to Clause 16(a)(ii); and (c) such Acceleration Event or Event of Default shall not have been waived by the Majority Holders pursuant to Clause 21(a), it being understood and intended, and being expressly covenanted by every Holder with every other Holder and the Registrar, that no one or more Holders shall have any right in any manner whatever by virtue of or by availing of any provision of the Registry and Paying Agency Agreement or these Terms and Conditions, to affect, disturb or prejudice the rights of the holders of any other such CDs or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Registry and Paying Agency Agreement and these Terms and Conditions, except in the manner herein provided and for the equal, ratable and common benefit of all the Holders.

### 21. Waiver of Default by the Holders

- (a) The Majority Holders may, on behalf of the Holders, waive any past default, except the Events of Default referred to in Clauses 14(a) (*Non-payment*), 14(b) (*Insolvency*), 14(c) (*Cross-Default*), 14(d) (*Winding-up Proceedings*), 14(h) (*License Default*), 14(i) (*Expropriation Default*), or 14(l) (*Closure Default*), and their respective consequences.
- (b) In case of any such waiver, the Issuer and the Holders shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Holders shall be conclusive and binding upon all Holders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the CDs.

### 22. Notices

- (a) *To the Registrar and the Issuer*

All notices and documents required to be submitted to the Issuer pursuant to these Terms and Conditions and all correspondence, addressed to the Issuer shall be delivered to the following addresses:

Bank of the Philippine Islands  
16th Floor Ayala North Exchange Tower One  
6796 Ayala Avenue corner Salcedo Street  
Makati City 1229, Philippines

Attention: Maria Consuelo A. Lukban  
Vice President  
Tel. No.: (632) 8845 5944  
Fax No.: (632) 8816-9109  
E-mail: [investorrelations@bpi.com.ph](mailto:investorrelations@bpi.com.ph)

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.



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Any requests for documentation or certification and other similar matters available within the records of the Registrar must be communicated to the Registrar, in writing and shall be subject to review, acceptance, and approval by the Registrar, at the following address:

Philippine Depository & Trust Corp.  
29th Floor, BDO Equitable Tower,  
8751 Paseo de Roxas, Makati City, Metro Manila, Philippines

Attention: Josephine Dela Cruz  
*Director*  
Telephone no.: (632) 8884-4425  
Fax no.: (632) 8757-6025  
E-mail: [baby\\_delacruz@pds.com.ph](mailto:baby_delacruz@pds.com.ph)

Attention: Patricia Camille Garcia  
*Registry Officer*  
Telephone no.: (632) 8884-4413  
Fax no.: (632) 8884-5097  
E-mail: [peachy.garcia@pds.com.ph](mailto:peachy.garcia@pds.com.ph)

Upon such acceptance and approval, the Registrar shall be entitled to be paid by the Holders the amount as per the Registrar's pay schedule plus the costs of legal review, courier and the like. The fees may be adjusted from time to time, at the discretion of the Registrar.

(b) *To the Holders*

Notices to Holders shall be sent to the address provided and set forth in the Registry Book. Except where a specific mode of notification is provided for herein (including with respect to a notice of the occurrence of an Acceleration Event, an Event of Default or a Notice of Meeting which must be disseminated by publication), notices to Holders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) ordinary mail; (iii) electronic mail (iv) by one-time publication in a newspaper of general circulation in the Philippines; or (v) personal delivery to the address of record in the Registry Book. The Registrar shall rely on the Registry Book in determining the Holders entitled to notice. All notices shall be deemed to have been received: (i) 10 days from posting, if transmitted by registered mail; (ii) 15 days from mailing, if transmitted by ordinary mail; (iii) on the date of delivery for electronic mail; (iv) on date of publication; or (v) on date of delivery, for personal delivery.

(c) *Binding and Conclusive Nature*

Except as provided in the Registry and Paying Agency Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Registrar for the purposes of the provisions of the Registry and Paying Agency Agreement, will (in the absence of willful default, bad faith or manifest error) be binding on the Issuer and all Holders, and the Registrar shall not be liable to the Issuer or the Holders in connection with the exercise or non-exercise by the Registrar of its powers, duties and discretion under the Registry and Paying Agency Agreement.

### 23. Meetings of the Holders

A meeting of the Holders may be called at any time and from time to time for the purpose of taking any action authorized to be taken by or on behalf of the Holders of any specified aggregate principal amount of CDs under

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any other provisions of the Registry and Paying Agency Agreement or under the law and such other matters related to the rights and interests of the Holders under the CDs.

(a) *Notice of Meetings*

- (i) Meetings of the Holders may be called by: (1) the Issuer, or (2) the Majority Holders (reckoned on the basis of the Registry Book as of the date on which notice to the Registrar is given), by giving written instructions to issue a notice of such meeting to the Registrar, which instructions must include the proposed time, place and (in reasonable detail) purpose of the meeting.
- (ii) The Registrar shall no later than the Banking Day immediately following its receipt of notice from the Majority Holders of a request for a meeting, send a copy of such notice to the Issuer by personal delivery together with information on the total amount of the CDs required to reach the threshold for Majority Holders and, whether or not based on its calculations, the request for the meeting was signed by the Majority Holders. The Issuer shall promptly and in no event later than five Banking Days from its receipt of such notice from the Registrar, deliver written notice to the Registrar and Paying Agent confirming whether or not it agrees with the determination that the Holders calling the meeting constitute the Majority Holders.
- (iii) If the Issuer is the party calling the meeting or has confirmed that it agrees with the determination that the Holders calling the meeting constitute the Majority Holders, the Registrar shall, within 20 days of its receipt of such instructions or confirmation, cause the publication of the notice received from the Issuer or the Majority Holders (as applicable) of such meeting to the Holders (with a copy to the Issuer, if the Issuer is not the party calling for such meeting) in accordance with Clause 22(b) above, which notice shall state the time and place of the meeting and the purpose of such meeting in reasonable detail. The date of the meeting shall not be more than 45 days nor less than 15 days from the date such notice is issued. All reasonable costs and expenses incurred by the Registrar for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within 10 days from receipt of the duly supported billing statement.
- (iv) If the Majority Holders are the party calling the meeting, the Registrar shall, no later than the Banking Day immediately following the lapse of five Banking Days from the date on which the Registrar sent copy of such notice of meeting to the Issuer, forward a copy of such written notice of meeting to the BSP Supervision and Examination Sector. The parties hereby acknowledge and agree that the Registrar shall be required to forward to the BSP Supervision and Examination Sector any notice of meeting it may receive from the Majority Holders under Clause 23(a)(i), regardless of whether the Issuer responds as contemplated by Clause 23(a)(ii) and notwithstanding any instructions to the contrary by the Issuer. For the avoidance of doubt, the Registrar shall not accumulate notices from individual holders until the threshold for Majority Holders is reached for purposes of notifying other holders on the Notice of Meeting.

For this purpose, the Issuer hereby agrees that upon its receipt of a copy of any notice from the Registrar under Clause 23(a)(ii), the Issuer will be deemed to have irrevocably instructed the Registrar to forward a copy of such notice to the BSP Supervision and Examination Sector. For the avoidance of doubt, the Registrar shall not be liable for any delivery of notice to the BSP in accordance with this Clause 23, and the Issuer hereby agrees to indemnify and hold the Registrar free and harmless from any and all claims or damages arising from the Registrar's compliance with its obligations under this Clause 23, except to the extent such claims or damages arise solely as a result of the Registrar's own bad faith or gross negligence.

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### **(b) *Failure of the Registrar to Call a Meeting***

In case at any time the Issuer or the Majority Holders (reckoned on the basis of the Registry Book as of the date on which instructions to call a meeting are given to the Registrar), requested the Registrar to call a meeting of the Holders by written notice setting forth in reasonable detail the purpose of the meeting, and the Registrar shall not have issued, in accordance with the notice requirements, the notice of such meeting within 20 days after receipt of such request, then the Issuer or the Majority Holders may determine the time and place for such meeting and may call such meeting by issuing notice thereof in accordance with Clause 22(b) above.

For the avoidance of doubt, the Registrar shall not be liable for any failure to call a meeting notwithstanding the receipt of instructions to do so from the Issuer or the Majority Holders, save when such failure is due to willful default or gross negligence.

### **(c) *Quorum***

The presence of the Majority Holders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Holders. For the avoidance of doubt, it shall be the responsibility of the party calling the meeting to determine whether or not a quorum has been achieved (based on a list of the registered Holders as of the Banking Day immediately preceding the meeting, as certified by the Registrar), and the Registrar shall not have any obligation to determine compliance with quorum requirements.

### **(d) *Procedure for Meetings***

- (i) The Issuer or the Holders calling the meeting, as the case may be, shall, in like manner, move for the election of the chairman and secretary of the meeting.
- (ii) Any meeting of the Holders duly called may be adjourned from time to time for a period or periods not to exceed in the aggregate of six months from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the CDs represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

### **(e) *Voting Rights***

To be entitled to vote at any meeting of the Holders, a person shall be a registered holder of one or more CDs, or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. The only persons who shall be entitled to be present or to speak at any meeting of the Holders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

### **(f) *Voting Requirement***

All matters presented for resolution by the Holders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Holders. Any resolution of the Holders which has been duly approved with the required number of votes of the Holders as herein provided shall be binding upon all the Holders and the Issuer as if the votes were unanimous.

### **(g) *Regulations***

The party calling the meeting of the Holders may make such reasonable regulations as it may deem advisable for such meeting, in regard to the appointment of proxies by registered Holders of the CDs, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit. Proof of ownership of the CDs shall be based on a list of the registered Holders as of the Banking Day immediately preceding the meeting, as certified by the Registrar.

### **24. Evidence Supporting the Action of the Holders**

Wherever in the Registry and Paying Agency Agreement it is provided that the Holders of a specified percentage of the aggregate outstanding principal amount of the CDs may take any action (including the making of any demand or requests, the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the Holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Holders in person or by the agent or proxy appointed in writing; or (ii) the record of voting in favor thereof at the meeting of the Holders duly called and held in accordance herewith, as duly authenticated by the person selected to preside over the meeting of the Holders under Clause 23(d)(i); or (iii) a combination of such instrument and any such record of meeting of the Holders.

### **25. Governing Law**

The CDs and the CD Agreements are governed by and are construed solely in accordance with Philippine law.

### **26. Dispute Resolution**

Any legal action or proceeding arising out of, or connected with, the CDs and the CD Agreements shall be brought exclusively in the proper courts of Makati City, each of the parties expressly waiving any other venue.

### **27. Waiver of Preference**

The obligations created under the CD Agreements and the CDs shall not enjoy any priority of preference or special privileges whatsoever over any other indebtedness or obligations of the Issuer. Accordingly, whatever priorities or preferences that the CD Agreements or the CDs may have or any person deriving a right hereunder may have under Article 2244, paragraph 14(a) of the Civil Code of the Philippine are hereby absolutely and unconditionally waived and renounced. This waiver and renunciation of the priority or preference under Article 2244, paragraph 14(a) of the Civil Code of the Philippines shall be revoked if it be shown that an indebtedness of the Issuer for borrowed money has a priority or preference under the said provision.

## CAPITALISATION AND INDEBTEDNESS

The following table sets forth the indebtedness and capitalisation of the Bank as at 30 June 2019. This table should be read in conjunction with the Bank's unaudited condensed consolidated financial statements as of 30 June 2019 and the notes presented elsewhere herein.

	As of 30 June 2019 Actual (₱ millions)
<b>Short-term liabilities</b>	
Deposit liabilities .....	775,496
Derivative liabilities .....	1,111
Bills payable .....	80,104
Due to BSP and other banks .....	3,124
Manager's checks and demand drafts outstanding .....	7,378
Accrued taxes, interest and other expenses .....	10,236
Liabilities attributable to insurance operations .....	10,367
Deferred credits and other liabilities .....	36,348
Total short-term liabilities .....	924,164
<b>Long-term liabilities</b>	
Deposit liabilities .....	882,953
Derivative liabilities .....	2,124
Bills payable .....	56,473
Liabilities attributable to insurance operations .....	2,855
Deferred credits and other liabilities .....	3,034
Total long-term liabilities .....	947,439
<b>Total liabilities</b> .....	1,871,603
<b>Capitalisation</b>	
Capital stock/Paid-in surplus .....	119,286
Reserves .....	3,729
Surplus .....	137,750
Accumulated other comprehensive loss .....	(888)
Non-controlling interest .....	3,265
Total capital funds .....	263,142
<b>Total capitalisation and indebtedness</b> .....	2,134,745
 <b>Capital Ratios<sup>(1)</sup></b>	
Common Equity Tier 1 ratio .....	15.55%
Tier 1 capital ratio .....	15.55%
Total capital ratio .....	16.44%

Note:

(1) Calculated based on BSP Circular No. 781—Basel III Implementing Guidelines on Minimum Capital Requirements.

## SELECTED STATISTICAL DATA

The following unaudited information should be read together with the Bank's consolidated financial statements included in this Offering Circular as well as "Risk Management". All amounts presented in this section except for Average Daily Balance and Average Yield/Cost have been prepared in accordance with PFRS/PAS.

### Average Statements of Condition and Related Interest

The tables below present the average statements of condition together with the related interest revenue and expense amounts for interest-bearing assets and interest-bearing liabilities, resulting in the presentation of the average yields and costs for each period. The average yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. The average cost on average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities.

	For the years ended 31 December								
	2016			2017			2018		
	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)
	(P millions, except percentages)								
Due from other banks....	254,206	993	0.39	278,894	1,501	0.54	237,398	413	0.17
Interbank loans receivables and securities purchased under agreements to resell.....	35,876	1,066	2.97	26,466	649	2.45	23,913	811	3.39
Financial investments....	297,322	9,395	3.16	299,002	9,346	3.13	310,620	9,794	3.15
Loans and advances .....	900,360	48,843	5.42	1,048,014	56,557	5.4	1,222,136	71,816	5.88
<b>Total interest-earning assets .....</b>	<b>1,487,764</b>	<b>60,297</b>	<b>4.05</b>	<b>1,652,376</b>	<b>68,053</b>	<b>4.12</b>	<b>1,794,067</b>	<b>82,834</b>	<b>4.62</b>
Deposit liabilities <sup>1</sup> .....	1,324,241	15,301	1.16	1,465,582	16,660	1.14	1,533,114	17,353	1.13
Derivative instruments: Subordinated debt, bills payable, and other borrowings.....	34,508	634	1.84	48,204	1,150	2.38	73,460	2,810	3.83
<b>Total interest-bearing liabilities .....</b>	<b>1,358,749</b>	<b>15,935</b>	<b>1.17</b>	<b>1,513,786</b>	<b>17,810</b>	<b>1.18</b>	<b>1,606,575</b>	<b>20,163</b>	<b>1.26</b>

	For the six months ended 30 June					
	2018			2019		
	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)
	(P millions, except percentages)					
Due from other banks.....	246,033	205	0.17	231,148	221	0.19
Interbank loans receivables and securities purchased under agreements to resell .....	25,284	348	2.78	27,255	621	4.59
Financial investments.....	301,106	4,731	3.17	344,888	5,884	3.44
Loans and advances.....	1,187,032	33,028	5.61	1,333,599	45,521	6.88
<b>Total interest-earning assets.....</b>	<b>1,759,455</b>	<b>38,312</b>	<b>4.39</b>	<b>1,936,890</b>	<b>52,247</b>	<b>5.44</b>
Deposit liabilities <sup>1</sup> .....	1,540,818	8,146	1.07	1,582,231	12,607	1.61
Derivative instruments: Subordinated debt, bills payable, and other borrowings.....	51,623	871	3.40	140,651	3,599	5.07
<b>Total interest-bearing liabilities.....</b>	<b>1,592,441</b>	<b>9,017</b>	<b>1.14</b>	<b>1,722,883</b>	<b>16,206</b>	<b>1.89</b>

(1) 2016-2017 interest expense includes DST, 2018-2019 interest expense excludes DST

### Analysis of Changes in Interest Income and Interest Expense – Volume and Rate Analysis

The following tables provides an analysis of changes in interest income, interest expense, and net interest income between changes in volume (average daily balances) and changes in rates for the year ended 31 December 2016 compared to the year ended 31 December 2017, for the year ended 31 December 2017 compared to the year ended 31 December 2018 and for the six months ended 30 June 2018 compared to the six months ended 30 June 2019. Volume and rate variances have been calculated on the movement in average daily balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

## Selected Statistical Data

	For the year ended 31 December 2016 compared to the year ended 31 December 2017			For the year ended 31 December 2017 compared to the year ended 31 December 2018		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
Net Change	Change in Average Volume	Change in Average Rate	Net Change	Change in Average Volume	Change in Average Rate	
(₱ millions)						
<b>Interest income on:</b>						
Financial investments .....	(49)	1,680	(0.03)	448	11,619	0.03
Loans and advances .....	7,714	147,654	(0.03)	15,259	173,901	0.48
Deposits with BSP and other banks .....	91	15,278	(0.01)	(926)	(44,045)	(0.24)
<b>Interest expense on:</b>						
Deposits .....	1,359	141,341	(0.02)	3,365	67,532	0.18
Bills payable and other borrowings .....	516	13,696	0.55	1,660	25,256	1.44
<b>Net interest income .....</b>	<b>5,881</b>	<b>9,575</b>	<b>1.87</b>	<b>7,804</b>	<b>157,960</b>	<b>0.18</b>

	For the six months ended 30 June 2018 compared to the six months ended 30 June 2019		
	Increase (Decrease) Due to		
Net Change	Change in Average Volume	Change in Average Rate	
(₱ millions)			
<b>Interest income on:</b>			
Financial investments .....	1,153	43,782	0.27
Loans and advances .....	12,632	146,567	1.27
Deposits with BSP and other banks .....	289	(12,912)	0.25
<b>Interest expense on:</b>			
Deposits .....	4,462	41,413	0.54
Bills payable and other borrowings .....	2,728	89,029	1.76
<b>Net interest income .....</b>	<b>6,289</b>	<b>172,545</b>	<b>0.37</b>

## DESCRIPTION OF THE BANK

### Overview

The Bank is a Philippine-based universal bank with an expanded banking license. Together with its subsidiaries, the Bank offers a wide range of financial services that include corporate banking, consumer banking, consumer lending, investment banking, asset management, securities distribution, insurance services and leasing. Such services are offered to a wide range of customers, including multinationals, government entities, large corporates, small-and-medium-sized enterprises (SMEs) and individuals.

According to data available from the *Bangko Sentral ng Pilipinas* (BSP, the central bank of the Philippines), the Bank is the third largest universal bank in the country in terms of total assets which stood at ₱2,135 billion as of 30 June 2019. The Bank also holds a significant market share in the deposit, lending, and asset management markets. According to industry data on Philippine banks, the Bank is the Philippines' second largest in terms of deposits and third largest in terms of loans with market shares of 12.9% and 14.5%, respectively, as of 30 June 2019, and second largest in terms of asset management with market share of 17.8% as of 31 March 2019. BPI Family Savings Bank, the Bank's primary subsidiary in consumer lending, is the Philippines largest savings bank, in terms of total assets. The Bank also enjoys a significant presence in the finance and operating lease business, government securities dealership, securities distribution and foreign exchange business. It is also a market leader in electronic banking where it has been a first mover and innovator in the use of automated teller machines (ATMs), cash acceptance machines (CAMs), point-of-sale debit systems, kiosk banking, phone banking, internet banking and mobile banking.

As of 31 December 2016, 2017 and 2018 and 30 June 2019, the Bank had a network of 834, 945, 1,059 and 1,094 branches (which include full service branches, express banking centres (EBCs) and branch-lite units) respectively, which was among the largest branch networks among Philippine banks. Of the Bank's 1,094 branches, as of 30 June 2019, 1,091 branches were located in the Philippines, of which 699 were BPI branches, 162 were BPI Family Savings Bank branches, and 230 were BPI Direct Banko branches and branch-lite units. In terms of geographic distribution (excluding BPI Direct Banko), 457 of the branches were located in Metro Manila, 239 of the branches in Luzon (excluding Metro Manila), 99 of the branches in the Visayas and 66 of the branches in Mindanao. The Bank also provides 24 hour banking services through its call centre and network of 2,463 ATMs and 552 CAMs as of 30 June 2019, the second largest network owned by a single bank in the Philippines, which were located in both branches and off site locations, such as shopping malls and high density office buildings. The Bank's overseas network includes one banking location in Hong Kong and two in London. The Bank also has one representative office in Tokyo and another in Dubai, which market and promote certain of the Bank's products and services. The Bank has three remittance centres in Hong Kong and maintains over 141 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

Over the past three years, the Bank has enjoyed recognition from various award giving bodies. In 2017, alone, the Bank was named Best Foreign Exchange Bank by both *Asiamoney* and the *Asian Banker*, Best Asset Manager in the Philippines by *International Finance Magazine*, Microfinance Initiative of the Year by the *Asian Banker*, Asset Management Company of the Year at the *Fund Management and Investor Awards* and Best Asset Manager by *International Finance Magazine*. Further, in 2018, the Bank was awarded 2017 Best Bank in the Philippines by the Corporate Treasurer Awards for the year 2017. In 2019, the Institute of Corporate Directors recognised the Bank based on the ASEAN Corporate Governance Scorecard (which ranks based on right of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency and responsibilities of the board) and BPI received a Golden Arrow Award as a result of this achievement.

The Bank's consolidated common equity tier 1 (CET1) ratio stood at 15.55% while CAR stood at 16.44%, as of 30 June 2019. These are above the minimum regulatory capital requirements set by the BSP under Basel III. As of 30 June 2019, the Bank had a market capitalisation on the Philippine Stock Exchange (PSE) of ₱353.8 billion (based on the closing price on the PSE of ₱78.50 per Share on 30 June 2019). The Bank's significant shareholders include Ayala Corporation (Ayala), one of the Philippines' oldest and largest conglomerates, the Roman Catholic Archbishop of Manila, and the Government of Singapore Investment Corp. (GIC).

### History

The Bank was established in 1851 in the Philippines (then a Spanish colony) as *Banco Español Filipino de Isabel II*, by decree of the Governor General of the Philippines. The Bank was the first bank to be formed in the Philippines and fulfilled many functions of a central bank, including providing credit to the treasury and issuing



## Description of the Bank

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currency under its own name. Following the Spanish-American War of 1898, the Bank reorganised pursuant to the National Bank Act of the United States, officially adopting its current name in January 1912. As part of this reorganisation, the Government privatised the Bank, renouncing its rights to appoint the Bank's management or receive credit lines, but preserved the Bank's authority to issue the Philippine currency.

The Bank's founding shareholders were mainly various charities and endowments associated with the Catholic Church. Its directors were government officials and prominent businesspersons, including Antonio de Ayala, a partner of a predecessor firm of today's Ayala. In 1969, Ayala became the Bank's largest shareholder. In 1974, People's Bank and Trust Company, a bank in which Ayala also had a significant interest, merged with the Bank. As part of the merger, Morgan Guaranty Trust Company of New York acquired a 20% stake in the Bank, which it sold to DBS Group Holdings Limited of Singapore (**DBS**) in 1999. In 2013, GIC, together with Ayala, completed its acquisition of DBS's 20% stake in the Bank. The Bank's capital raise in May 2018 was its third equity capital raising exercise since 2010 and was supported by Ayala Corp.

The Bank was for many years the only domestic commercial bank in the Philippines. Originally, its business was largely focused on deposit taking and extending credit to exporters and local traders of raw materials and commodities, such as sugar, tobacco, coffee, and indigo, as well as funding public infrastructure projects. Its business developed throughout the late 1800's as the economy and the prominence of the Philippines as an exporter developed.

In keeping with the regulatory model set by the United States Glass Steagall Act of 1932 (separating commercial banking and investment banking), the Bank operated for many years as a private commercial bank. In the early 1980s, the Monetary Board of the Central Bank of the Philippines (now the BSP) allowed the Bank to evolve into a fully diversified universal bank, with activities encompassing traditional commercial banking, investment and consumer banking. This transformation into a universal bank was accomplished through both organic growth and mergers and acquisitions, with BPI acquiring an investment house, a stock brokerage company, a leasing company, a savings bank, a retail finance company and bancassurance joint ventures.

### **Mergers, Acquisitions, Offers and Recent Milestones**

The Bank has consummated several bank and non-bank mergers over the last two decades in an effort to strengthen its position in the financial services industry.

In 1996, the Bank merged with City Trust Banking Corporation, the retail banking arm of Citibank in the Philippines, which enhanced the Bank's franchise in consumer banking. In 2000, it consummated one of the biggest mergers in the Philippine banking industry when it merged with the former Far East Bank & Trust Company (**FEBTC**). This merger established the Bank's strong position in asset management & trust services, enhanced its penetration of the middle market, as well as further reinforced its dominance in branch banking.

In 2000, the Bank also completed its acquisition of three major companies active in the in the life, non-life and reinsurance fields, Ayala Life Assurance, Inc., FGU Insurance Corp., and Universal Reinsurance Corp.. Through this acquisition, the Bank established the first bancassurance platform in the Philippines, a move that further broadened the Bank's offering of financial products. In January 2004, Universal Reinsurance Corp., the Bank's reinsurance subsidiary, merged with Malayan Reinsurance Corp., giving the Bank capacity to obtain a larger share of the Philippine reinsurance market. The merged entity was known as the Universal Malayan Reinsurance Corp., a 50/50 joint venture between the Bank and the Yuchengco Group of Companies.

In September 2005, the Bank acquired 92% of the total outstanding shares of Prudential Bank and in December 2005, Prudential Bank was merged into the Bank. The merger added 187 branches to the Bank's network and increased the Bank's share of the middle market segment.

In March 2006, Universal Malayan Reinsurance Corp. merged with National Reinsurance Corporation, with the latter as the surviving entity. The merged entity provided the Bank with greater underwriting capacity and strengthened its competitive position in the regional reinsurance industry. In October 2006, BPI/MS Insurance Corporation (**BPI/MS**), the Bank's non-life insurance company, and a majority-owned joint venture with Japan's Mitsui Sumitomo Insurance Group (**MSI**), acquired the Philippine insurance portfolio of the UK-based Aviva Plc (**Aviva**). This acquisition was made possible by MSI's purchase of all of Aviva's Asian operations that same year. The addition of the Aviva portfolio further strengthened BPI/MS' mix of underwriting risk and account base.

## Description of the Bank

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In 2007, the Bank obtained a U.K. banking license and opened the BPI Europe Plc in London, primarily to service the banking needs of the overseas Filipino community in the region.

In October 2008, the Bank, Ayala and Globe Telecom, Inc. (**Globe**) formed the Philippines' first mobile microfinance bank called BPI Globe BanKO Inc., with each party holding 40%, 20% and 40%, respectively, of BPI Globe BanKO Inc.'s equity. BPI Globe BanKO is the first microfinance bank in the Philippines with microfinance mobile phone technology as the primary platform for banking service delivery to serve the market.

In 2009, the Bank entered into a joint venture with the Philippine American Life and General Insurance Company (**Philam Life**) to strengthen its life insurance business, forming BPI Philam Life Assurance, Corp. (**BPLAC**), in which the Bank holds a 47.7% ownership stake.

In March 2011, the Bank became the first bank in the Philippines to acquire the trust business of a foreign bank when it purchased the trust and investment management business of ING Bank N.V., Manila Branch.

In December 2014, the Bank entered into a strategic partnership with Century Tokyo Leasing Corp., one of Japan's largest leasing companies, to form BPI Century Tokyo Lease & Finance Corp., with the Bank retaining a 51% ownership stake. This strategic partnership aims to help the Bank innovate in asset financing products and enhance the service experience of its expanding base of Philippine consumers and corporations seeking asset leasing and rental solutions.

In August 2015, the Bank entered into a strategic partnership with Global Payments Network (**GPN**), an Atlanta-based provider of international payment services listed on the New York Stock Exchange. By combining its merchant acquiring network in the Philippines with that of GPN, the Bank expects to provide enhanced services to its credit and debit card customers, as well as to its merchant clients. The Bank owns a 49% stake in the joint venture, Global Payments Asia-Pacific Philippines Inc.

In August 2016, the Bank acquired a 10% minority stake in Rizal Bank Inc., a member institution of Center for Agriculture and Rural Development Mutually Reinforcing Institutions, a group of social development organisations that specialise in microfinance.

In September 2016, BPI Globe BanKO, Inc. became a wholly owned subsidiary of the Bank, after it acquired the 20% and 40% stakes held by Ayala and Globe Telecom Inc., respectively. In December 2016, its corporate name was changed to BPI Direct BanKo, Inc., A Savings Bank (**BPI Direct BanKo**). BPI Direct BanKo is the Bank's microfinance arm that serves the self-employed micro entrepreneurs (**SEMEs**) segment.

In December 2016, BPI spun off its BPI Asset Management and Trust Group to a standalone trust corporation named BPI Asset Management and Trust Corp. (**BPI AMTC**). BPI AMTC officially commenced its operations on 1 February 2017.

### Competitive Strengths

Over the course of its long history, BPI believes it has established a preeminent franchise that embodies financial strength and prudent risk management. The Bank believes that it is one of the best-equipped banks to deal with any downturn, be it in the financial sector or in the domestic or global economies. The Bank's well-established reputation is anchored on the following key strengths:

#### *Preeminent banking brand in the Philippines*

With nearly 170 years of operations, the Bank has a deep rooted history and has developed one of the Philippines' most trusted and widely-recognised brands in the financial services industry. Established on 1 August 1851 as "El Banco Español Filipino de Isabel II", the Bank is the oldest operating Bank in the Philippines. The Bank's shareholder base includes some of the most prominent companies domestically and internationally such as the Ayala Group, one of the oldest and largest companies in the Philippines, the Roman Catholic Archbishop of Manila and GIC, Singapore's sovereign wealth fund.

Through the years, the Bank has maintained long-standing relationships with the largest domestic and multinational corporates in the country, providing comprehensive financial services from traditional lending, payroll services, cash management, and foreign exchange, to financial advisory, capital markets, and insurance.

## Description of the Bank

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The BPI brand also has the highest corporate equity among local banks and second highest among selected Philippine companies.

The strength of the Bank's brand is validated by its growing client base, which almost doubled since 2010 to 8.3 million customers as of 30 June 2019. The Bank has likewise won numerous awards in recognition of its outstanding client service and innovative product offerings. In 2018, BPI Capital was awarded Best Investment Bank and Best ECM House in the Philippines from the *Finance Asia Country Awards* as well as the Renewable Energy Deal of the Year (Indonesia and Regional) and PPP Project of the Year (Philippines) in the last *Asia Infrastructure Awards* by *The Asset*.

Through the years, the Bank has proven its ability to weather economic downturns and benefit from investors' flight to quality.

### ***Strong track record of profitability and cost management***

Historically, the Bank has been known as one of the most cost-efficient banks with the lowest operating leverage in the industry. As of 30 June 2019, its cost-to-income ratio stood at 52.9% and its cost-to-assets ratio at 2.4%, one of the lowest among Philippine banks based on publicly available financial data. The Bank's cost discipline coupled with its investments in its digital platforms has allowed it to maintain its cost leadership, remain resilient through downturns, and continuously improve productivity and cost-efficiency through the years.

Coupled with its strong income generating capabilities and deposit franchise, the Bank's cost-leadership has allowed it to produce industry leading returns for its equity holders. As of 30 June 2019, its return-on-equity (**ROE**) and return-on-assets (**ROA**) stood at 10.7% and 1.3% respectively, one of the highest in the Philippine Banking industry according to BSP data.

Moreover, the Bank has maintained a strong track record of profitability and creating shareholder value, consistently generating earnings for its shareholders every year for the past 20 years.

### ***Well-capitalised with sufficient liquidity***

The Bank's stock rights offering in May 2018 brought the Bank's Common Equity Tier 1 ratio (**CET1**) and CAR to 15.55% and 16.44%, respectively, as of 30 June 2019, which the Bank believes these ratios are ahead of most banks in the Philippines and comfortably above the BSP's minimum CET1 and CAR ratios of 6% and 10%, respectively.

The Bank believes that its strong capital base, which primarily consists of common equity, provides sufficient protection to the Bank's current and prospective creditors. The Bank's strong capital base coupled with its deposit franchise has also allowed it to limit reliance on debt funding and maintain comparatively low leverage levels versus its peers with its debt/total liabilities as of 30 June 2019, at 7.3% (calculated as bills payable over total liabilities).

Aside from its strong capital base, the Bank maintains sufficient liquidity levels with its liquidity coverage ratio and leverage ratio well above minimum prescribed ratios set by the BSP.

### ***High quality and diversified asset base driven by prudent risk management***

As of 30 June 2019, 7.5% of the Bank's loan book consist of loans to what the Bank believes to be high quality domestic corporate and multinational customers. Over the past five years, the Bank's loan growth has primarily been driven by corporate loans, which grew at a compound annual growth rate (**CAGR**) of 17.6% for that period, as compared to the Bank's retail loans, which grew by 11.8% over the same period.

The Bank's strong risk management framework coupled with its prudent approach to growth has allowed it to significantly improve its asset quality metrics, with gross 90-day non-performing loan (**NPL**) ratios declining from 3.11% as of 31 December 2010 to 1.86% as of 30 June 2019, and NPL coverage increasing from 82.3% as of 31 December 2010 to 97.5% as of 30 June 2019. With the implementation of the BSP Circular 941 effective 1 January 2018, the Bank's NPL ratio and coverage were restated at 1.72% and 100.34%, respectively. The NPL amount increased because under BSP Circular 941, adversely classified accounts (**ACAs**) are required to be reported as NPLs even if the account is current or without any missed contractual payments since ACAs are considered impaired under existing accounting standards. The Bank's prudent risk management and continuous

## Description of the Bank

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efforts in this area have been recognised by *Risk Asia* in 2018 with the House of the Year-Philippines' Risk Management Award. This was the first time this award was given to a Philippine bank.

The Bank believes that its asset base is strategically diversified. It lends to customers in a wide variety of industries including real estate, manufacturing, wholesale and retail, utilities and financial intermediaries, among others. As of 30 June 2019, the Bank's top 20 clients comprised 31.3% of the Bank's loan book. Internally, the Bank abides by strict single borrower limits, with no single customer accounting for more than 3.0% of the Bank's loan book as of 30 June 2019.

### ***Stable and diversified revenue sources***

The Bank has been able to grow its net interest income (NIM) by a CAGR of 13% from 2013 to 2018. In the last five years, the Bank's NIM has been trending downward, because of the impact of the declining interest rate environment during such period. However, starting 2017, the Bank has seen a reversal in the trend as the Bank's average asset base expanded and its loan yield and cost of funds improved.

Over and above its core lending business which generates NIM, the Bank generates (i) trading income from securities and foreign exchange and (ii) fees and commission income from various sources.

Over the years, the Bank's fee-based income, has remained as a stable source of income for the bank, growing by 11.8% since 2013. The Bank's fee generation is backed by its (i) asset management and trust business, which has historically been the largest contributor to fee based income, with assets under management at ₱675.7 billion as of 30 June 2019, (ii) credit card business, which has the second highest number of credit card users with 1.588 million credit cards in circulation as of 30 June 2019 based on data from the Credit Cards Association of the Philippines (iii) operating lease business, which has provided a steady stream of income for the Bank, and (iv) insurance joint ventures with Mitsumi Sumitomo Insurance Group for non-life insurance (BPI/MS Insurance Corporation), and Philippine American Life and General Insurance Company (BPI Philam Life Assurance, Corp. or **BPLAC**) for life insurance, with BPLAC being the Philippines' leader in bancassurance, according to the Philippine Insurance Commission, and is continuously growing alongside the increasing BPI branches nationwide.

The Bank believes its sources of fee income are diversified, ranging from asset and trust management, credit cards to rental, and that these sources will continue to provide a stable source of income that will complement income from its core deposit taking and lending businesses.

### ***Stable funding base supported by its extensive physical and digital distribution network***

The Bank's primary source of funding has been and is expected to always be its depositors. Over the past five years, deposits have accounted for over 90% of the Bank's funding base.

The Bank has been successful in maintaining long-term relationships with its client base, with customer retention rates increasing from 90.3% in 2012 to 96.8% for the first half of 2019.

While the cost of deposits is largely driven by interest rate movements, the Bank has kept its average cost of deposits relatively low by improving its CASA (i.e., demand and savings accounts) to deposits ratio over the past five years. As of 30 June 2019, the Bank's CASA deposits accounted for 68.3% of the Bank's total deposit base, a 7.1% improvement from its 31 December 2012 level of 61.2%. The Bank also believes that its CASA to deposit ratio is one of the highest in the Philippines. The Bank's depositors also typically roll over their deposits at maturity, effectively providing the Bank with a stable base of core liquidity.

The Bank's strong deposit franchise is made possible by its extensive physical and digital distribution networks. The Bank has one of the largest branch networks in the Philippines with 1,091 branches (which include full service branches, express banking centres (**EBCs**), and branch-lite units), as of 30 June 2019. The Bank's overseas network includes one banking location in Hong Kong and two in London, two representative offices and three remittance centres in Hong Kong. The Bank also maintains over 141 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

As of 30 June 2019, the Bank had the second largest ATM and CAM network in the Philippines, with 2,463 ATMs and 552 CAMs under its *BPI ATM* brand. The Bank also founded the Philippines' first ATM interbank network and is a member of *BancNet*, the Philippines' largest ATM interbank network with over 21,000 ATMs nationwide as of 30 June 2019.

## **Description of the Bank**

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To efficiently serve its customers, the Bank complements its physical distribution network with its digital platforms, particularly online and mobile banking facilities which provide clients with 24/7 access to a broad range of banking services.

### ***Experienced Management and strong performance culture***

The Bank believes it has a highly qualified and experienced management team, with significant experience and proven track records in the banking industry. The Bank's senior management (comprising officers with the rank of vice-president or higher) have an average tenure with the Bank of over 18 years. In addition, the Bank's executives and officers have a broad range of experience in their respective areas of banking and finance, with certain executives and officers acquiring international banking experience with some of the leading global financial institutions. To ensure the continued strength of its team, the Bank has established a succession plan to avoid significant disruptions caused by the loss of any members of senior management.

The Bank also fosters a strong performance culture by providing performance-based incentives such as employee stock option and stock purchase plans, and competitive compensation packages that are constantly reviewed to attract and retain top talent. It also has a wide array of training programmes and activities from which employees benefit throughout the course of their careers with the Bank. These programmes range from workshops for new hires to advanced leadership programmes for officers as well as courses on financial advisory.

### **Strategies**

The Bank intends to leverage its preeminent brand name and continue to innovate and offer value-added products and services to address the complex needs of its clients, while further enhancing client convenience and satisfaction by delivering services through integrated physical, electronic and call centre channels.

The following are selected key elements of the Bank's strategy:

#### ***Maintain its leading position in the corporate segment***

The Bank plans to maintain its leading position in the corporate segment by continuing to provide a full suite of banking products to large corporates and multinationals. It will focus on improving risk-adjusted returns capitalising on strong cross-selling opportunities of its leading corporate banking franchise to offer other services such as the investment banking products of BPI Capital to its corporate clients while maintaining its prudent approach to underwriting. This aims to improve the profitability of the Bank's traditional lending business, generate additional fee income and provide clients with solutions that go beyond credit and cash management facilities.

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

The Bank plans to continue to tap opportunities in (i) the growing market of middle-class Filipinos, and (ii) thriving SME segments. While the untapped potential of these segments is significant, the Bank plans to pursue these opportunities in a prudent manner without compromising its stringent risk management standards and overall asset quality.

#### ***SME***

The Bank recognises that SMEs are important engines of growth in the Philippines. The Bank will primarily focus on (i) growing the relationship with existing SME clients of the Bank by expanding its product offering to these specific customers and (ii) developing relationships with SMEs who do business with existing corporate customers.

To spearhead this initiative, the Bank established the SME 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, as well as helping them achieve their long-term goals through quick, simple and convenient solutions. The Bank has built a team of focused and well-trained relationship managers in order to gain a better understanding of the needs of the large, growing and underserved SME market segment, and address its needs holistically. The added focus and understanding is anticipated to result in better risk management for the SME sector and overall improved returns.

## Description of the Bank

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

### *Consumer lending*

As of 30 June 2019, only 207,930, or 2.7%, of BPI's retail depositors have availed of the Bank's loan products. The Bank expects strong growth in the consumer lending market due to (i) the stable growth of the Philippine economy and (ii) the passage of the Philippine Tax Reform for Acceleration and Inclusion (**TRAIN**) law reduced personal income tax rates and resulted in higher disposable incomes for middle class Filipinos, which can also lead to higher demand for vehicles and family homes.

In 2017, the Bank intentionally paused growth in its consumer lending business to focus on improving its internal processes and developing internal systems. In particular, innovative auto and housing loan facilities, highly automated loan processing systems and prudent risk management. With the new and improved processes in place, the Bank believes that it is now better equipped to more effectively evaluate and manage risk to prudently grow its consumer lending business.

### *Microfinance*

Recognising the need for the unbanked market to have access to credit facilities, the Bank repositioned its microfinance business (primarily conducted through its subsidiary, BPI Direct BanKo) from a mobile-based business model to a more traditional in-person business model that (i) focuses on effective coverage of a specific market identified as the self-employed microentrepreneurs (**SEMEs**); (ii) implements an efficient collection process; (iii) provides business loans; (iv) grants loans based on well-grounded credit parameters; and (v) provides quick turnaround times and lower interest rates versus traditional money lenders. The shift in a more traditional business model allows BPI Direct BanKo to more effectively conduct its necessary know-your-customer processes and risk standards and lead to improved collections and reduction in NPLs.

### *Enhance deposit franchise and delivery infrastructure*

CASA growth is a key priority of the Bank and it intends to continue to improve its CASA deposits by employing a dual-pronged approach of (i) capitalising on its extensive physical and digital distribution network, and (ii) continuing to provide competitive deposit based products to acquire new clients and attract and retain deposits.

As its extensive branch network is a key driver of new account openings, the Bank intends to expand its branch network in key provincial cities showing potential for increasing consumer spending and infrastructure investments, as well as in new township developments.

To increase deposits in the corporate, SME business and retail banking segments, the Bank aims to present itself as a provider of an integrated suite of products and services to its 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.

### *Elevating its digital infrastructure to deliver superior customer experience and cost efficiencies*

The Bank recognises 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, automation and manage cost-efficiency.

In line with this, the Bank intends to continue to make investments in its digitalization strategy, with its roadmap milestones in various stages of completion.

- Focus on cybersecurity to protect our clients' trust in the Bank's digital channels and the Bank's adherence to relevant privacy rules and regulations. The Bank has established the first cybersecurity operations center in the banking industry, and continues to invest in threat analytics and forensics.

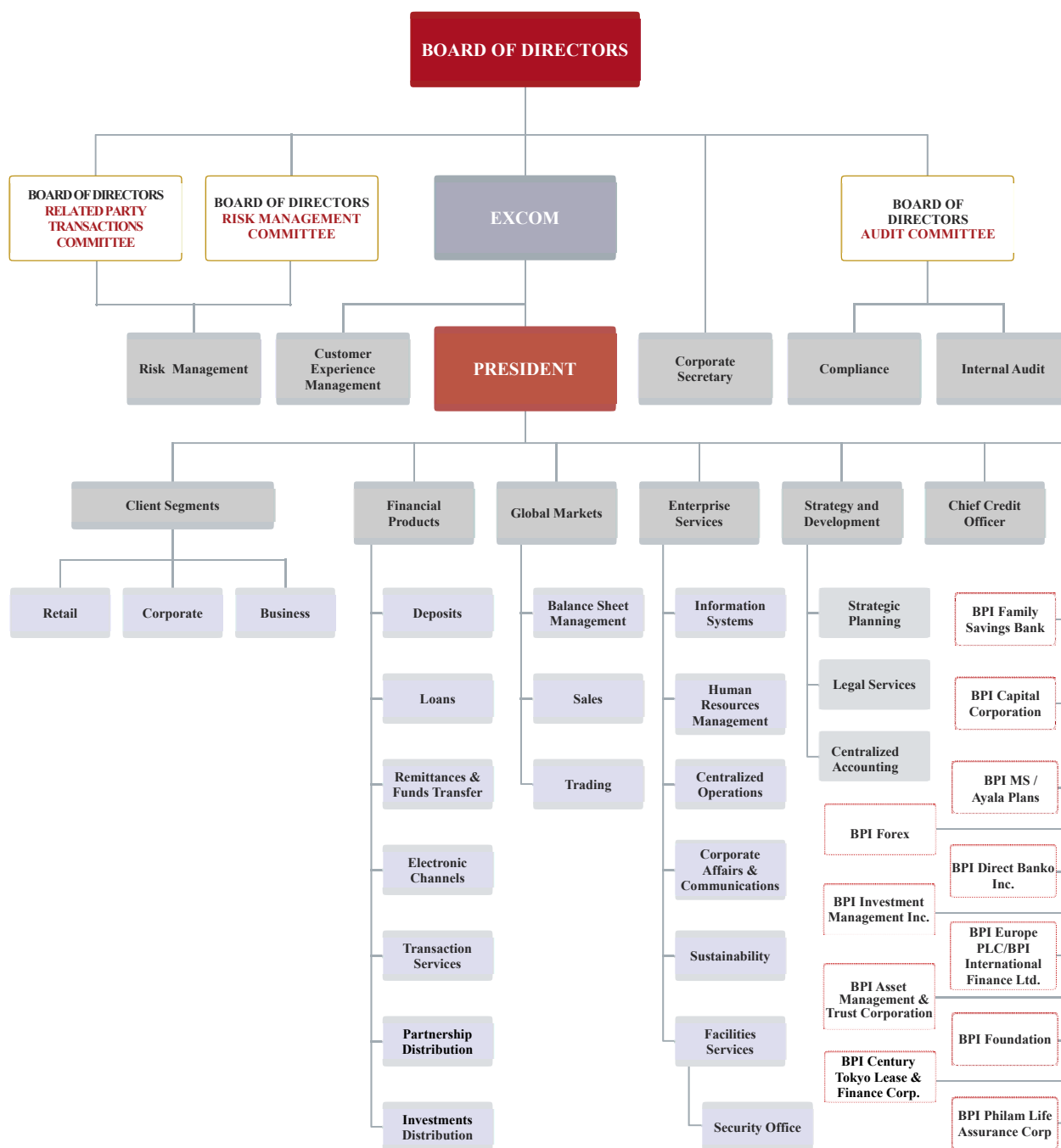
## Description of the Bank

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- Build resiliency by investments in IT systems, such as core banking system upgrades, to ensure 24/7 availability and stability of electronic services. This is to support the Bank's substantial improvements in its digital infrastructure, and to provide a solid foundation for the Bank's digitalization initiatives over the next five years as it aims to (i) continuously enhance the overall customer experience, and (ii) maintain its cost advantage over other banks in the Philippines.
- Implement Agile@scale, which is a workforce retraining programme that will endeavour to foster a culture where people are focused on re-engineering business processes around technological aids, thereby improving time-to-market deployment of new processes and systems across the organisation.
- Provide a 360-degree view of the client, which allows the Bank to effectively gather information and utilise its analytic capabilities and to pre-emptively address the needs of its clients. This ultimately leads to the development of an omni-channel client experience, which provides a consistent interface for clients to navigate through different channels and deliver a seamless transaction experience across various products, transactions and channels.
- Foray into Open Banking allows the Bank to be more financially inclusive through much greater engagement with counterparties. Open Banking refers to making the Bank's services available as application programming interfaces, or APIs, to fintech and e-commerce companies. This initiative is fast gaining traction with the increasing number of the Bank's APIs and merchant partners for a variety of platforms that facilitate online shopping, travel, payment of utilities, and the transfer of funds to e-wallets.

Organisational and Corporate Structure of the Bank

The following chart sets forth an overview of the functional organisational structure of the Bank and its principal activities.

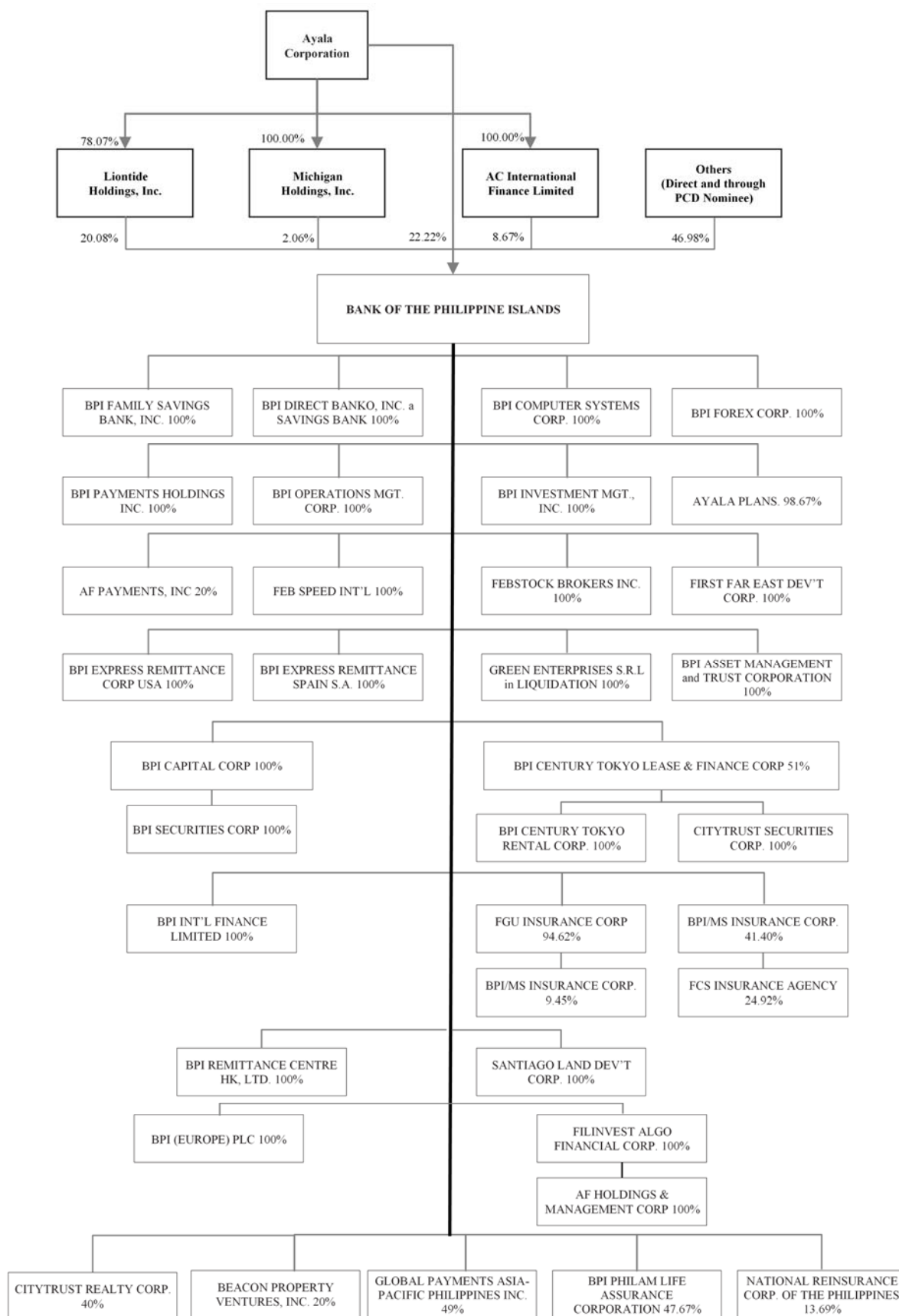


Note: The following Board Level Committees are also in existence: Corporate Governance, Personnel and Compensation, Nomination Committees, and Retirement/Pension Committees.



## Description of the Bank

The following chart sets forth an overview of the corporate structure of the Bank as of 31 December 2018.



## Description of the Bank

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### Client Management Groups of the Bank

The Bank's primary client management groups are composed of the (i) retail banking group, (ii) corporate banking group, and (iii) SMEs business banking group. These client management groups work with the other groups in the Bank to provide each of these client segments a focused set of products and services tailored to their needs.

#### *Retail Banking Group*

The retail banking group manages the Bank's relationships with its retail clients and it is responsible for the Bank's physical branch network. The group also develops optimal deposit origination and product distribution strategies for the Bank's retail operations.

The Bank classifies individual retail clients into various retail client segments based on the amount of funds deposited and invested with the Bank and their specific need for financial solutions. The retail client segments are: (i) private banking for its high net-worth customers, (ii) preferred banking for its mass affluent customers, (iii) personal banking for its regular customers, (iv) overseas Filipinos for its overseas Filipino customers, and (v) self-employed micro entrepreneurs (**SEMEs**). This system of classification allows the Bank to help its customers achieve their financial goals through specific financial advice, access to appropriate products and solutions, and other services. The Bank's retail clients accounted for 62.2% of the Bank's total deposit base as of 30 June 2019.

BPI Direct BanKo, the Bank's microfinance subsidiary, provides the financing for productive and business purposes of SEMEs. BPI Direct BanKo offers quick access to credit facilities through its 230 branches and micro-banking offices across the Philippines as of 30 June 2019. The Bank intends to open additional BPI Direct BanKo branches in 2019.

#### *Corporate Banking Group*

The corporate banking group manages the Bank's relationships with a broad range of multinational corporations, large domestic conglomerates, and medium domestic companies. The corporate banking group is responsible for deposit origination from institutional clients, as well as the distribution of lending products developed by the Bank's corporate lending and asset finance teams. Products and services offered to corporate clients include cash management, electronic payments, trade finance, corporate finance and other solutions. Corporate clients account for 30.3% of total deposits and 74.9% of total loans as of 30 June 2019.

#### *Business Banking Group*

The business banking group focuses on the needs of the small-and-medium-sized enterprises segment. The group provides comprehensive coverage to SMEs through dedicated relationship managers and sales officers. The Bank has implemented a tailored set of credit processes and credit-scoring models in order to offer quick and efficient access to capital to SME clients. Products and services offered to SME clients include cash management facilities and a state-of-the-art electronic banking platform branded "BizLink" with a range of pricing options. SME clients are primarily depositors accounting for 8.1% of total deposits as of 30 June 2019, with very few clients borrowing from the Bank.

### Principal Products and Services

The Bank offers a wide range of corporate, commercial and retail banking products. The Bank has two major categories for its products and services. The first category covers its deposit taking, lending and investment activities. Revenue from this category is reflected as net interest income in the Bank's financial statements and it accounts for a majority of the Bank's revenues. The second category covers services other than those related to its core deposit taking, lending, and investing business and from which the Bank derives commissions, service charges and other fees. These include investment banking and corporate finance fees, asset management and trust fees, foreign exchange, securities distribution fees, securities trading gains, credit card membership fees, rental on bank assets, income from insurance subsidiaries and service charges/commissions earned on international trade transactions, drafts, fund transfers and various deposit related services. Commissions, service charges and other fees, when combined with trading gains and losses arising from the Bank's fixed income and foreign exchange operations, constitute non-interest income. As of 30 June 2019, net interest income accounted for 71% of net revenues while other income accounted for the remaining 29% of net revenues.

## **Description of the Bank**

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The Bank's principal products and services consist of (i) corporate lending, (ii) consumer lending, (iii) unsecured lending and cards, (iv) deposits, (v) remittance, (vi) corporate finance and investment banking, (vii) asset management and trust, (viii) insurance, and (ix) foreign exchange services. Throughout its products and services offering, the Bank aims to create a unique customer experience while focusing on cost optimisation, process control, innovation and excellent after-sales engagement with the Bank's clients.

The following is a description of the Bank's principal products and services.

### ***Corporate Lending***

The Bank offers a broad range of products and services to its corporate clients, including credit, project finance and trade finance products.

As of 30 June 2019, the majority of the Bank's corporate lending consists of short-to-medium-term loans, typically with floating interest rates set at a fixed spread over a Philippine government rate benchmark. The Bank offers both Peso and foreign currency (primarily U.S. dollar) denominated loans. The Bank also offers cash management and other transaction services to its corporate clients.

### ***Credit Products***

The Bank offers flexible loan packages which may be structured for business expansion and investment, bridging gaps in a business' working capital requirements, new capital projects or to refinance existing loans. Each loan may vary as to type of facility (straight loan or credit line), denomination (local or foreign currency), security (clean or secured), term (short term or long term) as well as interest rates (fixed or variable).

### ***Project Finance, Agribusiness and Sustainable Energy Finance Loans***

The Bank offers project financing to project sponsors in order to finance large-scale projects, often in power and infrastructure. The Bank primarily looks at the cash flow of the specific project as the source of funds to service the loan. The terms of each project loan are tailored to the cash flow and specific risk characteristics of the project.

The Bank's agribusiness offers financing for various leading agribusiness uses such as (i) poultry enterprise packages to finance the construction of tunnel ventilated broiler houses under contract with an integrator; (ii) piggery farm business enterprise packages, in partnership with a leading global pig genetics company, which funds for the establishment of a commercial hog breeding and fattening farm with controlled climate system; and (iii) sugar crop loans to provide working capital financing to agrarian reform beneficiaries under a cooperative setup.

The Bank also offers sustainable energy financing focused on the areas of sustainable energy involving loans under a risk sharing facility with a multi-lateral agency.

### ***Trade Finance Products***

Trade finance products finance international trade flows in order to mitigate risks involved in international trade transactions. The Bank's trade finance products include letters of credit, documents against payment or against acceptance, trust receipt financing, shipping and bank guarantees, export bills purchased, outward bills for collection and inward remittance via telegraphic transfers.

### ***SME Lending***

#### ***Small Business Loans***

To address the financing needs of the SME segment, the Bank provides term loans and credit lines under its Ka-Negosyo brand. Small business loans range on average from a principal amount of ₱300,000 to ₱100 million and may be collateralised by real estate mortgages, deposits or investments.

### ***Consumer Lending***

## **Description of the Bank**

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The Bank offers a wide range of consumer lending products, including home mortgages and automobile and small business loans.

### *Home Mortgage Loans*

The Bank offers loans to property buyers in the Philippines who intend to use the premises as their primary residence. The Bank's home mortgage loans have funded horizontal developments by reputable developers. The Bank also lends primarily in the middle to high-end market segment. Home mortgage loans are secured by a first mortgage on the property being purchased. In addition, the Bank generally requires residential mortgage borrowers to have an equity interest of at least 20% of the value of the property. Home mortgage loans are typically payable in monthly amortising payments based on market-linked interest rates with terms of one to five years. The Bank may lend up to 80.0% of the developer selling price or the Bank's appraised value of houses and lots. The Bank requires home mortgage borrowers to obtain both fire insurance and mortgage redemption insurance.

As of 30 June 2019, home mortgage loans to individuals on average amount to ₱3.0 million. Interest rates on the Bank's home mortgage loans range from 6.5% to 7.88% over the same period. In accordance with industry practice in the Philippines, interest rates on the Bank's home mortgage loan portfolio are set at a fixed rate applicable for an initial period of between one and 15 years, depending on the maturity of the loan, which ranges from one to 25 years. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable for succeeding periods.

### *Auto Loans*

The Bank offers loans primarily for the acquisition of new cars and only for accredited brands for which a consistent track record of after-sales service has been established. The Bank focuses its lending efforts on those brands that it believes will be able to best retain their resale value. The Bank also works with local dealers to supply financing solutions and easier access to auto loans to their customers. As of 30 June 2019, the Bank's auto loans on average amount to ₱900,000 in principal amount and have average terms of between 12 and 60 months. The applicable interest rate is generally fixed with an amortising repayment schedule over the term of the loan. The Bank also typically lends up to 80% of the value of a new car. The maximum amount varies depending on the model and year of the car and is based on the Bank's internal assessments of the resale value.

All of the Bank's auto loans are secured by a first mortgage or legal charge over the cars being purchased. As of 30 June 2019, the prevailing effective interest rates of the Bank's auto loans range from 8.94% to 10.43%, depending on the loan tenor.

### *Small Business Loans*

To address the financing needs of the SME segment, the Bank provides term loans and credit lines under its *Ka-Negosyo* brand. Small business loans range on average from a principal amount of ₱300,000 to ₱100 million and may be collateralised by real estate mortgages, deposits or investments.

### *Unsecured Lending and Cards*

The Bank offers access to unsecured loans for individuals in the form of personal loans and credit cards. Personal loans are largely based on the fixed monthly salary of an individual, payable in monthly instalments over a period of 12 to 36 months. The Bank's credit cards offer a line of credit to cardholders to purchase goods and services with a promise to repay the Bank on the due date or via deferred and instalment plans.

The Bank also issues other card-based products, such as debit cards and prepaid cards to allow cardholders to enjoy cashless shopping, participate in promotions, earn points and manage expenses. Debit cards enable depositors to withdraw funds via ATMs locally and abroad (via Cirrus terminals, a worldwide ATM network), and pay via point-of-sale terminals. The Bank encourages debit transactions through education initiatives on debit card use at point-of-sale terminals and rebates on spending. Prepaid cards, targeted at younger users, allow cardholders to budget their expenses while encouraging cashless transactions. The Bank launched a prepaid variant that allows seamless transaction with retail outlets accepted in Metro Manila's light rail systems and other bus lines.

## **Description of the Bank**

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The Bank has rolled-out Europay, MasterCard and Visa (**EMV**) chip-embedded credit cards, debit cards and prepaid cards to comply with the BSP directive for banking institutions to shift from magnetic stripe technology to EMV chip-enabled cards.

As of 30 June 2019, the Bank had approximately 1.6 million credit cardholders, 197,000 named prepaid cardholders and about 962 million active debit card users. The total value of transactions executed with the Bank's credit, debit and prepaid cards was approximately ₱125.2 billion.

### ***Deposits***

The Bank's deposit products include current accounts (non-interest and interest bearing demand deposits) and savings and passbook accounts, collectively referred to as **CASA**, which represent the Bank's low-cost funding base. The Bank also offers time deposits with the longest tenor at five years through its subsidiary, BPI Family Savings Bank. The Bank's CASA and time deposit products are offered primarily in Pesos and U.S. dollars. In some cases, these products are also offered in other foreign currencies, depending on client requirements.

### ***Remittance***

The Bank's remittance services involve purchasing foreign exchange for remittance transactions and delivering remittance payments through the Bank's branch network and courier services. Remittances are also being distributed in the Philippines not only through the Bank's domestic branches and ATM network, but also through its local remittance pay-out partners, such as pawnshops, extending the availability of its remittance service beyond banking hours. The Bank also offers a broad range of customised remittance services such as door-to-door services, direct credit to debit card account as well as gift remittances. These services are supported by the Bank's electronic platform and links to its global payments network which enables fund transfers within twenty-four hours.

The Bank has three remittance centres in Hong Kong and maintains over 141 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

### ***Corporate Finance & Investment Banking***

The Bank's investment banking activities are undertaken by BPI Capital, a wholly-owned subsidiary of the Bank. The Bank's investment banking team is responsible for generating fee-based financial advisory and capital markets transactions. BPI Capital generates financial advisory fees from mergers and acquisitions, restructurings, and balance sheet advisory assignments and generates capital markets fees from debt and equity underwriting, loan syndication, and project finance. Investment banking activities also encompass distribution and market-making of securities to institutional and retail customers. BPI Capital also offers stock brokering services through its wholly-owned subsidiary, BPI Securities Corporation.

BPI Capital's underwriting and distribution activities cover both equity and debt securities. BPI Capital has been involved in major fund raising exercises for the Government (through Philippine Retail CD Issue) and on behalf of major corporations in the Philippines. In 2017, BPI Capital received numerous awards including Best Debt Capital Markets House in the Philippines by *Finance Asia Country Awards*, Best Corporate CD (Philippines) and Best M&A (Indonesia) by *The Asset* as well as Capital Markets Deal (Indonesia and Philippines) by *IFR Asia Awards*. In 2018, BPI Capital was awarded Best Investment Bank and Best ECM House in the Philippines from the *Finance Asia Country Awards* as well as the Renewable Energy Deal of the Year (Indonesia and Regional) and PPP Project of the Year (Philippines) in the last *Asia Infrastructure Awards* by *The Asset*.

Through collaboration with the Bank, BPI Capital harnesses the placement power of the Bank's institutional, corporate, high net worth and retail customers and create value for its clients by tailoring and executing financial solutions to meet their increasingly complex needs.

### ***Asset Management & Trust***

The Bank operates its asset management and trust business through BPI Asset Management and Trust Corporation, a wholly owned subsidiary of the Bank.

## Description of the Bank

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The Bank's asset management and trust business is one of the largest in the Philippine investment management community, with total assets under management of ₱675.7 billion as of 30 June 2019. The Bank has a long track record of managing assets for institutional and individual investors through innovative investment products and solutions. It also distributes the products of BPI-accredited global investment funds to its clients. With both equity and fixed income-oriented fund products, a comprehensive array of institutional fund management solutions and the ability to deal in different currencies, including Pesos, U.S. dollar or Euro, the Bank's product offering is considered to be among the most complete in the Philippine banking industry.

In 2017, the Bank was awarded Best Asset and Fund Manager by Alpha Southeast's 11th Annual Best Financial Institutions Awards and Philippines Asset Management Company of the Year by The Asset.

### *Insurance*

The Bank offers new and innovative insurance products through BPLAC and BPI/MS to meet the varied life and non-life insurance needs of the Bank's customers.

BPLAC is the Bank's life insurance joint venture with Philippine American Life and General Insurance Company, a part of the AIA group. The Bank holds a 47.7% equity stake in BPLAC. According to the Philippine Insurance Commission, BPLAC is the Philippines' leader in bancassurance and is continuously growing alongside the increasing BPI branches nationwide. BPLAC's annualised new premiums (ANP) grew from ₱659 million in 2010 to approximately ₱5.4 billion in 2018 and has an ANP of ₱2.8 billion as of June 2019. It offers life and investment-linked insurance products sold through the Bank's branches by bancassurance sales executives. Bancassurance is an arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client base. BPI/MS is the Bank's non-life insurance joint venture with Mitsui Sumitomo Insurance Group (**Mitsui**). The Bank holds a 50.9% stake in the joint venture company. A majority of BPI/MS originated insurance contracts are re-insured under a treaty with Mitsui. BPI/MS provides insurance coverage on mortgages, travel, fire, and marine.

number 5 in rank among insurance companies but number 1 among bancassurance tie-ups/JVs

### *Treasury*

Treasury manages the Bank's liquidity position and investment portfolio, trades foreign exchange, fixed income securities, and derivatives, and provides treasury products to the Bank's clients, particularly foreign exchange and hedging products. As the Bank's asset and liability manager, treasury takes advantage of opportunities to generate interest differential by managing liquidity and interest rate gaps; and maximises returns by tapping efficient funding sources. Treasury also generates income for the Bank through its trading and market-making activities.

### **Distribution Network**

As of 31 December 2016, 2017 and 2018 and 30 June 2019, the Bank had a network of 834, 945, 1,059 and 1,094 branches (which include full service branches, express banking centres (**EBCs**) and branch-lite units) respectively, which was among the largest branch networks among Philippine banks. Of the Bank's 1,094 branches, as of 30 June 2019, 1,091 branches were located in the Philippines, of which 699 were BPI branches, 162 were BPI Family Savings Bank branches, and 230 were BPI Direct BanKo branches and branch-lite units. In terms of geographic distribution (excluding BPI Direct BanKo), 457 of the branches were located in Metro Manila, 239 of the branches in Luzon (excluding Metro Manila), 99 of the branches in the Visayas and 66 of the branches in Mindanao. The Bank also provides 24 hour banking services through its call centre and network of 2,463 ATMs and 552 CAMs as of 30 June 2019, the second largest network owned by a single bank in the Philippines, which were located in both branches and off site locations, such as shopping malls and high density office buildings. The Bank's overseas network includes one banking location in Hong Kong and two in London. The Bank also has one representative office in Tokyo and another in Dubai, which market and promote certain of the Bank's products and services. The Bank has three remittance centres in Hong Kong and maintains over 141 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

The Bank's branch network is supported by a network of 3,015 ATMs and CAMs as of 30 June 2019, of which 2,463 are ATMs and 552 are CAMs, which together provide cash-related banking services to customers 24/7. In addition, the interconnection with Bancnet in 2016, a Philippine-based interbank network connecting the ATM networks of local and offshore banks, gives the Bank's cardholders access to over 21,000 ATMs across the Philippines as of 30 June 2019. The Bank's ATM network is likewise interconnected with Mastercard, China Union

## Description of the Bank

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Pay, Discover/Diners, JCB and Visa. The Bank aims to provide more secured cash withdrawals for its depositors through the implementation of the ATM withdrawal notification feature, which allows the Bank's cardholders to receive notifications via e-mail or SMS when withdrawals beyond a specified amount are made.

The Bank is a market leader in electronic banking where it has been a first mover and innovator in the use of ATMs, CAMs, point-of-sale debit systems, kiosk banking, phone banking, internet and mobile banking. The Bank has an electronic channels team that leads the Bank's initiatives to improve customer experience through digitalisation in order to provide an omni-channel experience and raise the level of convenience for the Bank's customers. The Bank uses its fast-growing web (available at [www.bpi.com.ph](http://www.bpi.com.ph)) and mobile application offerings as its digital channels to deliver convenient 24/7 facilities for payments, fund transfers, inquiries, prepaid phone reloading, wealth management and fund transfers via QR Code or even to unenrolled accounts of the Bank. The Bank's mobile banking services app is available on Android and iOS devices. In addition, through the Bank's online banking services available at [www.bpiexpressonline.com](http://www.bpiexpressonline.com), access to basic banking services such as ordering of checkbooks for branch pick up and setting an appointment at any branch through "BPI Express Assist" can be done online. For business clients, the Bank's electronic cash management platform *BizLink* (formerly branded as *ExpressLink*), allows its business clients to perform financial transactions electronically securely. Through *BizLink*, businesses can manage their deposit accounts, access cash management and payroll services and make payments to suppliers and government agencies.

The Bank's phone banking continues to service customer inquiries and transactions through its self-service facility. Clients can inquire about their account balances and latest transactions, transfer funds to other accounts of the Bank in real time, pay for their various bills (e.g. credit cards, utilities, condominium dues and insurance premiums) and reload prepaid phones. Customer concerns and queries received via phone banking as well as through SMS, e-mail, social media and Viber, a mobile application, are addressed by the Bank's 24-hour contact centre. The Bank also conducts telemarketing activities through its call centre service. The Bank has direct control of its call centre and telemarketing staff to ensure client confidentiality and to maintain a high standard of client service.

### Human Resources

The Bank's human resources team strengthens the Bank's desired culture of cohesion and performance through key talent acquisition, continuous talent development, holistic performance measurement and competitive compensation systems. To support this goal, the Bank operates a training centre at a satellite location in the Makati area, delivers an in-house, six-month curriculum for training its officers and provides continuing-education programs for all its employees.

### Information Technology Systems

The Bank's information systems team (**ISG**) leads the Bank's transformation into a digital bank. It develops and maintains proprietary applications, network and data centres, enterprise-wide computer systems, and telecommunications facilities. In August 2013, the Bank announced a partnership with IBM on its non-customer-facing technology infrastructure to prepare a more efficient technology platform to deliver increasingly sophisticated services to the Bank's customer base. ISG is governed by the IT Steering Committee (ITSC) which was formed to provide direction on IT strategies that are aligned with the business objectives of the Bank. The IT strategy is reviewed yearly and is aligned with the overall goals of the Bank. The focus of the Bank's current IT strategy is on digital transformation.

### Credit Rating and Credit Approval

The Bank applies a multi-level centralised credit approval process for corporate and commercial loans requiring approvals at various levels depending on the size of the proposed loan. The process has four main levels, which requires applications for credit exceeding specified limits to be approved at higher levels of authority. The Bank has established a credit group that was separated from the marketing function of the Bank, including the relationship managers. The credit group was established in order to help ensure a more objective approach with respect to credit approval. The Bank believes this is an important step for managing credit risk while increasing growth in its loan book.

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The following table shows the different levels of approving authority for particular loans.

Approving Authority	Credit Limit*	
	Secured	Unsecured
Sub-credit Committee .....	₱800.0 million	₱180.0 million
Credit Committee .....	₱2,000.0 million	₱600.0 million
Executive Committee .....	₱8.0 billion (excluding DOSRI/ subsidiaries and affiliates)	₱8.0 billion (excluding DOSRI/ subsidiaries and affiliates)
Board of Directors .....	In excess of ₱8.0 billion and loans to DOSRI/subsidiaries and affiliates	In excess of ₱8.0 billion and loans to DOSRI/subsidiaries and affiliates

Note:

\* determined by the respective approving authorities of the Bank, following the guidelines set forth by the relevant laws and regulations

## Competition

With 46 universal and commercial banks operating in the Philippines as of 30 June 2019, the banking industry in the Philippines is characterised by high levels of regulation and highly competitive pricing and service offerings. The Bank competes against domestic and foreign banks that offer similar products and services as the Bank. Since the further liberalisation of the Philippine banking industry in 2014, foreign banks have expanded from their traditional focus on Metro Manila and large-scale corporations to building their own networks to increase market share, primarily through acquisitions of small domestic savings banks. Foreign banks tend to benefit from the support of their parent companies or established regional operations but they are limited by local regulations to a maximum of six Philippine branches in order to protect the growth and participation of local banks.

According to industry data on Philippine banks, the Bank is the Philippines' second largest in terms of deposits and third largest in terms of loans with market shares of 12.9% and 14.5%, respectively, as of 30 June 2019, and second largest in terms of asset management with market share of 17.8% as of 31 March 2019. The Bank believes its principal competitors are BDO Unibank, Inc. and Metropolitan Bank & Trust Company.

## Employees and Labour Relations

As of 30 June 2019, the Bank had 19,428 employees. Approximately 57.8% of the Bank's employees are covered by existing collective bargaining agreements (**CBA**), which contain economic and non-economic provisions. Economic provisions cover, among others, salaries, allowances, benefits, and work conditions. Non-economic provisions cover union leaves, rights and responsibilities of parties, rules of engagement on strikes and lock-outs, check-off and grievance procedures. CBAs have a term of a five years with regards to non-economic provisions. Economic provisions are generally renegotiated within 60 days prior to the expiry of the third anniversary of an existing CBA. The latest CBA was executed in 2019. New CBAs are scheduled to be negotiated in November 2020 and April 2021. The Bank's management believes it has a good relationship with its staff.

The Bank believes that it has amicable labour relations with its employees. The Bank has 25 unions, 20 of which are under one trade union federation. The Bank has not been involved in any material disputes or employee related lawsuits that may adversely affect the Bank and its operations.

The following table presents the number of employees by category as of the dates indicated:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
Staff .....	10,095	11,449	12,250	12,493
Officers .....	5,106	5,598	6,661	6,935
<b>Total .....</b>	<b>15,201</b>	<b>17,047</b>	<b>18,911</b>	<b>19,428</b>

Consistent with the Bank's goal of being one of the Philippines' preferred employers, the Bank has adopted a compensation policy that it believes is competitive with industry standards in the Philippines. Salaries and benefits are 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. Performance is reviewed annually and employees are rewarded based on the attainment of pre-defined objectives.



## Description of the Bank

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The Bank has a seven-year executive stock option plan (**ESOP**) and executive stock purchase plan (**ESPP**) in place, expiring in 2019, pursuant to which qualified beneficiaries and participants are granted options to purchase the Bank's common shares pursuant to the terms of the stock option plans. The ESOP has a three-year vesting period with one-third of the option being vested at the end of each year from grant date while the ESPP has a five-year payment period. See Note 18 of the Bank's audited financial statements as of 31 December 2017 and 2018 and for the years ended 31 December 2016, 2017 and 2018.

### Corporate Social Responsibility

The Bank manifests and demonstrates its responsibility to society in various ways. In aspiring to be a world-class company, its impact on society and the environment is an important factor in the way the Bank's business.

The Bank has taken on its role of contributing to national development by pursuing certain social initiatives with partner development institutions. Specifically, these initiatives focus on four areas – entrepreneurship, education, environment and employee engagement. Existing programs which are being continually upgraded and improved include, among others, BPI *Sinag*—Empowering Social Entrepreneurs, Show Me Teach Me—Capacity Building for MSMEs, BPI SHAPE—Financial Education and Career Development for Senior High School Students, BPI *Sulong*—Financial Management and Entrepreneurship for Migrant Workers, BPI SoIL—Engaging Future Bank Leaders, and BPI BAYAN—Employee Volunteerism Program.

The Bank also puts great importance in instilling the core value of public service among its employees through its employee volunteerism programs.

### Insurance

The Bank's policy is to adequately insure all of its properties against fire and other usual risks inherent to its business. The Bank also maintains insurance for operational risks. The Bank has directors and officers liability insurance for all of its officers and directors.

The Bank also has a policy of requiring appropriate insurance coverage for any collateral provided by its customers. The Bank's insurance policies are subject to exclusions that are customary for insurance policies of the type held by the Bank, including those exclusions relating to war and terrorism-related events. The Bank believes its insurance policies are in line with industry standards in the Philippines.

### Properties

As of 30 June 2019, the Bank (excluding BPI Direct BanKo) owned 246 branch locations and leased an additional 615. The following table provides the geographic breakdown of the Bank's Philippine branch network as of 30 June 2019:

Location*	Number of Branches	
	Owned	Leased
Metro Manila.....	114	343
Provincial.....	132	272
<b>Total.....</b>	<b>246</b>	<b>615</b>

Note:

\* Excluding BPI Direct BanKo branches.

### Intellectual Property

The Bank has registered a number of trademarks and trade names, including the logo of the Bank and the trademark "Bank of the Philippine Islands". The Bank has not been subject to any disputes relating to its intellectual property rights.

### Legal Proceedings and Permits

The Bank is a party to various legal proceedings, claims and tax assessments which arise in the ordinary course of its operations. None of such legal proceedings, claims and tax assessments either individually or in the

## Description of the Bank

aggregate, are expected to have a material adverse effect on the Bank or its consolidated financial condition. None of the Bank, its subsidiaries, associates or properties is currently involved in any material litigation, arbitration or similar proceedings, and the Bank is not aware of any such proceedings pending or threatened against it, any of its subsidiaries or associates or its properties, which are or might be material in the context of the Programme or an issuance of CDs thereunder.

The Bank believes it has all material permits and licenses necessary for its business and that these are valid and subsisting as of the date of this Offering Circular.

### Principal Subsidiaries and Associates

The following table sets out summary information in respect of the Bank's principal subsidiaries and affiliates as of and for the six months ended 30 June 2019:

	Effective Ownership <sup>(1)</sup>	Activity	Issued Capital Stock*	As of and for six months ended 30 June 2019		
				Total Assets	Total Revenues	Net Income (Loss) <sup>(2)</sup>
				(Unaudited)		
(P millions)						
<b>Subsidiaries</b>						
BPI Family Savings Bank, Inc.....	100%	Banking	1,000	270,770	6,007	2,032
BPI Capital Corporation .....	100%	Investment House	506	4,339	210	23
BPI Century Tokyo Lease & Finance Corp. ....	51%	Leasing	81	16,112	255	(19)
BPI Century Tokyo Rental Corp. ....	51%	Rental	650	5,261	816	4
BPI Direct BanKo, Inc., A Savings Bank.....	100%	Microfinance	406	15,066	1,401	184
BPI International Finance Limited .....	100%	Financing	492	3,460	88	(72)
BPI Europe, Plc .....	100%	Banking (deposit)	1,299	4,672	68	6
BPI Securities Corporation .....	100%	Stock brokerage	200	1,316	134	4
BPI/MS Insurance Corporation .....	50.9%	Non-life insurance	350	12,717	1,887	135
BPI Asset Management and Trust Corporation	100%	Trust services	600	3,580	1,062	251
BPI Investment Management, Inc. ....	100%	Investment Management	100	3,228	467	348
<b>Associates</b>						
BPI Philam Assurance Corporation .....	47.7%	Life insurance	750	110,447	7,377	235
AF Payments, Inc. ....	20%	Financing	3,960	1,583	0	(139)
Global Payments Asia-Pacific Philippines Inc..	49%	Financing	2,034	5,213	260	55

Notes:

\* in millions

(1) As of the date of this Offering Circular.

(2) % share of subsidiaries net income.

### Subsidiaries

*BPI Family Savings Bank, Inc.*, a wholly-owned subsidiary, serves as the Bank's primary vehicle for retail deposits and is the Bank's primary platform for retail lending, in particular, housing, auto and small business loans. BPI Family Savings Bank, Inc. was acquired by the Bank in 1984.

*BPI Capital Corporation* is an investment house focused on corporate finance and the securities distribution business. It began operations as an investment house in December 1994. It merged with FEB Investments Inc. on 27 December 2002. It wholly owns BPI Securities Corporation, a stock brokerage company.

*BPI Century Tokyo Lease & Finance Corp.*, 51%-owned by the Bank and 49% owned by Century Tokyo Leasing Corp., is a non-bank financial institution that provides financing services pursuant to the Financing Company Act. BPI Century Tokyo Lease & Finance Corp. wholly owns BPI Century Tokyo Rental Corp., which offers operating leases.

*BPI Direct BanKo, Inc., A Savings Bank (BPI Direct BanKo)* serves microfinance customers through branch, electronic, and partnership channels. Founded in February 2000, BPI Globe BanKO is now wholly-owned by the

## Description of the Bank

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Bank, following a purchase in September 2016 of stakes owned by Ayala (20%) and Globe Telecom, Inc. (40%) and a December 2016 merger with BPI Direct Savings Bank, Inc.

*BPI International Finance Limited, Hong Kong* is a deposit taking company in Hong Kong. It was originally established in August 1974 and provides deposit services as well as client-directed sourcing services for international investments.

*BPI Europe Plc* was granted a U.K. banking license by the Financial Services Authority (FSA) on 26 April 2007. It was officially opened to the public on 1 October 2007.

*BPI Securities Corporation* is the full-service stock brokerage house of the Bank. It is a wholly-owned subsidiary of BPI Capital Corporation and is primarily involved in the purchase and sale of shares of publicly-listed companies on the PSE for its domestic institutional and retail clients.

*BPI/MS Insurance Corporation* is a non-life insurance company formed through the merger of FGU Insurance Corporation (FGU) and FEB Mitsui Marine Insurance Company (FEB Mitsui) on 7 January 2002. FGU and FEB Mitsui were acquired by the Bank through its merger with AIHC and FEBTC in April 2000.

*BPI Asset Management and Trust Corporation* is a newly-established stand-alone trust corporation, authorised to operate by the BSP on 29 December 2016. BPI Asset Management and Trust Corporation took over the asset management and trust business of the Bank and started operations on 1 February 2017.

*BPI Investment Management, Inc.*, is a wholly owned subsidiary of the Bank and serves as the Bank's manager, and investment advisor to the ALFM Mutual Funds (group open-end investment companies registered with, and regulated by, the PSEC) and is responsible for formulating and executing the funds' investment strategy.

### **Associates**

*BPI Philam Assurance Corporation* is the life insurance company formed in 2009 through a joint venture with Philam Life Assurance Corporation, where the Bank has a 47.7% equity stake.

*AF Payments, Inc.* was established as a joint undertaking by Ayala and Metro Pacific Investments Inc. In 2013, AF Payments, Inc. was selected by the Government in a competitive process to provide financing for the automatic fare collection system project, which aims to enable an electronic and integrated ticketing scheme for metro and light rail systems in Metro Manila. The Bank's equity stake in AF Payments, Inc. is 20%.

*Global Payments Asia-Pacific Philippines Inc.* is a joint venture between the Bank and Global Payments, Asia Pacific Private Limited, in which the Bank holds a 49% equity stake. The joint venture company manages the Bank's payments acquiring business.

## RISK MANAGEMENT

The Bank is exposed to risks that are particular to its lending, investment and trading businesses and the environment within which it operates. The Bank's goal in risk management is to ensure that it understands, measures and monitors the various financial and non-financial risks that arise from its business activities, and that it adheres strictly to its policies, standards, procedures and related guidelines which are established to address these risks.

### Risk Management

The Bank employs a disciplined, structured and integrated approach to managing all the risks pertaining to its businesses to create, protect and optimise shareholder value. The Bank's risk management infrastructure covers all identified risk areas. Risk management is an integral part of the Bank's day-to-day business management and each operating unit identifies, measures, manages and monitors the risks pertaining to its business. Functional support on policy-making and risk compliance at the enterprise level is likewise provided for the major risk categories: credit; market and liquidity; and operational and information technology (IT) risks. Finally, independent reviews are regularly conducted by the Bank's Internal Audit group, regulatory examiners and external auditors to ensure that controls and risk mitigants are in place and functioning effectively as intended.

Credit risk continues to be the largest single risk the Bank faces. Credit risk management involves the thorough evaluation, appropriate approval, management and continuous monitoring of counterparty risk, product risk and industry concentration risks relating to each loan account and/or portfolio. The credit risk management process of the Bank is anchored on the strict implementation of credit risk management policies, procedures and practices, control of delegated credit approval authorities and limits, evaluation of portfolio risk profile and the approval of new loan products taking into consideration any potential risk. For consumer loans, credit risk management is additionally supported by established portfolio and credit risk scoring models.

Market and liquidity risk management involves a common structure and process but uses separate conceptual and measurement frameworks that are compatible with each other when it comes to dealing with price, interest rate risk in the banking book and liquidity risks. Price risk management involves measuring the probable losses arising from changes in the values of financial instruments and major asset and liability components as a result of changes in market rates, prices and volatility. Liquidity risk management involves the matching of asset and liability tenors to limit the Bank's vulnerability to abnormal outflows of funds.

Operational and IT risk management involves creating and maintaining an operating environment that ensures and protects the integrity of the Bank's assets, transactions, records and data, systems and technologies, the enforceability of its claims, and compliance with all pertinent legal and regulatory parameters.

### Risk Organisation

The Board directs the Bank's overall risk management strategy and performs an oversight function on the implementation of its risk policies and practices through the various committees that it has created, as follows:

- the Executive Committee, which approves credit risk limit for large exposures; except for DOSRI loans (including loans to BPI subsidiaries) regardless of amount, credit exposures beyond the Executive Committee limit, which are approved by the Board, as well as other transactions that may be required by the BSP;
- the Risk Management Committee (RMC), which reviews, approves, and ensures effective implementation of the Bank's enterprise risk management framework. The RMC approves risk-related policies, oversees limits to discretionary authority that the Board delegates to management, and evaluates the magnitude, distribution, and direction of risks in the Bank; and
- the Audit Committee through Internal Audit, which provides the independent assessment of the over-all adequacy and effectiveness of, and compliance with, the Bank's risk management policies and processes.

In addition to the committees indicated above, the Bank's organisational structure likewise includes the Risk Management Office (RMO), responsible for driving the company's risk management processes, i.e.,

## Risk Management

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- independent identification, measurement, controlling, monitoring and reporting of the Bank's risk taking activities; and
- formulation, review, and recommendation of risk management policies and methodologies.

Nevertheless, the Bank's enterprise risk management framework adopts the basic tenet that risks are owned and primarily managed by the respective businesses and process owners. Everyone in the organisation is therefore expected to ethically, prudently, and proactively manage the risks inherent to their respective areas by complying with the Bank's enterprise risk management framework, policies and standards.

### Credit Risk

Credit risk is the risk of loss due to a borrower's non-payment of a loan or other lines of credit, either principal, interest, or both. It arises whenever the Bank's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements. Non-payment by borrowers or issuers, failed settlement of transactions and default on contracts may occur resulting in some assets of the Bank declining in value.

The Bank drives credit risk management fundamentally via its credit policy manual (**CPM**), the provisions of which are regularly reviewed and updated to reflect changing risk conditions. CPM defines the principles and parameters governing credit activities, ensuring that each account's credit worthiness is thoroughly understood and regularly reviewed. Relationship managers assume overall responsibility for management of the credit exposures while middle and back office functions are clearly defined to provide independent checks and balance to credit risk taking activities. A system of approving and signing limits ensures adequate senior management involvement for bigger and more complex transactions. This risk management structure of policies, accountabilities and responsibilities, controls and senior management involvement is similarly in place for non-performing assets (**NPA**). The Bank fully-implemented PFRS 9-based policies, models and Expected Credit Loss (**ECL**) methodologies for its credit portfolios and impairment provisions calculation, rendering it compliant to both the BSP and accounting standards on PFRS 9 implementation.

In compliance with BSP requirements per Circulars 439 and 855, the Bank has developed and continues to review and calibrate its internal risk rating system aimed at uniformly assessing its credit portfolio in terms of risk profile. Where appropriate, it obtains security, enters into master-netting agreements, and limits the duration of exposures to maintain and even further enhance the quality of the Bank's credit exposures.

The Bank is able to manage overall credit risk and maintain asset quality, evidenced by generally acceptable NPL ratios relative to the Bank's total loan portfolio, diversified portfolio across key industries, adequate loan loss provisioning, and general compliance to BSP guidelines and regulatory ceilings on credit risk.

### Market, Interest Rate in the Banking Book & Liquidity Risks

The value of the Bank's investments is subject to uncertainty in the future. Market risk pertains to losses in the Bank's on-balance sheet and off-balance sheet trading positions arising from potential adverse movements in market prices, in particular, changes in interest rates, foreign exchange rates, credit spreads and equity prices, as well as their correlations and implied volatilities that affect the value of instruments, products, and transactions in the Bank's trading portfolio.

The Bank's market risk exposure arises largely from market-making, dealing and position-taking in fixed-income securities, currencies, equities and derivatives. The Bank employs risk metrics such as the historical simulation Value-at-Risk (**HSVaR**), stop loss and DV01 to monitor the market risk exposures of Treasury and other risk taking units of the Bank. Risk limits are continuously reviewed and updated to align with the Bank's goals, objectives, strategies and overall risk appetite. Forward-looking scenario analysis, simulations and stress tests are also conducted to complement the risk metrics and provide a broader and holistic risk perspective to the Bank's management and RMC. In addition, the volatile nature of the foreign exchange rates may present huge risk on the financial condition of the Bank. The Bank's exposures on net foreign exchange position are monitored and controlled through the existing HSVaR metric that measures potential losses arising from these exposures. The Bank performs daily monitoring against RMC-approved risk limits.

Interest rate risk is a fundamental component of the banking business. Movements in interest rates can expose the Bank to adverse shifts in the level of net interest income and can impair the underlying values of its assets and liabilities. The Bank is exposed to interest rate risk on unfavourable changes in the interest rate curves which

would have adverse effects on the Bank's earnings and its economic value of equity. Interest rate risk in the banking book (**IRRBB**) arises from the Bank's core banking activities. The main source of this type of interest rate risk is re-pricing risk, which reflects the fact that the Bank's assets and liabilities are re-priced as they mature or at contractual periods. Moreover, the mismatch in repricing maturities of assets and liabilities produces periodic gap patterns that create volatility in the earnings.

IRRBB is directly affected by the volume, maturity and repricing balance sheet structures and rate sensitivities of the Bank's assets and liabilities. Measurement techniques used to determine the potential impact of interest rate risk can take a number of forms. The technique used depends on whether the focus is on earnings or economic value of the banking book. As such, there are two major approaches to measure IRRBB: (i) one that focuses on analysis of interest rate movements on net interest income and (ii) one that focuses on the economic value, or market value of the banking book. The economic value approach offers a long-term perspective on interest rate risk taking into account all future cash flows generated from the balance sheet. The earnings-based approach focuses on the short term variability in net interest income, thus linking to profitability.

The first class of techniques measures the potential deterioration in the Bank's net interest income due to changes in interest rates over a specified period of time (e.g. one year). The Bank's earnings are affected when movements in borrowing and lending rates are not perfectly synchronised, which creates a gap problem due such mismatch. The repricing gaps, or the difference between the amounts of rate-sensitive assets and the amounts of rate-sensitive liabilities, are the foundation of the IRRBB analysis. An asset or liability, including contingent or off-balance sheet accounts, is considered to be rate-sensitive, or subject to re-pricing within a time interval, if: (1) it matures, (2) it represents an interim or partial principal payment, (3) the interest rate applied to the outstanding principal balance changes (either contractually or because of a change in a reference rate) during the interval. The Bank employs the earnings-at-risk (**EaR**) metric to assess the potential deterioration in net interest income due to changes in interest rates.

The second class of techniques measures the impact on the economic or market value of the equity (market value of assets less market value of liabilities) due to adverse changes in interest rates. This class of techniques computes for the present value of future principal and interest payments due and relating to the banking book. The discount rates however are uncertain and in fact are volatile. As such this class of techniques essentially computes the Net Asset Value-at-Risk (**VaR**) of the banking book. This risk metric is called the balance sheet VaR (**BSVaR**). The BSVaR is founded on re-pricing gaps. However, unlike the previous metric which focusses on the earnings volatility in the next 12 months, BSVaR provides a long term perspective as all cash flows of the entire balance sheet through maturity of all accounts is considered.

The RMC performs annual review of the BSVaR and EaR limits and breaches with explanations and action plans are reported to the committee. The Bank stress tests its banking book and these stress test results are likewise reported to the RMC.

Liquidity Risk is the current and prospective risk to earnings or capital arising from the Bank's inability to meet its financial obligations to a client or to the market in any location and at any time when they come due without incurring unacceptable losses or costs. It is also the inability to manage unplanned decreases or changes in funding sources.

The Bank's liquidity profile is measured and monitored through its internal metric, the Minimum Cumulative Liquidity Gap (**MCLG**) supplemented by liquidity risk monitoring tools, as well as through regulatory metrics, Liquidity Coverage Ratio (**LCR**) and Net Stable Funding Ratio (**NSFR**). The 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. The LCR promotes the short-term resilience of the Bank's liquidity risk profile and requires the Bank to hold adequate level of high-quality liquid assets (**HQLA**) to cover net cash outflows in the next 30 days. NSFR, on the other hand, requires the Bank to maintain a stable funding profile so as to cover its assets over a horizon of one year. Moreover, both the LCR and NSFR are designed to strengthen the resilience of the Bank against liquidity shocks. The Bank also regularly conducts liquidity stress tests which have consistently revealed ample liquidity to meet its obligations under both name-specific and systemic crisis scenarios.

Market, IRRBB, and liquidity risk management is incumbent on the Board of Directors through the RMC. At the management level, the Bank's market risk exposure is managed by the RMO, headed by the Bank's Chief Risk Officer (**CRO**) and reports directly to the RMC. The RMO is responsible for recommending risk management policies and methodologies and for promoting enterprise-wide risk appreciation and education. The RMC defines the risk tolerance, provides guidance on risk strategies and approves risk policies and methodologies. The Bank's

risk tolerance is continuously discussed at RMC meetings. With this, the Bank is able to ensure risks taken are adequate and within the Bank's appetite and limits.

### Operational & IT Risks

Operational risk is the probability of loss arising from fraud, unauthorised activities, errors, omissions, system failures, or from external events. On the other hand, IT risk is the risk of any potential adverse outcome arising from the use of or reliance on IT. This includes, but is not limited to, information security, service availability, and reliability and availability of IT operations. Operational and IT Risks is the broadest risk type encompassing product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

The Bank has a reliable internal control framework that is constantly reviewed for applicability and effectiveness by the following divisions within the organisation:

- RMO, which formulates, reviews, and revises operational risk management policies and framework, and spearheads implementation of key operational risk activities such as the risk and control self-assessment (**RCSA**), key risk indicators (**KRI**) and monitoring and incident management processes to ensure alignment of processes to applicable industry best practices. The RMO also supports the implementation of risk awareness and appreciation programs conducted through human resources training programs;
- internal audit, which ensures compliance with regulatory and internal policies and provides an independent assessment of current operational risk management practices and controls;
- compliance office, which oversees the implementation of the Bank's compliance system manual and acts as the repository for external regulations;
- legal services division, which ensures that the Bank's contracts and documentation adequately protect its interest;
- strategic and corporate planning and centralised accounting, which ensures implementation of financial policies to reflect a true and fair picture of the Bank, and ensures prompt disclosure or relevant information on the Bank to external stakeholders;
- central security office, which is responsible for the security of the Bank's facilities and the overall safety of the Bank's clients and employees;
- information systems group, which ensures that existing systems and functionalities are constantly improved to promote operational efficiency, adequate controls, and consistent service delivery; and
- human resources management group, which ensures succession plans are in place, and competency building and assessment programs are implemented, and that employees of the Bank undergo appropriate training programs to address competency gaps as well as for continuous improvement of both technical and behavioural skills required to deliver the job following the Bank's service and control standards.

The Bank has a Crisis Resiliency Committee providing oversight on incident management and leadership during a crisis with guidance from the approved crisis resiliency plan of the Bank, as well as business continuity plans and IT disaster recovery plans that are tested on an annual basis. Furthermore, the Bank has an established cyber security operations centre that provides threat intelligence, detection capabilities and proactive responses through monitoring, analytics and prompt detection.

Given all the operational risk controls, methods and tools, and processes fully in place, the Bank is able to manage operational and IT losses within the Bank's acceptable standards.

The Bank aims to continuously promote a culture of proactive and prudent risk management with the goal of becoming a risk-intelligent organisation, with the CRO and the RMO continuously engaging the RMC,

## **Risk Management**

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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 enterprise-wide practices.



## DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following unaudited information should be read together with the Bank's financial statements included in this Offering Circular as well as "Selected Statistical Data", "Risk Management" and "Description of the Bank".

### Funding

#### Overview

The Bank's funding is primarily provided by time, savings and demand deposits. Of the total amount of deposits of ₱1,658,450 million as of 30 June 2019, these categories amounted to 32%, 53% and 16%, respectively. The Bank also sources part of its funding requirements from the interbank market and occasionally from the BSP rediscount facility, which generally results in lower overall funding cost.

#### Sources of Funding

The Bank's principal source of deposits is private individuals. As of 30 June 2019, these accounted for 62.2% of total deposit liabilities.

The Bank has been successful in attracting and retaining its low cost deposit base. While the cost of deposits is largely driven by interest rate movements, the average cost of deposits is also bolstered by the continued increase in the share of CASA to total deposits. The Bank intends to continue to grow its CASA through the launching of CASA products bundled with the Bank's other product and service offerings and enhanced digital banking platforms. The maturities of the Bank's funding portfolio enable it to achieve funding stability and liquidity while achieving its desired profile of loan and deposit maturities. The Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a base of core liquidity.

The following tables set out an analysis of the Bank's principal sources of funding as of the periods indicated:

	For the year ended 31 December					
	2016		2017		2018	
	Volume	Average Cost of Funding <sup>(1)</sup>	Volume	Average Cost of Funding <sup>(1)</sup>	Volume	Average Cost of Funding <sup>(1)</sup>
(₱ millions, except percentages)						
<b>Deposits by type:</b>						
Demand.....	231,525	0.3%	252,238	0.3%	256,279	0.3%
Savings .....	820,181	0.7%	860,612	0.6%	883,650	0.6%
Time.....	379,594	1.9%	449,350	2.0%	445,817	2.9%
<b>Total .....</b>	<b>1,431,300</b>	<b>1.0%</b>	<b>1,562,200</b>	<b>1.0%</b>	<b>1,585,746</b>	<b>1.1%</b>
<b>Deposits by currency:</b>						
Peso.....	1,215,484	1.0%	1,318,169	1.0%	1,337,506	1.2%
Foreign.....	215,816	0.7%	244,031	0.8%	248,240	0.9%
<b>Total .....</b>	<b>1,431,300</b>	<b>1.0%</b>	<b>1,562,200</b>	<b>1.0%</b>	<b>1,585,746</b>	<b>1.1%</b>
<b>Deposits by classification:</b>						
Low Cost .....	1,051,706		1,112,850		1,139,929	
Term .....	379,594		449,350		445,817	
<b>Total .....</b>	<b>1,431,300</b>		<b>1,562,200</b>		<b>1,585,746</b>	
<b>Bills Payable:</b>						
Peso.....	9,150		37,064		96,265	
Foreign.....	52,823		46,453		70,636	
<b>Total .....</b>	<b>61,973</b>	<b>1.84%</b>	<b>83,517</b>	<b>2.38%</b>	<b>166,901</b>	<b>3.83%</b>
<b>Acceptances Payable:</b>						
Peso.....	40		12		5	
Foreign.....	1,412		2,980		2,389	
<b>Total .....</b>	<b>1,452</b>		<b>2,992</b>		<b>2,394</b>	

Note:

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

## Description of the Bank's Assets and Liabilities

	For the six months ended 30 June			
	2018		2019	
	Volume	Average Cost of Funding <sup>(1)</sup>	Volume	Average Cost of Funding <sup>(1)</sup>
	(P millions, except percentages)			
<b>Deposits by type:</b>				
Demand	265,490	0.3%	257,780	0.2%
Savings	890,035	0.6%	874,806	0.6%
Time	379,451	2.6%	525,864	4.4%
<b>Total</b>	<b>1,534,976</b>	<b>1.1%</b>	<b>1,658,450</b>	<b>1.6%</b>
<b>Deposits by currency:</b>				
Peso	1,294,497	1.1%	1,406,871	1.7%
Foreign	240,479	0.8%	251,579	1.1%
<b>Total</b>	<b>1,534,976</b>	<b>1.1%</b>	<b>1,658,450</b>	<b>1.6%</b>

	For the six months ended 30 June			
	2018		2019	
	Volume	Average Cost of Funding <sup>(1)</sup>	Volume	Average Cost of Funding <sup>(1)</sup>
	(P millions, except percentages)			
<b>Deposits by classification:</b>				
Low Cost	1,155,525		1,132,586	
Term	379,451		525,864	
<b>Total</b>	<b>1,534,976</b>		<b>1,658,450</b>	
<b>Bills Payable:</b>				
Peso	15,631		65,918	
Foreign	36,112		70,659	
<b>Total</b>	<b>51,743</b>	<b>2.1%</b>	<b>136,577</b>	<b>5.2%</b>
<b>Acceptances Payable:</b>				
Peso	12		10	
Foreign	2,982		2,642	
<b>Total</b>	<b>2,994</b>		<b>2,653</b>	

Note:

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

As of 30 June 2019, 68.3% of the Bank's outstanding deposits were demand and savings deposits, both of which can be withdrawn on demand without any prior notice from the customer. The following table sets out an analysis of the maturities of the deposit base of the Bank as of the dates indicated:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	(P millions)			
Demand	231,525	252,238	256,279	257,780
Savings	820,181	860,612	883,650	874,806
Time	379,594	449,350	445,817	525,864
Up to 1 year	272,121	313,444	330,845	410,739
> 1 year to 5 years	107,473	135,906	114,972	115,125
<b>Total</b>	<b>1,431,300</b>	<b>1,562,200</b>	<b>1,585,746</b>	<b>1,658,450</b>

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market, mainly for treasury management purposes. Interbank borrowings are mostly short-term in duration and have historically accounted for a minor portion of the Bank's total funding requirements.

The Bank is a member of the Philippine Deposit Insurance Corporation (the **PDIC**), which insures all deposits up to a maximum of ₱0.5 million per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

### Liquidity

As of the date of this Offering Circular, Peso deposits and deposit substitutes of universal and commercial banks are subject to a 19% reserve requirement. Required reserves must be kept in the form of deposits placed in the Bank's demand deposit account (**DDA**) with the BSP. Sufficient asset cover is likewise provided for foreign-denominated liabilities. The Bank follows BSP regulations that require depository banks under the foreign currency deposit system to maintain at all times a 100% asset cover for their foreign currency liabilities, of which at least 30% must be in the form of liquid assets.

## Description of the Bank's Assets and Liabilities

As of 30 June 2019, the Bank's liquid assets amounted to ₱843,670 million, or 39.5% of the Bank's total assets. The Bank's liquid assets consisted largely of government securities and cash and other liquid assets to cover primary reserves requirement for deposits as well as to maintain a significant level of secondary reserves to fund any potential increase in loan demand. The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	(₱ millions, except percentages)			
<b>Liquid Assets<sup>(1)</sup></b>	<b>831,697</b>	<b>881,848</b>	<b>950,213</b>	<b>843,670</b>
Cash and Other Cash Items .....	35,692	35,132	43,536	30,967
Due from BSP .....	239,514	255,948	225,907	217,415
Due from Other Banks .....	23,037	14,406	12,477	10,422
Interbank Loans Receivable and Securities				
Purchased Under Agreements to Resell.....	14,721	18,123	34,253	28,606
Derivative Assets .....	1,574	73	4,033	3,082
Trading Securities .....	14,603	5,332	12,088	13,755
Investment Securities, net .....				
Financial Assets at Fair Value through OCI .....	13,507	13,288	27,910	9,633
Financial Assets at Amortised Cost .....	30,722	13,182	30,159	25,965
Loan and Advances, Gross .....	454,072	521,688	554,183	498,777
Other Financial Assets .....	4,255	4,676	5,667	5,048
<b>Total Assets .....</b>	<b>1,725,696</b>	<b>1,903,905</b>	<b>2,085,228</b>	<b>2,134,745</b>
<b>Total Deposits .....</b>	<b>1,431,300</b>	<b>1,562,200</b>	<b>1,585,746</b>	<b>1,658,450</b>
<b>Net Loans<sup>(2)</sup> .....</b>	<b>1,040,720</b>	<b>1,202,338</b>	<b>1,354,896</b>	<b>1,354,350</b>
<b>Financial Ratios</b>				
Liquid Assets to Total Assets .....	48.2%	46.3%	45.6%	39.5%
Liquid Assets to Total Deposits .....	58.1%	56.4%	60.0%	50.9%
Net Loans to Total Deposits .....	72.7%	77.0%	85.4%	81.7%

Notes:

- (1) Liquid assets include all financial assets due within one year.
- (2) Receivable from customers, net of allowance for credit losses and unearned discounts.

### Liquidity Management

The Bank manages its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investments in securities, trade financing and capital investments. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio, the securing of ample money market lines and swap lines and the maintenance of repurchase facilities.

Liquidity risk on funding mainly comes from mismatches in asset, liability and exchange contract maturities. The Bank manages liquidity risk by setting and maintaining a minimum cumulative liquidity gap (**MCLG**, which is the smallest net cumulative cash inflow or the largest net cumulative cash outflow), conducting internal and regulatory stress tests and testing the Bank's contingency funding plan. The Bank's market and liquidity risk exposures are generally well within the Board-approved value-at-risk (**VaR**), stop loss and other risk limits set by the Bank and its subsidiaries.

The Bank's asset and liability committee (**ALCO**) is directly responsible for liquidity risk exposure. ALCO regularly monitors the Bank's positions and sets appropriate fund transfer prices to effectively manage movement of funds across business activities.

### Securities Portfolio

The Bank classifies its securities in the following three categories: financial assets at fair value through profit and loss (**FVPL**), financial assets at amortised cost investments and financial assets at fair value through other comprehensive income (**FVOCI**) investments. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Securities are classified as FVOCI investments when purchased and held indefinitely, but which the Bank expects to sell in response to liquidity requirements or changes in market conditions. Financial assets at FVPL include debt and equity securities that have been acquired principally for the purpose of selling or repurchasing in the near term. Amortised Cost investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the intention and ability to hold to maturity.

## Description of the Bank's Assets and Liabilities

As of 30 June 2019, the Bank's investments (exclusive of derivatives) comprised 18.9% of its total assets. The table below shows the balances of the Bank's securities as of the dates indicated:

	As of 31 December						As of 30 June	
	2016		2017		2018		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Trading Securities.....	14,603	14,603	5,332	5,332	12,688	12,688	31,542	31,542
Investment Securities, net								
Financial Assets at FVOCI.....	24,301	24,301	23,313	23,313	37,206	37,206	76,972	76,972
Financial Assets at Amortised Cost								
.....	268,483	261,742	277,472	268,301	287,571	258,652	295,706	289,699
<b>Total .....</b>	<b>307,387</b>	<b>300,646</b>	<b>306,117</b>	<b>296,946</b>	<b>337,465</b>	<b>308,546</b>	<b>404,220</b>	<b>398,213</b>

### Loan Portfolio

As of 30 June 2019, the Bank's total loan portfolio amounted to ₱1.4 trillion, representing 65% of total assets. Large corporate loans, SME loans and consumer loans make up 75%, 6% and 19% of the Bank's total loan portfolio as of 30 June 2019.

The following table sets out the distribution of the total loan portfolio held by the Bank among its principal lending units as of the dates indicated:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	(₱ millions)			
Corporate Entities				
Large Corporate Customers .....	760,558	913,529	1,043,855	1,027,152
Small-and-Medium-Sized Enterprise .....	83,516	85,324	87,998	82,012
Retail Customers				
Credit Cards .....	39,995	49,142	60,843	67,087
Real Estate Mortgages .....	116,079	115,772	126,088	129,987
Auto Loans .....	53,485	53,343	51,845	52,025
Others .....	4,545	4,707	5,145	18,871
<b>Total .....</b>	<b>1,058,178</b>	<b>1,221,817</b>	<b>1,375,774</b>	<b>1,377,134</b>

### Industry concentration

The real estate, manufacturing, wholesale and retail trade, electricity, gas, and water, and financial institutions sectors have in general represented the largest sectors of the Bank's loan portfolio, representing 23.7%, 15.6%, 11.4%, 11.2% and 10.3%, respectively, of the Bank's loan portfolio as of 30 June 2019.

Under guidelines established by the BSP, loan concentration is considered to exist when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. BSP regulations require banks to allocate 25% of their loanable funds for agricultural credit in general, of which at least 10% is to be made available for agrarian reform credit. Alternatively, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. Failure to comply with required credit to the agrarian reform and agricultural sectors may result in sanctions, including an annual penalty of 0.5% of the amount of non-compliance/under-compliance. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, the Bank was fined ₱387.4 million, ₱424.4 million, ₱491.7 million, ₱246.8 million and ₱281.0 million, respectively, for its failure to fully comply with Agri-Agra mandated lending. The amount of loans to be extended by the Bank under Agri-Agra amounts to approximately ₱214.6 billion as of 30 June 2019.

The BSP has also mandated banks to allocate credit resources of at least 8% of their total loan portfolio as of the end of the previous quarter for micro-and-small-enterprises (MSEs) and at least 2% for medium-enterprises (MEs). Sanctions include monetary fines of ₱500,000 for non-compliance while the amount of undercompliance is expressed as a percentage of the applicable requirement multiplied by ₱400,000 for MSEs and by ₱100,000 for MEs. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, the Bank was fined ₱0.78 million, ₱1.02 million, ₱0.25 million, ₱0.52 million and ₱0.26 million, respectively, for failure to extend loans in a sufficient amount to MSMEs. The amount of credit to be extended by the Bank to MSMEs amounts to ₱112.2 billion as of 30 June 2019. Because the Bank is unable to generate sufficient exposure

## Description of the Bank's Assets and Liabilities

to the Agri-Agra or MSMEs sectors that meet its credit and risk management standards, the Bank has paid fines in the past and may continue to do so in the future.

The following table sets forth an analysis of the Bank's loan portfolio by economic activity as of the dates indicated, as defined and categorised by the BSP:

	As of 31 December						As of 30 June	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(P millions, except percentages)							
Consumer .....	95,751	9.1%	104,584	8.6%	114,277	8.3%	120,244	8.8%
Manufacturing .....	167,015	15.8%	198,315	16.3%	223,365	16.3%	213,685	15.6%
Real estate, renting and other related activities .....	247,038	23.4%	276,890	22.7%	314,398	23.0%	324,770	23.7%
Wholesale and retail .....	117,123	11.1%	139,885	11.5%	172,597	12.6%	155,812	11.4%
Agriculture, fishing and forestry .....	42,922	4.1%	40,120	3.3%	37,539	2.7%	30,035	2.2%
Electricity, gas and water .....	98,556	9.3%	120,304	9.9%	130,944	9.6%	153,712	11.2%
Transport, storage and communication ..	59,691	5.7%	66,263	5.5%	27,732	2.0%	29,212	2.1%
Construction .....	22,793	2.2%	22,428	1.8%	27,409	2.0%	32,033	2.3%
Financial intermediaries .....	100,382	9.5%	91,646	7.5%	83,462	6.1%	141,013	10.3%
Others .....	103,650	9.8%	157,108	12.9%	237,621	17.4%	169,828	12.4%
<b>Total.....</b>	<b>1,054,921</b>	<b>100.0%</b>	<b>1,217,543</b>	<b>100.0%</b>	<b>1,369,344</b>	<b>100.0%</b>	<b>1,370,344</b>	<b>100.0%</b>

### Loan Maturity Profile

As of 30 June 2019, 37.7% of the Bank's loan portfolio had a maturity of one year or less. The following table sets forth an analysis of the Bank's loan portfolio by maturity as of the dates indicated:

	As of 31 December						As of 30 June	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(P millions, except percentages)							
Within one year <sup>(1)</sup> .....	449,597	42.6%	516,230	42.4%	540,450	39.5%	516,732	37.7%
More than one year .....	605,324	57.4%	701,313	57.6%	828,894	60.5%	853,612	62.3%
<b>Total.....</b>	<b>1,054,921</b>	<b>100.0%</b>	<b>1,217,543</b>	<b>100.0%</b>	<b>1,369,644</b>	<b>100.0%</b>	<b>1,370,344</b>	<b>100.0%</b>

Note:

(1) Includes past due loans.

### Foreign Currency Denominated Loans

As of 30 June 2019, 88.5% of the Bank's loan portfolio was denominated in Pesos while 11.5% was denominated in a foreign currency, 95.3% of which was comprised of U.S. dollars.

The following table sets forth an analysis of the Bank's loans by currency as of the dates indicated:

	As of 31 December						As of 30 June	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(P millions, except percentages)							
Philippine Peso.....	931,873	88.3%	1,076,780	88.4%	1,218,379	89.0%	1,212,363	88.5%
Foreign Currency .....	123,048	11.7%	140,763	11.6%	150,965	11.0%	157,981	11.5%
U.S. Dollars .....	120,688	98.1%	135,300	96.1%	145,995	96.7%	150,478	95.3%
Others .....	2,360	1.9%	5,463	3.9%	4,970	3.4%	7,503	4.7%
<b>Total .....</b>	<b>1,054,921</b>	<b>100.0%</b>	<b>1,217,543</b>	<b>100.0%</b>	<b>1,369,344</b>	<b>100.0%</b>	<b>1,370,344</b>	<b>100.0%</b>

### Interest Rates

As of 30 June 2019, 89.1% of the Bank's total loan portfolio are subject to repricing. The Bank sets interest rates for floating rate Peso-denominated loans based on market rates for Philippine government securities and for floating rate U.S. dollar-denominated loans based on U.S. dollar LIBOR. The floating rate loans are repriced for interest periods of typically 30 to 90 days.

## Description of the Bank's Assets and Liabilities

The following table sets forth the total amount of the Bank's loan exposure to interest rate risk, on a consolidated basis, categorised by the earlier of contractual repricing or maturity dates:

	As of 31 December						As of 30 June	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(P millions, except percentages)							
Repricing.....	974,308	92.4%	1,086,603	89.2%	1,227,757	89.7%	1,221,344	89.1%
Up to one year.....	741,136	76.1%	741,937	68.3%	833,657	67.9%	843,906	69.1%
Over 1 up to 3 years.....	66,575	6.8%	79,326	7.3%	129,410	10.5%	121,046	9.9%
Over 3 years.....	166,597	17.1%	265,340	24.4%	264,690	21.6%	256,392	21.0%
Non-repricing.....	80,613	7.6%	130,941	10.8%	141,587	10.3%	149,000	10.9%
<b>Total Loans.....</b>	<b>1,054,921</b>	<b>100.0%</b>	<b>1,217,544</b>	<b>100.0%</b>	<b>1,369,344</b>	<b>100.0%</b>	<b>1,370,344</b>	<b>100.0%</b>

### Sizes and concentration of loans

The BSP generally disallows any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of the Bank's unimpaired capital and surplus, which includes combined capital accounts, paid-in-capital and surplus, but excludes unbooked reserves for valuation purposes, liabilities and deferred income tax. As of 30 June 2019, the Bank is in compliance with this borrower's limit with all of its loans.

The Bank monitors its financial exposure to its customers in order to ensure that concentration risk is prudently managed. As of 30 June 2019, the Bank's ten largest individual borrowers accounted for 11.3% of the Bank's total outstanding loan portfolio. As of 30 June 2019, the Bank's ten largest borrower groups in the aggregate accounted for 21.4% of its outstanding loan portfolio. There are no NPLs in the top ten loan accounts.

### Secured and Unsecured Loans

The following table sets forth the Bank's secured and unsecured loans, and the type of collateral as of the dates indicated:

	As of 31 December						As of 30 June	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(P millions, except percentages)							
Secured.....	636,886	60.4%	573,293	47.1%	447,821	32.7%	446,250	32.6%
Real estate mortgage.....	241,363	37.9%	195,432	34.1%	220,587	49.3%	241,288	54.1%
Chattel mortgage.....	61,484	9.7%	64,420	11.2%	54,731	12.2%	68,035	15.2%
Others.....	334,039	52.4%	313,441	54.7%	172,503	38.5%	136,927	30.7%
Unsecured.....	418,035	39.6%	644,250	52.9%	921,523	67.3%	924,094	67.4%
<b>Total.....</b>	<b>1,054,921</b>	<b>100.0%</b>	<b>1,217,543</b>	<b>100.0%</b>	<b>1,369,344</b>	<b>100.0%</b>	<b>1,370,344</b>	<b>100.0%</b>

As of 30 June 2019, 67.4% of the Bank's total loans are unsecured.

### Loans to Directors, Officers, Shareholders and their Related Interests

The Bank extends loans to its directors, officers, shareholders and their related interests (collectively referred to as **DOSRI**) in the normal course of business and on equal terms with those offered to unrelated third parties. The BSP imposes an aggregate ceiling of 15% of the bank's loan portfolio for these types of loans or 100% of net worth, whichever is lower with the unsecured portion limited to 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower. As of 30 June 2019, DOSRI loans amounted to 0.75% of the Bank's total loans and advances.

### Loan Classification and Loan Loss Provisioning

In measuring credit risk of loans and advances at a counterparty level, the Bank considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations. In the evaluation process, the Bank also considers the conditions of the industry/sector to which the counterparty is exposed, other existing exposures to the industry/sector to which the counterparty may be related as well as the client and the Bank's fallback position assuming the worst-case scenario. Outstanding and potential credit exposures are reviewed to likewise ensure that they conform to existing internal credit policies.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various counterparty categories. The Bank has internal credit risk rating systems that are designed for corporate,

## Description of the Bank's Assets and Liabilities

SMEs and retail accounts, that measure the borrower's credit risk based on quantitative and qualitative factors. The ratings of individual borrowers may subsequently fluctuate between classes as the assessment of the borrower's probability of default changes. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that are considered relevant and reliable in predicting repayment. The Bank regularly validates the performance of the rating systems and their predictive power with regard to default events and enhances them if necessary.

The Bank's internal ratings are created in line with general BSP guidelines in administering and classifying loans and are classified as follows:

- **Unclassified Loans** – these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated;
- **Loans especially mentioned** – these are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the Bank;
- **Substandard Loans** – these are loans which appear to involve a substantial degree of risk to the Bank because of unfavourable records or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral;
- **Doubtful Loans** – these are loans which have weaknesses similar to those of the substandard classification with additional facts, conditions and values that make collection or liquidation in full highly improbable and substantial loss is probable; and
- **Loss Loans** – these are loans which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

The table below sets forth a summary of the risk classification of the Bank's aggregate loan portfolio as a percentage of outstanding loans as of the dates indicated:

	As of 31 December						As of 30 June	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(P millions, except percentages)							
Classified.....	17,959	1.69%	17,982	1.47%	22,329	1.62%	24,601	1.78%
Especially mentioned								
Substandard secured .....	2,533	0.24%	2,854	0.23%	7,779	0.56%	8,578	0.62%
Unsecured .....	5,508	0.52%	5,081	0.42%	8,063	0.59%	8,841	0.64%
Doubtful.....	6,179	0.58%	6,083	0.50%	2,542	0.18%	2,689	0.19%
Loss .....	3,739	0.35%	3,964	0.32%	3,945	0.29%	4,493	0.33%
Unclassified.....	1,041,426	98.31%	1,205,095	98.53%	1,355,470	98.38%	1,355,137	98.22%
<b>Total.....</b>	<b>1,059,385</b>	<b>100.00%</b>	<b>1,223,077</b>	<b>100.00%</b>	<b>1,377,799</b>	<b>100.00%</b>	<b>1,379,738</b>	<b>100.00%</b>

### Non-Performing Assets

The table below sets forth details of the NPAs (as defined in the table below), non-accruing loans, ROPA (as defined in the table below), restructured loans and write-offs for loan losses as of the dates indicated:

## Description of the Bank's Assets and Liabilities

	As of December 31			As of
	2016	2017	2018	30 June
	(₱ millions, except percentages)			
Total Loans (gross) .....	1,058,178	1,221,817	1,369,344	1,370,344
Non-performing loans (NPLs), gross 30-day <sup>(1)</sup> .....	15,792	16,255	25,391	25,459
Non-performing loans (NPLs), net 30-day <sup>(1)</sup> .....	5,722	5,776	12,794	11,940
ROPA, Gross .....	7,629	7,319	6,617	6,532
ROPA, Net .....	3,667	3,578	3,363	3,355
Total non-performing assets (NPAs), net .....	9,389	9,354	16,157	15,295
Total assets .....	1,725,696	1,903,905	2,085,228	2,134,745
NPAs to total assets .....	0.54%	0.49%	0.77%	0.72%
Allowance for impairment and credit losses (total) .....	22,197	24,045	25,684	27,996
Allowance for credit losses (loans) .....	18,235	20,304	22,430	24,819
Allowance for impairment losses (ROPA) .....	3,962	3,741	3,254	3,177
Allowance for credit losses (loans) to total non-performing loans, gross .....	115.5%	124.9%	88.3%	97.5%
Allowance for impairment and credit losses (total) to total non-performing assets ..	94.8%	102.0%	80.2%	87.5%
Total restructured loans .....	29	8.95	217.3	153.4
Restructured loans to total loans (gross) .....	0.00%	0.00%	0.02%	0.01%
Loans – written off .....	2,208	1,651	2,276	766

Note:

(1) NPLs for December 2018 and June 2019 are based on BSP circular 941.

### Sectoral analysis of non-performing loans

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

	As of 31 December						As of 30 June	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Consumer .....	4,692	29.8%	5,004	30.8%	5,793	22.8%	6,385	25.1%
Manufacturing (various) .....	1,169	7.4%	1,390	8.5%	1,285	5.1%	2,644	10.4%
Real estate, renting and other related activities ..	3,916	24.8%	4,128	25.4%	7,760	30.6%	7,257	28.5%
Wholesale and retail .....	1,709	10.8%	1,733	10.7%	3,448	13.6%	2,683	10.5%
Agriculture, fishing and Forestry .....	791	5.0%	730	4.5%	747	2.9%	836	3.3%
Electricity, gas and water .....	45	0.3%	330	2.0%	335	1.3%	334	1.3%
Transport, storage and communication .....	258	1.6%	264	1.6%	392	1.5%	253	1.0%
Construction .....	491	3.1%	390	2.4%	769	3.0%	920	3.6%
Financial intermediaries .....	448	2.8%	350	2.2%	276	1.1%	331	1.3%
Others .....	2,273	14.4%	1,936	11.9%	4,586	18.1%	3,816	15.0%
<b>Total .....</b>	<b>15,792</b>	<b>100.0%</b>	<b>16,255</b>	<b>100.0%</b>	<b>25,391</b>	<b>100.0%</b>	<b>25,459</b>	<b>100.0%</b>

### Credit Approval Levels

The Bank adopts a multi-level credit approval process for corporate and commercial loans requiring approvals at various levels depending on the size of the proposed loan. The process has four main levels, which requires applications for credit exceeding specified limits to be approved at higher levels of authority.

The following table sets forth the different levels of approving authority for loans depending on the size and type of loan:

Approving Authority	Credit Limit	
	Secured	Unsecured
Sub-credit Committee	₱800.0 million	₱180.0 million
Credit Committee	₱2,000.0 million	₱800.0 million
Executive Committee	₱8.0 billion (excluding DOSRI, subsidiaries and affiliates)	₱8.0 billion (excluding DOSRI, Subsidiaries and affiliates)
Board of Directors	In excess of ₱8.0 billion and loans to DOSRI, subsidiaries and affiliates	In excess of ₱8.0 billion and loans to DOSRI, subsidiaries and affiliates

### Credit Management Policies and Procedures

The credit management process involves all levels of the organisation, from line personnel up to the Board of Directors. This section discusses the broad responsibilities of the various functions in the credit management process.



## **Description of the Bank's Assets and Liabilities**

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### ***Board of Directors***

The Board of Directors represents the shareholders and provides overall guidance in the execution of the Bank's vision. It is responsible for:

- approving and periodically reviewing the credit strategy of the Bank;
- ratifying significant credit policies;
- approving the Bank's overall strategy for selecting risks and maximising profits;
- reviewing the financial results of the Bank and determining action plans;
- approving write-off of past due loans and ratifying restructured loans;
- approving the minimum amount of valuation reserves to be set up for bank-wide assets;
- determining the adequacy of capital levels vis-a-vis the risks assumed; and
- approving DOSRI loans.

### ***Executive Committee***

The Executive Committee (**EXCOM**) is, after the Board, the highest credit decision-making body in the Bank. As mandated by the Board of Directors, its main purpose is to review and approve credit proposals that may pose material risks to the Bank's business strategy or reputation and to work closely with the Risk Management Committee (**RMC**) in managing the overall credit risk of the Bank through its membership in the RMC. In addition, the EXCOM is responsible for approving the sale of investment properties as recommended by management.

### ***Risk Management Committee***

The RMC of the Board has been tasked to articulate and convey the risk management expectations of the Board to Management. The Board has also delegated the development, implementation, and oversight of the Bank's risk management framework to the RMC. The following are the duties and responsibilities of the RMC:

- provide guidance on and oversight over the implementation of risk management strategies for managing and controlling the Bank's major financial and non-financial risks, preventing losses, and minimising the impact of losses when they occur;
- establish the Bank's overall risk capacity, risk appetite, metrics, and limits system;
- approve credit, market, liquidity, operational and IT risk policies and implementing guidelines as may be recommended for risk management purposes;
- identify and evaluate credit, market, and operational risk exposures, assessing the probability of each risk becoming a reality and estimating its possible effects and costs;
- oversee the system of credit, market, and operational risk limits to discretionary authority that the Board delegates to management, ensuring that the risk limits are observed and immediate escalation and corrective actions are undertaken whenever limits are breached;
- regularly report to the Board the Bank's over-all risk exposure, actions taken to reduce the risks and recommend further actions and plans whenever necessary;
- ensure the proper implementation of the Bank's risk and capital management plan;
- review and reverse the Bank's risk and capital management plan as needed;

## Description of the Bank's Assets and Liabilities

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- set strategic targets, portfolio composition and limits; and
- oversee the management, methods, and processes of the Bank's Chief Risk Officer and the Risk Management Office.

### *Credit Committee*

The Credit Committee at the management level is responsible for executing and managing the credit strategy of the Bank as defined by the Board and the EXCOM, by:

- maintaining a sound and effective credit risk management system;
- participating in Bank-wide portfolio planning and strategy;
- reviewing and approving exceptions to standard credit policies up to its authority limit;
- keeping aggregate credit risk levels within established risk appetite and limits;
- reviewing the effectiveness of credit training policies across the Bank and communicating the same across the key business and operational levels of the organisation;
- ensuring the completeness and validity of information contained in all credit media presented to the EXCOM for approval, notation, and/or ratification;
- approving and reviewing credit proposals within its authority as established by the Board of Directors; and
- reviewing large or complex credit risk exposures and potential transactions, and advising on matters of policy.

### **Special Accounts Management**

The Bank has a special accounts management division (**SAMD**) that manages and administers problem loan accounts. The Bank's relationship officers identify and transfer accounts that, in their assessment, exhibit early warning signals of a deteriorating credit or have been classified as substandard or worse.

SAMD seeks to maximise the recovery of the loan through continued payments, rehabilitation of the problem account, or through alternative means of payment. In cases of accounts involving a consortium of banks, the SAMD strives to take a lead role in the recovery efforts to protect the Bank's interest.

In cases where the remedial action implemented provides for payment via *dación en pago* (handing the keys back to a lender and signing a deed before a notary public whereby a borrower relinquishes ownership in exchange for being fully discharged of his mortgage liability) or other actions such as foreclosure, management of the resulting investment property is handled by the Bank's property sale and leasing division (**PSLD**). The legal affairs and dispute resolution division provides PSLD with any legal assistance that may be required for investment property management. SAMD also provides case-to-case assistance to the PSLD in cases where investment property management may require account management approaches and solutions.

## SHAREHOLDERS, DIRECTORS, AND MANAGEMENT

### Shareholders

The following table shows the principal shareholders of the Bank and the corresponding number of shares held as at 30 June 2019:

Name of Shareholder	Number of Shares	%of Total Shares
AC International Finance Limited	390,269,162	8.66
Ayala Corporation	1,000,261,934	22.19
Liontide Holdings, Inc.	904,194,682	20.06

### Board of Directors

The overall management and supervision of the Bank is undertaken by its Board of Directors. The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Bank. The articles of incorporation of the Bank, as amended (the **Articles of Incorporation**) currently provide for a Board of Directors of not more than 15 Directors, at least nine of whom must be citizens of the Philippines. Directors are elected at the annual meeting of shareholders which is, in accordance with the Bank's by-laws, as amended (**By-Laws**), held on 15 April of every year. The 15 candidates receiving the highest number of votes through cumulative voting will be declared elected. Each elected Director has a term of office of one year and is eligible for re-election the following year. Currently, the Board consists of 15 Directors.

The table below sets out the members of the Board of Directors:

Name	Position	Date First Elected to the Board	Citizenship	Age
Jaime Augusto Zobel de Ayala .....	Chairman	13 March 1990	Filipino	60
Cezar P. Conasing .....	President and Chief Executive Officer	15 April 2010	Filipino	59
Mercedita S. Nolleddo .....	Director	20 November 1991	Filipino	78
Fernando Zobel de Ayala .....	Director	19 October 1994	Filipino	59
Rebecca G. Fernando .....	Director	18 October 1995	Filipino	70
Gerardo C. Ablaza, Jr .....	Director	20 April 2017	Filipino	65
Aurelio R. Montinola III .....	Director	14 January 2004	Filipino	67
Jose Teodoro K. Limcaoco .....	Director	20 February 2019	Filipino	57
Octavio V. Espiritu .....	Independent Director	7 April 2000	Filipino	75
Romeo L. Bernardo .....	Independent Director	21 August 2002	Filipino	64
Dolores B. Yuvienco .....	Independent Director	10 April 2014	Filipino	71
Ignacio R. Bunye .....	Independent Director	14 April 2016	Filipino	74
Xavier P. Loinaz .....	Independent Director	31 March 2009	Filipino	75
Antonio Jose U. Periquet .....	Independent Director	19 April 2012	Filipino	58
Eli M. Remolona, Jr. ....	Independent Director	25 April 2019	Filipino	66

The following is a brief description of the business experience of each of the Directors:

**Mr. Jaime Augusto Zobel de Ayala**, Filipino, 60 years old, has been a member of the Board of Directors (Non-Executive Director) of BPI since March 1990 and Chairman since March 2004. He is currently Chairman of the Bank's Executive Committee and member of the Nomination Committee. Mr. Zobel served as Vice-Chairman from 1995 to March 2004.

Mr. Zobel serves in Board of the following Philippine Stock Exchange (PSE) – listed companies, namely: Chairman and Chief Executive Officer of Ayala Corporation, Chairman of Globe Telecom, Inc. and Integrated Micro-Electronics, Inc., and Vice-Chairman of Ayala Land, Inc. and Manila Water Company, Inc. He is also 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 organisations, 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

## Shareholders, Directors, and Management

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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 recognised 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 recognised for championing sustainability and the pursuit of the 17 SDGs in business.

Mr. Zobel graduated with B.A. in Economics (*cum laude*) from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business in 1987.

**Mr. Cezar P. Consing**, Filipino, 59 years old, has been since 2013 President and Chief Executive Officer of BPI, and a Senior Managing Director of Ayala Corporation, BPI's controlling shareholder.

He has served on BPI's board of directors for 17 years (1995 – 2000, 2004 – 2007, 2010 – present), including 5 years representing J.P. Morgan & Co., then BPI's second largest shareholder, and 3 years as an independent director. 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 and asset management subsidiaries. Mr. Consing is a member of BPI's executive committee, and is chairman of its credit and management committees.

Mr. Consing serves as Chairman of the publicly listed National Reinsurance Corporation, 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](http://FILGIFTS.com) and Endeavor Philippines. He has also served as an independent board director of three public companies: Jollibee Foods Corporation (2010 – present), 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 or 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.

**Ms. Mercedesita S. Nolleto**, Filipino, 78 years old, has been a member of the Board of Directors of BPI since November 1991. She is the Chairman of the Bank's Retirement & Pension Committee and a member of the Bank's Executive Committee and Corporate Governance Committee. Ms. Nolleto 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.

## Shareholders, Directors, and Management

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Ms. Nolloedo is a Non-Executive Director of Xurpas, Inc. and an Independent Director of D&L Industries, Inc., both PSE-listed companies. She 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. Nolloedo 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.

**Mr. Fernando Zobel de Ayala**, Filipino, 59 years old, has been a member of the Board of Directors (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 President and Chief Operating Officer of Ayala Corporation; Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; Director of Globe Telecom, Inc. and Integrated Micro-Electronics, Inc.; and an Independent Director of Pilipinas Shell Petroleum Corp, all PSE-listed companies. He is Chairman of AC International Finance Ltd. and AC Energy Holdings, Inc.; Co-Chairman of Ayala Foundation, Inc.; 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.

**Ms. Rebecca G. Fernando**, Filipino, 70 years old, served as Director of BPI from 1995 to 2007. She was again re-elected Director of BPI in 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.

**Mr. Geraldo C. Ablaza, Jr.**, Filipino, 65 years old, was elected as Director (Non-Executive) 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.

## Shareholders, Directors, and Management

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In 2004, Mr. Ablaza was recognised 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 recognised 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 honour. 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.

**Mr. Aurelio R. Montinola III**, Filipino, 67 years old, has been a member of the Board of Directors of BPI since 2004. Mr. Montinola 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 Family Savings Bank, Inc., BPI/MS Insurance Corporation, and BPI Direct BankKO, Inc., A Savings Bank.

Mr. Montinola is the Chairman of Far Eastern University, Inc. and an Independent Director of Roxas and Company, Inc., both PSE-listed companies. Among others, he is also the Chairman of 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.

**Mr. Jose Teodoro K. Limcaoco**, Filipino, 57 years old, was elected as a 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, and Director of Globe Telecom, Inc., and Integrated Micro-Electronics, Inc. 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 Lontide 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.

## Shareholders, Directors, and Management

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**Mr. Octavio V. Espiritu**, Filipino, 75 years old, Independent Director, has been a member of the 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 an Independent Director of International Container Terminal Services, Inc., a PSE-listed company, 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.

**Mr. Romeo L. Bernardo**, Filipino, 64 years old, 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 serves as Director of BPI Capital Corporation, BPI/MS Insurance Corporation, BPI-Philam Life Assurance Corporation and BPI Asset Management and Trust Corporation.

Mr. Bernardo serves as an Independent Director of the following PSE-listed companies: Aboitiz Power Corporation, National Reinsurance Corporation of the Philippines, and RFM Corporation. He is also a Non-Executive Director of Globe Telecom, Inc. He is the Chairman of the Board of Directors (Independent) of Ayala Life Fixed-Income Fund; the Peso, Dollar, Euro, Growth, Money Market CD Funds. He also serves as Vice Chairman of The Foundation for Economic Freedom and is a Board Director of 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 (Valedictorian) at Williams College, Williamstown, Massachusetts in 1977.

**Ms. Dolores B. Yuvienco**, Filipino, 71 years old, was elected as Director of BPI in April 2014 and as Independent Director in April 2016. She is a member of the Audit Committee and Chair of the Corporate Governance Committee of BPI.

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 2013. She held the post of Assistant Governor in the Supervision and Examination Sector when she retired. 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.

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**Mr. Ignacio R. Bunye**, Filipino, 74 years old, was elected as Independent Director of BPI 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. Xavier P. Loinaz**, Filipino, 75 years old, has been a member of the Board of Directors of the Bank since 1982 and has served as an Independent Director since March 2009. He 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 an Independent Director of Ayala Corporation, a PSE-listed company since April 2017. He is the Chairman and President of XPL Manitou Properties, Inc. and Vice-Chairman of XPL MTJL Properties Inc. He 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. He was President of the Bankers Association of the Philippines for two terms from 1989 to 1991.

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.

**Mr. Antonio Jose U. Periquet**, Filipino, 58 years old, 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. He also serves as an Independent Director of BPI Capital Corporation and BPI Family Savings Bank, Inc.

Mr. Periquet is an Independent Director of the following PSE-listed companies: ABS-CBN Corporation, ABS-CBN Holdings Corporation, Ayala Corporation, DMCI Holdings, Inc., Max's Group of Companies and Philippine Seven Corporation. He is also an Independent Director of Albizia ASEAN Tenggara Fund, Chairman of the Campden Hill Group, Inc. and Pacific Main Holdings.

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.

**Mr. Eli M. Remolona, Jr.**, Filipino, 66 years old, has extensive policy experience in financial markets, international finance and monetary policy, with 14 years of experience at the Federal Reserve Bank of New York and 18 years at the Bank for International Settlements (BIS).



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He served as the Chief Representative for Asia and the Pacific of the BIS. He also served as Secretary of the Asian Consultative Council, which consists of the governors of the 12 leading central banks in the region. He was an Associate Editor of the International Journal of Central Banking. Until 2008, he was Head of Economics for Asia and the Pacific of the BIS. Mr. Remolona joined the BIS in 1999 and for 6 years served as Head of Financial Markets in Basel and Editor of the BIS Quarterly Review. Before that, he was Research Officer of the Federal Reserve Bank of New York.

He is currently a Visiting Professor of Economics at Williams College in Massachusetts, U.S.

Mr. Remolona obtained his Bachelor's Degree in Economics from Ateneo de Manila University and has a Ph.D. in Economics from Stanford University.

### Executive Officers of the Bank

The executive officers (**Executive Officers**) of the Bank, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Bank. They are responsible for the implementation of the policies set by the Board of Directors.

The Executive Officers are appointed/elected by the Board of Directors at the organisational meeting following the stockholders' meeting, each to hold office for a period of one year.

The following is a partial list of the Bank's Executive Officers:

<u>Position</u>	<u>Name</u>	<u>Age</u>	<u>Citizenship</u>
President and Chief Executive Officer .....	Cezar P. Consing*	59	Filipino
Executive Vice-President & Chief Operating Officer..	Ramon L. Jocson	59	Filipino
Executive Vice-President & Chief Finance Officer ....	Maria Theresa Marcial Javier	48	Filipino
Executive Vice-President & Treasurer .....	Antonio V. Paner	60	Filipino
Executive Vice-President .....	Juan Carlos L. Syquia	52	Filipino
Senior Vice-President.....	Eric Roberto M. Luchangco	49	Filipino
Senior Vice-President.....	Angelie O. King	57	Filipino
Senior Vice-President.....	Marie Josephine M. Ocampo	57	Filipino
Senior Vice-President and Chief Marketing Officer ...	Mary Catherine Elizabeth P. Santamaria	52	Filipino
Senior Vice-President and Chief Credit Officer .....	Joseph Anthony M. Alonso	53	Filipino
Senior Vice-President and Chief Audit Executive .....	Rosemarie B. Cruz	56	Filipino
Senior Vice-President and Chief Risk Officer .....	Marita Socorro D. Gayares	57	Filipino
Vice-President and Chief Compliance Officer	Atty. Noravir A. Gealogo	55	Filipino
President, BPI Family Savings Bank .....	Maria Cristina L. Go	49	Filipino
President, BPI Asset Management and Trust Corp. ....	Atty. Sheila Marie U. Tan	51	Filipino

Note:

\* also member of the Board of Directors.

The following is a brief description of the business experience of each of the Executive Officers:

**Mr. Cezar P. Consing.** Please see above under “—Board of Directors.”

**Mr. Ramon L. Jocson**, Filipino, 59 years old, is currently an EVP and the COO of BPI. He is concurrently the Head of BPI's Enterprise Services Segment (ESS), which serves as the enterprise backbone of the organisation that includes Human Resources, Centralised Operations, Information Systems, Digital Channels, Business Transformation, Facilities Services, Corporate Affairs and Communications, and Customer Experience Management Office. He chairs the Bank's IT Steering Committee and is a member of the Bank's Management Committee. He is currently the Vice-Chairman of the CyberSecurity Committee of the Bankers Association of the Philippines.

Mr. Jocson 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

## Shareholders, Directors, and Management

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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. In 2007, he 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, he 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 he was in Singapore as IBM Asia Pacific VP & GM for Strategic Outsourcing, until he joined BPI in September 2015.

He 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 B.S. Industrial Engineering degree from the University of the Philippines in 1982. He also has an MBA from the Ateneo Graduate School of Business.

**Ms. Maria Theresa Marcial Javier**, Filipino, 48 years old, is the Chief Financial Officer and Head of Strategy Group 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. Ms. Marcial joined the bank in 1995 and 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, Ms. Marcial worked for the National Economic and Development Authority and Agricultural Policy Credit Council. She previously served as President of Fund Managers Association of the Philippines, and the 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.

Ms. Marcial is a Fellow of Foundation for Economic Freedom and is a Member of the National Advisory Council of World Wide Fund for Nature (WWF) Philippines.

Ms. Marcial obtained her Master's Degree in Economics in 1995 from the University of the Philippines Diliman and BS Economics (*cum laude*) from the University of the Philippines Los Baños 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.

**Mr. Antonio V. Paner**, Filipino, 60 years old, 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 activities— in the Philippines and abroad. Mr. Paner is Chairman of the Bank's Asset & Liability Committee and is a member of the Management Committee and Asset Management Investment Council. He also serves on the board of BPI Europe Plc.

Mr. Paner joined BPI in 1985, upon acquisition of 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 businesses of the bank, including Risk Taking, Portfolio Management, Money Management, Asset Management, Remittance and Private Banking.

Mr. Paner served as President of the Money Market Association of the Philippines (MART) in 1998 and remains an active member up to present. He is currently the Vice Chairman of the Bankers Association of the Philippines' (BAP) Open Market Committee. He is also a member of the 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, including Strategic Financial Management in 2006. In 2009, he completed the Advanced Management Program at Harvard Business School.

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**Mr. Juan Carlos L. Syquia**, Filipino, 52 years old, is Head of the Corporate Client Segment of the Bank. He was the former President of BPI Capital Corporation and Co-Head for Investment Banking for the Bank. 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 in Cebu where he was half 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, as well as an AB degree in Management Economics from the Ateneo de Manila University.

**Mr. Eric Roberto M. Luchangco**, Filipino, 49 years old, is the Head of Business Banking, which is focused on serving the SME segment of the market. He also serves as a member of the Bank's Management Committee, Credit Committee and Capital Expenditures Committee. Prior to his current role, he headed the Corporate Credit Products Group, which handles the credit assessment of the Bank's corporate borrowers, as well as specialised credit products of the Bank. Before that, Mr. Luchangco was with BPI Capital, serving as both the Head of Debt Capital Markets and of Execution, where he managed the origination of debt securities and structured loans, as well as oversaw the execution of all corporate finance deals for the firm. He also concurrently served as Treasurer for BPI Capital and a board director for BPI Securities.

Prior to joining the BPI Group, Mr. Luchangco was an Executive Director at Daiwa Capital Markets. During his 17 years with the firm, he served stints in Hong Kong, Singapore and Manila, covering origination and execution for a variety of investment banking products across the South East Asian region.

Mr. Luchangco graduated with a Bachelor's degree in Management Economics from the Ateneo de Manila University, and a Master's degree from the Ross School of Business at the University of Michigan. He is a former Chairman and current member of the Capital Markets Committee of the Financial Executives Institute of the Philippines.

**Ms. Angelie O. King**, Filipino, 57 years old, 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 organisation. 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).

**Ms. Marie Josephine M. Ocampo**, Filipino, 57 years old, Ms. Ocampo is Head of Mass Retail of the Bank of the Philippine Islands. In this role, she is responsible for BPI's Unsecured Lending and Cards Group and is working closely with BPI Direct BanKo. She is also serving on the Board of BPI Payment Holdings Inc, BPI Direct BanKo, Inc., Global Payments Asia-Pacific Philippines, Inc., AF Payments Inc., Zalora Philippines and CARD MRI Rizal Bank Inc.

Ms. Ocampo joined BPI in 1996 as VP for Marketing and Sales of BPI Credit Cards, and soon took the position of President for BPI Card Corporation, the bank's credit card subsidiary. During this time, she led the business to win the prestigious Agora Award-2000 Marketing Company of the Year. In 2005, Ms. Ocampo was then cross-posted to BPI's Consumer Banking Group as Head of Kiosk Banking and Head of Personal Banking. She also became the Chief Marketing Officer of BPI from 2008 until 2014. In this role, she was responsible for retooling the bank's data warehouse and customer analytics capabilities into its distinct competitive advantage. She also developed the bank's CRM initiatives on top of driving the bank's advertising and digital initiatives across its breadth of products, channels and services. In 2015, she became the Payments and Remittance group head, and was tasked to grow fee revenue via expanding existing businesses and developing new payment platforms. She also became the Unsecured Lending and Cards Group Head, and oversees BPI's credit, debit and prepaid card businesses as well as personal and micro finance loans.

Prior to joining BPI, Ms. Ocampo had a decade of extensive marketing experience in Johnson & Johnson Australia and Johnson & Johnson Philippines, where she led the expansion of its Health Care, Baby Care and Sanitary Protection business. Ms. Ocampo graduated *magna cum laude* and received her Bachelor of Science in Business Management, Honors Program at the Ateneo de Manila University. She also completed the Advance Management Program at the Harvard Business School in 2007.

**Ms. Mary Catherine Elizabeth P. Santamaria**, Filipino, 52 years old, 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).

**Mr. Joseph Anthony M Alonso**, Filipino, 53 years old, 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

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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.

**Ms. Rosemarie B. Cruz**, Filipino, 56 years old, 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.

**Ms. Marita Socorro D. Gayares**, Filipino, 57 years old, 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

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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.

**Atty. Noravir A. Gealogo**, Filipino, 55 years old, 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).

**Ms. Maria Cristina L. Go**, Filipino, 49 years old, has been the President of BPI Family Savings Bank since 1 June 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.

**Ms. Sheila Marie U. Tan**, Filipino, 51 years old, has been the President and CEO of BPI Asset Management and Trust Corporation (BPI AMTC) since 1 July 2018. Prior to this appointment, she was BPI AMTC's Chief Operating Officer for two years. Before joining BPI AMTC, Ms. Tan was the Head of Strategic Advisory and Managing Director at BPI Capital Corporation where she provided clients with legally compliant, business-specific solutions for their banking, finance, securities, mergers and acquisitions, and capital markets transactions.

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Prior to joining BPI, Ms. Tan was in the practice of law for more than 25 years. She was Co-Managing Director at AG Counselors Corporation (operating under the name Ayala Group Legal). She also worked with Ayala Corporation as an Associate Director/Deputy Head of Legal and Compliance Group where she performed the functions of in-house counsel for various transactions. She was also the Head of Legal Affairs Division and Chief Legal Counsel at Ayala Land, Inc. She started her career with SyCip Salazar Hernandez & Gatmaitan where she handled corporate services, labour, and legal issues with emphasis in special projects as well as banking, finance, and securities.

Ms. Tan graduated cum laude with a Bachelor of Science Degree in Economics from the University of the Philippines, Diliman, where she also obtained her Bachelor of Laws degree.

She is a member of the Integrated Bar of the Philippines. She currently serves as Vice President of the Trust Officers Association of the Philippines.

### Compensation of Directors and Executive Officers

Information as to the aggregate compensation for the years ended 31 December 2016, 2017 and 2018 paid to the Bank's Chief Executive Officer and four other most highly compensated executive officers and all other officers and directors as a group are as follows:

Chief Executive Officer and four other most highly compensated executive officers:

The directors receive fees, bonuses and allowances that are already included in the amounts stated above. Aside from the said amounts, they have no other compensation plan or arrangement with the Bank.

	For the year ended 31 December		
	2016	2017	2018
Executive Compensation.....	129,633,395	(₱) 143,596,043	185,719,878
Bonuses.....	65,764,700	82,213,000	85,327,500
<b>Total.....</b>	<b>195,398,095</b>	<b>225,809,043</b>	<b>271,047,378</b>

All officers as a group unnamed:

	For the year ended 31 December		
	2016	2017	2018
Executive Compensation.....	7,234,014,963	(₱) 7,205,109,274	7,622,471,109
Bonuses.....	829,611,000	917,237,221	970,492,665
<b>Total.....</b>	<b>8,063,625,963</b>	<b>8,122,346,495</b>	<b>8,592,963,774</b>

The executive officers receive salaries, bonuses and other usual bank benefits that are included in the amounts stated above. In addition to these amounts, the Bank also grants stock options to its executive officers pursuant to the terms of its ESOP.

### Involvement of the Bank, the Directors and Executive Officers in Certain Legal Proceedings

The Bank has been, and may in the future be, implicated in lawsuits in connection with the ordinary course of its business. However, neither the Bank nor any of its subsidiaries have been subject to any order, judgment or decree, or violated any securities or commodities law for the last five years, or are involved in any litigation or arbitration proceedings that may have, or have had, a material adverse effect on it or its subsidiaries' financial condition, nor, so far as any of them is aware, is any such proceeding pending or threatened.

The current Directors and the Executive Officers are not, presently or during the last five years, involved or have been involved in any material legal proceeding adversely affecting or involving themselves and/or their property before any court of law or administrative body in the Philippines or elsewhere.

### Board Committees

Specific responsibilities of the Board are delegated to its sub-committees: the Executive Committee, the Nominations Committee, the Personnel and Compensation Committee, the Audit Committee, the Corporate

## **Shareholders, Directors, and Management**

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Governance Committee, the Retirement and Pension Committee, the Related Party Transaction Committee and the Risk Management Committee. A brief description of the functions and responsibilities of the key committees are set out below:

### ***Executive Committee***

The Executive Committee takes on the primary responsibilities of the Board and serves as the Board's operating arm on all corporate governance matters and for approving all major credit risks. The committee is chaired by Jaime Augusto Zobel de Ayala and its other members are Fernando Zobel de Ayala, Cezar P. Consing, Rebecca G. Fernando, Aurelio R. Montinola III, Jose Teodoro K. Limcaoco and Antonio Jose U. Periquet.

### ***Nominations Committee***

The Nominations Committee ensures that all Directors of the Board to be nominated meet the qualifications indicated in the Bank's Manual on Corporate Governance. It is also tasked to encourage the selection of a mix of competent Directors as well as reviews and evaluates the qualifications of all persons nominated to positions in the Bank which require the appointment of the Board. The committee is chaired by Romeo L. Bernardo and its other members are Jaime Augusto Zobel de Ayala, Fernando Zobel de Ayala, Aurelio R. Montinola III and Xavier P. Loinaz.

### ***Personnel and Compensation Committee***

The Personnel and Compensation Committee directs and ensures the development and implementation of long term Human Resources strategy and plan based on the Boards vision of the organisation, particularly those relating to organisation values, human resource policies, compensation, recognition and rewards and succession development plans. The committee is chaired by Fernando Zobel de Ayala and its other members are Romeo L. Bernardo, Aurelio R. Montinola III, Antonio Jose U. Periquet and Gerardo C. Ablaza Jr.

### ***Audit Committee***

The Audit Committee monitors and evaluates the adequacy and effectiveness of the Bank's internal control system. It provides oversight for the overall management of operating risks, financial reporting and control, the quality of compliance with the Manual on Corporate Governance, service performance of the internal audit and the external auditors, reviews conducted by BSP and other regulatory auditors, and the audit committees of the Bank's subsidiaries. The committee is chaired by Xavier P. Loinaz and its other members are Octavio V. Espiritu and Dolores B. Yuvienco.

### ***Corporate Governance Committee***

The Corporate Governance Committee assists the Board of Directors in fulfilling the Bank's corporate governance responsibilities and helps ensure that the Bank observes sound corporate governance principles and guidelines. The committee is chaired by Dolores B. Yuvienco and its other members are Mercedita S. Nolleddo, Astrid S. Tuminez and Ignacio R. Bunye.

### ***Retirement and Pension Committee***

The Retirement and Pension Committee oversees the fiduciary, administrative, investment portfolio, and other non-investment aspects of the Bank's retirement plan. The committee is chaired by Mercedita S. Nolleddo and its other members are Rebecca G. Fernando and Antonio Jose U. Periquet.

### ***Related Party Transaction Committee***

The Related Party Transaction Committee is charged with ensuring that the Bank's dealings with the public and various stakeholders are imbued with the highest standards of integrity. In conjunction with the Executive, Audit, Risk, and Corporate Governance Committees, this Committee endeavours to ensure compliance with BSP regulations and guidelines on related party transactions. It independently reviews, vets, and endorses significant and material related party transactions above the transactions qualifying under directors, officers, shareholders, and related interest restrictions in order to ensure that these transactions are dealt on terms no less favourable to the Bank than those generally available to an unaffiliated third party under the same or similar circumstances. The



## Shareholders, Directors, and Management

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committee is chaired by Ignacio R. Bunye and its other members are Maria Dolores B. Yuvienco and Rebecca G. Fernando.

### *Risk Management Committee*

The Risk Management Committee implements and oversees the enterprise risk management program to assist the board in fulfilling its corporate governance responsibilities relating to the management of risks, oversees and manages exposure to risks, and monitors regulatory and internal capital adequacy vis-a-vis the exposures to risks. The committee sets risk appetite indicators and is also responsible for approving the capital policy and plan, and the various risk models and methodologies. The committee is chaired by Octavio V. Espiritu and its other members are Romeo L. Bernardo, Aurelio R. Montinola III and Eli. M. Remolona.

### **Compliance with Corporate Governance Practices**

The Bank believes that compliance with the principles of good corporate governance begins with the Board of Directors. It is the Board of Director's duty and responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with its fiduciary responsibilities, which must be exercised in the best interests of the Bank, and in proper cases, its shareholders.

The Bank is led by a Board which is the highest authority in matters of governance and in managing the business of the Bank. The Board establishes the vision, strategic objectives, key policies, and procedures for the management of the Bank, as well as the mechanism for monitoring and evaluating management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

The Board is composed of 15 Directors, seven of whom are independent directors. The roles of the chairman and the President & CEO are separate and clearly defined while the independent directors are a strong source of independent advice and judgment. They bring considerable knowledge and experience to the Board's deliberations.

The Board of Directors meets regularly on a monthly basis to ensure a high standard of business practice for the Bank and its stakeholders and to ensure soundness, effectiveness, and adequacy of the Bank's internal control environment. As part of corporate measures to ensure compliance with the principles and policies embodied in the Bank's manual on corporate governance (the **Manual on Corporate Governance**), the Board of Directors designated Ms. Noravir A. Gealogo as the Bank's compliance officer. Ms. Gealogo is responsible for, among other matters, determining and measuring compliance with the Manual, appearing before the SEC upon summons on matters relating to the Manual on Corporate Governance, identifying, monitoring, and controlling compliance with corporate governance matters and recommending to the Board of Directors the review of the Manual on Corporate Governance. Ms. Gealogo works closely with the Board of Directors through the Audit Committee and the Bank's management to evaluate and monitor compliance with the Manual. Specifically, Ms. Gealogo is responsible for ensuring that the Bank's compliance systems are up to date and in line with regulatory requirements and recommends the adoption of measures to improve such compliance. Likewise, the various Board of Directors' committees perform oversight duties and functions to ensure proper compliance with the Manual on Corporate Governance and other corporate policies. The Bank also submits governance reports required by the PSEC and the PSE to determine compliance with their rules and regulations and the Manual on Corporate Governance.

There has been no deviation from the company's Manual on Corporate Governance. Areas for improvement noted during the accomplishment of the CG Scorecard to match best practices will be addressed with positive action. The Bank's Manual on Corporate Governance is also being reviewed annually or as the need arises for possible revision, to conform with best market practices on corporate governance or comply with new rules and regulations issued by any regulatory body.

## RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loan transactions with a subsidiary and with certain directors, officers, stockholders and related interests. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risk.

For further information on the Bank's related party transactions, including detailed breakdowns of amounts receivable from related parties and the income and expenses relating to related party transactions, see Note 26 to the Bank's audited financial statements as of and for the years ended 31 December 2016, 2017 and 2018 and Note 13 to the Bank's reviewed financial statements as of and for the six months ended 30 June 2018 and 2019.

The Bank has not included the volume of transactions and maturity dates in the audited financial statements since these loans do not have a material effect on the total loan portfolio and are short term in nature.

### DOSRI Loans and Deposits

The following table sets out certain information relating to the Bank's DOSRI loans as of the dates indicated:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	(₱ millions, except percentages)			
Total outstanding DOSRI loans .....	6,236	4,376	8,248	10,228
Percentage of DOSRI loans to total loans .....	0.59%	0.36%	0.60%	0.75%
Percentage of unsecured DOSRI loans to total DOSRI loans .....	29.60%	29.63%	21.51%	17.24%

### Certain Relationships and Related Transactions

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

On 31 January 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the Bank's subsidiaries and affiliates shall not exceed 10.0% of bank's net worth, and the unsecured portion shall not exceed 5.0% of such net worth. Further, the total outstanding exposures shall not exceed 20.0% of the net worth of the lending bank. The Bank is in compliance with such regulations.

The following table shows information relating to DOSRI accounts of the Bank:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
Total outstanding DOSRI accounts (in ₱ millions) .....	6,236	4,376	8,248	10,228
Percent of DOSRI accounts to total loans .....	0.6%	0.4%	0.6%	0.7%
Percent of DOSRI accounts to total capital .....	3.7%	2.4%	3.3%	3.9%
Percent of unsecured DOSRI accounts to total DOSRI loans .....	29.6%	29.6%	21.5%	17.2%
Percent of past due DOSRI accounts to total DOSRI loans .....	0.04%	0.03%	-	-
Percent of nonperforming DOSRI accounts to total DOSRI loans .....	0.02%	0.02%	-	-

## Related Party Transactions

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The year-end balances as of 31 December 2017 and 2018 in respect of subsidiaries included in the Bank's financial statements are as follows (amounts in millions):

	As of 31 December	
	2017	2018
Loans and receivables .....	134	53
Deposit liabilities .....	8,349	8,722

The income and expenses for the years ended 31 December 2017 and 2018 in respect of subsidiaries included in the Bank's financial statements are as follows (amounts in millions):

	For the year ended 31 December	
	2017	2018
Interest income .....	39	84
Interest expense .....	38	84

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements.

The significant inter-company transactions and outstanding balances of the Bank with its subsidiaries were eliminated in consolidation. The Bank is not a subsidiary of any corporation and had no transactions with promoters.

## THE PHILIPPINE BANKING INDUSTRY

*The information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government, and has not been prepared or independently verified by the Issuer, the Lead Arranger, the Dealers or any of their affiliates or advisers. None of the Issuer, the Lead Arranger, the Dealers or any of their affiliates or advisers makes any representation as to the accuracy or completeness of this information.*

### OVERVIEW

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks, cooperative banks and Islamic banks.

According to statistics published on the official website of the BSP, as of 30 June 2019 the commercial sector consisted of 46 universal and commercial banks, of which 21 were universal banks and 25 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were Government banks, and six were branches of foreign banks. Of the 25 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks, and 18 were branches of foreign banks. As of 31 July 2019, the 46 universal and commercial banks had a total of 6,685 branches, including head offices.

Commercial banks have all the general powers incident to corporations and all powers that may be necessary to carry on the business of commercial banking, such as the power to accept drafts and to issue letters of credit, to discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, accept or create demand deposits, receive other types of deposits and deposit substitutes, buy and sell foreign exchange and gold and silver bullion, and extend credit on a secured or unsecured basis. Universal banks are banks that have the authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of businesses not related to banking and to own up to 100% of the equity in a thrift bank, a rural bank or a financial allied or non-allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium-and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for mid-market corporates and individuals. As of 31 July 2019, there were 51 thrift banks according to the BSP.

Rural banks are organised primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As of 31 July 2019, there were 457 rural and cooperative banks, according to the BSP.

Specialised government banks are organised to serve a particular purpose. The existing specialised banks are the Development Bank of the Philippines (**DBP**), Land Bank of the Philippines (**LBP**) and Al-Amanah Islamic Investment Bank of the Philippines (**AAIIB**). DBP was organised primarily to provide banking services catering to the medium-and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for mid-market corporates. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organised to promote and accelerate the socio-economic development of the Autonomous Region in Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings. During the past fifteen years, the Philippine banking industry has been marked by two major trends—the liberalisation of the industry and mergers and consolidation.

Foreign bank entry was initially liberalised in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary or to establish branches with full banking authority. This

## The Philippine Banking Industry

led to the establishment of ten new foreign bank branches in 1995. The General Banking Law enacted in 2000 further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which, prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014, which amended the relevant provisions of the BSP Manual implementing RA 10641, further liberalised foreign bank entry by allowing foreign banks to own up to 100% of the voting stock of an existing bank, a branch, or a subsidiary. See “*Banking Regulation and Supervision—Regulations with Respect to Branches.*”

The liberalisation of foreign ownership regulations in banks has allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to the granting of new licenses to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank and United Overseas Bank and the allowance of equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. As of 31 July 2019, there were 24 foreign banks with branches and two foreign banks with subsidiaries in the Philippines.

The following table sets out a comparison of the leading Philippine banks as of the dates indicated in the footnotes to the table:

	Market Capitalisation <sup>(2)</sup>	Total Capital <sup>(3)(4)</sup>	Total Assets <sup>(4)</sup> (₱ in millions)	Net Loans <sup>(4)</sup>	Total Deposits <sup>(4)</sup>
Bank of the Philippines Islands <sup>(1)</sup> .....	353,795	259,877	2,134,745	1,354,350	1,658,450
BDO Unibank, Inc. <sup>(1)</sup> .....	612,628	350,836	3,065,286	2,119,920	2,399,558
Metropolitan Bank & Trust Company <sup>(1)</sup> .....	283,576	305,189	2,278,162	1,397,586	1,623,554

Notes:

- (1) Data is provided on a consolidated basis.
- (2) Source: PSE, based on closing prices as of 30 June 2019.
- (3) Includes interests in subsidiaries and allied undertakings.
- (4) Source: Bank, Philippine Securities and Exchange Commission (PSEC) filings, based on quarterly reports for the period ended 30 June 2019.

The following table sets out a comparison of the returns on average equity of certain leading Philippine banks for the periods indicated.

	2012 <sup>(2)</sup>	2013	2014	2015 <sup>(2)</sup>	2016 <sup>(2)</sup>	2017	2018	Six Months Ended 30 June 2019
Bank of the Philippines Islands <sup>(1)</sup> .....	17.5%	18.7%	13.8%	12.3%	13.8%	12.8%	10.2%	10.7%
BDO Unibank, Inc. <sup>(1)</sup> .....	11.7%	14.0%	13.4%	13.4%	12.5%	10.2%	10.7%	12.0%
Metropolitan Bank & Trust Company <sup>(1)</sup> .....	13.6%	17.8%	14.1%	10.8%	9.3%	9.2%	9.1%	9.0%

Notes:

- (1) Data is provided on a consolidated basis.
- (2) Source: PSEC, based on filed reports.

The following table sets out a comparison of the net interest margins of certain leading Philippine banks for the periods indicated.

	2016 <sup>(2)</sup>	2017 <sup>(2)</sup>	2018 <sup>(2)</sup>	Six Months Ended 30 June 2019
Bank of the Philippines Islands <sup>(1)</sup> .....	2.85%	2.91%	3.11%	3.37%
BDO Unibank, Inc. <sup>(1)</sup> .....	3.20%	3.48%	3.64%	3.99%
Metropolitan Bank & Trust Company <sup>(1)</sup> .....	3.54%	3.75%	3.82%	3.83%

Notes:

- (1) Data is provided on a consolidated basis.
- (2) Source: PSEC, based on filed reports.

## The Philippine Banking Industry

The following table sets out a comparison of the cost-to-income ratios (calculated as total operating expenses (excluding provisions for credit and impairment losses) over total operating income) of certain leading Philippine banks for the periods indicated.

	2016 <sup>(2)</sup>	2017 <sup>(2)</sup>	2018 <sup>(2)</sup>	Six Months Ended 30 June 2019
Bank of the Philippines Islands <sup>(1)</sup> .....	52.5%	54.3%	55.5%	52.9%
BDO Unibank, Inc. <sup>(1)</sup> .....	65.3%	65.8%	66.3%	65.4%
Metropolitan Bank & Trust Company <sup>(1)</sup> .....	56.5%	56.8%	58.5%	55.6%

Notes:

- (1) Data is provided on a consolidated basis.
- (2) Source: PSEC, based on filed reports.

### Strong historical loan growth with potential for growth from increasing banking penetration

The Philippine banking industry has seen significant growth in activity in recent years, which has coincided with the strong economic growth of the Philippines. According to Economist Intelligence Unit (EIU) forecasts, the total loan portfolio for the Philippine banking sector grew from US\$110 billion as of 31 December 2013 to an estimated US\$191 billion as of 31 December 2018, representing a compound annual growth rate (CAGR) of 11.7% for that period and based on the Economist Intelligence Unit Forecasts, estimated to grow 15.0% in 2019, 13.2% in 2020 and 13.1% in 2021, representing an estimated CAGR of 13.1% from 2019 to 2021. However, the Philippines remains relatively under-banked with domestic credit to private sector as a percentage of gross domestic product (GDP) of 49.9% for the year ended 31 December 2018 according to the World Bank, compared to other Southeast Asian peers including Thailand, Singapore, Malaysia and Indonesia, which were 144.6%, 121.9%, 119.4% and 38.8%, respectively. In addition, household debt as a percentage of GDP in the Philippines was 9.5% as of 2018 according to CEIC Data compared to Southeast Asian peers including Thailand, Singapore, Malaysia and Indonesia, which were 78.6%, 66.8%, 82.1% and 10.3%, respectively. The table below sets out information for the periods indicated.

Country	Domestic Credit to Private Sector as % of GDP (2018)	Household Debt as % of GDP (2018)
Philippines	49.9%	9.5%
Thailand	144.6%	78.6%
Singapore	121.9%	66.8%
Malaysia	119.4%	82.1%
Indonesia	38.8%	10.3%

Source: World Bank for Domestic Credit to Private Sector as % of GDP, CEIC for Household Debt as % of GDP.

The loan to GDP and historical loan growth of these regions are summarised below:

Region	Loans Outstanding as of 31 December 2018 (in ₱ millions)	% mix	Region's loan to GDP ratio	2017 – 2018 Loan Growth %
Metro Manila	7,746	83.9%	118.5%	13.7%
Luzon (ex- Metro Manila)	707	7.7%	11.8%	20.9%
Visayas	436	4.7%	19.4%	10.8%
Mindanao	342	3.7%	12.9%	26.1%

Source: BSP, NSCB

### Restrictions on Branch Opening

Opening of branches by Philippine banks within or outside the Philippines requires BSP's prior approval, subject to certain conditions such as meeting the minimum capital requirements set by the BSP. Upon BSP's approval, these branches may be used by the banks as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. For more information, see "Banking Regulation and Supervision—Regulation Relating to Capital Structure" and "Banking Regulation and Supervision—Regulations with Respect to Branches."

### Competition

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalisation of the banking industry by the Government. Since 2014, a number of foreign banks, which may have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer lending products such as credit cards. The foreign banks have not only increased competition in the corporate market, but have, as a result, caused more domestic banks to focus on the commercial mid-market, placing pressure on margins in both markets.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system to create more globally competitive banking institutions. Mergers and consolidation result in greater competition, as a smaller group of “top tier” banks compete for business. The BSP offered various incentives available for merging or consolidating banks. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of all of the outstanding shares of stock of a bank. Based on BSP data, since the new package of incentives took effect in September 1998, there have been an increasing number of mergers, acquisitions and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were insufficient to pose a challenge to the overall competition levels since market share remained relatively well dispersed among the remaining players.

In the pursuit of liberalisation and to sustain the mergers and consolidations, the BSP issued Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. The suspension of the grant of new banking licenses or the establishment of new banks under the Manual of Regulations for Banks is lifted under a two-phased approach. Under Phase 1, the grant of new universal and commercial banking licenses was allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks was fully lifted and locational restrictions were fully liberalised starting 1 January 2018.

The Philippine Competition Act was signed into law in 2015 and establishes competition related rules and procedures in the Philippines in relation to mergers and acquisitions. See “*Banking Regulation and Supervision—Philippine Competition Act.*”

### Certain Government Policies and Regulations in Relation to the Philippine Banking System

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes guidelines on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these and can introduce new regulations to control any particular line of business. Please see “*Banking Regulation and Supervision*” for a more detailed discussion.

## BANKING REGULATION AND SUPERVISION

*The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.*

### Banking Regulation and Supervision

#### Introduction

Republic Act No. 8791 (the **General Banking Law**) provides that the operations and activities of banks are subject to the supervision of the BSP. Likewise, Republic Act No. 7653 (the **New Central Bank Act**), as amended, which created the BSP, provides that the BSP shall have supervision over the operations of banks and shall exercise such regulatory powers over the operations of finance companies and non-bank financial institutions performing quasi-banking functions. The BSP exercises its powers through the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock is directly or indirectly owned, controlled or held with power to vote by a bank or quasi-bank. The New Central Bank Act generally defines an affiliate as a corporation whose voting stock, to the extent of 50% or less, is owned by a bank or quasi-bank or which is related or linked directly or indirectly to such institution or intermediary through common stockholders or such other factors as may be determined by the Monetary Board. In this regard, the BSP Manual defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the BSP Manual), or power to vote, of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the BSP Manual), or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity; (c) common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favour of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa.

Under the General Banking Law, the BSP, in the exercise of its supervisory powers, may: (a) issue rules of conduct or standards of operation for uniform application; (b) conduct examination to determine compliance with laws and regulations; (c) oversee compliance with such rules and regulations; and (d) inquire into the solvency and liquidity of the covered entities. Furthermore, Section 7 of the General Banking Law provides that the BSP, in examining a bank, shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The refusal of any officer, owner, agent, manager, director or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or permit an examination is criminally punishable under Section 34 of the New Central Bank Act.

Furthermore, Republic Act No. 9160 (**Anti-Money Laundering Act of 2001**), as amended, provides, among others, that banks must, in addition to the general laws such as the General Banking Law and the Anti-Money Laundering Act of 2001, likewise comply with letters, circulars and memoranda issued by the BSP, some of which are contained in the BSP Manual.

The BSP Manual is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The BSP Manual contains regulations that include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant bank. Supplementing the BSP Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.



All regulations pertaining to banks are then implemented by the Supervision and Examination Sector (SES) of the BSP. The SES is responsible for ensuring the observance of applicable laws, rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779 or the Savings and Loan Association Act, and pawnshops under Presidential Decree No. 114 or the Pawnshop Regulation Act.

### Regulation Relating to Capital Structure

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The Philippine Securities and Exchange Commission will not register the incorporation documents of any bank or any amendments thereto without a certificate of authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorised by the Monetary Board. All treasury shares of a bank must be sold within six months from the time of purchase or acquisition thereof.

Under the BSP Manual, universal banks are required to have capital accounts of at least ₱3 billion for a bank with only a head office, ₱6 billion for a universal bank with up to 10 branches (inclusive of head office), ₱15 billion for a universal bank with 11 to 100 branches (inclusive of head office), and ₱20 billion for a universal bank with more than 100 branches (inclusive of head office). On the other hand, commercial banks are required to have capital accounts of at least ₱2 billion for a commercial bank with only a head office, ₱4 billion for a commercial bank with up to 10 branches (inclusive of head office), ₱10 billion for a commercial bank with 11 to 100 branches (inclusive of head office), and ₱15 billion for a commercial bank with more than 100 branches (inclusive of head office). Thrift banks which maintain only a head office in the National Capital Region are required to have capital accounts of at least ₱500 million, ₱750 million for a thrift bank with up to 10 branches (inclusive of head office), ₱1 billion for a thrift bank with 11 to 50 branches (inclusive of head office) and ₱2 billion for a thrift bank with more than 50 branches (inclusive of head office). Banks that existed prior to 19 November 2014, which will not immediately meet the new minimum capital requirement, may avail themselves of a five-year transition period in order to fully comply with the minimum capitalisation requirements. The same period, reckoned from the same date, is also given to banks granted with special banking authorities/licenses which require compliance with minimum capital requirements. These minimum levels of capitalisation may be changed by the Monetary Board from time to time.

For purposes of these requirements, the BSP Manual as amended by BSP Circular No. 1027, Series of 2018, states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- (a) treasury stock;
- (b) unbooked allowance for probable losses (including allowance for credit losses and impairment losses) and other capital adjustments as may be required by the BSP;
- (c) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- (d) total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
- (e) total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties that are not at an arm's length terms;
- (f) deferred tax assets that rely on future profitability of the bank to be realized net of any (i) allowance for impairment and (ii) associated deferred tax liability if the conditions cited in PAS 12 on income taxes are met, provided that, if the resulting net figure is a net deferred tax liability, such excess cannot be added to net worth;

- (g) reciprocal investment in equity of other banks or enterprises, whether foreign or domestic, the deduction shall be the lower of the investment of the bank or the reciprocal investment of the other bank or enterprise; and
- (h) in the case of rural banks and cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation program.

According to BSP Circular No. 1027 dated 28 December 2018, deposits for stock subscription recognized as equity pursuant to Section X123 of the BSP Manual is required to be added to capital.

Under Republic Act No. 10641 or “An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721” (RA 10641), established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (i) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing bank; (ii) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (iii) by establishing branches with full banking authority. The foreign bank applicant must be established, reputable and financially sound. Additionally, such foreign bank must be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorised to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. On the other hand, locally incorporated subsidiaries of foreign banks authorised to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

Under RA 10641, the Monetary Board is authorised to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on 21 November 2014, the BSP issued Circular No. 858, amending the relevant provisions of the BSP Manual with respect to the entry and operations of foreign banks, accordingly.

Stockholdings of family groups or related interests in banks are also regulated. Under the General Banking Law, the stockholders of individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, are considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons are considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends if at the time of declaration:

- (a) its clearing account with the BSP is overdrawn;
- (b) it is deficient in the required liquidity floor requirement for government funds;
- (c) it is not compliant with the minimum capitalisation requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- (d) it is not compliant with the combined requirement for capital conservation buffer requirement and countercyclical capital buffer as defined in Appendix 63b, Part III of the BSP Manual;
- (e) it is not compliant with the higher loss absorbency (**HLA**) requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with the DSIB framework as provided under Sec. X128 of the BSP Manual, for universal and commercial banks and their subsidiary banks and quasi-banks that are identified as DSIBs; or
- (f) it has committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by the BSP to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor of the SES.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

### **Regulations with Respect to Branches**

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of the law also allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 Series of 2014 provides various minimum capitalisation requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks (inclusive of the head office) to a maximum of ₱20 billion for more than 100 branches of universal banks (inclusive of the head office). For a discussion on the breakdown of minimum capital requirements for banks, please see “—*Regulation Relating to Capital Structure.*”

Subject to compliance with the requirements provided in BSP Circular No. 624, issued on 13 October 2008, which provides for BSP’s branching policy and guidelines, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Pursuant to BSP Circular No. 759, issued on 30 May 2012, once approved, a branch should be opened within three years from the date of approval. Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. However, this branching restriction was liberalised pursuant to BSP Circular No. 728, issued on 23 June 2011. Phase 1 of the liberalisation allowed private domestically incorporated universal and commercial banks and thrift banks with limited branch networks in the eight cities or “restricted areas” in Metro Manila until 30 June 2014 to apply for and establish branches in said restricted areas. In Phase 2, branching in the “restricted” areas was opened to all banks except rural banks and cooperative banks. However, branches of microfinance-oriented banks and microfinance-oriented branches of regular banks’ branches that will cater primarily to the credit needs of Barangay Micro Business Enterprises duly registered under the Barangay micro business enterprises Act of 2002 (**Republic Act No. 9178**) may be established anywhere upon the fulfilment of certain conditions. BSP Circular No. 759 further liberalised its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank.

### **Regulations with Respect to Management of Banks**

The board of directors of a bank must have at least five and a maximum of 15 members. According to Republic Act No. 11232, or the Revised Corporation Code, the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. In case of merged or consolidated banks, the number of directors shall not exceed 21. An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests during the past three (3) years counted from the date of his election/appointment. Foreigners are allowed to have board seats to the extent of the foreign equity in the bank.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits to perform an act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

### **Regulations with Respect to Bank Operations**

A universal bank, such as the Bank, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices is treated as one unit. A bank, with prior approval

of the BSP, may likewise use any of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise, and prescribe the composition and the manner of determining the net worth and total risk assets of such bank and its subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to exercise and perform: (a) activities allowed for commercial banks; (b) powers of an investment house; (c) investment in non-allied enterprises.

### Capital Adequacy Requirements and Reserve Requirements

In July 2001, the Philippines adopted capital requirements based on the Basel Capital Accord.

BSP Circular No. 538, which took effect on 1 July 2007, serves as the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the Basel Committee on Banking Supervision (the **Basel Committee**) containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers and short and medium-term quantitative liquidity ratios. To align with international standards, the BSP issued BSP Circular No. 709 effective 1 January 2011, which adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 capital.

In January 2012, the BSP announced that the Philippine's universal and commercial banks, including their subsidiary banks and quasi-banks, were required to adopt in full the capital adequacy standards under Basel III which took effect from 1 January 2014. It aims to replace Basel II, further strengthen the local bank's loss absorption capacity and encourage banks to rely more on core capital instruments like Common Equity Tier 1 and Tier 1 issues.

BSP Memorandum No. M2012-002 outlines BSP's proposed new minimum ratios and conservation buffers. The revised risk-based capital adequacy framework (which will also cover risk measurement enhancement and provisions concerning the use of third party credit assessment agencies) took effect on 1 January 2014. In March 2012, the BSP also circulated a discussion paper providing draft guidelines for Basel III implementation in the Philippines starting 1 January 2014. Philippine banks were invited to comment on the discussion paper until June 2012, after which the BSP finalised the guidelines for Basel III in the Philippines. Notable provisions include: (i) new categorisation of the capital base with Tier 1 being composed of Common Equity Tier 1 (**CET1**) capital and Additional Tier 1 (**AT1**) capital and elimination of the subcategories of Tier 2 capital; (ii) revised eligibility criteria for the different categories of regulatory capital; (iii) regulatory adjustments to be deducted from CET1 in a full deduction approach; (iv) higher minimum capital requirements; (v) loss absorbency of regulatory capital at the point of non-viability; (vi) introduction of a framework to promote the conservation of capital and the build-up of adequate buffers above the minimum that can be drawn down in times of periods of stress; and (vii) additional disclosure requirements.

On 21 September 2012, BSP Circular No. 768 was issued, which provides, among others, that Hybrid Tier 1 and Lower Tier 2 capital must have loss absorption features providing that the instrument would be written off or converted into common equity upon the occurrence of a trigger event determined by the BSP.

Local banks were allowed one full year of transitioning to the new guidelines prior to the effective date of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to January 2017. On 15 January 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under Basel III for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the CAR. The BSP maintained the minimum CAR at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum Tier 1 capital ratio of 7.5%. The new guidelines also introduced a capital conservation buffer of 2.5% which is made up of CET1 capital. Under BSP Circular No. 1027 dated 28 December 2018, net due from head office, branches and subsidiaries outside the Philippines of foreign banks branches, excluding accumulated net earnings is required to be deducted from CET1 capital.

In addition, banks which issued capital instruments from 2011 were allowed to count these instruments as Basel III-eligible until end of 2015. However, capital instruments that are not eligible in any of the three components of capital were derecognised from the determination of the regulatory capital on 1 January 2014.

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

Under BSP Circular 732 issued on 3 August 2011, as further amended by BSP Circular 753 issued on 29 March 2012, BSP Circular 830 issued on 3 April 2014, BSP Circular 832 issued on 27 May 2014, BSP Circular 997 issued on 15 February 2018, and BSP Circular 1004 issued on 24 May 2018, universal and commercial banks are required to maintain regular reserves of: (a) 18% against demand deposits, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 18% against negotiable order of withdrawal accounts; (c) 0% against deposit substitutes evidenced by repossession agreements, basic deposit accounts as defined under Section X222 of the Manuel of Regulations for Banks and for IBCL; (d) 4% against long-term negotiable certificates of time deposits under Circular No. 304 issued on 25 October 2001, deposit substitutes evidenced by repossession agreement; (e) 6% against bonds; and (f) 7% against long-term negotiable certificates of time deposits under Circular No. 842 issued on 30 January 2014. Pursuant to BSP Circular No. 1041 (Series of 2019), the BSP reduced the rates of required reserves against deposit and deposit substitute liabilities in local currency for universal and commercial banks commencing on reserve week 31 May 2019, as follows: (a) 17% against demand deposits, savings deposits (excluding basic deposit accounts), time deposits and deposit substitutes, negotiable CTDs, long-term non-negotiable tax-exempt CTDs, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 17% against NOW accounts; (c) 0% against deposit substitutes evidenced by repurchase agreements, basic deposit accounts as defined under Section X222 of the Manuel of Regulations for Banks and for IBCL; (d) 4% against LTNCDs; (e) 6% against bonds; and (f) 0% against basic deposit accounts as defined under Section X222 of the Manuel of Regulations for Banks and for interbank call loan transactions (**IBCL**) (Sec. 315). Beginning 28 June 2019, the 17% reserve rates will be reduced to 16.5% across the board, and further reduced to 16% beginning 26 July 2019.

On 29 October 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on DSIBs by the BSP under Basel III, and was later on amended by BSP Circular No. 1051 (series of 2019). Banks deemed DSIBs by the BSP are required to maintain capital surcharges to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the DSIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their DSIB statuses in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the DSIBs will have varying levels of additional loss absorbency requirements ranging from 1.5% to 2.5%. Aside from the added capital pressure, DSIBs may be put at an undue disadvantage compared to Global Systemically Important Banks (**GSIBs**) given that this framework was patterned for regional/global banks and thus may not be appropriate for local banks. Transitional arrangements for the HLA requirement will be implemented. On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by DSIBs which shall form part of the DSIBs' Internal Capital Adequacy Assessment Process (**ICAAP**) submitted to the BSP every 31<sup>st</sup> of March of each year. The recovery plan identifies the course of action that a DSIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the DSIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a pre-emptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval

process should be clearly defined in the recovery plan. The ICAAP document, which includes the first recovery plan, was submitted on 30 June 2016 and will be re-submitted on the 31<sup>st</sup> of March of each year.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratios (calculated by dividing banks' Tier 1 capital over its total on-book and off-book exposure). On 9 June 2015, the BSP issued Circular No. 881 amending the relevant provisions of the previously issued guidelines. Under the BSP Circular No. 881, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III by 1 January 2017 (which compliance period was extended to 1 January 2018 based on BSP Circular No. 943 issued in 2017). The guidelines also provided for a monitoring period up to end of 2016 during which banks were required to submit periodic reports. However, sanctions were not imposed on banks whose leverage ratios fell below the required 5% minimum during the period. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to an increasing regulatory burden on banks. Further, local banks face new liquidity requirements under Basel III, namely, the Liquidity Coverage Ratio (**LCR**) and the Net Stable Funding Ratio (**NSFR**). The LCR requires banks to hold a sufficient level of High-Quality Liquid Assets (**HQLAs**) to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spill-overs to the real economy, compliance with these ratios may further increase competition among banks for deposits as well as HQLAs.

In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks were required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks are required to meet is 90%, and increased to 100% commencing on 1 January 2019. The Monetary Board has yet to release an exposure draft of NSFR requirements. The internationally agreed start date for the phase-in of liquidity requirements was as of 1 January 2015.

In addition, Basel III capital rules for banks include setting up a countercyclical capital buffer (**CCyB**) wherein banks build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. On 6 December 2018, the BSP issued guidelines on CCyB. BSP Circular No. 1024 imposes a capital conservation buffer (**CCB**) of 2.5% and a CCyB of 0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases will be effective immediately. The circular further provides that the HLA requirement is required to be on top of the combined requirement for CCB and CCyB. Under the Bank for International Settlements (**BIS**), the CCB became fully effective on 1 January 2019.

In October 2014, the BSP issued BSP Circular No. 855 which provides for new guidelines on sound credit risk management practices. The circular mandates banks to establish appropriate credit risk strategies and policies, processes and procedures including cash flow-based credit evaluation processes. The circular also mandates tighter provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

Additionally, BSP Circular No. 855 sets the collateral value (**CV**) for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value (**LV**), which is the loan amount extended by banks to its borrowers. The current industry practice is a loan-to-value (**LTV**) ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

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

Further, on 27 June 2014, the BSP issued Circular No. 839 requiring banks to undergo real estate stress test (**REST**) while setting prudential limits for banks' REEs to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks as well as thrift banks must meet a CAR of 10% of qualifying capital after adjusting for the stress test results. Further, universal and commercial banks and their thrift bank subsidiaries are required to maintain a level of CET 1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly report of their real estate exposures, in line with the new REST capital requirements.

Local banks also face new liquidity requirements, namely, the LCR and the Net Stable Funding Ratio (**NSFR**), under Basel III. The LCR requires banks to hold sufficient level of High Quality Liquid Assets (**HQLAs**) to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs. In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Starting in 2018, banks were required to meet a 90% LCR threshold that banks will be required to meet was 90%, which was increased to 100% commencing on 1 January 2019 for universal and commercial banks. On 6 June 2018, the BSP issued BSP Circular No. 1007 which sets out the guidelines on the adoption of the Basel III Framework on Liquidity Standards – NSFR. The internationally agreed start date for the phase-in of liquidity requirements was 1 January 2015. On 15 March 2019, the Monetary Board approved the extension of the observation period for the LCR and NSFR for subsidiary banks and quasi-banks of universal and commercial banks until 31 December 2019, moving the effectivity dates of said ratios to 1 January 2020. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70% LCR and NSFR, which shall increase to 100% on 1 January 2020. On 15 March 2019, the Monetary Board also approved amendments to the LCR framework and minimum liquidity ratio guidelines, and disclosure requirements of information related to LCR starting 2019 for universal and commercial banks and 2020 for subsidiary banks and quasi-banks of universal and commercial banks.

### **Limitations on Operations**

#### *The Single Borrower's Limit*

Consistent with the national interest, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any person, partnership, association, corporation or other entity shall at no time exceed twenty-five percent (25%) of the net worth of such bank. The basis for determining compliance with the single borrower's limit (**SBL**) is the total credit commitment of the bank to or on behalf of the borrower. The total amount of loans, credit accommodations and guarantees above may be increased for specific circumstances as laid out in the relevant provision of the BSP Manual.

BSP Circular 779 issued on 9 January 2013, amended the BSP Manual provisions on Regulations on Single Borrower's Limit. The amendments allowed for increases (on top of the 25% as already mentioned) on the amount of loans, credit accommodations and guarantees that a bank may issue to a borrower. The following are the increases that are conditional: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under PDP/PIP; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from 6 December 2010; and (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation.

The SBL limitations shall not apply to (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to the payment of principal and interest; (c) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by

margin deposits; and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items.

### ***Limitation on DOSRI Transactions***

A director or officer of any bank may not directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor may become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the board of directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director will be subject to the penal provisions of the New Central Bank Act.

On 2 June 2016, the Monetary Board approved the revisions to prudential policies on loans, other credit accommodations and guarantees granted to DOSRIs. The Monetary Board allowed the exclusion of loans granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include a pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts and assignment of project documents.

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

### **Limitations on Loans and Credit Accommodations**

As a general rule, loan and other credit accommodation against real estate by a bank shall not exceed 70% of the appraised value of the real estate security plus 70% of the appraised value of the insured improvements and such loans shall not be made unless title to the real estate rests with the mortgagor. In the case of universal and commercial banks, the loan values of real estate given as security for any loan granted will be reduced from 70% to not more than 60% of the appraised value of the real estate security and the insured improvements, except the following which are allowed a maximum value of 70% of the appraised value (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (b) housing loans extended by or guaranteed under the Government's "National Shelter Program", such as the expanded housing loans program of the home development mutual fund and the mortgage and guaranty and credit insurance program of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loans may be made to the title-holder of the unencumbered chattels and intangible properties or his assignee.

On 4 February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans and amending the inclusions and exclusions to be observed in the computation.

On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.



On 27 October 2017, the BSP issued BSP Circular No. 978 which provided for exclusion of the portion of loans and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, from the ceilings on total outstanding loans, other credit accommodations and guarantees granted to banks' subsidiaries and affiliates. BSP Circular No. 978 excluded the following in determining compliance with the ceilings provided under BSP Circular No. 914: (1) loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations; (2) interbank call loans; and (3) the portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

### **Limitation on Investments**

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of the net worth of the said universal bank. Moreover, the equity investment in any one enterprise whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP. The Monetary Board must approve such acquisition of equities. Further, the BSP may impose conditions on the any approval of a major investment and has the authority to seek corrective action.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvements including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate is considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed by the bank within a period of five years or as may be prescribed by the Monetary Board. In addition, the Monetary Board recently approved BSP Circular No. 1042, series of 2019, containing the guidelines on sound risk management practices pertaining to investment activities of a bank.

### **Prohibition to Act as Insurer**

A bank is prohibited from directly engaging in insurance business as the insurer.

### **Permitted Services**

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- (a) receive in custody funds, documents and valuable objects;
- (b) act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities;
- (c) upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- (d) rent out safety deposit boxes.

### **Anti-Money Laundering Act 2001**

The Anti-Money Laundering Act of 2001, as amended, (AMLA) requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, keep records and report covered and suspicious transactions.

While the Philippines enacted the AMLA to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the Financial Action Task Force (FATF). However, following pressure from the FATF, an amendment to AMLA became effective on 23 March 2003. In January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories (NCCTs) and the anti-money laundering systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. Currently, the Philippines is on the “grey list,” as the FATF, in news reports, noted a “high level political commitment” from local authorities to address noted deficiencies in its anti-money laundering regime. Republic Act No. 10168 enacted on 18 June 2012 expanded the AMLA to include the crime of financing terrorism.

A more recent amendment to the anti-money laundering regime, Republic Act No. 10365, was approved on 15 February 2013. This amendment expanded the coverage of the AMLA, which now talks about “covered persons, natural or juridical.” Additions to the enumeration of covered persons include jewellery dealers for transactions in excess of ₱1 million; company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client’s money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organise funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves or relates to the proceeds of any unlawful activity defined under the law:

- (a) transacts said monetary instrument or property;
- (b) converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
- (c) conceals or disguises the true nature, source, location, disposition, movement or ownership or of rights with respect to said monetary instrument or property;
- (d) attempts or conspires to commit money laundering offences referred to in paragraphs (a), (b), or (c);
- (e) aids, abets, assists in or counsels the commission of the money laundering offences referred to in paragraphs (a), (b) or (c);
- (f) performs or fails to perform any act as a result of which he facilitates the offence of money laundering referred to in (a), (b) or (c); and
- (g) knowingly fails to disclose and file with Anti-Money Laundering Council (AMLC) any monetary instrument or property required to be disclosed and filed.

Under AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within a period of five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Court of Appeals of the Philippines (**Court of Appeals**), upon verified ex-parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order which is effective immediately, and which shall not exceed six months depending upon the circumstances of the case. However, if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order is deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets. Further, a freeze order or asset preservation order is limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

BSP Circular No. 495 issued on 20 September 2005, as amended by BSP Circular 527 issued on 28 April 2006, required all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank’s

attention, transactions and/or accounts that qualify either as “covered transactions” or “suspicious transactions” as defined under AMLA.

BSP Memorandum No. M2012-017 issued on 4 April 2012, as affirmed by BSP Circular No. 950 issued on 15 March 2017 likewise requires all covered banking institutions to comply with the anti-money laundering risk rating system (ARRS), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation. BSP Circular No. 950, further provides for specific requirements on having a risk-based approach to customer identification by covered institutions, an ongoing monitoring of customers, accounts, and transactions, and a policy of non-discrimination against certain types of customers.

In July 2017, Republic Act No. 10927 was signed into law, and it further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5.0 million or its equivalent in any other currency. Furthermore, the law provides that: (a) a freeze order issued by the Court of Appeals pursuant to an *ex parte* petition by the AMLC is effective immediately and such effective period shall not exceed six months and if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order is deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets; and (b) a freeze order or asset preservation order is limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime and will not apply to amounts in the same account in excess of the amount or value of the proceeds of the predicate offense.

Institutions that are subject to AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one Banking Day.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- (a) there is no underlying legal or trade obligation, purpose or economic justification;
- (b) the customer or client is not properly identified;
- (c) the amount involved is not commensurate with the business or financial capacity of the client;
- (d) the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- (e) there is a deviation from the client’s profile or past transaction;
- (f) the transaction is related to an unlawful activity or offence under AMLA; or
- (g) similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00.

Malicious reporting of a completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity the fact that a report was made to the AMLC and any information relating to such report. A violation of the said rule is deemed a criminal act.

### Philippine Competition Act

On 21 July 2015, the Philippine Competition Act (the **Philippine Competition Act**), was signed into law. It took effect on 8 August 2015. The Competition Act is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The Competition Act was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the Competition Act provides for the creation of a Philippine Competition Commission (the **PCC**), an independent quasi-judicial agency with five commissioners. Among its powers are to conduct investigations, issue subpoenas, conduct administrative proceedings and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court. The PCC prohibits anti-competitive agreements between or among competitors and mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition. It also prohibits practices which involve abuse of a dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

On 3 June 2016 the PCC issued the Implementing Rules and Regulations of the Philippine Competition Act (**PCA IRR**). Under the PCA IRR (as amended by PCC Advisory No. 2019-001 (**Advisory**), which became effective on 1 March 2019), as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or the acquired entities exceed ₱5.6, including the entities that the ultimate parent entity controls, exceeds ₱5.6 billion; and (b) the value of the transaction exceeds ₱2.2 billion, as determined in the Advisory. Parties to a joint venture transaction are required to provide notification if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion. Under the Competition Act and the PCA IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods are considered void and will subject the parties to an administrative fine of 1% to 5% of the value of the transaction. Administrative fines of up to ₱250 million may also be imposed by the PCC on entities that: (a) enter into anti-competitive agreements between competitors that are either prohibited per se or that have the object of substantially preventing, restricting or lessening competition by setting, limiting or controlling production, markets, technical development or investment or by dividing or sharing the market or (b) fail to comply with the compulsory notification and/or enter into prohibited mergers and acquisitions. An entity that enters into anti-competitive agreements, may also be sentenced to imprisonment from two to seven years and a fine of not less than ₱50 million to ₱250 million. The penalty of imprisonment is imposed on the directors and/or management personnel who are knowingly and willfully responsible for the violation. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 9 November 2017, the PCC issued the 2017 Rules of Procedure which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders and consent orders.

### Data Privacy Act

Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012 (Data Privacy Act), was signed into law on 15 August 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System (ICT), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law provides that it does not apply to information necessary for banks and other financial institutions under the

jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes.

It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognises the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of “personal information”, which is defined as “any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual.” The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on “personal information controllers” and “personal information processors”. It also provides for penal and monetary sanctions for violations of its provisions.

### **Electronic Banking Operations**

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of a bank’s products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

On 1 September 2006, the BSP released new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank’s board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness program for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and (e) the development of complaint resolution procedure for unauthorised transactions in electronic banking.

Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted are treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa (**EMV**) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for 1 January 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSP-supervised financial institutions are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offence and will subject these institutions to monetary sanctions provided under relevant provision of the BSP Manual.

On 22 February 2019, the BSP issued Circular No. 1033, which amended the BSP Manual by adding regulations on Electronic Payment and Financial Services (**EPFS**). This allows BSP-supervised institution to offer products or services that would enable its customers to receive payments or initiate financial transactions and other related services through an electronic device such as computer, mobile phone, ATM and other devices. EPFS allow customers to electronically access information on their transactions, move or receive funds from one account to another, or avail of credit, investment, trust, or other banking products and/or services.. Transactions can include online loan applications, electronic investment of funds, and the like. To be able to offer this kind of service, the bank must obtain a license from BSP and comply with its corresponding reportorial requirements.

### **Related Party Transactions**

On 14 December 2015, the BSP announced that it approved guidelines strengthening oversight and control standards for managing related party transactions. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher standards should be applied to protect the interests of all stakeholders. It is emphasised that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, the board, as an oversight body, shall have overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The board is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm's length terms, management of conflicts of interest, materiality thresholds and limits, whistle blowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further, banks that are part of conglomerates are required to create a related party transactions committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly require that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

On 25 April 2019, the SEC issued Memorandum Circular No. 10-2019 regarding the Rules on Material Related Party Transactions for Publicly-Listed Companies (**SEC MC 10-2019**). Under SEC MC 10-2019, when the related party transactions amount to 10% or higher of a company's total assets, it is considered a material related party transaction and is disclosable and reportable to the SEC.

### Taxation for Banks

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 30%.

Taxable net income refers to items of income specified under Section 32 (A) of Republic Act No. 8424, otherwise known as the Tax Reform Act of 1997, as amended (the **Tax Code**) less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A minimum corporate income tax (**MCIT**) equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the MCIT is greater than the regular corporate income tax computed on net taxable income. Any excess MCIT paid over the regular corporate income tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of MCIT, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

An improperly accumulated earning tax (**IAET**) equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 30% corporate income tax. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue Regulation No. 13-00. The amount of interest expense which banks may claim as tax deduction is reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

The Tax Code does not allow banks to deduct interest expense or bad debts arising from transactions with the following:

- (a) an individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank; or
- (b) a corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in sub-paragraph (a), either as a personal holding company or a foreign personal holding company.

Similarly, Section 36 (B) of the Tax Code disallows the deduction of bad debts in the case of related party transactions as mentioned in the case of interest expense.

Pursuant to Revenue Regulation 05-99 (as amended by Revenue Regulation 25-02), in order for banks to claim bad debts as tax deductions, they must secure a certification from the BSP that the accounts are worthless and can be written off, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible. The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax. Banks are subject to gross receipts tax (GRT), which is a tax levied on the gross receipts of banks and non-bank financial intermediaries. The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which will be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five years. In November 2005, the Government increased the GRT, which is applied to the Bank's non-interest income, from 5% to 7%. On 13 June 2016, the BIR issued Revenue Memorandum Circular 62-2016 (**RMC 62-2016**) seeking to clarify the tax treatment of the GRT, which is passed on by banks through contractual stipulations to their clients. RMC 62-2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income and should itself be subject to a GRT of either 5% or 7% depending on the provision of the tax code covering the type of income or activity.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranche.

Interbank call loans with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes. The interbank call loans are not subject to documentary stamp tax except if they have a maturity of more than seven days.

Real and other acquired properties (**ROPA**) of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, value in the tax declaration or selling price, which is withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realised.

While the Tax Reform for Acceleration and Inclusion (**TRAIN**), which is the first package of the Comprehensive Tax Reform Program (**CTRP**) of the Duterte administration, brought about extensive changes to individual income taxation, it did not include changes in corporate income taxation. This is, instead, expected to be addressed in the second package of the CTRP which reportedly aims to lower corporate income taxes and modernise fiscal incentives in a bid to complement the expected incremental revenues from the first package.

### Other Regulations

Set out below are other regulations applicable to banks operating in the Philippines:

1. *Regulations Governing the Derivatives Activities of Banks.* In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in 8 January 2008 amending the existing regulations governing the derivatives activities of banks and trust entities. Furthermore, Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk-weighted assets for banks that will engage in derivatives activities as end users for hedging purposes and/or under limited-use authority. The Bank expects increased competition in the swaps and other derivative transactions allowed under the regulations.

The BSP also issued Circular No. 891 on 9 November 2015 amending the sales and marketing guidelines for derivatives under the Manual. Banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitisation structures and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and

are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank's standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees.

In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives are subject to margin requirements pursuant to the policy framework adopted by the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in times of distress. Variation margin requirements were phased in from 1 September 2016 to 1 March 2017, while initial margin requirements are being phased in from 1 September 2016 to 1 September 2020.

2. *Amendments to UITFs Regulations.* On 3 September 2004, the BSP issued Circular No. 447 (as amended by BSP Circular No. 675 dated 22 December 2009) which provided guidelines for the launching and offering of new products to be known as unit investment trust funds (UITFs), and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in Pesos or any acceptable currency that are to be operated and administered by trust entities and made available by participation. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organised exchange, loans traded in an organised market and such other tradable instruments as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued Circular No. 593 to improve risk disclosure on investing in UITFs, to require banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in and to update client's profile at least every three years. In December 2009, the BSP issued Circular No. 676 allowing cross-currency investment for Peso trust, other fiduciary and investment management accounts, including Peso UITFs. In September 2012, the BSP issued Circular No. 767 to include investments by UITFs in units or shares in collective investment schemes as an allowable investment and recognising UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued Circular 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the key information and investment disclosure statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued Circular 907 to amend certain exposure limits and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds. UITF investments shall only be limited to bank deposits and collective investment schemes (i.e., target fund, exchange traded fund), subject to target fund not being structured nor similarly structured as a feeder fund or fund-of-funds.
3. *Exemption of Paired ROP Warrants from Capital Charge for Market Risk.* In connection with the Government's Paired Warrants Program, the BSP issued Circular No. 605 in 5 March 2008 exempting warrants paired with Government bonds from capital charges for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50% of total qualifying capital.
4. *Guidelines on Securities Borrowing and Lending Transactions.* Guidelines by the PSE on securities borrowing and lending govern securities borrowing and lending transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008 provides guidelines on securities borrowing and lending transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors and lenders. In May 2008, the Monetary Board authorised the issuance of BSP Registration documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from securities borrowing and lending transactions, i.e. rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso-denominated Government securities and PSE-listed shares used as collateral.



5. *Reclassification of Financial Assets between Categories.* The BSP issued Circular No. 628 dated 31 October 2008, amending Circular No. 626 dated 23 October 2008 and Resolution of the Monetary Board No. 1423 dated 30 October 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial institutions are allowed to reclassify all or a portion of their financial assets from “held for trading” or “available for sale” categories to the “available for sale” or “held to maturity” or “unquoted debt securities classified as loans” categories effective 1 July 2008. Any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.
6. *Rules and Regulations on the Mandatory Allocation for Agriculture and Agrarian Reform Credit.* In July 2011, the BSP issued Circular No. 736 as a component of the implementing rules and regulations of the Agri-Agra Reform Credit Act. Aside from retaining the mandatory credit allocation, it also rationalises the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided.
7. *Valuations of Government Securities Held by Banks.* In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals is used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids are used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates in accordance with BSP-approved guidelines is used.
8. *Segregation of Customer Funds and Securities Received by Banks.* On 14 August 2015, the BSP issued Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.
9. *Creation of Personal Management Trust.* On 18 August 2016, the BSP issued Circular No. 920 allowing for the creation of the personal management trust (PMT), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual’s financial affairs. Upon the effectivity of the circular, all living trust accounts (LTAs) were discontinued and all those that remained valid were automatically considered as PMT.
10. *Clearing of Checks via Electronic Presentment.* On 7 September 2016, the BSP issued Circular No. 924, amending the Manual in view of the clearing of checks via electronic presentment, which is implemented by the Philippine Clearing House Corporation (PCHC). On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information are required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.
11. *Effective Reporting System Generation and Timely Submission of Reports.* On 26 June 2017, the BSP amended the Manual through Circular No. 963, series of 2017, which issuance instituted governance processes in accordance with the BSP’s expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must be comply with those standards prescribed by the BSP, and those banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provided that banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision. Its full implementation started on 1 January 2018.
12. *Additional Requirements for the Issuance of CDs and Commercial Papers.* On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:

- (a) the bank must have a CAMELS composite rating of at least “3” and a “Management” rating of not lower than “3”;
- (b) the bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
- (c) the bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
- (d) the bonds issued are enrolled and/or traded in a market which is organised in accordance with the SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or -controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank’s listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, must be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

13. *Guidelines on the Adoption of PFRS 9.* On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option are allowed or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provides that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:

- (a) In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries is required to be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries will be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures will be accounted for using the equity method in accordance with the provisions of PAS 28.
- (b) In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, is required to be accounted for using the equity method as described in PAS 28.

Banks shall recognise adequate and timely allowance for credit losses at all times. In this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP Manual.

14. *Marking to market of financial instruments.* BSP Circular No. 1021 dated 15 November 2018 provides that financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9 required to be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission
15. *Basic Deposit Accounts.* BSP Circular No. 992, issued on 1 February 2018, requires banks to establish a basic deposit account which refers to interest or non-interest-bearing account designed to promote financial inclusion. The basic deposit account shall have an opening amount of not more than ₱100.00 and no minimum maintaining balance but with a maximum balance of not more than ₱50,000.00. If the depositor exceeds the ₱50,000.00 maximum balance, the bank shall convert the basic deposit account to a regular deposit account. The basic deposit account shall have no dormancy charges and has no reserve requirement.
16. *Reserves against trust and other fiduciary accounts (TOFA).* BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorised to engage in trust and other fiduciary business shall maintain reserves on TOFA -others, except accounts held under (1) administratorship; (2) trust under indenture; (3) custodianship and safekeeping; (4) depository and reorganisation; (5) employee benefit plans under trust; (6) escrow; (7) personal trust (testamentary trust); (8) executorship; (9) guardianship; (10) life insurance trust; (11) pre-need plans (institutional/individual);

- (12) Personal Equity And Retirement Account (**PERA**); (13) legislated and quasi-judicial trust; and (14) specialised institutional accounts under trust.
17. *Guidelines on the Management of Interest Rate Risk in the Banking Book and Market Risk Management.* BSP Circular No. 1044 dated 6 August 2019 approved the adoption of guidelines for managing IRRBB and amendments to the guidelines on market risk management. Under the circular, all banks and quasi-banks must adequately identify their IRRBB exposures, take appropriate steps to measure, monitor and control the risk, and ensure that the IRRBB management system is integrated into the overall risk management framework and strategic business planning process. The circular also requires active board and senior management oversight. The BSP will evaluate the adequacy and effectiveness of the IRRBB management framework, taking into account the size, complexity and nature of a bank or quasi-bank's business.
18. *BSP Regulations on Financial Consumer Protection; Guidelines and Procedures Governing the Consumer Assistance and Management System of BSP-Supervised Financial Institutions; and Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions.* BSP Circular No. 1048 dated 6 September 2019 amended the consumer protection framework in the Manual by enumerating the specific responsibilities of the board of directors and senior management in relation to the bank's consumer protection policies and risk management system. The circular discusses the standards of conduct that must be upheld and promoted in the bank's consumer protection policies and programs, such as disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education and awareness. Banks are given six (6) months from the effectivity of the circular: (1) perform a gap analysis of their current consumer protection practices and (2) propose an action plan duly approved by the board of directors to achieve full compliance within a reasonable period of time.
19. *Guidelines on Voluntary Surrender of a Banking License.* BSP Circular No. 1050 dated 18 September 2019 amended the rules on voluntary liquidation in the Manual by formulating guidelines in the event that a bank decides to surrender its banking license either with a view to proceed to voluntary dissolution and liquidation or with the intention to convert into a non-bank entity. The circular lays down the criteria that the BSP must consider in deciding whether to approve the surrender of a bank's banking license. The circular also outlines the application procedure for the cessation of a bank's operations and the documents that the bank must submit to the BSP in support of its application. Once the bank has received notice of the BSP's approval of its voluntary surrender of its banking license, the bank shall immediately cease its operations.
20. *Amendments to the Framework for Dealing with Domestic Systematically Important Banks (D-SIBs).* BSP Circular No. 1051 dated 27 September 2019 amended the Manual's provision on D-SIBs to change the number of indicators to characterize a D-SIB from ten (10) to nine (9). The circular also provides for a framework for dealing with D-SIBs, including the guidelines on data requirements and reports, schedule of restriction on distribution of dividends during the phased-in implementation period of the Higher Loss Absorbency requirement, and recovery plan.

## PHILIPPINE TAXATION

*The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase CDs. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the CDs or of any person acquiring, selling or otherwise dealing with the CDs or on any tax implications arising from the acquisition, sale or other dealings in respect of the CDs. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the CDs and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.*

**Prospective purchasers of CDs are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of CDs, including the effect of any national or local taxes, under the tax laws or regulations relevant thereto, such as but not limited to Revenue Memorandum Circular No. 7-2015 and related issuances of the Bureau of Internal Revenue, applicable in the Philippines and any other country of which they may be nationals or residents.**

The following is a general description of certain Philippine tax aspects of the CDs. It is based on the present provisions of the National Internal Revenue Code of 1997, as amended (the **Tax Code**), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the CDs. Each prospective Holder should consult with his own tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the CDs.

As used herein, the term “*resident alien*” refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a “*non-resident alien*” is an individual who is neither a citizen nor a resident of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “*non-resident alien doing business in the Philippines*,” otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a “*non-resident alien not doing business in the Philippines*.” A “*domestic corporation*” is a corporation created or organized in the Philippines or under its laws while a “*foreign corporation*” is a corporation that is not domestic. A “*resident foreign corporation*” is a foreign corporation engaged in trade or business in the Philippines; and a “*non-resident foreign corporation*” is a foreign corporation not engaged in trade or business in the Philippines.

### ***Documentary Stamp Taxes***

Under Republic Act No. 10963, which amended certain provisions of the Tax Code, a documentary stamp tax is imposed upon every original issue of debt instruments such as bonds and notes, at the rate of ₱1.50 on each ₱200, or fractional part thereof, of the issue price of such debt instruments. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines.

No documentary stamp tax is imposed on a subsequent sale or disposition of the CDs if there is no change in the maturity date or remaining term of the CDs.

### ***Interest on the CDs***

Under the Tax Code, as amended, interest income earned by individual citizens (resident or non-resident), resident aliens, and nonresident aliens engaged in trade or business in the Philippines as holders of the CDs will generally be subject to a 20% final withholding tax. The interest income on the CDs are considered as deposit substitutes if held by 20 or more individual or corporate lenders at any time.

The CDs, however, may qualify as long-term deposits or investments, in which case, interest income derived by said individuals may be exempt from the 20% final withholding tax, provided the investment is not pre-terminated before the 5th year. Transfers or assignments of the CDs are considered pre-termination for tax purposes.

Additionally, for interest income derived by these individuals from the CDs held by common or individual trust funds or investment management accounts to be exempt from income tax: (a) the CDs should be registered in the name of the individual and not under the name of the bank or the trust department/unit administering the common or individual trust funds or investment management accounts; (b) the investment of the individual investor in the common or individual trust fund or investment management account must be held/managed by a duly licensed bank for at least five years without interruption; and (b) the common or individual trust account or investment management account must hold on to such CDs in continuous and uninterrupted period for at least five years.

Should the holder pre-terminate the CD before the 5th year, or (in the case of CDs held by a common or individual trust fund or investment management account, the other requirements mentioned above are not met) a final tax shall be imposed on the pre-terminating holder / seller's entire income and shall be deducted and withheld by the Bank from the proceeds of the CDs based on the pre-terminating holder's holding period:

Four years to less than five years – 5%

Three years to less than four years – 12%

Less than three years – 20%

Interest income received by domestic and resident foreign corporations as holders of the CDs are generally subject to a final withholding tax of 20% unless tax exemptions apply as supported by appropriate documentation.

There can be no assurance that any future changes in tax laws, regulations, or interpretations thereof will not adversely affect the exemption from the final withholding tax on interest income from long-term deposits or investments earned by certain individuals or that the graduated rates applicable in case of pre termination as discussed above in the Taxation section of this circular will be maintained. If any payments of principal and/or interest under the CDs shall be subject to deductions or withholding for or on account of any taxes, duties, assessments, or governmental charges of whatever nature (including any additional or new taxes, duties, assessments, or governmental charges arising from changes in tax laws (e.g., the Passive Income and Financial Intermediary Taxation Act or TRAIN 4) and regulations or from changes in the interpretation thereof) that may be levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to documentary stamp, income, value-added or similar taxes, including interest, surcharges, and penalties thereon (the **Taxes**), then all such Taxes shall be for the account of the relevant Holder, for which the Issuer shall not be liable. *See Investment Considerations, Taxation of the CDs on page 34.*

### ***Sale or other Disposition of the CDs***

Any gain, profit or income from sale or disposition of personal property will generally be considered as Philippine-sourced income only if sold within the Philippines. If the Holder is a non-resident foreign corporation, and presumably the situs of any transfer involving the CDs will be facilitated in and take place outside the Philippines, any gain, profit or income from any sale or disposition of the CDs outside the Philippines will generally not be considered as Philippine-sourced income and thus the receipt by said taxpayers of any gain from sale of the CDs outside the Philippines will not be subject to Philippine tax.

On the other hand, since resident citizens and domestic corporation are subject to Philippine tax on their income whether these are Philippine-sourced income or not, their realisation of any gain, profit or income from sale or disposition of the CDs will generally be subject to Philippine tax. A holder of the CDs will recognise a gain or loss upon the sale or other disposition (including a redemption at maturity or otherwise) of the CDs in an amount equal to the difference between the amount realised from such disposition and such holder's basis in the CDs.

Under Section 32(B)(7)(g) of the Tax Code, gains realised from the sale, exchange or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years as measured from the date of the issuance of such bonds, debentures or other certificates of indebtedness (**Long-term CDs**) are exempt from income tax. If the CDs will be construed by the Philippine tax authority as Long-term CDs, gains realised by resident citizens and domestic corporations from the sale or transfer of the CDs will be exempt from Philippine tax.

If the CDs are not Long-term CDs, or will not be construed by the Philippine tax authority as Long-Term CDs, any gain realised by resident citizens and domestic corporation from the sale or transfer of the CDs will form part

## **Philippine Taxation**

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of their taxable income subject to ordinary income tax rates under the Tax Code at graduated rates from 0%-35% for resident citizens and 30% for domestic corporations (or 2% MCIT, as the case may be). Additionally, in the case where the seller of the CDs (i) is a resident citizen, (ii) is not a dealer in securities, and (iii) has held the CDs for a period of more than 12 months prior to the sale, only 50.0% of any capital gain will be recognised and included in said seller's gross taxable income for Philippine tax purposes.

### ***Value-Added Tax and Gross Receipts Tax***

The gross income from the sale or transfer of the CDs in the Philippines by dealers in securities is subject to VAT at the rate of 12.0%. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax as the following rates:

- (a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:  
  
Maturity period is 5 years or less — 5%  
Maturity period is more than 5 years — 1%
- (b) On dividends and equity shares and net income of subsidiaries — 0%
- (c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7%
- (d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7%

Other non-bank financial intermediaries are subject to gross receipts tax at the following rates:

- (a) On interest, commissions, discounts and all other items treated as gross income under the Tax Code — 5%
- (b) On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:  
  
Maturity period is 5 years or less — 5%  
  
Maturity period is more than 5 years — 1%.

### ***Estate and Gift Taxes***

The CDs will be considered as intangible personal property situated in the Philippines and will form part of the gross estate of any individual holder. As such, the transfer of the CDs upon the death of an individual holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at a fixed rate of 6% of the net estate. Estate taxation is governed by the statute in force at the time of the death of the decedent and so the tax rate may vary in the future. Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 made during the calendar year, whether the donor is a stranger or not.

Estate and gift taxes will not be collected in respect of intangible personal property such as the CDs (i) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

### ***Taxation outside the Philippines***

The tax treatment of a non-resident holder of any of the CDs by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such holder by reason of domicile or business activities and may vary depending upon such holder's situation. Each holder of any of the CDs should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the CDs, including the applicability and effect of any state, local and national laws.

## SUMMARY OF OFFER PROCEDURE

*The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Preliminary Offering Circular and the Agreements regarding the issuance, maintenance, servicing, trading, and settlement of the CDs. Prospective investors should read this entire Preliminary Offering Circular and the Agreements fully and carefully. In case of any inconsistency between this summary and the more detailed information in this Preliminary Offering Circular or the Agreements, then the more detailed portions and/or the Agreements, as the case may be, shall at all times prevail.*

### Offering Period Procedure

Pursuant to the Placement Agreement and the Master Registry and Paying Agency Agreement dated as of 04 October 2019 entered into by the Issuer with the relevant counterparties, the CDs shall be offered for sale through the Selling Agents during the Offer Period.

The Arranger is a third-party in relation to the Bank, such that, (i) it has no subsidiary/affiliate relationship with the Bank; and (ii) it is not related in any manner to the Bank as would undermine the objective conduct of due diligence on the Bank. The Registrar and Paying Agent is likewise a third-party in relation to the Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; and (ii) it is not related in any manner to Bank as would undermine its independence.

### The Offer Period

During the relevant Offer Period, the Issuer, the Arranger and the Selling Agents shall solicit subscriptions for the CDs. There shall be no limitation on the amount of CDs that an Applicant may apply for. Each interested investor (an **Applicant**) will be required to execute an Application to Purchase in four copies and return the completed Applications to Purchase to the Issuer or the relevant Selling Agent, as the case may be (with one duplicate to be provided to the Applicant).

Applications to Purchase must be accompanied by payment for the CDs applied for. Payment may be in the form of cash, manager's checks made out to the order of "BPI LTNCD – 2025", debit instructions or other instructions acceptable to the Issuer or the relevant Selling Agent, and must cover the entire purchase price. Each of the Issuer and the Selling Agents shall determine its own settlement procedure for its Applicants. Each of the Issuer and the Selling Agents shall hold the purchase price received from their respective Applicants as deposit for the purchase of the CDs.

Each of the Issuer and the Selling Agents shall prepare a Schedule of Applications to Purchase (the "Applications Schedule"), which sets out the aggregate amount of CDs applied for by their respective Applicants and summarizes the details of the latter. Each of the Issuer and the Selling Agents shall deliver their Applications Schedule (together with a copy of each of the completed Applications to Purchase) to the Arranger no later than 5:00 p.m. of the last day of the Offer Period.

### Allocation Period

Based on the aggregate amount of CDs applied for, the Issuer and the Arranger shall consult with each other and agree on the total size of the issue.

Each of the Arranger and the Selling Agents may, at its discretion, reject any Application to Purchase. In addition, if the CDs are insufficient to accommodate all Applications to Purchase (or in any other case where the Issuer and the Arranger agree that a reduction in size is needed), each of the Arranger and the Selling Agents may, in consultation with the Issuer, allocate the CDs among the Issuer and the Selling Agents by accepting or reducing the aggregate amount of CDs covered by each Applications Schedule as the Arranger and the Issuer may mutually determine. The Arranger shall prepare a report which summarizes the total amount of Applications to Purchase accepted and the allocation of CDs among the Issuer and the various Selling Agents (the **Allocation Report**) and provide the Issuer and the Selling Agents with a copy thereof by 5:00 p.m. on the second Banking Day following the end of the Offer Period.

Each of the Issuer and the Selling Agents shall implement the allocation set out in the Allocation Report and establish its own policies and procedures regarding the allocation of CDs among their respective Applicants. The Issuer, in its capacity as Selling Agent, and Selling Agents shall then accept the corresponding Applications to



## **Summary of Offer Procedure**

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Purchase, prepare a schedule of purchase advices (each a **Sales Report**) which summarizes the allocations made among the various Applicants, and execute and issue Purchase Advices in accordance with the Sales Report to the corresponding Applicants. The Issuer and Selling Agents shall: (a) deliver the Sales Report to the Registry and Paying Agent no later than 5:00 p.m. of the third Banking Day immediately preceding the Issue Date; and (b) deliver the executed Application to Purchase to the Registry and Paying Agent no later than 5:00 p.m. of the third Banking Day immediately preceding the Issue Date.

### **Issue Date**

On the Issue Date, the Issuer shall issue CDs with the aggregate Issue Price set out in the Allocation Report and complete and execute the Tranche Certificate (indicating therein the Issue Date and Interest Rate), and deliver such executed Tranche Certificate to the Registrar. The Issue Date is indicative and may be adjusted at the determination of the Bank (following consultation with the Arranger) if necessary to achieve an orderly settlement with investors of the CDs.

The Registrar and Paying Agent shall record the initial issuance of the CDs in the Registry and thereafter issue and distribute the relevant Registry Confirmation to the Holders in accordance with the Sales Report issued by the Issuer, in its capacity as Selling Agent, and the Selling Agents.

The Issuer and Selling Agents shall refund any payments made by Applicants whose Applications were rejected or reduced, in full (in case of rejection) or in a proportionate sum (in case of reduction), in each case, without interest.

## SUMMARY OF REGISTRY FEES

The Registry shall be entitled to charge the Holders and/or their counterparties fees as the Registry shall prescribe in line with the services that the Registry shall perform such as, but not limited to, the opening and maintaining of accounts, the maintenance of the records of the Holders in the Registry Book, the issuance, cancellation and replacement of any Registry Confirmation. The Registry will charge the following fees to the Holders:

### **Transfer Fees in the Secondary Trading:**

1. Transfer Fee of ₱100.00 to be paid each by the transferring Holder and the buyer/transferee prior to the registration of any transfer of the CDs in the Registry. Either side may opt to pay the full charge of ₱200 per transfer. For transfers from a registry account to the depository, the full charge of ₱200 per transfer shall be charged to the transferring Holder.
2. Account Opening Fee of ₱100.00 to be paid upfront by a transferee who has no existing account in the Registry
3. Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDS Clear System if so duly authorized by a Holder

### **Transfer Fees due to Non-Trade Transactions**

1. Transaction Fee of ₱100.00 to be paid each by the transferring Holder and the requesting party prior to the registration of any transfer of the CDs in the Registry. Either side may opt to pay the full charge of ₱200 per transfer.
2. Transaction Fee of ₱500.00 per side plus legal cost, for non-intermediated transfers (e.g. inheritance, donation, pledge).

### **Other Fees charged to the Holder:**

These fees pertain to instances when PDTC is requested to undertake the printing of non-standard reports for the Holders for which appropriate fees are charged to cover the related overhead costs. The fee may vary depending on the type of report, as follows:

1. Fee of ₱200.00 to be paid upon each application of a certification request of holding.
2. Fee of ₱50.00 to be paid upon each application for a monthly statement of account (in addition to the quarterly statement of account to be issued by the Registrar to each Holder free of charge).
3. Fee of ₱50.00 to be paid upon application for the issuance of a replacement Registry Confirmation for reasons such as mutilated, destroyed, stolen or lost.
4. The fee for Special Reports varies depending on request. A report that is not available from back-up CD-ROMs and will thus require system personnel intervention to generate.

### **Other Fees charged to the Selling Agent/ Underwriter:**

For every day of delay in the submission of the requirements enumerated in Section 2.4.3.1 to 2.4.3.5, the Registrar shall charge the Selling Agent an administrative fee of ₱10,000.

## INDEX TO THE FINANCIAL STATEMENTS

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**Unaudited condensed consolidated financial statements as at 30 June 2019 and for each of the six months in the periods ended 30 June 2019 and 2018**

**Audited consolidated financial statements as at 31 December 2018 and 2017 and for each of the three years in the period ended 31 December 2018, 2017, and 2016**

**ISSUER**

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**₱3,119,900,000**

**Bank of the Philippine Islands**

**Long-term Negotiable Certificates of Time Deposit**



**FINAL OFFERING CIRCULAR**

**25 October 2019**

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# ***Bank of the Philippine Islands and Subsidiaries***

**Unaudited Condensed Consolidated Interim  
Financial Statements**

**As at and for the six-month period ended June 30, 2019  
(With comparative figures as at December 31, 2018 and for the  
six-month period ended June 30, 2018)**



**Report on Review of Interim Financial Statements**

To the Board of Directors and Shareholders of  
**Bank of the Philippine Islands**  
Ayala North Exchange Tower 1, Ayala Avenue  
Makati City

***Introduction***

We have reviewed the accompanying unaudited condensed consolidated interim statement of condition of the Bank of the Philippine Islands and its subsidiaries (the “BPI Group”) as at June 30, 2019, and the related unaudited condensed consolidated interim statements of income, statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the six-month periods ended June 30, 2019 and 2018, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these unaudited condensed consolidated interim financial statements in accordance with Philippine Accounting Standard 34, ‘Interim Financial Reporting’ as issued by the Financial Reporting Standards Council (FRSC). Our responsibility is to express a conclusion on these unaudited condensed consolidated interim financial statements based on our review.

***Scope of Review***

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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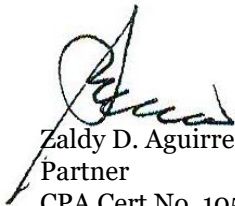
## Isla Lipana & Co.

Report on Review of Interim Financial Statements  
To the Board of Directors and Shareholders of  
Bank of the Philippine Islands  
Page 2

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited condensed consolidated interim financial statements are not prepared, in all material respects in accordance with Philippine Accounting Standard 34.

### **Isla Lipana & Co.**

A handwritten signature in black ink, appearing to read "Zaldy D. Aguirre", is written over a light blue horizontal line.

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. 08-000745-077-2018, issued on January 29, 2018; effective until January 28, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City  
August 23, 2019



**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CONDITION  
 JUNE 30, 2019  
 (With Comparative Audited Consolidated December 31, 2018 Figures)  
 (In Millions of Pesos)

	Notes	<b>2019</b>	2018
<u>RESOURCES</u>			
CASH AND OTHER CASH ITEMS	3	<b>30,967</b>	43,536
DUE FROM BANGKO SENTRAL NG PILIPINAS	3	<b>217,415</b>	225,907
DUE FROM OTHER BANKS	3	<b>10,422</b>	12,477
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	3	<b>28,716</b>	34,323
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	4	<b>34,624</b>	16,721
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	<b>76,972</b>	37,206
INVESTMENT SECURITIES AT AMORTIZED COST, net	6	<b>295,706</b>	287,571
LOANS AND ADVANCES, net	7	<b>1,354,350</b>	1,354,896
ASSETS HELD FOR SALE, net		<b>3,355</b>	3,363
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	8	<b>16,168</b>	16,252
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net		<b>6,818</b>	5,659
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS		<b>16,368</b>	16,582
DEFERRED INCOME TAX ASSETS, net		<b>8,761</b>	8,536
OTHER RESOURCES, net		<b>34,103</b>	22,199
Total resources		<b>2,134,745</b>	2,085,228

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CONDITION

JUNE 30, 2019

(With Comparative Audited Consolidated December 31, 2018 Figures)

(In Millions of Pesos)

	Notes	2019	2018
<u>LIABILITIES AND CAPITAL FUNDS</u>			
DEPOSIT LIABILITIES	9	1,658,450	1,585,746
DERIVATIVE FINANCIAL LIABILITIES	4	3,235	3,891
BILLS PAYABLE AND OTHER BORROWED FUNDS	10	136,577	166,901
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		3,123	3,988
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		7,378	6,931
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		10,236	9,057
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS		13,222	14,056
DEFERRED CREDITS AND OTHER LIABILITIES		39,382	43,120
Total liabilities		1,871,603	1,833,690
CAPITAL FUNDS ATTRIBUTABLE TO THE			
EQUITY HOLDERS OF BPI			
Share capital	11	44,979	44,961
Share premium		74,307	74,181
Reserves	11	3,729	4,096
Surplus		137,750	127,459
Accumulated other comprehensive loss		(888)	(2,176)
		259,877	248,521
NON-CONTROLLING INTEREST		3,265	3,017
Total capital funds		263,142	251,538
Total liabilities and capital funds		2,134,745	2,085,228

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018  
(In Millions of Pesos, Except Per Share Amounts)

	Notes	2019	2018
<b>INTEREST INCOME</b>			
On loans and advances		43,924	31,775
On investment securities		5,588	4,509
On deposits with BSP and other banks		803	530
On trading securities		188	134
		<b>50,503</b>	<b>36,948</b>
<b>INTEREST EXPENSE</b>			
On deposits		14,542	10,004
On bills payable and other borrowings		3,599	871
		<b>18,141</b>	<b>10,875</b>
<b>NET INTEREST INCOME</b>		<b>32,362</b>	<b>26,073</b>
<b>PROVISIONS FOR CREDIT AND IMPAIRMENT LOSSES</b>	7	<b>3,482</b>	<b>1,913</b>
<b>NET INTEREST AFTER PROVISIONS FOR CREDIT AND IMPAIRMENT LOSSES</b>		<b>28,880</b>	<b>24,160</b>
<b>OTHER INCOME</b>			
Fees and commissions		4,358	3,717
Trading gain on securities		1,318	567
Income from foreign exchange trading		1,165	1,060
Income attributable to insurance operations		727	602
Other operating income		5,972	5,201
		<b>13,540</b>	<b>11,147</b>
<b>OTHER EXPENSES</b>			
Compensation and fringe benefits		8,603	7,595
Occupancy and equipment-related expenses		7,927	6,608
Other operating expenses		7,747	7,017
		<b>24,277</b>	<b>21,220</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>18,143</b>	<b>14,087</b>
<b>INCOME TAX EXPENSE</b>			
Current		4,716	3,243
Deferred		(436)	(276)
		<b>4,280</b>	<b>2,967</b>
<b>NET INCOME FOR THE PERIOD</b>		<b>13,863</b>	<b>11,120</b>
Attributable to:			
Equity holders of BPI		13,737	11,026
Non-controlling interest		126	94
		<b>13,863</b>	<b>11,120</b>
Earnings per share for net income attributable to the equity holders of BPI during the period:			
Basic and diluted		<b>3.05</b>	<b>2.45</b>

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018  
(In Millions of Pesos)

	Note	2019	2018
<b>NET INCOME FOR THE PERIOD</b>		<b>13,863</b>	11,120
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Net change in fair value reserve on FVOCI securities, net of tax effect	12	<b>261</b>	(790)
Fair value reserve on investments of insurance subsidiaries, net of tax effect	12	<b>410</b>	(370)
Share in other comprehensive income (loss) of an associate		<b>1,008</b>	(1,009)
Currency translation differences		<b>(78)</b>	175
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Actuarial gains (losses) on defined benefit plan, net of tax effect	12	<b>41</b>	(5)
Share in other comprehensive (loss) gain of associates		<b>(2)</b>	286
Total other comprehensive income (loss), net of tax effect		<b>1,640</b>	(1,713)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>15,503</b>	9,407
Attributable to:			
Equity holders of BPI		<b>15,254</b>	9,370
Non-controlling interest		<b>249</b>	37
		<b>15,503</b>	9,407

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN CAPITAL FUNDS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018  
(In Millions of Pesos)

	Attributable to equity holders of BPI (Note 11)					Total	Non-controlling interest	Total equity
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)			
<b>Balance, January 1, 2018</b>	<b>39,336</b>	<b>29,771</b>	<b>254</b>	<b>116,415</b>	<b>(5,088)</b>	<b>180,688</b>	<b>2,863</b>	<b>183,551</b>
Impact of PFRS 9 adoption	-	-	-	(413)	4,246	3,833	(12)	3,821
<b>Restated balance, January 1, 2018</b>	<b>39,336</b>	<b>29,771</b>	<b>254</b>	<b>116,002</b>	<b>(842)</b>	<b>184,521</b>	<b>2,851</b>	<b>187,372</b>
<b>Comprehensive income</b>								
Net income for the period	-	-	-	11,026	-	11,026	94	11,120
Other comprehensive loss for the period	-	-	-	-	(1,656)	(1,656)	(57)	(1,713)
<b>Total comprehensive income (loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,026</b>	<b>(1,656)</b>	<b>9,370</b>	<b>37</b>	<b>9,407</b>
<b>Transactions with owners</b>								
Proceeds from stock rights offering (Note 11)	5,587	44,363	-	-	-	49,950	-	49,950
Executive stock plan amortization	22	(68)	(48)	-	-	(94)	-	(94)
Cash dividends	-	-	-	(4,052)	-	(4,052)	-	(4,052)
Others	-	-	-	(1)	-	(1)	-	(1)
<b>Total transactions with owners</b>	<b>5,609</b>	<b>44,295</b>	<b>(48)</b>	<b>(4,053)</b>	<b>-</b>	<b>45,803</b>	<b>-</b>	<b>45,803</b>
<b>Balance, June 30, 2018</b>	<b>44,945</b>	<b>74,066</b>	<b>206</b>	<b>122,975</b>	<b>(2,498)</b>	<b>239,694</b>	<b>2,888</b>	<b>242,582</b>
<b>Balance, January 1, 2019</b>	<b>44,961</b>	<b>74,181</b>	<b>4,096</b>	<b>127,459</b>	<b>(2,176)</b>	<b>248,521</b>	<b>3,017</b>	<b>251,538</b>
<b>Comprehensive income</b>								
Net income for the period	-	-	-	13,737	-	13,737	126	13,863
Other comprehensive income for the period	-	-	-	-	1,517	1,517	123	1,640
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,737</b>	<b>1,517</b>	<b>15,254</b>	<b>249</b>	<b>15,503</b>
<b>Transactions with owners</b>								
Executive stock plan amortization	18	126	19	-	-	163	-	163
Cash dividends	-	-	-	(4,056)	-	(4,056)	-	(4,056)
<b>Total transactions with owners</b>	<b>18</b>	<b>126</b>	<b>19</b>	<b>(4,056)</b>	<b>-</b>	<b>(3,893)</b>	<b>-</b>	<b>(3,893)</b>
<b>Other movements</b>								
Transfer from surplus to reserves	-	-	56	(56)	-	-	-	-
Transfer from reserves to surplus	-	-	(442)	442	-	-	-	-
Other changes	-	-	-	224	(229)	(5)	(1)	(6)
<b>Total other movements</b>	<b>-</b>	<b>-</b>	<b>(386)</b>	<b>610</b>	<b>(229)</b>	<b>(5)</b>	<b>(1)</b>	<b>(6)</b>
<b>Balance, June 30, 2019</b>	<b>44,979</b>	<b>74,307</b>	<b>3,729</b>	<b>137,750</b>	<b>(888)</b>	<b>259,877</b>	<b>3,265</b>	<b>263,142</b>

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018  
(In Millions of Pesos)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>18,143</b>	14,087
Adjustments for:		
Provisions for credit and impairment losses	<b>3,482</b>	1,913
Depreciation and amortization	<b>2,616</b>	2,291
Share in net income of associates	<b>(153)</b>	(320)
Dividend income	<b>(22)</b>	(37)
Share based compensation	<b>21</b>	(49)
Interest income	<b>(52,247)</b>	(38,312)
Interest received	<b>50,309</b>	37,164
Interest expense	<b>18,141</b>	10,875
Interest paid	<b>(17,381)</b>	(10,205)
(Increase) decrease in:		
Interbank loans and receivable and securities purchased under agreement to resell	<b>1,098</b>	80
Financial assets at fair value through profit or loss	<b>(18,763)</b>	(13,221)
Loans and advances	<b>(1,793)</b>	(21,307)
Assets held for sale	<b>7</b>	207
Assets attributable to insurance operations	<b>833</b>	205
Other resources	<b>(12,602)</b>	(4,558)
(Decrease) increase in:		
Deposit liabilities	<b>72,704</b>	(27,224)
Due to Bangko Sentral ng Pilipinas and other banks	<b>(864)</b>	308
Manager's checks and demand drafts outstanding	<b>447</b>	(596)
Accrued taxes, interest and other expenses	<b>419</b>	64
Liabilities attributable to insurance operations	<b>(834)</b>	(62)
Derivative financial instruments	<b>295</b>	134
Deferred credits and other liabilities	<b>(7,819)</b>	(3,827)
Net cash from (used in) operations	<b>56,037</b>	(52,390)
Income taxes paid	<b>(4,505)</b>	(3,241)
Net cash from (used in) operating activities	<b>51,532</b>	(55,631)

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018  
(In Millions of Pesos)

	Note	2019	2018
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(Increase) decrease in:			
Investment securities		<b>(46,655)</b>	19,529
Bank premises, furniture, fixtures and equipment		<b>(1,975)</b>	(1,871)
Investment in subsidiaries and associates, net		<b>251</b>	(218)
Assets attributable to insurance operations		<b>(594)</b>	381
Investment property, net		<b>(2)</b>	(15)
Dividends received		<b>22</b>	37
Net cash (used in) from investing activities		<b>(48,953)</b>	17,843
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends		<b>(4)</b>	(3,545)
Issuance of shares via exercise of stock options		<b>145</b>	49,904
Decrease in bills payable		<b>(30,324)</b>	(31,774)
Net cash (used in) from financing activities		<b>(30,183)</b>	14,585
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(27,604)</b>	(23,203)
<b>CASH AND CASH EQUIVALENTS</b>	3		
Beginning of period		<b>313,270</b>	322,129
End of period		<b>285,666</b>	298,926

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

## **BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
AS AT AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019  
(With comparative figures as at December 31, 2018 and for the six-month period ended June 30, 2018)  
(In Millions of Pesos, unless otherwise stated)

### **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 Salcedo St., 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 June 30, 2019, the BPI Group has 19,428 employees (June 2018 - 17,674 employees) and operates 1,091 branches and 3,015 ATMs and CAMs (June 2018 - 988 branches and 3,141 ATMs and CAMs) 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. Likewise, BPI is a listed entity with its shares traded in the Philippine Stock Exchange (PSE) since October 12, 1971. As at June 30, 2019, the Parent Bank has 12,421 common shareholders (June 2018 - 11,649).

The condensed consolidated interim financial statements have been approved by the Board of Directors of the Parent Bank on August 20, 2019. There are no material events that occurred subsequent to August 20, 2019 until August 23, 2019.

These condensed consolidated interim financial statements have been reviewed, not audited.

### **Note 2 - Segment information**

Operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (CEO), 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 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 serves 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. Likewise, this segment includes the entire transaction processing and service delivery infrastructure consisting of the BPI, BPI Family Savings Bank and BPI Direct BanKo 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 CEO assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings.

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

Revenues of the BPI Group's segment operations are derived mainly from the lending business in the form of interest (net interest income). 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 period. 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, commissions, 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 statement of condition, but exclude items such as taxation.

The segment assets and liabilities as at June 30, 2019 and December 31, 2018 and results of operations of the reportable segments of the BPI Group as at and for the six-month periods ended June 30, 2019 and 2018 follow:

	June 30, 2019			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	20,583	6,751	7,507	<b>34,841</b>
Provisions for credit and impairment losses	1,919	1,568	(6)	<b>3,481</b>
Net interest income after provisions for credit and impairment losses	18,664	5,183	7,513	<b>31,360</b>
Fees, commissions and other income, net	6,799	1,878	3,435	<b>12,112</b>
Total income	25,463	7,061	10,948	<b>43,472</b>
Compensation and fringe benefits	6,666	1,131	515	<b>8,312</b>
Occupancy and equipment-related expenses	3,993	1,064	130	<b>5,187</b>
Other operating expenses	7,739	1,559	843	<b>10,141</b>
Total operating expenses	18,398	3,754	1,488	<b>23,640</b>
Operating profit	7,065	3,307	9,460	<b>19,832</b>
Share in net income of associates				<b>314</b>
Income tax expense				<b>4,280</b>
<b>Total resources</b>				
June 30, 2019	480,247	1,118,253	489,444	<b>2,087,944</b>
December 31, 2018	534,234	1,113,367	409,797	<b>2,057,398</b>
<b>Total liabilities</b>				
June 30, 2019	1,156,837	565,818	134,372	<b>1,857,027</b>
December 31, 2018	1,124,800	552,969	137,872	<b>1,815,641</b>

	June 30, 2018			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	15,122	6,043	7,120	28,285
Provisions for credit and impairment losses	1,360	544	10	1,914
Net interest income after provisions for credit and impairment losses	13,762	5,499	7,110	26,371
Fees, commissions and other income, net	5,728	1,719	2,868	10,315
Total income	19,490	7,218	9,978	36,686
Compensation and fringe benefits	5,969	1,255	506	7,730
Occupancy and equipment-related expenses	3,405	956	107	4,468
Other operating expenses	6,133	1,522	718	8,373
Total operating expenses	15,507	3,733	1,331	20,571
Operating profit	3,983	3,485	8,647	16,115
Share in net income of associates				389
Income tax expense				2,967
Total resources				
June 30, 2018	478,270	1,013,971	378,288	1,870,529
December 31, 2017	476,749	1,007,058	389,085	1,872,892
Total liabilities				
June 30, 2018	1,081,651	503,068	52,667	1,637,386
December 31, 2017	1,063,069	550,367	85,946	1,699,382

Reconciliation of segment results to consolidated results of operations:

	June 30, 2019		Total per consolidated financial statements
	Total per management reporting	Consolidation adjustments/ Others	
	(In Millions of Pesos)		
Net interest income	34,841	(2,479)	<b>32,362</b>
Provisions for credit and impairment losses	3,481	1	<b>3,482</b>
Net interest income after provisions for credit and impairment losses	31,360	(2,480)	<b>28,880</b>
Fees, commissions and other income, net	12,112	1,428	<b>13,540</b>
Total income	43,472	(1,052)	<b>42,420</b>
Compensation and fringe benefits	8,312	291	<b>8,603</b>
Occupancy and equipment-related expenses	5,187	2,740	<b>7,927</b>
Other operating expenses	10,141	(2,394)	<b>7,747</b>
Total operating expenses	23,640	637	<b>24,277</b>
Operating profit	19,832	(1,689)	<b>18,143</b>
Share in net income of associates (included in Other income)			<b>314</b>
Income tax expense			<b>4,280</b>
<b>Total resources</b>			
June 30, 2019	2,087,944	46,801	<b>2,134,745</b>
December 31, 2018	2,057,398	27,830	<b>2,085,228</b>
<b>Total liabilities</b>			
June 30, 2019	1,857,027	14,576	<b>1,871,603</b>
December 31, 2018	1,815,641	18,049	<b>1,833,690</b>

	June 30, 2018		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	28,285	(2,212)	26,073
Provisions for credit and impairment losses	1,914	(1)	1,913
Net interest income after provisions for credit and impairment losses	26,371	(2,211)	24,160
Fees, commissions and other income, net	10,315	832	11,147
Total income	36,686	(1,379)	35,307
Compensation and fringe benefits	7,730	(135)	7,595
Occupancy and equipment - related expenses	4,468	2,140	6,608
Other operating expenses	8,373	(1,356)	7,017
Total operating expenses	20,571	649	21,220
Operating profit	16,115	(2,028)	14,087
Share in net income of associates (included in Other income)	389		389
Income tax expense	2,967		2,967
Total resources			
June 30, 2018	1,870,529	30,430	1,900,959
December 31, 2017	1,872,892	31,013	1,903,905
Total liabilities			
June 30, 2018	1,637,386	20,991	1,658,377
December 31, 2017	1,699,382	20,972	1,720,354

“Consolidation adjustments/Other” pertain to balances of support units and inter-segment elimination in accordance with BPI Group’s internal reporting.

### Note 3 - Cash and cash equivalents

Cash and cash equivalents consist of:

	June 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Cash and other cash items	30,967	43,536
Due from BSP	217,415	225,907
Due from other banks	10,422	12,477
Interbank loans receivable and securities purchased under agreements to resell	26,747	31,261
Cash and cash equivalents attributable to insurance operations	115	89
	<b>285,666</b>	<b>313,270</b>

The decline in Due from BSP of P8,492 million is due to the change in the BSP’s regulatory reserve requirement against the BPI Group’s deposit and deposit substitute liabilities from 18% to 16.5% as of June 30, 2019. Interbank loans receivable and SPAR decreased due to lower volume of placements in Reverse Repurchase Agreements (RRP) and interbank term loans.

For cash flow statement purposes, cash and cash equivalents consist of:

	<b>June 30, 2019</b>	June 30, 2018
	(In Millions of Pesos)	
Cash and other cash items	<b>30,967</b>	31,009
Due from BSP	<b>217,415</b>	230,369
Due from other banks	<b>10,422</b>	8,219
Interbank loans receivable and securities purchased under agreements to resell	<b>26,747</b>	29,050
Cash and cash equivalents attributable to insurance operations	<b>115</b>	279
	<b>285,666</b>	298,926

#### **Note 4 - Financial Assets at Fair Value through Profit or Loss (FVTPL)**

The account consists of:

	<b>June 30, 2019</b>	December 31, 2018
	(In Millions of Pesos)	
Debt securities		
Government securities	<b>27,410</b>	8,953
Commercial papers of private companies	<b>3,941</b>	3,497
Equity securities - listed	<b>191</b>	238
Derivative financial assets	<b>3,082</b>	4,033
	<b>34,624</b>	16,721

The increase in the account is mainly due to higher volume of government securities acquired in the early part of 2019 in line with the BPI Group's expectation of lower interest rates.

Derivatives held by the BPI Group for non-hedging purposes mainly consist of foreign exchange forwards, foreign exchange swaps, interest rate swaps and cross-currency swaps. The decrease is due to lower volume of transactions and settlements during the period ended June 30, 2019.

#### **Note 5 - Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)**

The account consists of:

	<b>June 30, 2019</b>	December 31, 2018
	(In Millions of Pesos)	
Debt securities		
Government securities	<b>64,721</b>	32,718
Commercial papers of private companies	<b>8,840</b>	2,695
	<b>73,561</b>	35,413
Accrued interest receivable	<b>866</b>	118
	<b>74,427</b>	35,531
Equity securities		
Listed	<b>2,299</b>	1,129
Unlisted	<b>246</b>	546
	<b>2,545</b>	1,675
	<b>76,972</b>	37,206

The increase in the portfolio of debt securities is in line with the BPI Group's expectation of declining interest rates.

**Note 6 - Investment securities at amortized cost, net**

The account consists of:

	<b>June 30, 2019</b>	December 31, 2018
	(In Millions of Pesos)	
Government securities	<b>209,381</b>	196,957
Commercial papers of private companies	<b>82,361</b>	86,826
	<b>291,742</b>	283,783
Accrued interest receivable	<b>3,964</b>	3,790
	<b>295,706</b>	287,573
Allowance for credit losses	-	(2)
	<b>295,706</b>	287,571

The increase in the account of P8,135 million is mainly attributable to acquisitions of debt securities due to higher investible funds during the period.

**Note 7 - Loans and advances, net**

The account consists of:

	<b>June 30, 2019</b>	December 31, 2018
	(In Millions of Pesos)	
Corporate loans		
Large corporate customers	<b>1,027,152</b>	1,043,855
Small and medium enterprise	<b>82,012</b>	87,998
Retail loans		
Real estate mortgages	<b>129,987</b>	126,088
Credit cards	<b>67,087</b>	60,843
Auto loans	<b>52,025</b>	51,845
Others	<b>18,871</b>	5,145
	<b>1,377,134</b>	1,375,774
Accrued interest receivable	<b>9,393</b>	8,454
Unearned discount/income	<b>(6,791)</b>	(6,430)
	<b>1,379,736</b>	1,377,798
Allowance for credit losses	<b>(25,386)</b>	(22,902)
	<b>1,354,350</b>	1,354,896

The expansion in gross loans is driven by higher demand for retail loans, specifically credit cards and housing loans.

Higher provision recognized during the period is mainly attributable to the specific provisions recognized for corporate loans as well as incremental collective provisions on account of growing loan portfolio.

The movements in allowance for credit losses are summarized below:

	June 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Beginning balance	22,902	20,674
Provision for credit losses	3,394	4,504
Transfers	(129)	(164)
Write off/Disposal	(752)	(2,092)
Accretion/Unwind of discount	(29)	(20)
Ending balance	25,386	22,902

#### Note 8 - Bank premises, furniture, fixtures and equipment

Movements of the account are summarized as follows:

	June 30, 2019				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2019	3,028	10,889	16,496	5,580	35,993
Additions	-	812	572	834	2,218
Disposals	(10)	(110)	(307)	(456)	(883)
June 30, 2019	3,018	11,591	16,761	5,958	37,328
Accumulated depreciation					
January 1, 2019	-	5,511	13,040	1,190	19,741
Depreciation	-	352	867	701	1,920
Amortization	-	133	-	10	143
Disposals	-	(144)	(166)	(334)	(644)
June 30, 2019	-	5,852	13,741	1,567	21,160
<b>Net book value, June 30, 2019</b>	<b>3,018</b>	<b>5,739</b>	<b>3,020</b>	<b>4,391</b>	<b>16,168</b>
	December 31, 2018				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost	3,028	10,889	16,496	5,580	35,993
Accumulated depreciation	-	5,511	13,040	1,190	19,741
Net book value	3,028	5,378	3,456	4,390	16,252



### Note 9 - Deposit liabilities

Deposit liabilities increased mainly due to the growth in time deposit placements from clients.

### Note 10 - Bills payable and other borrowed funds

The reduction in bills payable of P30,324 million at June 30, 2019 is primarily due to settlement of short-term interbank borrowings which were not renewed upon maturities. This is in line with the BPI Group's strategy to manage cost of funds by resorting to low-cost deposit products.

#### *Other borrowed funds*

Other borrowed funds include the US\$600 million, 5-year Senior Unsecured Fixed Rate Reg S Notes issued on September 4, 2018 bearing coupon of 4.25% to mature on September 4, 2023. This debt issuance was part of the Medium Term Note Programme established by the Parent Bank on June 21, 2018 in the aggregate amount of up to US\$2,000 million.

Likewise, 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.

### Note 11 - Capital funds

#### (a) Share capital

Details of authorized capital stock of the Parent Bank follow:

	<b>June 30, 2019</b>	December 31, 2018
	(In Millions of Pesos Except Par Value Per Share)	
Authorized capital (at P10 par value per share)		
Common shares	<b>49,000</b>	49,000
Preferred A shares	<b>600</b>	600
	<b>49,600</b>	49,600

The outstanding common shares as at June 30, 2019 and December 31, 2018 are 4,506,944,439 and 4,502,448,426, respectively.

On April 25, 2018, the Parent Bank 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, with 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 on May 4, 2018.

There are no preferred shares issued as at June 30, 2019 and December 31, 2018.

(b) Reserves

The account consists of:

	June 30, 2019	December 31, 2018
	(In Millions of Pesos)	
General loan loss provision (GLLP)	3,424	3,867
Executive stock option plan amortization	126	105
Reserve for trust business	145	90
Reserve for self-insurance	34	34
	<b>3,729</b>	<b>4,096</b>

The appropriation for GLLP is recognized to comply with BSP Circular 1011 (the "Circular"). Under the Circular, banks are required 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. Further, the Circular states that 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.

In compliance with existing BSP regulations, 10% of the BPI AMTC's income from trust business is appropriated to surplus reserve. This appropriation is required until the surplus reserve for trust business reaches 20% of the BPI AMTC's regulatory net worth.

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.

(c) Dividend declarations

Details of cash dividends declared by the Parent Bank follow:

Date Declared	Amount of Dividends	
	Per Share	Amounts in millions of Pesos
June 20, 2018	0.90	4,052
December 19, 2018	0.90	4,052
May 15, 2019	0.90	4,056

### Note 12 - Commitments and contingencies

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

### Note 13 - Related party transactions

In the normal course of the 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 its subsidiaries (Ayala Group). AC has a significant influence over the BPI Group as at reporting date.

These transactions include loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses. Transactions with related parties are made in the normal banking activities and have terms and conditions comparable to those offered to non-related parties or to similar transactions in the market.

Details of directors, officers, stockholders, and their related interests (DOSRI) loans follow:

	June 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Outstanding DOSRI loans	10,228	8,248
	In percentage (%)	
% to total outstanding loans and advances	0.75	0.60
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	17.24	21.51
Past due DOSRI loans	-	-
Non-performing DOSRI loans	-	-

At June 30, 2019 and December 31, 2018, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

### Note 14 - Critical accounting estimates and judgments

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial statements, the significant accounting estimates and judgments made by management in applying the BPI Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2018.

## Note 15 - Fair value measurements of financial instruments

This note provides an update on the judgments and estimates made by the BPI Group in determining the fair values on the financial instruments since the last annual financial report.

### a. Fair value hierarchy

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, Philippine Stock Exchange, Inc., 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 and for the period ended June 30, 2019 and December 31, 2018.

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

The following tables present the carrying value and fair value hierarchy of the BPI Group's assets and liabilities measured at fair value at June 30, 2019:

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
(In Millions of Pesos)				
<b>Recurring measurements</b>				
<b>Financial assets</b>				
Financial assets at FVTPL				
Derivative financial assets	3,082	-	3,082	<b>3,082</b>
Trading assets				
- Debt securities	31,351	30,925	426	<b>31,351</b>
- Equity securities	191	191	-	<b>191</b>
Financial assets at FVOCI				
- Debt securities	74,427	74,289	138	<b>74,427</b>
- Equity securities	2,545	2,299	246	<b>2,545</b>
	<b>111,596</b>	<b>107,704</b>	<b>3,892</b>	<b>111,596</b>
<b>Financial liabilities</b>				
Derivative financial liabilities	3,235	-	3,235	<b>3,235</b>
<b>Non-recurring measurements</b>				
Assets held for sale, net	3,355	-	10,242	<b>10,242</b>

There were no transfers between Level 1 and Level 2 during the periods ended June 30, 2019 and December 31, 2018.

**b. Valuation techniques used to derive Level 2 fair values**

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.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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.

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, forex 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.

**c. Fair values of other financial instruments carried at amortized cost**

The BPI Group also holds financial instruments that are not measured at fair value in the statement of condition at June 30, 2019 as follows:

	<b>Carrying amount</b>	<b>Fair value</b>
<b>Financial assets</b>		
Investment securities at amortized cost	295,706	289,699
Loans and advances, net	1,354,350	1,364,269
<b>Financial liabilities</b>		
Deposit liabilities	1,658,450	1,637,052

## **Note 16 - Basis of preparation**

These unaudited condensed consolidated interim financial statements as at and for the six-month period ended June 30, 2019 have been prepared in accordance with PAS 34, *Interim Financial Reporting*. These unaudited condensed consolidated interim financial statements do not include all the notes normally included in an annual financial report. Accordingly, these unaudited condensed consolidated interim financial statements are to be read in conjunction with the annual audited consolidated financial statements of the BPI Group for the year ended December 31, 2018, which have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

### *(a) New and amended standards adopted by the BPI Group*

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

PFRS 16 replaces the current guidance in PAS 17, *Leases*, effective beginning January 1, 2019 and affects 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.

On adoption of PFRS 16, the BPI Group will recognize lease liabilities in relation to leases which had previously been classified as operating leases under the principles of PAS 17, *Leases*. These liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The BPI Group is still in the process of completing its inventory and assessment to facilitate the calculation and eventual booking of PFRS 16 transition adjustment. However, based on the BPI Group's initial assessment, the financial impact of PFRS 16 is deemed to be insignificant.

#### 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 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 not mandatory for June 30, 2019 reporting period and have not been early adopted by 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 on its insurance subsidiaries as of reporting date.

# ***Bank of the Philippine Islands***

**Financial Statements**

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





## **Independent Auditor's Report**

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

### ***Report on the Audits of the Financial Statements***

#### ***Our Opinion***

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

#### ***What we have audited***

The financial statements comprise:

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

#### ***Basis for Opinion***

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

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

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Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Bank of the Philippine Islands  
Page 2

*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
<p data-bbox="256 589 847 622"><b>Impairment losses on loans and advances</b></p> <p data-bbox="256 651 847 1160">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.</p> <p data-bbox="256 1189 847 1402">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.</p> <p data-bbox="256 1431 847 1644">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.</p>	<p data-bbox="879 651 1461 741">We assessed the design and tested the operating effectiveness of key controls over loan loss provisioning. These key controls included:</p> <ul data-bbox="927 748 1461 1357" style="list-style-type: none"> <li>• 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;</li> <li>• review and approval of key judgments, assumptions and forward-looking information used in the ECL models;</li> <li>• reconciliations of data from source systems to the detailed ECL model analyses;</li> <li>• controls over the timely identification of deterioration in credit quality of individual loans and advances; and</li> <li>• the review and approval process for the outputs of the impairment models.</li> </ul> <p data-bbox="879 1386 1461 1447">Our work over the impairment of loans and advances included:</p> <ul data-bbox="927 1453 1461 1729" style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> </ul>

Key Audit Matters	How our audit addressed the Key Audit Matters
<p>(cont'd.)</p> <p>Key elements in the impairment of loans and advances include:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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).</li> </ul> <p>The BPI Group and Parent Bank adopted on January 1, 2018 the Philippine Financial Reporting Standard (PFRS) 9, <i>Financial Instruments</i>, 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.</p>	<ul style="list-style-type: none"> <li>• 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;</li> <li>• independent comparison of economic information used within, and weightings applied to, forward-looking scenarios in the ECL models against available macro-economic data;</li> <li>• testing of the accuracy and completeness of data in the ECL models by comparing them with information obtained from source systems;</li> <li>• 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;</li> <li>• 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</li> <li>• 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.</li> </ul>





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***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.



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To the Board of Directors and Shareholders of  
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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.





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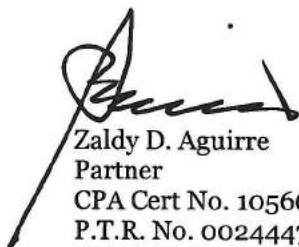
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report 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
<b>RESOURCES</b>					
CASH AND OTHER CASH ITEMS	4	<b>43,536</b>	35,132	<b>42,419</b>	34,160
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	<b>225,907</b>	255,948	<b>202,487</b>	227,122
DUE FROM OTHER BANKS	4	<b>12,477</b>	14,406	<b>8,615</b>	10,894
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	<b>34,323</b>	18,586	<b>22,659</b>	10,504
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	6,7	<b>16,721</b>	10,313	<b>10,346</b>	8,781
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	<b>37,206</b>	-	<b>30,583</b>	-
INVESTMENT SECURITIES AT AMORTIZED COST, net	9	<b>287,571</b>	-	<b>267,497</b>	-
AVAILABLE-FOR-SALE SECURITIES, net	8	-	23,313	-	10,139
HELD-TO-MATURITY SECURITIES	9	-	277,472	-	255,382
LOANS AND ADVANCES, net	10	<b>1,354,896</b>	1,202,338	<b>1,125,956</b>	986,869
ASSETS HELD FOR SALE, net		<b>3,363</b>	3,578	<b>455</b>	609
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	<b>16,252</b>	15,056	<b>10,146</b>	9,905
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	12	<b>5,659</b>	6,386	<b>9,942</b>	9,043
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	<b>16,582</b>	17,406	-	-
DEFERRED INCOME TAX ASSETS, net	13	<b>8,536</b>	8,091	<b>5,723</b>	5,180
OTHER ASSETS, net	14	<b>22,199</b>	15,880	<b>16,313</b>	14,160
Total assets		<b>2,085,228</b>	1,903,905	<b>1,753,141</b>	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
<b>LIABILITIES AND CAPITAL FUNDS</b>					
DEPOSIT LIABILITIES	15	<b>1,585,746</b>	1,562,200	<b>1,347,207</b>	1,323,963
DERIVATIVE FINANCIAL LIABILITIES	7	<b>3,891</b>	4,788	<b>3,888</b>	4,788
BILLS PAYABLE AND OTHER BORROWED FUNDS	16	<b>166,901</b>	83,517	<b>150,880</b>	70,722
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		<b>3,988</b>	1,218	<b>3,988</b>	1,218
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		<b>6,931</b>	7,022	<b>5,354</b>	5,762
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		<b>9,057</b>	7,117	<b>6,875</b>	4,851
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	<b>14,056</b>	14,513	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	17	<b>43,120</b>	39,979	<b>35,793</b>	33,212
Total liabilities		<b>1,833,690</b>	1,720,354	<b>1,553,985</b>	1,444,516
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	18				
Share capital		<b>44,961</b>	39,336	<b>44,961</b>	39,336
Share premium		<b>74,181</b>	29,771	<b>74,181</b>	29,771
Reserves		<b>4,096</b>	254	<b>3,977</b>	142
Surplus		<b>127,459</b>	116,415	<b>76,958</b>	73,679
Accumulated other comprehensive loss		<b>(2,176)</b>	(5,088)	<b>(921)</b>	(4,696)
		<b>248,521</b>	180,688	<b>199,156</b>	138,232
NON-CONTROLLING INTERESTS		<b>3,017</b>	2,863	-	-
Total capital funds		<b>251,538</b>	183,551	<b>199,156</b>	138,232
Total liabilities and capital funds		<b>2,085,228</b>	1,903,905	<b>1,753,141</b>	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)

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

	Note	Consolidated			Parent		
		2018	2017	2016	2018	2017	2016
<b>NET INCOME FOR THE YEAR</b>		<b>23,329</b>	22,736	22,275	<b>15,428</b>	22,097	20,885
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>	18						
<b>Items that may be subsequently reclassified to profit or loss</b>							
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
<b>Items that will not be reclassified to profit or loss</b>							
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
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>22,040</b>	22,719	21,921	<b>15,718</b>	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	-	-	-
		<b>22,040</b>	22,719	21,921	<b>15,718</b>	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)

	<b>Consolidated</b>							
	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
<b>Balance, January 1, 2016</b>	<b>39,285</b>	<b>29,439</b>	<b>2,563</b>	<b>83,761</b>	<b>(4,764)</b>	<b>150,284</b>	<b>2,446</b>	<b>152,730</b>
<b>Comprehensive income</b>								
Net income for the year	-	-	-	22,050	-	22,050	225	22,275
Other comprehensive loss for the year	-	-	-	-	(314)	(314)	(40)	(354)
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,050</b>	<b>(314)</b>	<b>21,736</b>	<b>185</b>	<b>21,921</b>
<b>Transactions with owners</b>								
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)
<b>Total transactions with owners</b>	<b>23</b>	<b>152</b>	<b>45</b>	<b>(7,106)</b>	<b>-</b>	<b>(6,886)</b>	<b>(81)</b>	<b>(6,967)</b>
<b>Other movement</b>								
Transfer from surplus to reserves	-	-	103	(103)	-	-	-	-
<b>Total other movement</b>	<b>-</b>	<b>-</b>	<b>103</b>	<b>(103)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance, December 31, 2016</b>	<b>39,308</b>	<b>29,591</b>	<b>2,711</b>	<b>98,602</b>	<b>(5,078)</b>	<b>165,134</b>	<b>2,550</b>	<b>167,684</b>
<b>Comprehensive income</b>								
Net income for the year	-	-	-	22,416	-	22,416	320	22,736
Other comprehensive loss for the year	-	-	-	-	(10)	(10)	(7)	(17)
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,416</b>	<b>(10)</b>	<b>22,406</b>	<b>313</b>	<b>22,719</b>
<b>Transactions with owners</b>								
Exercise of stock option plans	28	180	31	-	-	239	-	239
Cash dividends	-	-	-	(7,091)	-	(7,091)	-	(7,091)
<b>Total transactions with owners</b>	<b>28</b>	<b>180</b>	<b>31</b>	<b>(7,091)</b>	<b>-</b>	<b>(6,852)</b>	<b>-</b>	<b>(6,852)</b>
<b>Other movements</b>								
Transfer from surplus to reserves	-	-	90	(90)	-	-	-	-
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-	-	-
<b>Total other movements</b>	<b>-</b>	<b>-</b>	<b>(2,488)</b>	<b>2,488</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance, December 31, 2017</b>	<b>39,336</b>	<b>29,771</b>	<b>254</b>	<b>116,415</b>	<b>(5,088)</b>	<b>180,688</b>	<b>2,863</b>	<b>183,551</b>
Impact of PFRS 9 adoption (Note 31)	-	-	-	(62)	4,111	4,049	(8)	4,041
<b>Restated balance, January 1, 2018</b>	<b>39,336</b>	<b>29,771</b>	<b>254</b>	<b>116,353</b>	<b>(977)</b>	<b>184,737</b>	<b>2,855</b>	<b>187,592</b>
<b>Comprehensive income</b>								
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)
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,078</b>	<b>(1,200)</b>	<b>21,878</b>	<b>162</b>	<b>22,040</b>
<b>Transactions with owners</b>								
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)
<b>Total transactions with owners</b>	<b>5,625</b>	<b>44,410</b>	<b>(25)</b>	<b>(8,104)</b>	<b>-</b>	<b>41,906</b>	<b>-</b>	<b>41,906</b>
<b>Other movements</b>								
Transfer from surplus to reserves (Note 18)	-	-	3,867	(3,867)	-	-	-	-
Others	-	-	-	(1)	1	-	-	-
<b>Total other movements</b>	<b>-</b>	<b>-</b>	<b>3,867</b>	<b>(3,868)</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance, December 31, 2018</b>	<b>44,961</b>	<b>74,181</b>	<b>4,096</b>	<b>127,459</b>	<b>(2,176)</b>	<b>248,521</b>	<b>3,017</b>	<b>251,538</b>

(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)

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

(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)

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

	Notes	Consolidated			Parent		
		2018	2017	2016	2018	2017	2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
(Increase) decrease in:							
Investment securities, net	8,9	<b>(25,828)</b>	(7,029)	(5,439)	<b>(31,400)</b>	727	(3,559)
Bank premises, furniture, fixtures and equipment, net	11	<b>(5,048)</b>	(4,191)	(4,109)	<b>(2,518)</b>	(2,018)	(2,543)
Investment properties, net	14	<b>1</b>	-	(35)	<b>12</b>	-	-
Investment in subsidiaries and associates, net	12	<b>305</b>	745	28	<b>(899)</b>	(95)	(880)
Assets attributable to insurance operations		<b>364</b>	58	(136)	-	-	-
Dividends received	18	<b>76</b>	68	56	<b>904</b>	9,492	6,084
Net cash (used in) from investing activities		<b>(30,130)</b>	(10,349)	(9,635)	<b>(33,901)</b>	8,106	(898)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Cash dividends paid	17,18	<b>(7,598)</b>	(7,089)	(7,082)	<b>(7,598)</b>	(7,089)	(7,082)
Proceeds from share issuance	18	<b>50,035</b>	207	175	<b>50,035</b>	207	175
Increase in bills payable and other borrowed funds	16	<b>83,384</b>	21,544	41,032	<b>80,158</b>	18,466	39,431
Net cash from financing activities		<b>125,821</b>	14,662	34,125	<b>122,595</b>	11,584	32,524
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<b>(8,859)</b>	11,383	28,995	<b>(7,457)</b>	14,123	38,075
CASH AND CASH EQUIVALENTS							
January 1	4,5	<b>322,129</b>	310,746	281,751	<b>280,579</b>	266,456	228,381
December 31		<b>313,270</b>	322,129	310,746	<b>273,122</b>	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)	
<b>Assets</b>		
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
	<b>16,582</b>	<b>17,406</b>

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

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
	<b>4,505</b>	<b>4,488</b>	<b>4,315</b>
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
	<b>3,282</b>	<b>3,075</b>	<b>2,955</b>
Income before income tax and minority interest	<b>1,223</b>	<b>1,413</b>	<b>1,360</b>

### **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.



	2017			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(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			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(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:

	<b>2018</b>		
	<b>Total per management reporting</b>	<b>Consolidation adjustments/ Others</b>	<b>Total per consolidated financial statements</b>
	(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
	<b>2017</b>		
	<b>Total per management reporting</b>	<b>Consolidation adjustments/ Others</b>	<b>Total per consolidated financial statements</b>
	(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	<b>43,536</b>	35,132	<b>42,419</b>	34,160
Due from Bangko Sentral ng Pilipinas (BSP)	<b>225,907</b>	255,948	<b>202,487</b>	227,122
Due from other banks	<b>12,477</b>	14,406	<b>8,615</b>	10,894
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	<b>31,261</b>	16,327	<b>19,601</b>	8,403
Cash and cash equivalents attributable to insurance operations (Note 2)	<b>89</b>	316	-	-
	<b>313,270</b>	322,129	<b>273,122</b>	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:

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



Parent

	Contract/		Fair Values			
	Notional Amount		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	-	-
	<b>428,046</b>	<b>549,463</b>	<b>4,031</b>	<b>4,975</b>	<b>3,888</b>	<b>4,788</b>

**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
	<b>35,413</b>	<b>29,904</b>
Accrued interest receivable	118	89
	<b>35,531</b>	<b>29,993</b>
Equity securities		
Listed	1,129	406
Unlisted	546	184
	<b>1,675</b>	<b>590</b>
	<b>37,206</b>	<b>30,583</b>

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:

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

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

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
Peso-denominated	<b>1.18 - 4.20</b>	0.53 - 0.85	<b>1.65 - 5.43</b>	1.15 - 2.28
Foreign currency-denominated	<b>2.09 - 2.85</b>	2.10 - 2.26	<b>2.33 - 2.85</b>	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:

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

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)	<b>30,159</b>	13,182	<b>28,038</b>	11,849
Non-current (over 12 months)	<b>257,414</b>	264,290	<b>239,461</b>	243,533
	<b>287,573</b>	277,472	<b>267,499</b>	255,382

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

	Consolidated		Parent	
	2018	2017	2018	2017
Peso-denominated	<b>3.53 - 3.90</b>	3.46 - 3.65	<b>3.55 - 3.93</b>	3.42 - 3.61
Foreign currency-denominated	<b>2.80 - 3.16</b>	2.78 - 2.93	<b>2.84 - 3.19</b>	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	<b>1,043,855</b>	913,529	<b>1,019,626</b>	891,551
Small and medium enterprise	<b>87,998</b>	85,324	<b>62,058</b>	56,358
Retail loans				
Credit cards	<b>60,843</b>	49,142	<b>59,228</b>	47,829
Real estate mortgages	<b>126,088</b>	115,772	<b>12</b>	22
Auto loans	<b>51,845</b>	53,343	-	-
Others	<b>5,145</b>	4,707	<b>14</b>	4,106
	<b>1,375,774</b>	1,221,817	<b>1,140,938</b>	999,866
Accrued interest receivable	<b>8,454</b>	5,458	<b>5,963</b>	4,070
Unearned discount/income	<b>(6,430)</b>	(4,274)	<b>(4,978)</b>	(3,154)
	<b>1,377,798</b>	1,223,001	<b>1,141,923</b>	1,000,782
Allowance for impairment	<b>(22,902)</b>	(20,663)	<b>(15,967)</b>	(13,913)
	<b>1,354,896</b>	1,202,338	<b>1,125,956</b>	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	<b>235,904</b>	117,640	115,841	<b>233,481</b>
ECL provisions	(65)	(688)	<b>(753)</b>	(65)	(658)	<b>(723)</b>
	117,575	117,576	<b>235,151</b>	117,575	115,183	<b>232,758</b>

Loans and advances are expected to be realized as follows:

	Consolidated		Parent	
	2018	2017	2018	2017
	(In Millions of Pesos)			
Current (within 12 months)	<b>554,183</b>	521,688	<b>515,723</b>	489,240
Non-current (over 12 months)	<b>823,615</b>	701,313	<b>626,200</b>	511,542
	<b>1,377,798</b>	1,223,001	<b>1,141,923</b>	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	<b>11,203</b>	9,102
Unearned finance income	<b>(1,321)</b>	(1,003)
Present value of future minimum lease collections	<b>9,882</b>	8,099
Allowance for impairment	<b>(304)</b>	(251)
	<b>9,578</b>	7,848

Details of future gross minimum lease payments receivable follow:

	Consolidated	
	2018	2017
	(In Millions of Pesos)	
Not later than one year	<b>4,299</b>	3,371
Later than one year but not later than five years	<b>6,270</b>	5,323
More than five years	<b>634</b>	408
	<b>11,203</b>	9,102
Unearned finance income	<b>(1,321)</b>	(1,003)
	<b>9,882</b>	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	<b>4.11 - 5.52</b>	3.97 - 4.19	<b>3.98 - 5.44</b>	3.76 - 4.02
Foreign currency-denominated loans	<b>3.61 - 4.86</b>	2.94 - 3.36	<b>3.61 - 4.86</b>	2.94 - 3.36
Real estate mortgages	<b>6.61 - 6.97</b>	6.60 - 7.09	<b>7.04 - 8.00</b>	6.67 - 8.00
Auto loans	<b>7.46 - 10.93</b>	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	<b>23.08</b>	22.59	<b>16.00</b>	15.46
Manufacturing	<b>16.28</b>	16.23	<b>19.26</b>	19.41
Wholesale and retail trade	<b>12.56</b>	11.50	<b>14.16</b>	12.96
Consumer	<b>8.16</b>	8.78	<b>5.08</b>	5.30
Financial institutions	<b>6.09</b>	7.56	<b>7.28</b>	9.11
Agriculture and forestry	<b>2.74</b>	3.31	<b>3.26</b>	3.98
Others	<b>31.09</b>	30.03	<b>34.96</b>	33.78
	<b>100.00</b>	100.00	<b>100.00</b>	100.00

b) As to collateral

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



	2017				Total
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	
(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				Total
	Land	Buildings and leasehold improvements	Furniture and equipment		
(In Millions of Pesos)					
Cost					
January 1, 2018	2,661	8,582	13,850		<b>25,093</b>
Additions	(1)	1,178	1,590		<b>2,767</b>
Disposals	-	(145)	(732)		<b>(877)</b>
Transfers	17	-	-		<b>17</b>
December 31, 2018	<b>2,677</b>	<b>9,615</b>	<b>14,708</b>		<b>27,000</b>
Accumulated depreciation					
January 1, 2018	-	4,492	10,696		<b>15,188</b>
Depreciation	-	439	1,634		<b>2,073</b>
Amortization	-	203	-		<b>203</b>
Disposals	-	(94)	(516)		<b>(610)</b>
December 31, 2018	-	<b>5,040</b>	<b>11,814</b>		<b>16,854</b>
Net book value, December 31, 2018	<b>2,677</b>	<b>4,575</b>	<b>2,894</b>		<b>10,146</b>



	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 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:

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

	<b>2018</b>	2017
	(In Millions of Pesos)	
Total assets	<b>122,616</b>	125,471
Total liabilities	<b>105,960</b>	107,209
Total revenues	<b>18,618</b>	33,538
Total net income	<b>1,425</b>	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
	<b>10,241</b>	<b>9,147</b>	<b>(299)</b>	<b>(104)</b>	<b>9,942</b>	<b>9,043</b>

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 BERK 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:

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

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

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

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

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

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

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2018	2017	2018	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		Parent	
	2018	2017	2018	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
	<b>21,255</b>	16,660	15,301	<b>15,645</b>	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)	<b>214,196</b>	233,509	<b>195,883</b>	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	-
	<b>166,901</b>	83,517	<b>150,880</b>	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 relented 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	<b>2.75 - 7.35</b>	3.22 - 4.10	<b>2.75 - 5.06</b>	4.26 - 4.66
Foreign banks - Foreign currency-denominated	<b>1.32 - 4.20</b>	1.69 - 1.82	<b>1.32 - 3.26</b>	1.69 - 1.82







Details of outstanding common shares follow:

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

	<b>Consolidated</b>			<b>Parent</b>		
	<b>2018</b>	2017	2016	<b>2018</b>	2017	2016
	(In Millions of Pesos)					
General loan loss provision (GLLP)	<b>3,867</b>	-	-	<b>3,867</b>	-	-
Executive stock option plan amortization	<b>105</b>	130	100	<b>76</b>	108	84
Reserve for trust business	<b>90</b>	90	2,577	-	-	2,577
Reserve for self-insurance	<b>34</b>	34	34	<b>34</b>	34	34
	<b>4,096</b>	254	2,711	<b>3,977</b>	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	<b>(3,125)</b>	(3,838)	(4,381)	<b>(3,275)</b>	(3,724)	(4,226)
Effect of PFRS 9 adoption	<b>3,125</b>	-	-	<b>3,275</b>	-	-
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	<b>757</b>	-	-	<b>210</b>	-	-
Unrealized fair value loss before tax	<b>(364)</b>	-	-	<b>(12)</b>	-	-
Amount recycled to profit or loss	<b>(390)</b>	-	-	<b>(128)</b>	-	-
Deferred income tax effect	<b>(36)</b>	-	-	<b>(1)</b>	-	-
At December 31	<b>(33)</b>	-	-	<b>69</b>	-	-
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	<b>45</b>	(158)	(67)	-	-	-
Effect of PFRS 9 adoption	<b>229</b>	-	-	-	-	-
Share in other comprehensive income (loss) for the year, before tax	<b>(316)</b>	175	(108)	-	-	-
Deferred income tax effect	<b>6</b>	28	17	-	-	-
At December 31	<b>(36)</b>	45	(158)	-	-	-
Share in other comprehensive income of associates						
At January 1	<b>479</b>	1,259	1,333	-	-	-
Share in other comprehensive loss for the year	<b>(685)</b>	(780)	(74)	-	-	-
At December 31	<b>(206)</b>	479	1,259	-	-	-
Translation adjustment on foreign operations						
At January 1	<b>(678)</b>	(804)	(691)	-	-	-
Translation differences	<b>(26)</b>	126	(113)	-	-	-
At December 31	<b>(704)</b>	(678)	(804)	-	-	-
Remeasurements of defined benefit obligation, net						
At January 1	<b>(1,809)</b>	(1,537)	(958)	<b>(1,421)</b>	(1,083)	(654)
Actuarial gains (losses) for the year	<b>877</b>	(387)	(827)	<b>616</b>	(358)	(613)
Deferred income tax effect	<b>(265)</b>	115	248	<b>(185)</b>	20	184
At December 31	<b>(1,197)</b>	(1,809)	(1,537)	<b>(990)</b>	(1,421)	(1,083)
	<b>(2,176)</b>	(5,088)	(5,078)	<b>(921)</b>	(4,696)	(4,807)

d) *Dividend declarations*

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

Date declared	Amount of dividends	
	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	<b>23,078</b>	22,416	22,050	<b>15,428</b>	22,097	20,885
b) Weighted average number of common shares outstanding during the year	<b>4,316</b>	3,939	3,937	<b>4,316</b>	3,939	3,937
c) Basic EPS (a/b)	<b>5.35</b>	5.69	5.60	<b>3.57</b>	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	<b>3,197</b>	2,953	1,423	<b>3,126</b>	2,894	1,412
Trust and asset management fees	<b>2,818</b>	3,516	3,376	-	190	2,202
Rental income	<b>1,898</b>	1,672	1,660	<b>254</b>	219	328
Gain on sale of assets	<b>1,243</b>	1,204	668	<b>658</b>	302	299
Dividend income	<b>76</b>	68	56	<b>904</b>	9,492	6,083
Others	<b>1,155</b>	1,380	1,266	<b>977</b>	1,074	1,008
	<b>10,387</b>	10,793	8,449	<b>5,919</b>	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:

	<b>Consolidated</b>	<b>Parent</b>
	(In Millions of Pesos)	
<b>2018</b>	<b>1,809</b>	<b>1,503</b>
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:

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

### **Note 21 - Operating Expenses**

Details of compensation and fringe benefits expenses follow:

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

Details of other operating expenses follow:

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

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

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

## **Note 23 - Basic Quantitative Indicators of Financial Performance**

The key financial performance indicators follow (in %):

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Return on average equity	<b>10.21</b>	12.75	<b>8.50</b>	16.81
Return on average assets	<b>1.20</b>	1.27	<b>0.96</b>	1.54
Net interest margin	<b>3.11</b>	2.91	<b>2.87</b>	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 trustee 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 at 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

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
		(In Millions of Pesos)		
Present value of defined benefit obligation	<b>10,892</b>	12,718	<b>9,171</b>	10,508
Fair value of plan assets	<b>(9,851)</b>	(10,710)	<b>(8,195)</b>	(9,003)
Pension liability recognized in the statements of condition	<b>1,041</b>	2,008	<b>976</b>	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)
	<b>755</b>	<b>705</b>	<b>691</b>	<b>608</b>	<b>567</b>	<b>549</b>

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:

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

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

Consolidated

**2018**

	<b>Change in assumption</b>	<b>Impact on defined benefit obligation</b>	
		<b>Increase in assumption</b>	<b>Decrease in assumption</b>
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**

	<b>Change in assumption</b>	<b>Impact on defined benefit obligation</b>	
		<b>Increase in assumption</b>	<b>Decrease in assumption</b>
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:

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

<b>2018</b>			
	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	
	<b>5,294</b>	<b>33,480</b>	
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	
	<b>12,836</b>	<b>26,486</b>	
<b>2017</b>			
	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	
	<b>(990)</b>	<b>28,186</b>	
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	
	<b>(7,982)</b>	<b>13,650</b>	

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	<b>(81)</b>	<b>53</b>	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	<b>190</b>	<b>387</b>	
Ayala Group	<b>5,026</b>	<b>32,579</b>	
Key management personnel	-	-	
Other related parties	<b>159</b>	<b>461</b>	
	<b>5,294</b>	<b>33,480</b>	
Deposits from:			
Subsidiaries	<b>388</b>	<b>8,631</b>	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	<b>55</b>	<b>414</b>	
Ayala Group	<b>10,446</b>	<b>14,974</b>	
Key management personnel	<b>103</b>	<b>463</b>	
	<b>10,992</b>	<b>24,482</b>	

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

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

Parent

	<b>2018</b>	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
	<b>1,381</b>	984	823
Other income			
Subsidiaries	1,620	1,433	893
Associates	1,035	977	777
Ayala Group	137	155	-
	<b>2,792</b>	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
	<b>187</b>	56	126
Other expenses			
Subsidiaries	145	27	21
Ayala Group	501	319	259
	<b>646</b>	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:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	(In Millions of Pesos)			
Outstanding DOSRI loans	<b>8,248</b>	4,376	<b>8,248</b>	4,335
	In percentages (%)			
	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
% to total outstanding loans and advances	<b>0.60</b>	0.36	<b>0.73</b>	0.44
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	<b>21.51</b>	29.63	<b>21.51</b>	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:

<b>Classifications</b>	<b>Large Corporate loans</b>	<b>Cross-Border Loans</b>	<b>SME Loans</b>
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



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				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	
	(In Millions of Pesos)				
<b>Credit grade</b>					
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
<b>Gross carrying amount</b>	<b>1,083,065</b>	<b>39,320</b>	<b>13,564</b>	<b>1,135,949</b>	998,745
Loss allowance	(5,768)	(1,843)	(5,728)	(13,339)	(12,413)
<b>Carrying amount</b>	<b>1,077,297</b>	<b>37,477</b>	<b>7,836</b>	<b>1,122,610</b>	986,332

*Retail loans*

	2018				2017
	ECL Staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	
	(In Millions of Pesos)				
<b>Credit grade</b>					
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
<b>Gross carrying amount</b>	<b>218,647</b>	<b>14,258</b>	<b>8,944</b>	<b>241,849</b>	224,256
Loss allowance	(4,114)	(1,405)	(4,044)	(9,563)	(8,250)
<b>Carrying amount</b>	<b>214,533</b>	<b>12,853</b>	<b>4,900</b>	<b>232,286</b>	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)			
<b>Credit grade</b>				
Standard monitoring		232,257	74	232,331
Special monitoring		3,246	264	3,510
Default		-	-	63
<b>Gross carrying amount</b>		<b>235,503</b>	<b>338</b>	<b>235,904</b>
Loss allowance		(710)	(30)	(753)
<b>Carrying amount</b>		<b>234,793</b>	<b>308</b>	<b>235,151</b>

Parent

*Corporate and SME loans*

	2018				2017
	ECL Staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	
	(In Millions of Pesos)				
<b>Credit grade</b>					
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
<b>Gross carrying amount</b>	<b>1,038,687</b>	<b>37,464</b>	<b>9,772</b>	<b>1,085,923</b>	948,826
Loss allowance	(5,108)	(1,734)	(4,299)	(11,141)	(10,489)
<b>Carrying amount</b>	<b>1,033,579</b>	<b>35,730</b>	<b>5,473</b>	<b>1,074,782</b>	938,337

*Retail loans*

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

*Undrawn committed credit facilities*

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

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	<b>41,329</b>	-	-	-
Past due up to 30 days	175	2,834	<b>3,009</b>	645	507	1,152
Past due 31 - 90 days	3,513	5,727	<b>9,240</b>	348	1,446	1,794
Past due 91 - 180 days	-	-	-	913	7	920
Over 180 days	-	-	-	375	-	1,475
	<b>39,320</b>	<b>14,258</b>	<b>53,578</b>	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	<b>34,937</b>	-	-	-
Past due up to 30 days	47	97	<b>144</b>	392	63	455
Past due 31 - 90 days	2,721	935	<b>3,656</b>	149	1,006	1,155
Past due 91 - 180 days	-	-	-	391	-	391
Over 180 days	-	-	-	118	-	118
	<b>37,464</b>	<b>1,273</b>	<b>38,737</b>	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	<b>225,907</b>	255,948	<b>202,487</b>	227,122
Due from other banks	<b>12,477</b>	14,406	<b>8,615</b>	10,894
Interbank loans receivable and SPAR	<b>34,323</b>	18,586	<b>22,659</b>	10,504
Financial assets at FVTPL	<b>16,483</b>	9,983	<b>10,346</b>	8,781
Financial assets at FVOCI	<b>35,531</b>	-	<b>29,993</b>	-
Investment securities at amortized cost	<b>287,571</b>	-	<b>267,497</b>	-
Available-for-sale - debt securities	-	19,218	-	9,669
Held-to-maturity securities	-	277,472	-	255,382
	<b>612,292</b>	595,613	<b>541,597</b>	522,352

**Credit quality of treasury and other investment securities**

Consolidated

	2018				2017
	ECL Staging			Total	Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
	(In Millions of Pesos)				
<b>Credit grade</b>					
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	-
<b>Gross carrying amount</b>	<b>612,280</b>	<b>-</b>	<b>67</b>	<b>612,347</b>	<b>595,654</b>
Loss allowance	(5)	-	(50)	(55)	(41)
<b>Carrying amount</b>	<b>612,275</b>	<b>-</b>	<b>17</b>	<b>612,292</b>	<b>595,613</b>

Parent

	2018				2017
	ECL Staging			Total	Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
	(In Millions of Pesos)				
<b>Credit grade</b>					
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	-
<b>Gross carrying amount</b>	<b>541,582</b>	<b>-</b>	<b>67</b>	<b>541,649</b>	<b>522,393</b>
Loss allowance	(2)	-	(50)	(52)	(41)
<b>Carrying amount</b>	<b>541,580</b>	<b>-</b>	<b>17</b>	<b>541,597</b>	<b>522,352</b>

### **Other financial assets**

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

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

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	(In Millions of Pesos)			
Undrawn loan commitments	<b>300,721</b>	160,030	<b>295,744</b>	157,338
Unused letters of credit	<b>22,064</b>	17,971	<b>22,064</b>	17,971
Others	<b>685</b>	1,189	<b>685</b>	1,189
	<b>323,470</b>	179,190	<b>318,493</b>	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)			
<b>Credit-impaired assets</b>				
Corporate and SME loans	13,564	5,728	7,836	9,191
Retail loans	8,944	4,044	4,900	2,040
<b>Total credit-impaired assets</b>	<b>22,508</b>	<b>9,772</b>	<b>12,736</b>	<b>11,231</b>
<b>Fair value of collateral</b>	<b>12,611</b>			<b>6,444</b>

##### Parent

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

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	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)			
<b>Loss allowance, at January 1, 2018</b>	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)
<b>Loss allowance, at December 31, 2018</b>	<b>5,768</b>	<b>1,843</b>	<b>5,728</b>	<b>13,339</b>

Retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)			
<b>Loss allowance, at January 1, 2018</b>	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)
<b>Loss allowance, at December 31, 2018</b>	<b>4,114</b>	<b>1,405</b>	<b>4,044</b>	<b>9,563</b>

Parent

Corporate and SME loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)			
<b>Loss allowance, at January 1, 2018</b>	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)
<b>Loss allowance, at December 31, 2018</b>	<b>5,108</b>	<b>1,734</b>	<b>4,299</b>	<b>11,141</b>

Retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
<b>Loss allowance, at January 1, 2018</b>	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)
<b>Loss allowance, at December 31, 2018</b>	<b>1,839</b>	<b>482</b>	<b>2,505</b>	<b>4,826</b>

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:

PAS 39	Consolidated			Parent		
	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

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

<b>PAS 39</b>	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
<b>At December 31, 2017</b>	<b>443,453</b>	<b>108,069</b>	<b>202,707</b>	<b>278,050</b>	<b>791,562</b>	<b>(21,220)</b>	<b>1,802,621</b>

### Parent

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

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.



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

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

Year	Change in currency	Effect on pre-tax income (in millions of pesos)	
		Consolidated	Parent
<b>2018</b>	<b>+/- 1.92%</b>	<b>-/+ 71</b>	<b>-/+ 95</b>
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			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
<b>As at December 31, 2018</b>					
<b>Financial Assets</b>					
Cash and other cash items	-	-	-	43,536	<b>43,536</b>
Due from BSP	-	-	-	225,907	<b>225,907</b>
Due from other banks	-	-	-	12,477	<b>12,477</b>
Interbank loans receivable and SPAR	-	-	-	34,323	<b>34,323</b>
Financial assets at FVTPL	70	1,172	1,125	14,116	<b>16,483</b>
Financial assets at FVOCI	-	-	-	35,531	<b>35,531</b>
Investment securities at amortized cost	-	1	-	287,570	<b>287,571</b>
Loans and advances, net	828,847	130,082	270,105	125,862	<b>1,354,896</b>
Other financial assets	-	-	-	5,667	<b>5,667</b>
<b>Total financial assets</b>	<b>828,917</b>	<b>131,255</b>	<b>271,230</b>	<b>784,989</b>	<b>2,016,391</b>
<b>Financial Liabilities</b>					
Deposit liabilities	602,032	831,505	152,209	-	<b>1,585,746</b>
Derivative financial liabilities	43	1,204	1,279	1,365	<b>3,891</b>
Bills payable and other borrowed funds	20,915	10,516	-	135,470	<b>166,901</b>
Due to BSP and other banks	-	-	-	3,988	<b>3,988</b>
Manager's checks and demand drafts outstanding	-	-	-	6,931	<b>6,931</b>
Other financial liabilities	-	-	-	19,313	<b>19,313</b>
<b>Total financial liabilities</b>	<b>622,990</b>	<b>843,225</b>	<b>153,488</b>	<b>167,067</b>	<b>1,786,770</b>
<b>Total interest gap</b>	<b>205,927</b>	<b>(711,970)</b>	<b>117,742</b>	<b>617,922</b>	<b>229,661</b>

PAS 39	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(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
<b>Total financial assets</b>	<b>746,381</b>	<b>80,222</b>	<b>268,230</b>	<b>742,920</b>	<b>1,837,753</b>
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
<b>Total financial liabilities</b>	<b>818,857</b>	<b>576,809</b>	<b>187,761</b>	<b>90,779</b>	<b>1,674,206</b>
<b>Total interest gap</b>	<b>(72,476)</b>	<b>(496,587)</b>	<b>80,469</b>	<b>652,141</b>	<b>163,547</b>

Parent

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

PAS 39	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(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
<b>Total financial assets</b>	<b>681,100</b>	<b>38,063</b>	<b>218,103</b>	<b>613,266</b>	<b>1,550,532</b>
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
<b>Total financial liabilities</b>	<b>726,606</b>	<b>514,413</b>	<b>104,171</b>	<b>72,381</b>	<b>1,417,571</b>
<b>Total interest gap</b>	<b>(45,506)</b>	<b>(476,350)</b>	<b>113,932</b>	<b>540,885</b>	<b>132,961</b>

### 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)			
<b>As at December 31, 2018</b>				
<b>Financial Assets</b>				
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
<b>Total financial assets</b>	<b>983,792</b>	<b>267,725</b>	<b>868,362</b>	<b>2,119,879</b>
<b>Financial Liabilities</b>				
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
<b>Total financial liabilities</b>	<b>1,051,634</b>	<b>955,856</b>	<b>196,060</b>	<b>2,203,550</b>
<b>Total maturity gap</b>	<b>(67,842)</b>	<b>(688,131)</b>	<b>672,302</b>	<b>(83,671)</b>

PAS 39	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
<b>As at December 31, 2017</b>				
<b>Financial Assets</b>				
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
<b>Financial assets at FVTPL</b>				
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
<b>Total financial assets</b>	<b>1,032,702</b>	<b>241,726</b>	<b>803,628</b>	<b>2,078,056</b>
<b>Financial Liabilities</b>				
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
<b>Total financial liabilities</b>	<b>802,776</b>	<b>753,307</b>	<b>142,546</b>	<b>1,698,629</b>
<b>Total maturity gap</b>	<b>229,926</b>	<b>(511,581)</b>	<b>661,082</b>	<b>379,427</b>

Parent

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

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
<b>Total financial assets</b>	<b>924,713</b>	<b>184,686</b>	<b>667,172</b>	<b>1,776,571</b>
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
<b>Total financial liabilities</b>	<b>677,232</b>	<b>646,566</b>	<b>105,246</b>	<b>1,429,044</b>
<b>Total maturity gap</b>	<b>247,481</b>	<b>(461,880)</b>	<b>561,926</b>	<b>347,527</b>

### 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
(In Millions of Pesos)				
<b>2018</b>				
Interest rate swap contracts - held for trading				
- Inflow	99	1,285	1,317	<b>2,701</b>
- Outflow	(59)	(1,296)	(1,485)	<b>(2,840)</b>
<b>- Net inflow</b>	<b>40</b>	<b>(11)</b>	<b>(168)</b>	<b>(139)</b>
Non-deliverable forwards and swaps - held for trading				
- Inflow	36,071	2,103	3,680	<b>41,854</b>
- Outflow	(35,972)	(2,120)	(3,680)	<b>(41,772)</b>
<b>- Net outflow</b>	<b>99</b>	<b>(17)</b>	<b>-</b>	<b>82</b>

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				
<b>2018 (PFRS 9)</b>				
- Inflow	127,002	4,184	-	<b>131,186</b>
- Outflow	(127,082)	(4,136)	-	<b>(131,218)</b>
- <b>Net inflow (outflow)</b>	<b>(80)</b>	<b>48</b>	-	<b>(32)</b>
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		Total
		Level 1	Level 2	
(In Millions of Pesos)				
<b>Recurring measurements</b>				
<b>Financial assets</b>				
Financial assets at FVTPL				
Derivative financial assets	4,033	-	4,033	<b>4,033</b>
Trading assets				
- Debt securities	12,450	11,656	794	<b>12,450</b>
- Equity securities	238	238	-	<b>238</b>
Financial assets at FVOCI				
- Debt securities	35,531	35,089	442	<b>35,531</b>
- Equity securities	1,675	1,129	546	<b>1,675</b>
	<b>53,927</b>	<b>48,112</b>	<b>5,815</b>	<b>53,927</b>
<b>Financial liabilities</b>				
Derivative financial liabilities	3,891	-	3,891	<b>3,891</b>
<b>Non-recurring measurements</b>				
Assets held for sale, net	3,363	-	9,859	<b>9,859</b>

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

2017 (PAS 39)	Carrying Amount	Fair value		
		Level 1	Level 2	Total
(In Millions of Pesos)				
Recurring measurements				
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
(In Millions of Pesos)				
2017 (PAS 39)	Carrying Amount	Level 1	Level 2	Total
(In Millions of Pesos)				
Fair values disclosed				
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		Total
		Level 1	Level 2	
<b>Recurring measurements</b>				
(In Millions of Pesos)				
<b>Financial assets</b>				
Financial assets at FVTPL				
Derivative financial assets	4,031	-	4,031	<b>4,031</b>
Trading securities - debt securities	6,315	5,528	787	<b>6,315</b>
Financial assets at FVOCI				
- Debt securities	29,993	29,838	155	<b>29,993</b>
- Equity securities	590	406	184	<b>590</b>
	<b>40,929</b>	<b>35,772</b>	<b>5,157</b>	<b>40,929</b>
<b>Financial liabilities</b>				
Derivative financial liabilities	3,888	-	3,888	<b>3,888</b>
<b>Non-recurring measurements</b>				
Assets held for sale, net	455	-	3,496	<b>3,496</b>

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

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

#### PFRS 9 adoption

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	
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>Financial assets</b>				
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	
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>Financial assets</b>				
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

		<b>FVTPL - Trading securities</b>	<b>Investment debt securities at FVOCI</b>	<b>Investment securities at amortized cost</b>	<b>Loans and advances, net</b>
(In Millions of Pesos)					
<b>Closing balance, December 31, 2017 - PAS 39</b>		<b>5,332</b>	<b>23,313</b>	<b>277,472</b>	<b>1,202,338</b>
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)
<b>Opening balance, January 1, 2018 - PFRS 9</b>		<b>10,408</b>	<b>26,309</b>	<b>273,386</b>	<b>1,202,326</b>

Parent

		<b>FVTPL - Trading securities</b>	<b>Investment securities at FVOCI (Available- for-sale in 2017)</b>	<b>Investment securities at amortized cost (HTM in 2017)</b>
(In Millions of Pesos)				
<b>Closing balance, December 31, 2017 - PAS 39</b>		<b>3,806</b>	<b>10,139</b>	<b>255,382</b>
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
<b>Opening balance, January 1, 2018 - PFRS 9</b>		<b>6,041</b>	<b>10,502</b>	<b>256,226</b>

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

Consolidated

	<b>Surplus</b>	<b>Accumulated other comprehensive loss</b>
	(In Millions of Pesos)	
<b>Closing balances, December 31, 2017 - PAS 39</b>	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)	-
<b>Opening balances, January 1, 2018 - PFRS 9</b>	<b>116,353</b>	<b>(977)</b>

Parent

	<b>Surplus</b>	<b>Accumulated other comprehensive loss</b>
	(In Millions of Pesos)	
<b>Closing balances, December 31, 2017 - PAS 39</b>	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)
<b>Opening balances, January 1, 2018 - PFRS 9</b>	<b>73,501</b>	<b>(1,211)</b>

- 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:

	<b>Consolidated</b>	<b>Parent</b>
	(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.





- 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 estimated 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 the 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:

<u>(In Millions of Pesos)</u>	<u>Amount</u>
Deposit and loan documents	6,990
Trade finance documents	639
Mortgage documents	467
Shares of stocks	56
Others	7
	<b>8,159</b>

#### *(ii) Withholding taxes*

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2018 consist of:

<u>(In Millions of Pesos)</u>	<u>Amount</u>		
	<u>Paid</u>	<u>Accrued</u>	<u>Total</u>
Income taxes withheld on compensation	1,566	177	<b>1,743</b>
Final income taxes withheld on interest on deposits and yield on deposit substitutes	2,178	244	<b>2,422</b>
Final income taxes withheld on income payment	643	29	<b>672</b>
Creditable income taxes withheld (expanded)	409	53	<b>462</b>
Fringe benefit tax	145	34	<b>179</b>
VAT withholding tax	47	12	<b>59</b>
	<b>4,988</b>	<b>549</b>	<b>5,537</b>

#### *(iii) All other local and national taxes*

All other local and national taxes paid/accrued for the year ended December 31, 2018 consist of:

<u>(In Millions of Pesos)</u>	<u>Amount</u>		
	<u>Paid</u>	<u>Accrued</u>	<u>Total</u>
Gross receipts tax	3,014	407	<b>3,421</b>
Real property tax	128	-	<b>128</b>
Municipal taxes	168	-	<b>168</b>
Others	6	-	<b>6</b>
	<b>3,316</b>	<b>407</b>	<b>3,723</b>



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.

# ***Bank of the Philippine Islands***

**Financial Statements**

**As at December 31, 2017 and 2016 and for each of the three  
years in the period ended December 31, 2017**



## **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, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 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, 2017 and 2016;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2017;
- the consolidated and parent statements of comprehensive income for each of the three years in the period ended December 31, 2017;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2017;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2017; and
- the notes to the consolidated and parent financial statements, which include a summary of significant accounting policies.

#### ***Basis for Opinion***

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

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

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*Independence*

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

***Our Audit Approach***

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

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

*Key audit matters*

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

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

<b>Key Audit Matter</b>	<b>How our audit addressed the Key Audit Matter</b>
<b>Impairment losses on loans and advances</b>	
<p>Refer to Note 10 of the consolidated and parent financial statements.</p>	<p>Our audit procedures included evaluating and validating the design and operating effectiveness of controls over loan loss provisioning, including the process for credit risk rating and management's review of the estimates.</p>
<p>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, 2017, the total allowance for impairment for loans and advances amounted to PHP20,663 million for the BPI Group and PHP13,913 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP4,317 million for the BPI Group and PHP3,880 million for the Parent Bank.</p>	<p>Our substantive procedures to assess management's calculation of allowance for impairment included the following:</p>
<p>In particular, judgment arises over the determination of objective evidence of impairment which may have a reliably measurable effect on the present value of estimated future cash flows. Further, there are various assumptions involved in calculating the required allowance for impairment losses such as the probability of default and loss given default which, to a large extent, are subject to management judgment.</p>	<p><u>Individual/ specific assessment</u></p> <p>We assessed the BPI Group's and Parent Bank's review process on the credit worthiness of borrowers. The appropriateness of provisioning methodology was independently considered for a sample of loans selected on the basis of risk. We formed our independent credit view on the levels of provision booked based on the counterparty information in the credit file, including consideration of any related collateral. Calculations using the discounted cash flow model for selected loan samples were re-performed.</p>
<p>Impairment losses are calculated on a specific basis for individually significant loans and on a collective basis for portfolio of not individually significant loans with similar nature and characteristics.</p>	

<b>Key Audit Matter</b>	<b>How our audit addressed the Key Audit Matter (cont.)</b>
<i>(cont'd.)</i>	<b>Collective assessment</b>  We tested the impairment model used and assessed the reasonableness of management assumptions, mainly the probability of default and loss given default, by reference to the historical loss experience of the BPI Group and the Parent Bank. We also performed independent credit review to determine whether impairment triggers exist for selected loan samples. We recomputed the allowance for impairment and compared the resulting balance to the allowance recorded by management.  Based on the procedures we performed, we determined that the impairment models and assumptions were materially consistent with our independent expectations and analysis.

***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.



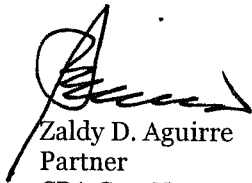
Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Bank of the Philippine Islands  
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***Report on Bureau of Internal Revenue Requirement***

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 10, 2018, Makati City

SEC A.N. (individual) as general auditors 1176-AR-1, Category A; effective until April 30, 2018

SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018

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 8, 2018

**BANK OF THE PHILIPPINE ISLANDS**

STATEMENTS OF CONDITION  
DECEMBER 31, 2017 and 2016  
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2017	2016	2017	2016
<u>RESOURCES</u>					
CASH AND OTHER CASH ITEMS	4	<b>35,132</b>	35,692	<b>34,160</b>	34,855
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	<b>255,948</b>	239,514	<b>227,122</b>	203,743
DUE FROM OTHER BANKS	4	<b>14,406</b>	23,037	<b>10,894</b>	20,558
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	<b>18,586</b>	15,236	<b>10,504</b>	9,049
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					
- DERIVATIVE FINANCIAL ASSETS	6	<b>4,981</b>	2,993	<b>4,975</b>	2,993
- TRADING SECURITIES	7	<b>5,332</b>	14,603	<b>3,806</b>	10,314
AVAILABLE-FOR-SALE SECURITIES, net	8	<b>23,313</b>	24,301	<b>10,139</b>	19,603
HELD-TO-MATURITY SECURITIES	9	<b>277,472</b>	268,483	<b>255,382</b>	245,921
LOANS AND ADVANCES, net	10	<b>1,202,338</b>	1,040,720	<b>986,869</b>	821,545
ASSETS HELD FOR SALE, net		<b>3,578</b>	3,667	<b>609</b>	933
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	<b>15,056</b>	13,809	<b>9,905</b>	9,395
INVESTMENT PROPERTIES, net	12	<b>135</b>	669	<b>135</b>	669
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	13	<b>6,386</b>	6,818	<b>9,043</b>	8,948
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	<b>17,406</b>	16,326	-	-
DEFERRED INCOME TAX ASSETS, net	14	<b>8,091</b>	7,543	<b>5,180</b>	4,571
OTHER RESOURCES, net	15	<b>15,745</b>	12,285	<b>14,025</b>	7,738
Total resources		<b>1,903,905</b>	1,725,696	<b>1,582,748</b>	1,400,835

(forward)

**BANK OF THE PHILIPPINE ISLANDS**

STATEMENTS OF CONDITION  
DECEMBER 31, 2017 and 2016  
(In Millions of Pesos)

		<b>Consolidated</b>		<b>Parent</b>	
	Notes	<b>2017</b>	2016	<b>2017</b>	2016
<b>LIABILITIES AND CAPITAL FUNDS</b>					
DEPOSIT LIABILITIES	16	<b>1,562,200</b>	1,431,300	<b>1,323,963</b>	1,184,478
DERIVATIVE FINANCIAL LIABILITIES	6	<b>4,788</b>	3,112	<b>4,788</b>	3,112
BILLS PAYABLE	17	<b>83,517</b>	61,973	<b>70,722</b>	52,257
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		<b>1,218</b>	670	<b>1,218</b>	670
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		<b>7,022</b>	7,579	<b>5,762</b>	5,893
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		<b>7,117</b>	6,853	<b>4,851</b>	4,707
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	<b>14,513</b>	14,367	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	18	<b>39,979</b>	32,158	<b>33,212</b>	26,836
Total liabilities		<b>1,720,354</b>	1,558,012	<b>1,444,516</b>	1,277,953
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	19				
Share capital		<b>39,336</b>	39,308	<b>39,336</b>	39,308
Share premium		<b>29,771</b>	29,591	<b>29,771</b>	29,591
Reserves		<b>254</b>	2,711	<b>142</b>	2,695
Surplus		<b>116,415</b>	98,602	<b>73,679</b>	56,095
Accumulated other comprehensive loss		<b>(5,088)</b>	(5,078)	<b>(4,696)</b>	(4,807)
		<b>180,688</b>	165,134	<b>138,232</b>	122,882
NON-CONTROLLING INTERESTS		<b>2,863</b>	2,550	-	-
Total capital funds		<b>183,551</b>	167,684	<b>138,232</b>	122,882
Total liabilities and capital funds		<b>1,903,905</b>	1,725,696	<b>1,582,748</b>	1,400,835

(The notes on pages 1 to 111 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, 2017  
(In Millions of Pesos, Except Per Share Amounts)

	Notes	Consolidated			Parent		
		2017	2016	2015	2017	2016	2015
<b>INTEREST INCOME</b>							
On loans and advances		<b>56,557</b>	48,843	42,156	<b>40,209</b>	32,515	27,270
On held-to-maturity securities		<b>8,787</b>	8,746	8,790	<b>8,056</b>	7,987	8,064
On deposits with BSP and other banks		<b>2,150</b>	2,059	2,083	<b>1,023</b>	930	1,485
On available-for-sale securities		<b>358</b>	469	757	<b>325</b>	443	688
On trading securities		<b>201</b>	180	241	<b>170</b>	155	197
Gross receipts tax		<b>(2,204)</b>	(1,985)	(1,728)	<b>(1,651)</b>	(1,435)	(1,247)
		<b>65,849</b>	58,312	52,299	<b>48,132</b>	40,595	36,457
<b>INTEREST EXPENSE</b>							
On deposits	16	<b>16,660</b>	15,301	13,326	<b>11,413</b>	9,616	8,383
On bills payable	17	<b>1,150</b>	634	332	<b>885</b>	406	115
		<b>17,810</b>	15,935	13,658	<b>12,298</b>	10,022	8,498
<b>NET INTEREST INCOME</b>		<b>48,039</b>	42,377	38,641	<b>35,834</b>	30,573	27,959
<b>IMPAIRMENT LOSSES</b>	8,10,15	<b>3,795</b>	4,800	3,976	<b>3,519</b>	2,930	2,298
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES</b>		<b>44,244</b>	37,577	34,665	<b>32,315</b>	27,643	25,661
<b>OTHER INCOME</b>							
Trading gain on securities		<b>1,006</b>	5,400	1,311	<b>817</b>	5,398	1,254
Fees and commissions		<b>8,340</b>	7,998	7,530	<b>6,672</b>	6,094	5,899
Income from foreign exchange trading		<b>2,347</b>	1,951	1,545	<b>2,000</b>	1,601	1,190
Income attributable to insurance operations	2	<b>1,413</b>	1,360	1,109	-	-	-
Other operating income	20	<b>11,369</b>	8,955	10,650	<b>14,527</b>	11,730	8,051
Gross receipts tax		<b>(1,494)</b>	(1,490)	(1,427)	<b>(1,069)</b>	(1,210)	(1,169)
		<b>22,981</b>	24,174	20,718	<b>22,947</b>	23,613	15,225
<b>OTHER EXPENSES</b>							
Compensation and fringe benefits	22	<b>13,897</b>	13,463	12,463	<b>10,691</b>	10,713	9,949
Occupancy and equipment-related expenses	11,12,21	<b>11,344</b>	10,156	9,194	<b>9,062</b>	8,172	7,314
Other operating expenses	22	<b>13,292</b>	11,322	10,213	<b>9,626</b>	8,148	7,529
		<b>38,533</b>	34,941	31,870	<b>29,379</b>	27,033	24,792
<b>INCOME BEFORE INCOME TAX</b>		<b>28,692</b>	26,810	23,513	<b>25,883</b>	24,223	16,094
<b>PROVISION FOR INCOME TAX</b>	23						
Current		<b>6,418</b>	5,419	5,736	<b>4,248</b>	3,777	4,269
Deferred	14	<b>(462)</b>	(884)	(598)	<b>(462)</b>	(439)	(238)
		<b>5,956</b>	4,535	5,138	<b>3,786</b>	3,338	4,031
<b>NET INCOME FOR THE YEAR</b>		<b>22,736</b>	22,275	18,375	<b>22,097</b>	20,885	12,063
Attributable to:							
Equity holders of BPI		<b>22,416</b>	22,050	18,234	<b>22,097</b>	20,885	12,063
Non-controlling interests		<b>320</b>	225	141	-	-	-
		<b>22,736</b>	22,275	18,375	<b>22,097</b>	20,885	12,063
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	19	<b>5.69</b>	5.60	4.64	<b>5.61</b>	5.30	3.07

(The notes on pages 1 to 111 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, 2017**  
(In Millions of Pesos)

	Note	Consolidated			Parent		
		2017	2016	2015	2017	2016	2015
<b>NET INCOME FOR THE YEAR</b>		<b>22,736</b>	22,275	18,375	<b>22,097</b>	20,885	12,063
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	19						
<b>Items that may be subsequently reclassified to profit or loss</b>							
Net change in fair value reserve on available-for-sale securities, net of tax effect		713	543	(526)	449	502	(153)
Share in other comprehensive loss of associates		(252)	(74)	(451)	-	-	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		196	(131)	(334)	-	-	-
Currency translation differences		126	(113)	77	-	-	-
<b>Items that will not be reclassified to profit or loss</b>							
Actuarial losses on defined benefit plan, net of tax effect		(272)	(579)	(382)	(338)	(429)	(225)
Share in other comprehensive loss of associates		(528)	-	-	-	-	-
Total other comprehensive (loss) income, net of tax effect		(17)	(354)	(1,616)	111	73	(378)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>22,719</b>	21,921	16,759	<b>22,208</b>	20,958	11,685
Attributable to:							
Equity holders of BPI		22,406	21,736	16,693	22,208	20,958	11,685
Non-controlling interests		313	185	66	-	-	-
		<b>22,719</b>	21,921	16,759	<b>22,208</b>	20,958	11,685

(The notes on pages 1 to 111 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, 2017  
(In Millions of Pesos)

	Consolidated								
	Attributable to equity holders of BPI (Note 19)					Accumulated other comprehensive income (loss)	Total	Non- controlling interests	Total equity
	Share capital	Share premium	Reserves	Surplus					
<b>Balance, January 1, 2015</b>	<b>39,272</b>	<b>29,341</b>	<b>2,098</b>	<b>76,575</b>	<b>(3,223)</b>	<b>144,063</b>	<b>2,616</b>	<b>146,679</b>	
<b>Comprehensive income</b>									
Net income for the year	-	-	-	18,234	-	18,234	141	18,375	
Other comprehensive loss for the year	-	-	-	-	(1,541)	(1,541)	(75)	(1,616)	
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,234</b>	<b>(1,541)</b>	<b>16,693</b>	<b>66</b>	<b>16,759</b>	
<b>Transactions with owners</b>									
Proceeds from the stock rights offering	-	1	-	-	-	1	-	1	
Executive stock plan amortization	13	97	33	-	-	143	-	143	
Cash dividends	-	-	-	(10,617)	-	(10,617)	-	(10,617)	
Other changes in non-controlling interests	-	-	-	-	-	-	(236)	(236)	
<b>Total transactions with owners</b>	<b>13</b>	<b>98</b>	<b>33</b>	<b>(10,617)</b>	<b>-</b>	<b>(10,473)</b>	<b>(236)</b>	<b>(10,709)</b>	
<b>Other movements</b>									
Transfer from surplus to reserves	-	-	432	(432)	-	-	-	-	
Others	-	-	-	1	-	1	-	1	
<b>Total other movements</b>	<b>-</b>	<b>-</b>	<b>432</b>	<b>(431)</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>	
<b>Balance, December 31, 2015</b>	<b>39,285</b>	<b>29,439</b>	<b>2,563</b>	<b>83,761</b>	<b>(4,764)</b>	<b>150,284</b>	<b>2,446</b>	<b>152,730</b>	
<b>Comprehensive income</b>									
Net income for the year	-	-	-	22,050	-	22,050	225	22,275	
Other comprehensive loss for the year	-	-	-	-	(314)	(314)	(40)	(354)	
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,050</b>	<b>(314)</b>	<b>21,736</b>	<b>185</b>	<b>21,921</b>	
<b>Transactions with owners</b>									
Executive stock plan amortization	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)	
<b>Total transactions with owners</b>	<b>23</b>	<b>152</b>	<b>45</b>	<b>(7,106)</b>	<b>-</b>	<b>(6,886)</b>	<b>(81)</b>	<b>(6,967)</b>	
<b>Other movement</b>									
Transfer from surplus to reserves	-	-	103	(103)	-	-	-	-	
<b>Total other movement</b>	<b>-</b>	<b>-</b>	<b>103</b>	<b>(103)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Balance, December 31, 2016</b>	<b>39,308</b>	<b>29,591</b>	<b>2,711</b>	<b>98,602</b>	<b>(5,078)</b>	<b>165,134</b>	<b>2,550</b>	<b>167,684</b>	
<b>Comprehensive income</b>									
Net income for the year	-	-	-	22,416	-	22,416	320	22,736	
Other comprehensive loss for the year	-	-	-	-	(10)	(10)	(7)	(17)	
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,416</b>	<b>(10)</b>	<b>22,406</b>	<b>313</b>	<b>22,719</b>	
<b>Transactions with owners</b>									
Executive stock plan amortization	28	180	31	-	-	239	-	239	
Cash dividends	-	-	-	(7,091)	-	(7,091)	-	(7,091)	
<b>Total transactions with owners</b>	<b>28</b>	<b>180</b>	<b>31</b>	<b>(7,091)</b>	<b>-</b>	<b>(6,852)</b>	<b>-</b>	<b>(6,852)</b>	
<b>Other movements</b>									
Transfer from surplus to reserves	-	-	90	(90)	-	-	-	-	
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-	-	-	
<b>Total other movements</b>	<b>-</b>	<b>-</b>	<b>(2,488)</b>	<b>2,488</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Balance, December 31, 2017</b>	<b>39,336</b>	<b>29,771</b>	<b>254</b>	<b>116,415</b>	<b>(5,088)</b>	<b>180,688</b>	<b>2,863</b>	<b>183,551</b>	

(The notes on pages 1 to 111 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, 2017  
(In Millions of Pesos)

	Parent (Note 19)					Total
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	
<b>Balance, January 1, 2015</b>	<b>39,272</b>	<b>29,341</b>	<b>2,095</b>	<b>41,388</b>	<b>(4,501)</b>	<b>107,595</b>
<b>Comprehensive income</b>						
Net income for the year	-	-	-	12,063	-	12,063
Other comprehensive loss for the year	-	-	-	-	(378)	(378)
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,063</b>	<b>(378)</b>	<b>11,685</b>
<b>Transactions with owners</b>						
Issuance of shares	-	1	-	-	-	1
Executive stock plan amortization	13	97	28	-	-	138
Cash dividends	-	-	-	(10,617)	-	(10,617)
<b>Total transactions with owners</b>	<b>13</b>	<b>98</b>	<b>28</b>	<b>(10,617)</b>	<b>-</b>	<b>(10,478)</b>
<b>Other movements</b>						
Transfer from surplus to reserves	-	-	432	(432)	-	-
Others	-	-	-	(1)	(1)	(2)
<b>Total other movements</b>	<b>-</b>	<b>-</b>	<b>432</b>	<b>(433)</b>	<b>(1)</b>	<b>(2)</b>
<b>Balance, December 31, 2015</b>	<b>39,285</b>	<b>29,439</b>	<b>2,555</b>	<b>42,401</b>	<b>(4,880)</b>	<b>108,800</b>
<b>Comprehensive income</b>						
Net income for the year	-	-	-	20,885	-	20,885
Other comprehensive income for the year	-	-	-	-	73	73
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,885</b>	<b>73</b>	<b>20,958</b>
<b>Transactions with owners</b>						
Executive stock plan amortization	23	152	37	-	-	212
Cash dividends	-	-	-	(7,087)	-	(7,087)
<b>Total transactions with owners</b>	<b>23</b>	<b>152</b>	<b>37</b>	<b>(7,087)</b>	<b>-</b>	<b>(6,875)</b>
<b>Other movements</b>						
Transfer from surplus to reserves	-	-	103	(103)	-	-
Others	-	-	-	(1)	-	(1)
<b>Total other movements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(104)</b>	<b>-</b>	<b>(1)</b>
<b>Balance, December 31, 2016</b>	<b>39,308</b>	<b>29,591</b>	<b>2,695</b>	<b>56,095</b>	<b>(4,807)</b>	<b>122,882</b>
<b>Comprehensive income</b>						
Net income for the year	-	-	-	22,097	-	22,097
Other comprehensive income for the year	-	-	-	-	111	111
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,097</b>	<b>111</b>	<b>22,208</b>
<b>Transactions with owners</b>						
Executive stock plan amortization	28	180	25	-	-	233
Cash dividends	-	-	-	(7,091)	-	(7,091)
<b>Other movement</b>						
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-
<b>Total transactions with owners</b>	<b>28</b>	<b>180</b>	<b>(2,553)</b>	<b>(4,513)</b>	<b>-</b>	<b>(6,858)</b>
<b>Balance, December 31, 2017</b>	<b>39,336</b>	<b>29,771</b>	<b>142</b>	<b>73,679</b>	<b>(4,696)</b>	<b>138,232</b>

(The notes on pages 1 to 111 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, 2017  
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2017	2016	2015	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Income before income tax		<b>28,692</b>	26,810	23,513	<b>25,883</b>	24,223	16,094
Adjustments for:							
Impairment losses	8,10,15	<b>3,795</b>	4,800	3,976	<b>3,519</b>	2,930	2,298
Depreciation and amortization	11,12	<b>4,255</b>	3,878	3,661	<b>2,783</b>	2,541	2,347
Share in net income of associates	13	<b>(772)</b>	(814)	(627)	-	-	-
Dividend and other income	20,31	<b>(68)</b>	(56)	(1,554)	<b>(9,492)</b>	(6,083)	(1,895)
Share-based compensation	19	<b>31</b>	45	33	<b>25</b>	37	28
Interest income		<b>(68,053)</b>	(60,297)	(54,027)	<b>(49,783)</b>	(42,030)	(37,704)
Interest expense		<b>17,810</b>	15,935	13,658	<b>12,298</b>	10,022	8,498
Interest received		<b>66,816</b>	59,447	53,556	<b>48,753</b>	41,369	37,411
Interest paid		<b>(17,495)</b>	(15,716)	(13,509)	<b>(11,901)</b>	(9,920)	(8,470)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		<b>595</b>	1,316	650	<b>(353)</b>	2,381	820
Trading securities		<b>9,272</b>	(6,507)	7,746	<b>6,498</b>	(4,861)	1,152
Loans and advances, net		<b>(164,957)</b>	(171,462)	(76,140)	<b>(168,485)</b>	(159,101)	(45,371)
Assets held for sale		<b>313</b>	1,007	941	<b>447</b>	1,119	1,022
Assets attributable to insurance operations		<b>(944)</b>	(54)	(374)	-	-	-
Other resources		<b>(3,940)</b>	(2,269)	1,996	<b>(6,745)</b>	(2,056)	1,744
Increase (decrease) in:							
Deposit liabilities		<b>130,900</b>	155,601	99,487	<b>139,485</b>	151,093	80,704
Due to Bangko Sentral ng Pilipinas and other banks		<b>548</b>	239	(256)	<b>548</b>	239	(257)
Manager's checks and demand drafts outstanding		<b>(557)</b>	(729)	(46)	<b>(131)</b>	(800)	29
Accrued taxes, interest and other expenses		<b>(51)</b>	947	(218)	<b>(252)</b>	579	(104)
Liabilities attributable to insurance operations		<b>146</b>	(281)	1,088	-	-	-
Derivative financial instruments		<b>(311)</b>	1,432	(177)	<b>(306)</b>	1,433	(179)
Deferred credits and other liabilities		<b>7,550</b>	(3,122)	(496)	<b>6,037</b>	(2,692)	(139)
Net cash from (used in) operations		<b>13,575</b>	10,150	62,881	<b>(1,172)</b>	10,423	58,028
Income taxes paid		<b>(6,505)</b>	(5,645)	(5,853)	<b>(4,395)</b>	(3,974)	(4,371)
Net cash from (used in) operating activities		<b>7,070</b>	4,505	57,028	<b>(5,567)</b>	6,449	53,657

(forward)



**BANK OF THE PHILIPPINE ISLANDS**

STATEMENTS OF CASH FLOWS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017  
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2017	2016	2015	2017	2016	2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
(Increase) decrease in:							
Available-for-sale securities, net	8	<b>1,702</b>	18,435	8,027	<b>9,907</b>	17,519	4,623
Held-to-maturity securities	9	<b>(8,731)</b>	(23,874)	(34,995)	<b>(9,180)</b>	(21,078)	(31,722)
Bank premises, furniture, fixtures and equipment, net	11	<b>(4,191)</b>	(4,109)	(1,503)	<b>(2,018)</b>	(2,543)	(406)
Investment properties, net		-	(35)	-	-	-	-
Investment in subsidiaries and associates, net		<b>745</b>	28	(1,983)	<b>(95)</b>	(880)	(1,342)
Assets attributable to insurance operations		<b>58</b>	(136)	589	-	-	-
Dividends received	20	<b>68</b>	56	48	<b>9,492</b>	6,084	389
Net cash (used in) from investing activities		<b>(10,349)</b>	(9,635)	(29,817)	<b>8,106</b>	(898)	(28,458)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Cash dividends paid		<b>(7,089)</b>	(7,082)	(7,078)	<b>(7,089)</b>	(7,082)	(7,078)
Collection on stock subscriptions		<b>207</b>	175	112	<b>207</b>	175	112
Increase (decrease) in bills payable		<b>21,544</b>	41,032	(12,052)	<b>18,466</b>	39,431	(13,462)
Net cash from (used in) financing activities		<b>14,662</b>	34,125	(19,018)	<b>11,584</b>	32,524	(20,428)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>							
		<b>11,383</b>	28,995	8,193	<b>14,123</b>	38,075	4,771
<b>CASH AND CASH EQUIVALENTS</b>							
January 1	4	<b>310,746</b>	281,751	273,558	<b>266,456</b>	228,381	223,610
December 31		<b>322,129</b>	310,746	281,751	<b>280,579</b>	266,456	228,381

(The notes on pages 1 to 111 are an integral part of these financial statements.)

## **BANK OF THE PHILIPPINE ISLANDS**

### **NOTES TO FINANCIAL STATEMENTS**

AS AT DECEMBER 31, 2017 and 2016 AND FOR EACH OF THE THREE YEARS  
IN THE PERIOD ENDED DECEMBER 31, 2017

#### **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 as detailed in Note 31.3 (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, 2017, the BPI Group has 17,047 employees (2016 - 15,201 employees) and operates 839 branches and 3,105 ATMs (2016 - 834 branches and 3,061 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. Likewise, BPI is a listed entity with its shares traded in the Philippine Stock Exchange (PSE) since October 12, 1971. As at December 31, 2017, the Parent Bank has 11,488 common shareholders (2016 - 11,596).

These financial statements have been approved and authorized for issuance by the Board of Directors of the Parent Bank on January 31, 2018. There are no material events that occurred subsequent to January 31, 2018 until February 8, 2018.

#### **Note 2 - Assets and Liabilities Attributable to Insurance Operations**

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

	<b>2017</b>	<b>2016</b>
	<b>(In Millions of Pesos)</b>	
<b>Assets</b>		
Cash and cash equivalents (Note 4)	<b>316</b>	122
Insurance balances receivable, net	<b>5,849</b>	4,929
Investment securities		
Available-for-sale	<b>5,970</b>	6,020
Held-to-maturity	<b>2,674</b>	2,681
Investment in associates	<b>167</b>	-
Accounts receivable and other assets, net	<b>2,286</b>	2,424
Land, building and equipment	<b>144</b>	150
	<b>17,406</b>	16,326
<b>Liabilities</b>		
Reserves and other balances	<b>13,416</b>	13,118
Accounts payable, accrued expenses and other payables	<b>1,097</b>	1,249
	<b>14,513</b>	14,367

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

	2017	2016	2015
	(In Millions of Pesos)		
Premiums earned and related income	3,624	3,356	3,071
Investment and other income	864	959	801
	<b>4,488</b>	4,315	3,872
Benefits, claims and maturities	2,006	2,025	1,655
Decrease in actuarial reserve liabilities	(524)	(462)	(159)
Management and general expenses	791	656	575
Commissions	789	726	681
Other expenses	13	10	11
	<b>3,075</b>	2,955	2,763
Income before income tax and minority interest	<b>1,413</b>	1,360	1,109

### **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 and BPI Family 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.

Revenues of the BPI Group's segment operations are derived from interest (net interest income). 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 statement 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:

	2017			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	28,083	10,195	13,384	<b>51,662</b>
Impairment charge	2,085	1,710	5	<b>3,800</b>
Net interest income after impairment charge	25,998	8,485	13,379	<b>47,862</b>
Fees and commission income	6,080	1,062	1,456	<b>8,598</b>
Other income	6,992	1,676	5,611	<b>14,279</b>
Gross receipts tax	(924)	(81)	(373)	<b>(1,378)</b>
Other income, net	12,148	2,657	6,694	<b>21,499</b>
Compensation and fringe benefits	9,311	1,335	1,020	<b>11,666</b>
Occupancy and equipment - related expenses	4,242	1,210	125	<b>5,577</b>
Other operating expenses	13,512	2,706	1,652	<b>17,870</b>
Total operating expenses	27,065	5,251	2,797	<b>35,113</b>
Operating profit	11,081	5,891	17,276	<b>34,248</b>
Share in net income of associates				<b>772</b>
Provision for income tax				<b>5,956</b>
Total assets	476,749	1,007,058	389,085	<b>1,872,892</b>
Total liabilities	1,063,069	550,367	85,946	<b>1,699,382</b>

	2016			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(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 and commission income	5,986	851	1,326	8,163
Other income	5,072	1,667	9,423	16,162
Gross receipts tax	(724)	(72)	(630)	(1,426)
Other income, net	10,334	2,446	10,119	22,899
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
Provision for income tax				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

	2015			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	22,487	5,982	12,091	40,560
Impairment charge	2,552	1,195	72	3,819
Net interest income after impairment charge	19,935	4,787	12,019	36,741
Fees and commission income	6,026	582	1,135	7,743
Other income	6,657	1,616	5,330	13,603
Gross receipts tax	(834)	(58)	(488)	(1,380)
Other income, net	11,849	2,140	5,977	19,966
Compensation and fringe benefits	8,733	1,116	905	10,754
Occupancy and equipment - related expenses	4,435	1,170	80	5,685
Other operating expenses	9,826	2,239	1,312	13,377
Total operating expenses	22,994	4,525	2,297	29,816
Operating profit	8,790	2,402	15,699	26,891
Share in net income of associates				627
Provision for income tax				5,138
Total assets	506,593	634,840	348,058	1,489,491
Total liabilities	1,304,298	14,163	23,578	1,342,039

Reconciliation of segment results to consolidated results of operations:

	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 and commission income	8,598	(258)	8,340
Other income	14,279	1,856	16,135
Gross receipts tax	(1,378)	(116)	(1,494)
Other income, net	21,499	1,482	22,981
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
Provision for income tax	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 and commission income	8,163	(165)	7,998
Other income	16,162	1,504	17,666
Gross receipts tax	(1,426)	(64)	(1,490)
Other income, net	22,899	1,275	24,174
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
Provision for income tax	4,535	-	4,535
Total assets	1,693,194	32,502	1,725,696
Total liabilities	1,535,654	22,358	1,558,012

	2015		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	40,560	(1,919)	38,641
Impairment charge	3,819	157	3,976
Net interest income after impairment charge	36,741	(2,076)	34,665
Fees and commission income	7,743	(213)	7,530
Other income	13,603	1,012	14,615
Gross receipts tax	(1,380)	(47)	(1,427)
Other income, net	19,966	752	20,718
Compensation and fringe benefits	10,754	1,709	12,463
Occupancy and equipment - related expenses	5,685	3,509	9,194
Other operating expenses	13,377	(3,164)	10,213
Total operating expenses	29,816	2,054	31,870
Operating profit	26,891	(3,378)	23,513
Share in net income of associates (included in Other income)	627	-	627
Provision for income tax	5,138	-	5,138
Total assets	1,489,491	26,865	1,516,356
Total liabilities	1,342,039	21,587	1,363,626

“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	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Cash and other cash items	35,132	35,692	34,160	34,855
Due from Bangko Sentral ng Pilipinas (BSP)	255,948	239,514	227,122	203,743
Due from other banks	14,406	23,037	10,894	20,558
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	16,327	12,381	8,403	7,300
Cash and cash equivalents attributable to insurance operations (Note 2)	316	122	-	-
	<b>322,129</b>	310,746	<b>280,579</b>	266,456

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

The account at December 31 consists of transactions with:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
BSP	<b>7,297</b>	4,576	-	-
Other banks	<b>11,268</b>	10,651	<b>10,494</b>	9,042
	<b>18,565</b>	15,227	<b>10,494</b>	9,042
Accrued interest receivable	<b>21</b>	9	<b>10</b>	7
	<b>18,586</b>	15,236	<b>10,504</b>	9,049

As at December 31, 2017, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P16,327 million (2016 - P12,381 million) for BPI Group and P8,403 million (2016 - P7,300 million) for the Parent Bank are classified as cash equivalents in the statement of cash flows (Note 4).

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
Current	<b>18,123</b>	14,721	<b>10,041</b>	8,688
Non-current	<b>463</b>	515	<b>463</b>	361
	<b>18,586</b>	15,236	<b>10,504</b>	9,049

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date. All collateral agreements mature within 12 months.

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

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Peso-denominated	<b>2.96 - 3.07</b>	3.32 - 4.14	<b>3.04 - 3.35</b>	3.29 - 4.41
US dollar-denominated	<b>0.73 - 1.04</b>	0.13 - 1.76	<b>0.73 - 1.04</b>	0.13 - 1.76

### **Note 6 - 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 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 spot exchange of notional amounts on two currencies at a given exchange rate and with an agreement to re-exchange the same notional amounts at a specified maturity date based on the original exchange rate. Parties on the transaction agree to pay a stated interest rate on the borrowed notional amount and receive a stated interest rate on the lent notional amount, payable or receivable periodically over the term of the transaction.



- Credit-linked notes (CLNs) are structured notes whose value is derived from the creditworthiness of an underlying reference entity. A CLN may be viewed as a bundled note that consists of a bond and a credit default swap, allowing the issuer to transfer the credit risk of a reference entity to the investor during the reference period.

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 statement 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 aggregate contractual or notional amount of derivative financial instruments on hand and the extent at which the instruments can become favorable or unfavorable in fair values can fluctuate significantly from time to time.

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

Consolidated

	Contract/ Notional Amount		Fair Values			
	2017	2016	Assets		Liabilities	
			2017	2016	2017	2016
	(In Millions of Pesos)					
Free-standing derivatives						
Foreign exchange derivatives						
Currency swaps	153,784	101,378	2,312	926	2,117	826
Currency forwards	179,999	103,040	1,153	963	1,290	1,037
Interest rate swaps	206,493	148,432	1,478	1,028	1,377	1,243
Credit default swaps	499	994	-	-	4	6
Embedded credit derivatives	8,688	8,651	38	76	-	-
	<b>549,463</b>	<b>362,495</b>	<b>4,981</b>	<b>2,993</b>	<b>4,788</b>	<b>3,112</b>

Parent

	Contract/ Notional Amount		Fair Values			
	2017	2016	Assets		Liabilities	
			2017	2016	2017	2016
	(In Millions of Pesos)					
Free-standing derivatives						
Foreign exchange derivatives						
Currency swaps	153,784	101,378	2,312	926	2,117	826
Currency forwards	179,999	103,040	1,153	963	1,290	1,037
Interest rate swaps	206,493	148,432	1,478	1,028	1,377	1,243
Credit default swaps	499	994	-	-	4	6
Embedded credit derivatives	8,688	8,651	32	76	-	-
	<b>549,463</b>	<b>362,495</b>	<b>4,975</b>	<b>2,993</b>	<b>4,788</b>	<b>3,112</b>

### **Note 7 - Trading Securities**

The account at December 31 consists of:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
Debt securities				
Government securities	<b>4,943</b>	9,162	<b>3,790</b>	5,372
Commercial papers of private companies	<b>29</b>	5,286	-	4,914
	<b>4,972</b>	14,448	<b>3,790</b>	10,286
Accrued interest receivable	<b>30</b>	31	<b>16</b>	28
	<b>5,002</b>	14,479	<b>3,806</b>	10,314
Equity securities - listed	<b>330</b>	124	-	-
	<b>5,332</b>	14,603	<b>3,806</b>	10,314

All trading securities are classified as current.

### **Note 8 - Available-for-Sale Securities**

The account at December 31 consists of:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
Debt securities				
Government securities	<b>14,406</b>	2,205	<b>5,420</b>	1,965
Commercial papers of private companies	<b>4,742</b>	19,688	<b>4,193</b>	17,259
	<b>19,148</b>	21,893	<b>9,613</b>	19,224
Accrued interest receivable	<b>70</b>	69	<b>56</b>	63
	<b>19,218</b>	21,962	<b>9,669</b>	19,287
Equity securities				
Listed	<b>3,755</b>	2,144	<b>447</b>	399
Unlisted	<b>661</b>	516	<b>232</b>	126
	<b>4,416</b>	2,660	<b>679</b>	525
	<b>23,634</b>	24,622	<b>10,348</b>	19,812
Allowance for impairment	<b>(321)</b>	(321)	<b>(209)</b>	(209)
	<b>23,313</b>	24,301	<b>10,139</b>	19,603

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
Current	<b>13,288</b>	13,507	<b>1,991</b>	12,836
Non-current	<b>10,346</b>	11,115	<b>8,357</b>	6,976
	<b>23,634</b>	24,622	<b>10,348</b>	19,812

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
At January 1	<b>321</b>	330	<b>209</b>	218
Reversal of impairment losses	-	(9)	-	(9)
At December 31	<b>321</b>	321	<b>209</b>	209

The range of average interest rates (%) of available-for-sale debt securities for the years ended December 31 follows:

	Consolidated		Parent	
	2017	2016	2017	2016
Peso-denominated	<b>0.53 - 0.85</b>	0.98 - 1.42	<b>1.15 - 2.28</b>	2.14 - 2.60
Foreign currency-denominated	<b>2.10 - 2.26</b>	1.03 - 1.53	<b>2.10 - 2.31</b>	1.00 - 1.52

The movement in available-for-sale securities is summarized as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
At January 1	<b>24,301</b>	42,287	<b>19,603</b>	36,685
Additions	<b>40,703</b>	51,831	<b>19,774</b>	50,237
Disposals and maturities	<b>(42,362)</b>	(70,231)	<b>(29,678)</b>	(67,401)
Amortization of premium, net	<b>(22)</b>	(154)	<b>(19)</b>	(81)
Fair value adjustments	<b>309</b>	517	<b>135</b>	124
Exchange differences	<b>383</b>	135	<b>331</b>	93
Net change in allowance for impairment	-	9	-	9
Net change in accrued interest receivable	<b>1</b>	(93)	<b>(7)</b>	(63)
At December 31	<b>23,313</b>	24,301	<b>10,139</b>	19,603

On various dates, the BPI Group reclassified certain available-for-sale securities to held-to-maturity category (Note 9). The reclassifications were triggered by management's change in intention over the securities in light of volatile market prices due to rising interest rates. Fair value losses recognized in other comprehensive income at the dates of reclassifications are 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 are summarized as follows:

Date of reclassification	Amount reclassified	Fair value loss at reclassification date	Unamortized fair value loss	
			2017	2016
			(In Millions of Pesos)	
November 11, 2015	P6.9 billion	505	<b>468</b>	486
January 9, 2014	P63.5 billion	4,534	<b>3,064</b>	3,471
November 12, 2008	P9.2 billion	1,757	<b>13</b>	28

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 fair value loss for the year ended December 31, 2017 (2016 - net fair value loss of P2,801 million). There are no other gains or losses recognized in that statement of income apart from the amortization of fair value loss on securities.

### **Note 9 - Held-to-Maturity Securities**

The account at December 31 consists of:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
Government securities	<b>206,098</b>	196,210	<b>186,816</b>	176,528
Commercial papers of private companies	<b>67,584</b>	68,741	<b>65,138</b>	66,247
	<b>273,682</b>	264,951	<b>251,954</b>	242,775
Accrued interest receivable	<b>3,790</b>	3,532	<b>3,428</b>	3,146
	<b>277,472</b>	268,483	<b>255,382</b>	245,921

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
Current	<b>13,182</b>	30,722	<b>11,849</b>	29,235
Non-current	<b>264,290</b>	237,761	<b>243,533</b>	216,686
	<b>277,472</b>	268,483	<b>255,382</b>	245,921

The range of average interest rates (%) of held-to-maturity securities for the years ended December 31 follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Peso-denominated	<b>3.46 - 3.65</b>	3.68 - 3.88	<b>3.42 - 3.61</b>	3.65 - 3.85
Foreign currency-denominated	<b>2.78 - 2.93</b>	3.10 - 3.61	<b>2.80 - 2.96</b>	3.15 - 3.73

The movements in held-to-maturity securities are summarized as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
At January 1	<b>268,483</b>	244,809	<b>245,921</b>	225,077
Additions	<b>53,491</b>	116,942	<b>49,659</b>	113,151
Maturities/disposals	<b>(42,021)</b>	(90,396)	<b>(38,056)</b>	(89,564)
Amortization of premium, net	<b>(2,789)</b>	(3,012)	<b>(2,518)</b>	(2,894)
Exchange differences	<b>50</b>	341	<b>94</b>	386
Net change in accrued interest receivable	<b>258</b>	(201)	<b>282</b>	(235)
At December 31	<b>277,472</b>	268,483	<b>255,382</b>	245,921

In June 2016, the BPI Group sold certain held-to-maturity securities aggregating P65.4 billion. The sale was triggered by the need to strengthen the capital position of the BPI Group in view of more stringent capital requirements by the BSP.

### **Note 10 - Loans and Advances**

Major classifications of this account at December 31 are as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
Corporate entities				
Large corporate customers	<b>900,912</b>	760,558	<b>878,934</b>	743,926
Small and medium enterprise	<b>85,324</b>	83,516	<b>56,358</b>	44,672
Retail customers				
Credit cards	<b>49,142</b>	39,995	<b>47,829</b>	39,137
Real estate mortgages	<b>115,772</b>	116,079	<b>22</b>	83
Auto loans	<b>53,343</b>	53,485	-	-
Others	<b>17,324</b>	4,545	<b>16,723</b>	4,407
	<b>1,221,817</b>	1,058,178	<b>999,866</b>	832,225
Accrued interest receivable	<b>5,458</b>	4,475	<b>4,070</b>	3,321
Unearned discount/income	<b>(4,274)</b>	(3,257)	<b>(3,154)</b>	(2,273)
	<b>1,223,001</b>	1,059,396	<b>1,000,782</b>	833,273
Allowance for impairment	<b>(20,663)</b>	(18,676)	<b>(13,913)</b>	(11,728)
	<b>1,202,338</b>	1,040,720	<b>986,869</b>	821,545

The Parent balances above include amounts due from related parties (Note 27). The Consolidated balances above also include amounts due from related parties (Note 27) except for accounts considered as intercompany transactions that are eliminated accordingly.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)			
Current	<b>521,688</b>	454,072	<b>489,240</b>	426,403
Non-current	<b>701,313</b>	605,324	<b>511,542</b>	406,870
	<b>1,223,001</b>	1,059,396	<b>1,000,782</b>	833,273

The current loan and advances balances are those which are expected to be realized within 12 months after reporting date while the non-current balances pertain to those expected to be collected beyond 12 months after reporting date.

The amount of loans and advances above includes finance lease receivables as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)	
Total future minimum lease collections	<b>9,102</b>	7,982
Unearned finance income	<b>(1,003)</b>	(910)
Present value of future minimum lease collections	<b>8,099</b>	7,072
Allowance for impairment	<b>(251)</b>	(213)
	<b>7,848</b>	6,859

Details of future minimum lease collections follow:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	(In Millions of Pesos)	
Not later than one year	<b>3,371</b>	2,944
Later than one year but not later than five years	<b>5,323</b>	5,015
More than five years	<b>408</b>	23
	<b>9,102</b>	7,982
Unearned finance income	<b>(1,003)</b>	(910)
	<b>8,099</b>	7,072

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 contracts generally include an 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.

The Parent Bank has no finance lease receivables as at December 31, 2017 and 2016.

There is no contingent rent recognized as income during the years ended December 31, 2017 and 2016.

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

1) As to industry/economic sector (in %)

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Real estate, renting and other related activities	<b>22.59</b>	23.06	<b>15.46</b>	15.25
Manufacturing	<b>16.23</b>	15.93	<b>19.41</b>	19.48
Wholesale and retail trade	<b>11.50</b>	11.53	<b>12.96</b>	12.61
Consumer	<b>8.78</b>	9.21	<b>5.30</b>	5.08
Financial institutions	<b>7.56</b>	9.48	<b>9.11</b>	11.85
Agriculture and forestry	<b>3.31</b>	4.03	<b>3.98</b>	5.04
Others	<b>30.03</b>	26.76	<b>33.78</b>	30.69
	<b>100.00</b>	100.00	<b>100.00</b>	100.00

2) As to collateral

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	<b>195,432</b>	241,363	<b>79,768</b>	103,191
Chattel mortgage	<b>64,420</b>	61,484	<b>168</b>	178
Others	<b>313,441</b>	334,039	<b>305,296</b>	324,056
	<b>573,293</b>	636,886	<b>385,232</b>	427,425
Unsecured loans	<b>644,250</b>	418,035	<b>611,480</b>	402,527
	<b>1,217,543</b>	1,054,921	<b>996,712</b>	829,952

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.

Loans and advances aggregating P280 million (2016 - P312 million) and P280 million (2016 - P280 million) are used as security for bills payable (Note 17) of the BPI Group and the Parent Bank, respectively.

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

	Consolidated		Parent	
	2017	2016	2017	2016
Commercial loans				
Peso-denominated loans	<b>3.97 - 4.19</b>	4.11 - 4.16	3.76 - 4.02	3.88 - 3.94
Foreign currency-denominated loans	<b>2.94 - 3.36</b>	2.66 - 2.84	2.94 - 3.36	2.66 - 2.84
Real estate mortgages	<b>6.60 - 7.09</b>	6.75 - 6.97	6.67 - 8.00	5.72 - 8.00
Auto loans	<b>9.27 - 9.41</b>	9.51 - 9.68	-	-

Non-performing accounts (over 30 days past due) of the BPI Group and the Parent Bank, net of specific allowance for credit losses, following BSP Circular 772 are as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Non-performing accounts (NPL 30)	<b>16,255</b>	15,792	<b>8,038</b>	7,654
Specific allowance for credit losses	<b>10,479</b>	10,070	<b>5,395</b>	5,033
Net NPL 30	<b>5,776</b>	5,722	<b>2,643</b>	2,621

Reconciliation of allowance for impairment by class at December 31 follows:

Consolidated

	2017							Total
	Corporate entities			Retail customers			Total	
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others		
	(In Millions of Pesos)							
At January 1	7,281	3,687	2,583	1,838	2,844	443	<b>18,676</b>	
Provision (reversal) for impairment losses	1,820	(55)	1,912	102	350	188	<b>4,317</b>	
Write-off/disposal	(68)	-	(1,275)	-	(168)	(146)	<b>(1,657)</b>	
Unwind of discount	(83)	(29)	-	-	-	-	<b>(112)</b>	
Transfers	(21)	(119)	-	(54)	(252)	(115)	<b>(561)</b>	
<b>At December 31</b>	<b>8,929</b>	<b>3,484</b>	<b>3,220</b>	<b>1,886</b>	<b>2,774</b>	<b>370</b>	<b>20,663</b>	

	2016							Total
	Corporate entities			Retail customers			Total	
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others		
	(In Millions of Pesos)							
At January 1	6,406	3,039	2,751	1,791	2,010	365	16,362	
Provision for impairment losses	1,066	940	1,448	143	1,185	173	4,955	
Write-off/disposal	(168)	(168)	(1,618)	(28)	(177)	(94)	(2,253)	
Unwind of discount	(134)	(56)	-	-	-	-	(190)	
Transfers	111	(68)	2	(68)	(174)	(1)	(198)	
At December 31	7,281	3,687	2,583	1,838	2,844	443	18,676	



Parent

	2017							Total
	Corporate entities			Retail customers			Total	
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others		
	(In Millions of Pesos)							
At January 1	6,433	2,457	2,523	13	-	302	<b>11,728</b>	
Provision for impairment losses	1,809	87	1,837	(1)	-	148	<b>3,880</b>	
Write-off/disposal	(64)	-	(1,253)	-	-	(143)	<b>(1,460)</b>	
Unwind of discount	(83)	(29)	-	-	-	-	<b>(112)</b>	
Transfers	7	(128)	-	-	-	(2)	<b>(123)</b>	
<b>At December 31</b>	<b>8,102</b>	<b>2,387</b>	<b>3,107</b>	<b>12</b>	<b>-</b>	<b>305</b>	<b>13,913</b>	
	2016							
	Corporate entities			Retail customers			Total	
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others		
	(In Millions of Pesos)							
At January 1	5,406	2,228	2,711	24	-	255	10,624	
Provision for impairment losses	1,267	417	1,391	17	-	142	3,234	
Write-off/disposal	(159)	(85)	(1,581)	(18)	-	(94)	(1,937)	
Unwind of discount	(134)	(56)	-	-	-	-	(190)	
Transfers	53	(47)	2	(10)	-	(1)	(3)	
<b>At December 31</b>	<b>6,433</b>	<b>2,457</b>	<b>2,523</b>	<b>13</b>	<b>-</b>	<b>302</b>	<b>11,728</b>	

Transfers pertain to reclassification of allowance for impairment between accounts.

### **Note 11 - Bank Premises, Furniture, Fixtures and Equipment**

The account at December 31 consists of:

#### **Consolidated**

	<b>2017</b>				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
<b>Cost</b>					
January 1, 2017	3,075	6,910	14,357	4,852	<b>29,194</b>
Additions	-	1,354	1,770	2,387	<b>5,511</b>
Disposals	(65)	(189)	(848)	(1,734)	<b>(2,836)</b>
Amortization	-	(284)	-	-	<b>(284)</b>
Transfers (Note 12)	13	1,798	(2)	-	<b>1,809</b>
<b>December 31, 2017</b>	<b>3,023</b>	<b>9,589</b>	<b>15,277</b>	<b>5,505</b>	<b>33,394</b>
<b>Accumulated depreciation</b>					
January 1, 2017	-	3,110	10,687	1,588	<b>15,385</b>
Depreciation	-	309	1,600	1,125	<b>3,034</b>
Disposals	-	(111)	(537)	(971)	<b>(1,619)</b>
Transfers (Note 12)	-	1,540	(2)	-	<b>1,538</b>
<b>December 31, 2017</b>	<b>-</b>	<b>4,848</b>	<b>11,748</b>	<b>1,742</b>	<b>18,338</b>
<b>Net book value, December 31, 2017</b>	<b>3,023</b>	<b>4,741</b>	<b>3,529</b>	<b>3,763</b>	<b>15,056</b>
	<b>2016</b>				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
<b>Cost</b>					
January 1, 2016	3,070	6,564	13,961	4,721	28,316
Additions	3	572	2,540	2,099	5,214
Disposals	(8)	(6)	(2,144)	(1,968)	(4,126)
Amortization	-	(185)	-	-	(185)
Transfers	10	(35)	-	-	(25)
<b>December 31, 2016</b>	<b>3,075</b>	<b>6,910</b>	<b>14,357</b>	<b>4,852</b>	<b>29,194</b>
<b>Accumulated depreciation</b>					
January 1, 2016	-	2,784	10,994	1,712	15,490
Depreciation	-	327	1,552	1,063	2,942
Disposals/transfers	-	(1)	(1,859)	(1,187)	(3,047)
<b>December 31, 2016</b>	<b>-</b>	<b>3,110</b>	<b>10,687</b>	<b>1,588</b>	<b>15,385</b>
<b>Net book value, December 31, 2016</b>	<b>3,075</b>	<b>3,800</b>	<b>3,670</b>	<b>3,264</b>	<b>13,809</b>

Parent

<b>2017</b>				
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
(In Millions of Pesos)				
Cost				
January 1, 2017	2,660	6,047	13,156	<b>21,863</b>
Additions	-	1,023	1,452	<b>2,475</b>
Disposals	-	(78)	(757)	<b>(835)</b>
Amortization	-	(233)	-	<b>(233)</b>
Transfers (Note 12)	-	1,823	-	<b>1,823</b>
December 31, 2017	<b>2,660</b>	<b>8,582</b>	<b>13,851</b>	<b>25,093</b>
Accumulated depreciation				
January 1, 2017	-	2,722	9,746	<b>12,468</b>
Depreciation	-	270	1,437	<b>1,707</b>
Disposals	-	(41)	(487)	<b>(528)</b>
Transfers (Note 12)	-	1,541	-	<b>1,541</b>
December 31, 2017	-	<b>4,492</b>	<b>10,696</b>	<b>15,188</b>
Net book value, December 31, 2017	<b>2,660</b>	<b>4,090</b>	<b>3,155</b>	<b>9,905</b>
<b>2016</b>				
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
(In Millions of Pesos)				
Cost				
January 1, 2016	2,657	5,758	12,866	21,281
Additions	-	458	2,307	2,765
Disposals	(7)	(5)	(2,017)	(2,029)
Amortization	-	(129)	-	(129)
Transfers	10	(35)	-	(25)
December 31, 2016	2,660	6,047	13,156	21,863
Accumulated depreciation				
January 1, 2016	-	2,440	10,126	12,566
Depreciation	-	285	1,413	1,698
Disposals/transfers	-	(3)	(1,793)	(1,796)
December 31, 2016	-	2,722	9,746	12,468
Net book value, December 31, 2016	2,660	3,325	3,410	9,395

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.



Investments in associates carried at equity method in the consolidated statement of condition follow:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest (%)		Acquisition cost		Measurement method
		2017	2016	2017	2016	
(In Millions of Pesos)						
BPI-Philamlife Assurance Corporation	Philippines	<b>47.67</b>	47.67	<b>371</b>	371	Equity
AF Payments, Inc.	Philippines	<b>20.00</b>	20.00	<b>690</b>	590	Equity
National Reinsurance Corporation*	Philippines	<b>13.69</b>	13.69	<b>204</b>	204	Equity
Beacon Property Ventures, Inc.	Philippines	<b>20.00</b>	20.00	<b>72</b>	80	Equity
CityTrust Realty Corporation	Philippines	<b>40.00</b>	40.00	<b>2</b>	2	Equity
Global Payments-Asia Pacific Philippines Incorporated	Philippines	<b>49.00</b>	49.00	<b>1,342</b>	1,342	Equity
				<b>2,681</b>	2,589	

\*BPI Group has significant influence due to its representation on the governing body of National Reinsurance Corporation

For BPI-Philamlife Assurance Corporation, BPI acts as distribution channel for the former's insurance products. In 2014, the distribution agreement with Philamlife has been extended for another twenty years or until November 27, 2039 unless earlier terminated.

Details and movements of investments in associates carried at equity method in the consolidated financial statements follow:

	2017	2016
(In Millions of Pesos)		
Acquisition cost		
At January 1	<b>2,589</b>	2,479
Additions	<b>100</b>	130
Return of capital	<b>(8)</b>	(20)
At December 31	<b>2,681</b>	2,589
Accumulated equity in net income		
At January 1	<b>2,989</b>	2,651
Share in net income for the year	<b>772</b>	814
Dividends received	<b>(522)</b>	(476)
At December 31	<b>3,239</b>	2,989
Accumulated share in other comprehensive income		
At January 1	<b>1,240</b>	1,323
Share in other comprehensive loss for the year	<b>(774)</b>	(83)
At December 31	<b>466</b>	1,240
	<b>6,386</b>	6,818

As the associates are not considered to be individually material to impact the financial statements of the BPI Group, the unaudited financial information of associates as at and for the years ended December 31 have been aggregated as follows:

	2017	2016
(In Millions of Pesos)		
Total assets	<b>125,471</b>	109,662
Total liabilities	<b>107,209</b>	90,386
Total revenues	<b>33,538</b>	23,231
Total net income	<b>1,486</b>	1,338

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

	Acquisition cost		Allowance for impairment		Carrying value	
	2017	2016	2017	2016	2017	2016
	(In Millions of Pesos)					
Subsidiaries						
BPI Europe Plc.	1,910	1,910	-	-	1,910	1,910
BPI Direct BankKO, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.)	1,009	1,009	-	-	1,009	1,009
Ayala Plans, Inc.	863	863	-	-	863	863
BPI Capital Corporation	623	623	-	-	623	623
BPI Asset Management and Trust Corporation	600	600	-	-	600	600
BPI Payments Holdings Inc. (formerly BPI Card Finance Corp.)	443	340	-	-	443	340
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
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)	(104)	217	217
Associates	1,991	1,999	-	-	1,991	1,999
	<b>9,147</b>	<b>9,052</b>	<b>(104)</b>	<b>(104)</b>	<b>9,043</b>	<b>8,948</b>

On March 29, 2017 and August 30, 2016, the Parent Bank made an additional capital infusion to BPI Payments Holdings Inc. (formerly BPI Card Finance Corp.) amounting to P103 million and P290 million, respectively.

Effective September 20, 2016, the Parent Bank has assumed full ownership of BPI Globe BankKO, Inc., from prior 40% ownership, after acquiring the combined 60% stake held by two other shareholders for a consideration of P29 million. Refer to Note 31.3 for details.

On October 6, 2016, BPI Asset Management and Trust Corporation, with an initial paid-in capital of P600 million, was incorporated with the SEC as a wholly-owned subsidiary of the Parent Bank. BPI Asset Management and Trust Corporation has officially commenced operations on February 1, 2017. The primary business purpose of BPI Asset Management and Trust Corporation is to carry and engage in the business of trust, other fiduciary activities and investment management activities.

There is no individual subsidiary with non-controlling interest considered material to the Parent Bank.

### **Note 14 - Deferred Income Taxes**

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

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	<b>7,286</b>	6,843	<b>4,736</b>	4,173
Pension liability	<b>738</b>	796	<b>683</b>	597
Bonus accruals	<b>328</b>	301	<b>254</b>	245
Net operating loss carry over (NOLCO)	<b>129</b>	63	-	-
Fair value loss on securities	-	48	-	48
Minimum corporate income tax (MCIT)	-	1	-	-
Others	<b>160</b>	35	<b>34</b>	32
Total deferred income tax assets	<b>8,641</b>	8,087	<b>5,707</b>	5,095
Deferred income tax liabilities				
Revaluation gain on properties	<b>(507)</b>	(519)	<b>(507)</b>	(519)
Fair value gain on securities	<b>(17)</b>	-	-	-
Others	<b>(26)</b>	(25)	<b>(20)</b>	(5)
Total deferred income tax liabilities	<b>(550)</b>	(544)	<b>(527)</b>	(524)
Deferred income tax assets, net	<b>8,091</b>	7,543	<b>5,180</b>	4,571

The movements in the deferred income tax account are summarized as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	(In Millions of Pesos)			
At January 1	<b>7,543</b>	6,433	<b>4,571</b>	3,936
Amounts credited to statement of income	<b>462</b>	884	<b>462</b>	439
Amounts credited to other comprehensive income	<b>86</b>	226	<b>147</b>	196
At December 31	<b>8,091</b>	7,543	<b>5,180</b>	4,571

The deferred tax credit charge in the statement of income comprises the following temporary differences:

	<b>Consolidated</b>			<b>Parent</b>		
	<b>2017</b>	2016	2015	<b>2017</b>	2016	2015
	(In Millions of Pesos)					
Allowance for impairment	<b>(443)</b>	(377)	(670)	<b>(563)</b>	(57)	(322)
Bonus accruals	<b>(27)</b>	(301)	-	<b>(9)</b>	(245)	-
Fair value (loss) gain on securities	-	(142)	81	<b>118</b>	(142)	81
Pension	<b>174</b>	(52)	40	<b>(65)</b>	36	31
NOLCO	<b>(66)</b>	-	-	-	-	-
Others	<b>(100)</b>	(12)	(49)	<b>57</b>	(31)	(28)
	<b>(462)</b>	(884)	(598)	<b>(462)</b>	(439)	(238)





The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
At January 1	1,190	1,456	990	1,237
Reversal of impairment losses	(295)	(39)	(240)	(23)
Write-off	(47)	(227)	(49)	(224)
At December 31	848	1,190	701	990

The allowance for impairment as at December 31, 2017 and 2016 mainly pertains to accounts receivable.

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Current	11,524	8,555	11,996	5,980
Non-current	5,069	4,920	2,730	2,748
	16,593	13,475	14,726	8,728

#### **Note 16 - Deposit Liabilities**

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Demand	252,238	231,525	241,100	219,869
Savings	860,612	820,181	751,351	711,270
Time	449,350	379,594	331,512	253,339
	1,562,200	1,431,300	1,323,963	1,184,478

The Parent balances above include amounts due from related parties (Note 27). The Consolidated balances above also include amounts due from related parties (Note 27) except for accounts considered as intercompany transactions.

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Current	818,811	806,779	726,560	572,877
Non-current	743,389	624,521	597,403	611,601
	1,562,200	1,431,300	1,323,963	1,184,478

On October 18, 2017, the BSP approved the request of the Parent Bank to issue long-term negotiable certificates of deposit (LTNCD) of up to P30 billion. The Parent Bank issued the first tranche amounting to P12.2 billion on November 24, 2017 with a tenor of 5.5 years maturing on May 24, 2023 and an interest rate of 3.75% per annum payable quarterly. The amount of LTNCD is included under time deposits.

Related interest expense on deposit liabilities is broken down as follows:

	Consolidated			Parent		
	2017	2016	2015	2017	2016	2015
	(In Millions of Pesos)					
Demand	616	557	513	557	514	463
Savings	6,723	6,774	5,886	5,489	5,497	4,674
Time	9,321	7,970	6,927	5,367	3,605	3,246
	16,660	15,301	13,326	11,413	9,616	8,383

Under current and existing BSP regulations as at December 31, 2017 and 2016, 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 BPI Group is in full compliance with the simplified reserve requirement.

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

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Required reserves (included in Due from BSP)	<b>233,509</b>	210,335	<b>215,088</b>	191,507

#### **Note 17 - Bills Payable**

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Local banks	<b>37,064</b>	9,150	<b>25,810</b>	61
Foreign banks	<b>46,453</b>	52,823	<b>44,912</b>	52,196
	<b>83,517</b>	61,973	<b>70,722</b>	52,257

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

	Consolidated		Parent	
	2017	2016	2017	2016
Private firms and local banks - Peso-denominated	<b>3.22 - 4.10</b>	3.22 - 4.40	<b>4.26 - 4.66</b>	4.37 - 4.48
Foreign banks - Foreign currency-denominated	<b>1.69 - 1.82</b>	1.08 - 1.30	<b>1.69 - 1.82</b>	1.08 - 1.30

	Consolidated			Parent		
	2017	2016	2015	2017	2016	2015
	(In Millions of Pesos)					
Interest expense	<b>1,150</b>	634	332	<b>885</b>	406	115

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Current	<b>63,671</b>	34,268	<b>50,877</b>	25,057
Non-current	<b>19,846</b>	27,705	<b>19,845</b>	27,200
	<b>83,517</b>	61,973	<b>70,722</b>	52,257

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and BSP which were relented 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 0.95 years for 2017 and 2016. Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 10).

The movement in bills payable is summarized as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
At January 1	<b>61,973</b>	20,941	<b>52,257</b>	12,826
Additions	<b>365,417</b>	279,812	<b>331,286</b>	257,376
Disposals	<b>(344,043)</b>	(239,884)	<b>(313,005)</b>	(218,953)
Amortization of discount	<b>71</b>	13	<b>71</b>	13
Exchange differences	<b>99</b>	1,091	<b>113</b>	995
At December 31	<b>83,517</b>	61,973	<b>70,722</b>	52,257

**Note 18 - Deferred Credits and Other Liabilities**

The account at December 31 consists of the following:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Bills purchased - contra	<b>12,505</b>	11,319	<b>12,499</b>	11,312
Accounts payable	<b>5,534</b>	4,875	<b>3,339</b>	3,325
Dividends payable	<b>3,546</b>	3,543	<b>3,545</b>	3,543
Outstanding acceptances	<b>2,992</b>	1,452	<b>2,992</b>	1,452
Deposits on lease contracts	<b>2,136</b>	1,970	-	-
Withholding tax payable	<b>599</b>	555	<b>459</b>	434
Due to the Treasurer of the Philippines	<b>636</b>	430	<b>562</b>	383
Other deferred credits	<b>418</b>	276	<b>83</b>	80
Miscellaneous liabilities	<b>11,613</b>	7,738	<b>9,733</b>	6,307
	<b>39,979</b>	32,158	<b>33,212</b>	26,836

Bills purchased - contra represents liabilities arising from the outright purchases of checks before actual clearing as a means of immediate financing offered by the BPI Group.

Miscellaneous liabilities include pension liability, insurance and other employee-related payables.

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Current	<b>36,192</b>	29,126	<b>31,375</b>	25,675
Non-current	<b>3,787</b>	3,032	<b>1,837</b>	1,161
	<b>39,979</b>	32,158	<b>33,212</b>	26,836

**Note 19 - Capital Funds**

Details of authorized share capital of the Parent Bank follow:

	2017	2016	2015
	(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
	<b>49,600</b>	<b>49,600</b>	<b>49,600</b>

Details of outstanding common shares follow:

	2017	2016	2015
	(In Number of Shares)		
Issued common shares			
At January 1	3,937,043,603	3,932,220,179	3,932,214,184
Issuance of shares during the year	2,369,058	4,823,424	5,995
At December 31	<b>3,939,412,661</b>	<b>3,937,043,603</b>	<b>3,932,220,179</b>
Subscribed common shares	<b>5,785,721</b>	<b>6,213,433</b>	<b>3,685,784</b>

Share premium as at December 31, 2017 amounts to P29,771 million (2016 - P29,591 million).

As at December 31, 2017, 2016 and 2015, the Parent Bank has 11,488, 11,596 and 11,754 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2017, 2016 and 2015.

Details of and movements in Accumulated other comprehensive loss for the years ended December 31 follow:

	Consolidated			Parent		
	2017	2016	2015	2017	2016	2015
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	<b>(3,838)</b>	(4,381)	(3,855)	<b>(3,724)</b>	(4,226)	(4,072)
Unrealized fair value loss before tax	<b>264</b>	(507)	(542)	<b>23</b>	(133)	(217)
Amount recycled to profit or loss	<b>447</b>	1,072	(26)	<b>424</b>	623	22
Deferred income tax effect	<b>2</b>	(22)	42	<b>2</b>	12	41
At December 31	<b>(3,125)</b>	(3,838)	(4,381)	<b>(3,275)</b>	(3,724)	(4,226)
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	<b>(158)</b>	(67)	188	-	-	-
Share in other comprehensive income (loss) for the year, before tax	<b>175</b>	(108)	(265)	-	-	-
Deferred income tax effect	<b>28</b>	17	10	-	-	-
At December 31	<b>45</b>	(158)	(67)	-	-	-
Share in other comprehensive income of associates						
At January 1	<b>1,259</b>	1,333	1,784	-	-	-
Share in other comprehensive loss for the year	<b>(780)</b>	(74)	(451)	-	-	-
At December 31	<b>479</b>	1,259	1,333	-	-	-
Translation adjustment on foreign operations						
At January 1	<b>(804)</b>	(691)	(768)	-	-	-
Translation differences	<b>126</b>	(113)	77	-	-	-
At December 31	<b>(678)</b>	(804)	(691)	-	-	-
Actuarial losses on defined benefit plan, net						
At January 1	<b>(1,537)</b>	(958)	(572)	<b>(1,083)</b>	(654)	(429)
Actuarial losses for the year	<b>(387)</b>	(827)	(546)	<b>(358)</b>	(613)	(322)
Deferred income tax effect	<b>115</b>	248	160	<b>20</b>	184	97
At December 31	<b>(1,809)</b>	(1,537)	(958)	<b>(1,421)</b>	(1,083)	(654)
	<b>(5,088)</b>	(5,078)	(4,764)	<b>(4,696)</b>	(4,807)	(4,880)

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

Date	ESOP shares granted	ESPP shares granted
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 with 1/3 of the option being vested at the end of each year 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 most recent previous 30-trading days from grant date. The weighted average fair value of options granted determined using the Black-Scholes valuation model was P17.41, P13.83 and P11.64 for the years ended December 31, 2017, 2016 and 2015, respectively.

Movements in the number of employee share options are as follows:

	2017	2016	2015
At January 1	9,100,000	9,225,000	6,350,000
Granted	3,485,000	-	3,575,000
Exercised	(746,667)	(16,667)	(91,667)
Cancelled	(500,000)	(108,333)	(608,333)
At December 31	11,338,333	9,100,000	9,225,000
Exercisable	6,745,000	3,033,333	2,650,000

The subscription price for ESPP is equivalent to 15% below the volume weighted average of BPI share price for the most recent previous 30-trading days from grant date. The subscription dates for ESPP were on February 15, 2017, January 25, 2016 and November 12, 2014.

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

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

	Consolidated			Parent		
	2017	2016	2015	2017	2016	2015
	(In Millions of Pesos)					
Surplus reserves						
At January 1	2,711	2,563	2,098	2,695	2,555	2,095
Transfer from surplus to reserves	90	-	-	-	-	-
Transfer from reserves to surplus	(2,578)	103	432	(2,578)	103	432
Executive stock plan amortization	31	45	33	25	37	28
At December 31	254	2,711	2,563	142	2,695	2,555

Surplus reserves consist of:

	Consolidated			Parent		
	2017	2016	2015	2017	2016	2015
	(In Millions of Pesos)					
Reserve for trust business	90	2,577	2,474	-	2,577	2,474
Reserve for self-insurance	34	34	34	34	34	34
Executive stock option plan amortization	130	100	55	108	84	47
	<b>254</b>	<b>2,711</b>	<b>2,563</b>	<b>142</b>	<b>2,695</b>	<b>2,555</b>

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 surplus reserve is being carried by BPI Asset Management and Trust Corporation as a result of the 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.

Cash dividends declared by the Board of Directors of the Parent Bank during the years 2015 to 2017 follow:

Date declared	Date approved by the BSP	Amount of dividends	
		Per share	Total (In Millions of Pesos)
May 20, 2015	July 20, 2015	0.90	3,539
December 16, 2015	Not applicable, see below.	0.90	3,539
June 15, 2016	Not applicable, see below.	0.90	3,543
December 14, 2016	Not applicable, see below.	0.90	3,543
June 15, 2017	Not applicable, see below.	0.90	3,545
December 15, 2017	Not applicable, see below.	0.90	3,546

Prior to October 2015, cash dividends declared are payable to common shareholders of record as of 15th working day from receipt by the Parent Bank of the approval by the BSP and distributable on the 15th working day from the said record date.

In October 2015, BSP Circular No. 888, Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments, was issued which amends the section on recording of dividends. The liability for dividends declared shall be taken up in the bank's books upon its declaration. Prior to the release of BSP Circular No. 888, the liability for recording dividends declared is taken up in the books upon receipt of BSP approval thereof or if no such approval is received, after thirty (30) banking/business days from the date the required report on dividend declaration was received by the appropriate department of the Supervision and Examination Sector of the BSP, whichever comes earlier.

The calculation of earnings per share (EPS) is shown below:

	Consolidated			Parent		
	2017	2016	2015	2017	2016	2015
	(In Millions, Except Earnings Per Share Amounts)					
a) Net income attributable to equity holders of the Parent Bank	22,416	22,050	18,234	22,097	20,885	12,063
b) Weighted average number of common shares outstanding during the year	3,939	3,937	3,932	3,939	3,937	3,932
c) Basic EPS (a/b)	5.69	5.60	4.64	5.61	5.30	3.07

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

## **Note 20 - Other Operating Income**

Details of other operating income follow:

	<b>Consolidated</b>			<b>Parent</b>		
	<b>2017</b>	2016	2015	<b>2017</b>	2016	2015
			(In Millions of Pesos)			
Trust and asset management fees	<b>3,706</b>	3,605	3,607	<b>204</b>	2,369	2,912
Credit card income	<b>3,175</b>	1,530	1,537	<b>3,112</b>	1,519	1,529
Rental income	<b>1,691</b>	1,687	1,729	<b>236</b>	353	382
Gain on sale of assets	<b>1,252</b>	712	2,530	<b>330</b>	322	1,950
Dividend income	<b>68</b>	56	48	<b>9,492</b>	6,083	389
Others	<b>1,477</b>	1,365	1,199	<b>1,153</b>	1,084	889
	<b>11,369</b>	8,955	10,650	<b>14,527</b>	11,730	8,051

Trust and asset management fees arise from the BPI Group's asset management and trust services and are based on agreed terms with various managed funds and investments.

Credit card income pertains to membership fees arising from issuance of credit cards and various service charges earned from the cardholders.

Rental income is earned by the BPI Group by leasing out its investment properties (Note 12) and other assets which consist mainly of fleet of vehicles under operating lease arrangements. The lease agreements are cancellable lease periods ranging from two to five years.

Gain on sale of assets arises mainly from the sale of assets pertaining to merchant acquiring business, disposals of properties (including equity investments), foreclosed collaterals and non-performing assets.

Dividend income recognized by the Parent Bank substantially pertains to dividend distribution of subsidiaries. In 2017, BPI Family Savings Bank, Inc., BPI Capital Corporation and BPI Investment Management, Inc. declared dividends payable to the Parent Bank amounting to P4,500 million, P2,500 million and P1,900 million, respectively.

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

## **Note 21 - 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:

	<b>Consolidated</b>	<b>Parent</b>
	(In Millions of Pesos)	
<b>2017</b>	<b>1,495</b>	<b>1,211</b>
2016	1,337	1,097
2015	1,259	1,041

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

	<b>2017</b>	2016
	(In Millions of Pesos)	
No later than 1 year	<b>90</b>	65
Later than 1 year but no later than 5 years	<b>186</b>	101
More than 5 years	<b>69</b>	10
	<b>345</b>	176





**Note 23 - Income Taxes**

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

	<b>Consolidated</b>					
	<b>2017</b>		<b>2016</b>		<b>2015</b>	
	<b>Amount</b>	<b>Rate (%)</b>	<b>Amount</b>	<b>Rate (%)</b>	<b>Amount</b>	<b>Rate (%)</b>
	(In Millions of Pesos)					
Statutory income tax	<b>8,608</b>	<b>30.00</b>	8,043	30.00	7,054	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	<b>(696)</b>	<b>(2.42)</b>	(764)	(2.85)	(886)	(3.77)
Tax-exempt income	<b>(4,350)</b>	<b>(15.16)</b>	(3,942)	(14.70)	(1,515)	(6.44)
Others, net	<b>2,394</b>	<b>8.34</b>	1,198	4.47	485	2.06
Effective income tax	<b>5,956</b>	<b>20.76</b>	4,535	16.92	5,138	21.85

	<b>Parent</b>					
	<b>2017</b>		<b>2016</b>		<b>2015</b>	
	<b>Amount</b>	<b>Rate (%)</b>	<b>Amount</b>	<b>Rate (%)</b>	<b>Amount</b>	<b>Rate (%)</b>
	(In Millions of Pesos)					
Statutory income tax	<b>7,765</b>	<b>30.00</b>	7,267	30.00	4,828	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	<b>(606)</b>	<b>(2.34)</b>	(669)	(2.76)	(792)	(4.92)
Tax-exempt income	<b>(2,907)</b>	<b>(11.23)</b>	(2,577)	(10.64)	(340)	(2.11)
Others, net	<b>(466)</b>	<b>(1.80)</b>	(683)	(2.82)	335	2.08
Effective income tax	<b>3,786</b>	<b>14.63</b>	3,338	13.78	4,031	25.05

**Note 24 - Basic Quantitative Indicators of Financial Performance**

The key financial performance indicators follow (in %):

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Return on average equity	<b>12.75</b>	13.77	<b>16.81</b>	17.72
Return on average assets	<b>1.27</b>	1.39	<b>1.54</b>	1.67
Net interest margin	<b>2.91</b>	2.85	<b>2.65</b>	2.58

## **Note 25 - Retirement Plans**

BPI and its subsidiaries, and a non-life insurance subsidiary have separate trustee, non-contributory retirement benefit plans covering all qualified officers and employees. Effective January 1, 2016, the BPI Group implemented a defined contribution plan, in addition to its existing defined benefit plan, which is accounted for as a defined benefit plan with minimum guarantee. The description of the plans follows:

### *Defined benefit retirement plan*

#### **BPI**

BPI has a unified plan which includes its subsidiaries other than insurance companies. 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 trustee 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 at 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.

### *Defined contribution retirement plan*

For the defined contribution retirement plan, 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 Republic Act ("RA") No. 7641. All non-unionized employees hired on or after the effective date 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.

Plan assets for both the defined benefit and defined contribution plans are held in trusts, governed by local regulations and practice in the Philippines.

Following are the amounts recognized based on recent actuarial valuations:

*Defined benefit retirement plan*

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

	<b>Consolidated</b>	
	<b>2017</b>	2016
	(In Millions of Pesos)	
Present value of defined benefit obligation	<b>12,718</b>	11,952
Fair value of plan assets	<b>(10,710)</b>	(10,084)
Pension liability recognized in the statement of condition	<b>2,008</b>	1,868

	<b>Parent</b>	
	<b>2017</b>	2016
	(In Millions of Pesos)	
Present value of defined benefit obligation	<b>10,508</b>	9,905
Fair value of plan assets	<b>(9,003)</b>	(8,543)
Pension liability recognized in the statement of condition	<b>1,505</b>	1,362

Pension liability is shown as part of “Miscellaneous liabilities” within Deferred credits and other liabilities (Note 18).

The movement in plan assets is summarized as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	(In Millions of Pesos)			
At January 1	<b>10,084</b>	10,953	<b>8,543</b>	9,106
Transfer to defined contribution plan	-	(659)	<b>(130)</b>	(535)
Interest income	<b>525</b>	521	<b>445</b>	440
Contributions	<b>685</b>	704	<b>542</b>	577
Benefit payments	<b>(1,051)</b>	(1,026)	<b>(840)</b>	(699)
Remeasurement - return on plan assets	<b>467</b>	(409)	<b>443</b>	(346)
At December 31	<b>10,710</b>	10,084	<b>9,003</b>	8,543

The carrying values of the plan assets as at December 31, 2017 and 2016 represents the fair value.

The plan assets are comprised of the following:

	<b>Consolidated</b>				<b>Parent</b>			
	<b>2017</b>		2016		<b>2017</b>		2016	
	<b>Amount</b>	%	Amount	%	<b>Amount</b>	%	Amount	%
	(In Millions of Pesos Except for Rates)							
Debt securities	<b>3,786</b>	<b>35</b>	4,416	44	<b>3,183</b>	<b>35</b>	3,741	44
Equity securities	<b>4,763</b>	<b>45</b>	4,461	44	<b>4,003</b>	<b>45</b>	3,779	44
Others	<b>2,161</b>	<b>20</b>	1,207	12	<b>1,817</b>	<b>20</b>	1,023	12
	<b>10,710</b>	<b>100</b>	10,084	100	<b>9,003</b>	<b>100</b>	8,543	100

Pension plan assets of the unified retirement plan include investment in BPI's common shares with carrying amount of P222 million (2016 - P160 million) and fair value of P510 million at December 31, 2017 (2016 - P373 million). Realized and unrealized gains coming from BPI's common shares amount to P10 million and P288 million in 2017, respectively (2016 - P5 million and P213 million). The actual return on plan assets of the BPI Group was P992 million in 2017 (2016 - P112 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movement in the present value of defined benefit obligation is summarized as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
At January 1	11,952	11,991	9,905	9,849
Transfers to defined contribution plan	-	(659)	(130)	(535)
Current service cost	619	649	507	535
Interest cost	607	597	501	493
Past service cost - plan amendment	(5)	(197)	(5)	(162)
Benefit payments	(1,051)	(1,026)	(840)	(699)
Settlement loss	9	163	9	123
Remeasurement - change in assumptions and experience adjustment	587	434	561	301
At December 31	12,718	11,952	10,508	9,905

The BPI Group has no other transactions with the plan other than the contributions presented above for the years ended December 31, 2017 and 2016.

(b) Expense recognized in the statement of income

	Consolidated			Parent		
	2017	2016	2015	2017	2016	2015
	(In Millions of Pesos)					
Current service cost	619	649	1,016	507	535	837
Net interest cost	82	76	23	56	53	17
Settlement loss	9	163	-	9	123	-
Past service cost	(5)	(197)	-	(5)	(162)	-
	705	691	1,039	567	549	854

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

	Consolidated		Parent	
	2017	2016	2017	2016
Discount rate	5.87%	5.35%	5.84%	5.32%
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. The expected contributions for the year ending December 31, 2018 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, 2017 is 8 years (2016 - 12 years).

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

Consolidated

(In Millions of Pesos)	2017	2016
Up to one year	383	1,025
More than 1 year to 5 years	4,905	3,446
More than 5 years to 10 years	6,398	5,533
More than 10 years to 15 years	8,844	10,785
More than 15 years to 20 years	7,507	11,886
Over 20 years	16,150	53,585

Parent

(In Millions of Pesos)	2017	2016
Up to one year	317	721
More than 1 year to 5 years	3,863	2,668
More than 5 years to 10 years	5,531	4,913
More than 10 years to 15 years	7,333	9,085
More than 15 years to 20 years	6,189	10,184
Over 20 years	12,326	40,951

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

Consolidated

**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%

**2016**

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 1.00%	Increase by 1.05%
Salary growth rate	1.0%	Increase by 1.77%	Decrease by 1.63%

Parent

**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%

**2016**

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 0.99%	Increase by 1.04%
Salary growth rate	1.0%	Increase by 1.74%	Decrease by 1.61%

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 statement of condition.

*Defined contribution retirement plan subject to the requirements of RA No. 7641 at December 31*

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Fair value of plan assets	<b>916</b>	660	<b>707</b>	536
Present value of defined benefit obligation	<b>(239)</b>	(235)	<b>(172)</b>	(192)
	<b>677</b>	425	<b>535</b>	344
Effect of asset ceiling	<b>677</b>	425	<b>535</b>	344
	-	-	-	-

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

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
At January 1	<b>235</b>	-	<b>192</b>	-
Interest cost	<b>12</b>	-	<b>10</b>	-
Current service cost	<b>43</b>	64	<b>29</b>	53
Benefit payments	<b>3</b>	-	-	-
Transfer to the Plan	-	659	<b>(36)</b>	535
Remeasurement - change in assumptions and experience adjustment	<b>(54)</b>	(488)	<b>(23)</b>	(396)
At December 31	<b>239</b>	235	<b>172</b>	192

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
At January 1	660	-	536	-
Contribution paid by employer	152	24	116	20
Interest income	40	-	32	-
Transfer to the plan	-	659	(36)	535
Remeasurement - return on plan assets	64	(23)	59	(19)
At December 31	916	660	707	536

Total retirement expense for the year ended December 31, 2017 under the defined contribution plan for the BPI Group and Parent Bank is P39 million and P26 million (2016 - P64 million and P53 million).

The major categories of plan assets as a percentage of the fair value of total plan assets as at December 31, 2017 follow:

	Consolidated				Parent			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In Millions of Pesos Except for Rates)							
Equity securities	707	77	502	76	545	77	408	76
Debt securities	155	17	75	11	120	17	61	11
Others	54	6	83	13	42	6	67	13
	916	100	660	100	707	100	536	100

The asset allocation of the Plan is set and reviewed from time to time by the Plan trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor.

Contributions are determined based on the plan provisions. The expected contribution to the defined contribution plan for the year ending December 31, 2018 for the BPI Group and the Parent Bank amounts to P153 million and P91 million, respectively (2017 - P113 million and P90 million).

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 20 years (2016 - 25 years).

#### **Note 26 - Trust Assets**

At December 31, 2017, the net asset value of trust and fund assets administered by the BPI Group amounts to P591 billion (2016 - P564 billion).

Government securities deposited by the BPI Group with the BSP in compliance with the requirements of the General Banking Act relative to the trust functions follow:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Government securities (included in Held-to-maturity securities)	306	5,881	-	5,881

As a result of the spin-off and following the commencement of its operations in 2017, the security deposit with the BSP is now being carried by BPI Asset Management and Trust Corporation equivalent to 0.05% of the total book value of the assets under management.



## **Note 27 - 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 its subsidiaries (Ayala Group), where all transactions are dealt with on an arm's length basis. AC is a substantial stockholder of BPI as at reporting date.

These transactions such as loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses are made in the normal banking activities and have terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market.

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.

Significant related party transactions, which represent movements in the account balance, and outstanding balances as at and for the years ended December 31 are summarized below (transactions with subsidiaries have been eliminated in the consolidated financial statements):

### Consolidated

<b>2017</b>			
	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	
AC	(1,842)	4,123	
Subsidiaries of AC	1,233	23,430	
Key management personnel	-	-	
Other related parties	(592)	302	
	<b>(990)</b>	<b>28,186</b>	
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	
	<b>(7,982)</b>	<b>13,650</b>	

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	
AC	(8,143)	5,965	
Subsidiaries of AC	7,109	22,197	
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	
2015			
	Transactions for the year	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	41	72	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.05% to 7.60% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 11 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	(142)	14,108	
Subsidiaries of AC	507	15,088	
Key management personnel	-	-	
Other related parties	583	1,446	
	989	30,714	
Deposits from:			
Subsidiaries	1,066	7,092	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.27% Savings - 0.81% to 0.82% Time - 2.00% to 2.11%
Associates	(276)	713	
Ayala Group	(20,030)	11,361	
Key management personnel	(836)	1,885	
	(20,076)	21,051	

Parent

<b>2017</b>			
	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	
AC	(1,842)	4,123	
Subsidiaries of AC	1,233	23,430	
Key management personnel	-	-	
Other related parties	(592)	302	
	<b>(990)</b>	<b>28,186</b>	
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	
	<b>(7,608)</b>	<b>13,490</b>	
<b>2016</b>			
	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	
AC	(8,143)	5,965	
Subsidiaries of AC	7,109	22,197	
Key management personnel	-	-	
Other related parties	(552)	894	
	<b>(1,538)</b>	<b>29,176</b>	
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	
	<b>861</b>	<b>21,098</b>	

2015			
	Transactions for the year	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	41	72	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.05% to 7.60% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 11 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	(142)	14,108	
Subsidiaries of AC	507	15,088	
Key management personnel	-	-	
Other related parties	583	1,446	
	989	30,714	
Deposits from:			
Subsidiaries	1,059	7,004	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.26% Savings - 0.75% to 0.76% Time - 1.35% to 1.48%
Associates	(264)	711	
Ayala Group	(19,696)	10,749	
Key management personnel	(695)	1,773	
	(19,596)	20,237	

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

	2017	2016	2015
	(In Millions of Pesos)		
Interest income			
Subsidiaries	39	43	4
AC	151	169	474
Subsidiaries of AC	815	621	493
Other related parties	15	31	34
	<b>1,020</b>	864	1,005
Other income			
Subsidiaries	1,485	946	923
Associates	977	885	900
AC	11	17	-
Subsidiaries of AC	236	49	12
	<b>2,709</b>	1,897	1,835
Interest expense			
Subsidiaries	38	41	12
Associates	1	8	2
Ayala Group	21	74	38
Key management personnel	1	15	17
	<b>61</b>	138	69
Other expenses			
Subsidiaries	1,371	836	813
Associates	34	36	-
AC	110	58	81
Subsidiaries of AC	209	211	74
	<b>1,724</b>	1,141	968
Retirement benefits			
Key management personnel	44	44	42
Salaries, allowances and other short-term benefits			
Key management personnel	744	749	602
Directors' remuneration	87	77	74

Parent

	2017	2016	2015
		(In Millions of Pesos)	
Interest income			
Subsidiaries	3	2	1
AC	151	169	474
Subsidiaries of AC	815	621	493
Other related parties	15	31	34
	<b>984</b>	<b>823</b>	<b>1,002</b>
Other income			
Subsidiaries	1,433	893	820
Associates	977	777	773
Subsidiaries of AC	155	-	1
	<b>2,565</b>	<b>1,670</b>	<b>1,594</b>
Interest expense			
Subsidiaries	34	39	12
Associates	1	8	2
Ayala Group	20	65	33
Key management personnel	1	14	12
	<b>56</b>	<b>126</b>	<b>59</b>
Other expenses			
Subsidiaries	27	21	80
AC	110	50	63
Subsidiaries of AC	209	209	74
	<b>346</b>	<b>280</b>	<b>217</b>
Retirement benefits			
Key management personnel	37	37	32
Salaries, allowances and other short-term benefits			
Key management personnel	629	604	504
Directors' remuneration	73	67	64

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.

Based on the objective assessment done on related party balances, provisions have been recognized against receivables from related parties, as deemed applicable.

Details of DOSRI loans are as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
		(In Millions of Pesos)		
Outstanding DOSRI loans	<b>4,376</b>	6,236	<b>4,335</b>	6,187
	In percentages (%)			
	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
% to total outstanding loans and advances	<b>0.36</b>	0.59	<b>0.44</b>	0.74
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	<b>29.63</b>	29.60	<b>29.85</b>	29.80
Past due DOSRI loans	<b>0.03</b>	0.04	<b>0.03</b>	0.04
Non-performing DOSRI loans	<b>0.02</b>	0.02	<b>0.02</b>	0.02

At December 31, 2017 and 2016, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

#### **Note 28 - 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) Impairment losses on loans and advances (Note 10)*

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 (2016 - P469 million) higher or lower.

###### *(ii) Fair value of derivatives and other financial instruments (Notes 6, 29.4 and 29.5)*

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 Board of Directors 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.

*(iii) Pension liability on defined benefit plan (Note 25)*

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 are described in Note 25 and 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, 2017 and 2016 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 25.

*(iv) Valuation of assets held for sale*

In determining the fair value of assets held for sale, the BPI Group analyzed the sales prices by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as impairment loss in the statement of income.

In 2017, the BPI Group has recognized reversal of impairment loss on its foreclosed assets amounting to P224 million as a result of improvement in fair market values of properties (2016 - reversal of impairment loss of P289 million).

The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of assets held for sale.

## **B. Critical accounting judgments**

*(i) Impairment of available-for-sale securities (Note 8)*

The BPI Group follows the guidance of Philippine Accounting Standards (PAS) 39 to determine when an available-for-sale security is impaired. This determination requires significant judgment. In making this judgment, the BPI Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

*(ii) Classification of held-to-maturity securities (Note 9)*

The BPI Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the BPI Group evaluates its intention and ability to hold such investments to maturity. If the BPI Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not at amortized cost.

*(iii) Classification of assets held for sale*

Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel) as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value.



*(iv) Realization of deferred income tax assets (Note 14)*

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 losses 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 29 - Financial Risk and Capital Management**

Risk management in the BPI Group covers all perceived areas of risk exposure, even as it continuously endeavors to identify and manage new and emerging risks. 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.

To generate acceptable returns to its shareholders' capital, the BPI Group understands that it has to bear risk, and that risk-taking is inherent in its business. Risk is understood by the BPI Group as the uncertainty in its future income - an uncertainty that emanates from the possibility of incurring losses that are due to unplanned and unexpected drops in revenues, increases in expenses, impairment of asset values, or increases in liabilities.

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.

*Enterprise Risk Management Framework*

BPI espouses a comprehensive risk management and capital management framework, which integrates the management of all its financial and non-financial risk exposures. The framework conforms not only to BPI's own rigorous standards, but also to BSP's directives in promoting an effective Internal Capital Adequacy Assessment Process (ICAAP) and other risk management processes. The framework also ensures that BPI has adequate liquidity and capital to mitigate risks. The framework focuses on three key components consisting of:

- Sound risk management governance;
- Effective processes, information systems, and controls; and
- Timely and reliable risk data.

The Board of Directors carries out its risk management function through the Risk Management Committee (RMC) of the Board. 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, regulatory examiners, and external auditors to ensure that risk controls and mitigants are in place and functioning effectively as intended.

The most important risks that the BPI Group manages are credit risk, liquidity risk, market risk and operational and information technology (IT) risks.

## **29.1 Credit risk**

The BPI Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the BPI Group by failing to discharge an obligation. Significant changes in the economy, or in the prospects of a particular industry segment that may represent a concentration in the BPI Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements. The Credit Policy and Risk Management Division supports the Credit Committee in managing credit risk, and reports are regularly provided to the Board of Directors.

### **29.1.1 Credit risk management**

#### *(a) Loans and advances*

In measuring credit risk of loans and advances at a counterparty level, the BPI Group considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations. In the evaluation process, the BPI Group also considers the conditions of the industry/sector to which the counterparty is exposed, other existing exposures to the group where the counterparty may be related, as well as the client and the BPI Group's fallback position assuming the worst-case scenario. Outstanding and potential credit exposures are reviewed to likewise ensure that they conform to existing internal credit policies.

The BPI Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. The BPI Group has internal credit risk rating systems, designed for corporate, small and medium-sized enterprises (SMEs), and retail accounts, that measure the borrower's credit risk based on quantitative and qualitative factors. The ratings of individual exposures may subsequently migrate between classes as the assessment of their probabilities of default changes. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. The BPI Group regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary. The BPI Group's internal ratings are mapped to the following standard BSP classifications:

- *Unclassified* - these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.
- *Loans especially mentioned* - these are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the BPI Group.
- *Substandard* - these are loans which appear to involve a substantial degree of risk to the BPI Group because of unfavorable record or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral.
- *Doubtful* - these are loans which have the weaknesses similar to those of the substandard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable.
- *Loss* - these are loans which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

*(b) Debt securities and other bills*

For debt securities and other bills, external ratings such as Standard & Poor's, Moody's and Fitch's ratings or their equivalents are used by the BPI Group for managing credit risk exposures. Investments in these 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.

**29.1.2 Risk limit control and mitigation policies**

The BPI Group manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, to industries and sovereigns.

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 considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors through the Risk Management Committee.

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.

Exposure to credit risk is also managed through regular analysis of the ability of existing and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

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. 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 mitigation measures are outlined below.

*(a) Collateral*

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 principal collateral types for loans and advances are:

- Mortgages over real estate properties and chattels; and
- Hold-out on financial instruments such as debt securities, deposits, and equities

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.

*(b) Derivatives*

The BPI Group maintains strict 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 small fraction 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 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*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same credit risk as loans. 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.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, or letters of credit. With respect to credit risk on commitments to extend credit, the BPI Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The BPI Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

### 29.1.3 Impairment and provisioning policies

As described in Note 29.1.1, the BPI Group's credit-quality mapping on loans and advances is based on the standard BSP loan classifications. Impairment provisions are recognized for financial reporting purposes based on objective evidence of impairment (Note 31.9).

The table below shows the percentage of the BPI Group's loans and advances and the related allowance for impairment.

	Consolidated			
	2017		2016	
	Loans and advances (%)	Allowance for impairment (%)	Loans and advances (%)	Allowance for impairment (%)
Unclassified	98.53	0.92	98.31	0.90
Loans especially mentioned	0.23	5.13	0.24	5.01
Substandard	0.42	23.70	0.52	24.86
Doubtful	0.50	69.17	0.58	66.78
Loss	0.32	100.00	0.35	100.00
	100.00		100.00	

	Parent			
	2017		2016	
	Loans and advances (%)	Allowance for impairment (%)	Loans and advances (%)	Allowance for impairment (%)
Unclassified	99.08	0.85	98.92	0.80
Loans especially mentioned	0.18	5.55	0.18	5.31
Substandard	0.25	28.91	0.37	31.07
Doubtful	0.17	82.63	0.17	79.50
Loss	0.32	100.00	0.36	100.00
	100.00		100.00	

#### 29.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to significant on-balance sheet financial assets are as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Due from BSP	255,948	239,514	227,122	203,743
Due from other banks	14,406	23,037	10,894	20,558
Interbank loans receivable and SPAR	18,586	15,236	10,504	9,049
Financial assets at fair value through profit or loss				
Derivative financial assets	4,975	2,993	4,975	2,993
Trading securities - debt securities	5,002	14,479	3,806	10,314
Available-for-sale - debt securities	19,218	21,962	9,669	19,287
Held-to-maturity securities	277,472	268,483	255,382	245,921
Loans and advances, net	1,202,338	1,040,720	986,869	821,545
Other financial assets				
Accounts receivable, net	2,030	1,625	4,618	892
Other accrued interest and fees receivable	634	637	598	584
Sales contracts receivable, net	279	460	279	460
Rental deposits	563	510	484	430
Others, net	1,170	1,023	1,172	1,030
	1,802,621	1,630,679	1,516,372	1,336,806

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

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Undrawn loan commitments	160,030	94,915	157,338	90,933
Bills for collection	33,154	20,848	33,154	20,848
Unused letters of credit	17,971	12,951	17,971	12,951
Others	1,189	734	1,189	734
	212,344	129,448	209,652	125,466

The preceding table represents the maximum credit risk exposure at December 31, 2017 and 2016, without taking into account any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of condition.

Management is confident in its ability to continue to control and sustain minimal exposure to credit risk of the BPI Group resulting from its loan and advances portfolio based on the following:

- 98% of the loans and advances portfolio is considered to be neither past due nor impaired (2016 - 98%);
- Mortgage loans are backed by collateral; and
- The BPI Group continues to implement stringent selection process of granting loans and advances.

### 29.1.5 Credit quality of loans and advances

Loans and advances are summarized as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Neither past due nor impaired	1,200,778	1,036,136	989,383	820,722
Past due but not impaired	4,241	5,301	2,119	3,524
Impaired	17,982	17,959	9,280	9,027
	1,223,001	1,059,396	1,000,782	833,273
Allowance for impairment	(20,663)	(18,676)	(13,913)	(11,728)
	1,202,338	1,040,720	986,869	821,545

Impaired category as shown in the table above includes loan accounts which are individually (Note 29.1.5c) and collectively assessed for impairment.

The total consolidated gross impairment provision for loans and advances amounts to P4,317 million (2016 - P4,955 million), of which P2,002 million (2016 - P2,531 million) represents provision for individually impaired loans and the remaining amount of P2,315 million (2016 - P2,424 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Note 10.

When entering into new markets or new industries, the BPI Group focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

Collaterals held as security for Loans and advances are described in Note 10.

#### (a) Loans and advances neither past due nor impaired

Loans and advances that were neither past due nor impaired consist mainly of accounts with Unclassified rating and those loan accounts in a portfolio to which an impairment has been allocated on a collective basis. Details of these accounts follow:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	898,616	757,037	878,558	741,368
Small and medium enterprises	79,120	78,289	52,736	42,433
Retail customers:				
Credit cards	112,646	33,638	41,813	32,914
Real estate mortgages	50,937	112,349	11	17
Auto loans	42,885	50,524	-	-
Others	16,574	4,299	16,265	3,990
	1,200,778	1,036,136	989,383	820,722

(b) *Loans and advances past due but not impaired*

The table below presents the gross amount of loans and advances that were past due but not impaired classified by type of borrowers. Collateralized past due loans are not considered impaired when the cash flows that may result from foreclosure of the related collateral are higher than the carrying amount of the loans.

Consolidated

	2017				2016			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
	(In Millions of Pesos)							
Past due up to 30 days	503	142	507	1,152	293	243	2,325	2,861
Past due 31 - 90 days	144	204	1,446	1,794	225	274	1,363	1,862
Past due 91 - 180 days	715	198	7	920	232	159	110	501
Over 180 days	94	281	-	375	60	14	3	77
	<b>1,456</b>	<b>825</b>	<b>1,960</b>	<b>4,241</b>	<b>810</b>	<b>690</b>	<b>3,801</b>	<b>5,301</b>
Fair value of collateral				<b>2,736</b>				<b>1,925</b>

Parent

	2017				2016			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
	(In Millions of Pesos)							
Past due up to 30 days	362	30	63	455	226	46	1,923	2,195
Past due 31 - 90 days	91	58	1,006	1,155	205	33	933	1,171
Past due 91 - 180 days	326	65	-	391	89	66	-	155
Over 180 days	22	96	-	118	-	3	-	3
	<b>801</b>	<b>249</b>	<b>1,069</b>	<b>2,119</b>	<b>520</b>	<b>148</b>	<b>2,856</b>	<b>3,524</b>
Fair value of collateral				<b>1,010</b>				<b>527</b>

(c) *Loans and advances individually impaired*

The breakdown of the gross amount of individually impaired loans and advances (included in Impaired category) by class, along with the fair value of related collateral held by the BPI Group as security, are as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	5,096	4,594	4,613	4,385
Small and medium enterprises	4,095	4,690	2,017	2,405
Retail customers:				
Credit cards	1,735	1,527	1,668	1,498
Auto loans	7	2	5	-
Others	298	378	263	259
	<b>11,231</b>	<b>11,191</b>	<b>8,566</b>	<b>8,547</b>
Fair value of collateral	<b>6,444</b>	<b>6,977</b>	<b>6,252</b>	<b>6,481</b>

### 29.1.6 Credit quality of other financial assets

#### (a) Due from BSP

Due from BSP are considered fully performing. As at December 31, 2017, the account consists of clearing account and other deposit facilities amounting to P255,948 million (2016 - P239,514 million) for BPI Group and P227,122 (2016 - P203,743 million) for the Parent Bank.

#### (b) Due from other banks

Due from other banks are considered fully performing at December 31, 2017 and 2016. The table below presents the credit ratings of counterparty banks based on international and domestic credit assessment agencies.

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
AA- to AA+	3,143	201	1,740	201
A- to A+	9,371	16,235	8,047	16,196
Lower than A-	963	3,992	961	3,500
Unrated	929	2,609	146	661
	<b>14,406</b>	<b>23,037</b>	<b>10,894</b>	<b>20,558</b>

#### (c) Interbank loans receivable and securities purchased under agreements to resell

The table below presents the credit ratings of counterparty banks based on international and domestic credit assessment agencies.

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
A- to A+	8,865	8,207	8,238	7,210
Lower than A-	150	444	-	-
Unrated	2,273	2,009	2,266	1,839
	<b>11,288</b>	<b>10,660</b>	<b>10,504</b>	<b>9,049</b>

Securities purchased under agreements to resell includes reverse repurchase agreements amounting to P7,298 million and nil for the BPI Group and Parent Bank, respectively (2016 - P4,576 million and nil for the BPI Group and Parent Bank, respectively), which are made with a sovereign counterparty.

Interbank loans receivable are considered fully performing at December 31, 2017 and 2016.



(d) *Derivative financial assets*

The table below presents the ratings based on international and domestic credit assessment agencies of counterparties for derivative financial assets at December 31, 2017 and 2016 :

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
AA- to AA+	842	231	842	231
A- to A+	3,357	1,976	3,357	1,976
Lower than A-	533	701	533	701
Unrated	243	85	243	85
	<b>4,975</b>	<b>2,993</b>	<b>4,975</b>	<b>2,993</b>

(e) *Debt securities, treasury bills and other government securities*

The table below presents the ratings of debt securities, treasury bills and other government securities at December 31, 2017 and 2016 based on international and domestic credit assessment agencies:

	Consolidated				Parent			
	Trading securities	Available-for-sale	Held-to-maturity	Total	Trading securities	Available-for-sale	Held-to-maturity	Total
	(In Millions of Pesos)							
AAA	768	4,272	7,236	12,276	740	1,536	6,616	8,892
AA- to AA+	-	1,212	6,574	7,786	-	1,121	6,360	7,481
A- to A+	-	2,339	24,662	27,001	-	1,971	23,654	25,625
Lower than A-	4,234	11,345	237,016	252,595	3,066	5,041	217,760	225,867
Unrated	-	50	1,984	2,034	-	-	992	992
<b>At December 31, 2017</b>	<b>5,002</b>	<b>19,218</b>	<b>277,472</b>	<b>301,692</b>	<b>3,806</b>	<b>9,669</b>	<b>255,382</b>	<b>268,857</b>

	Consolidated				Parent			
	Trading securities	Available-for-sale	Held-to-maturity	Total	Trading securities	Available-for-sale	Held-to-maturity	Total
	(In Millions of Pesos)							
AAA	4,074	2,270	4,371	10,715	-	2,018	4,045	6,063
AA- to AA+	2,002	7,778	10,105	19,885	2,002	7,684	9,889	19,575
A- to A+	2,692	8,784	29,543	41,019	2,692	8,530	28,352	39,574
Lower than A-	5,711	1,230	223,330	230,271	5,620	1,055	202,557	209,232
Unrated	-	1,900	1,134	3,034	-	-	1,078	1,078
<b>At December 31, 2016</b>	<b>14,479</b>	<b>21,962</b>	<b>268,483</b>	<b>304,924</b>	<b>10,314</b>	<b>19,287</b>	<b>245,921</b>	<b>275,522</b>

(f) *Other financial assets*

The BPI Group's other financial assets (shown under Other resources) at December 31, 2017 and 2016 consist mainly of accounts receivable, accrued interest and fees receivable, sales contracts receivable, rental deposits and other financial assets from various unrated counterparties with good credit standing.

### 29.1.7 Repossessed or foreclosed collaterals

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2017, the BPI Group's foreclosed collaterals have carrying amount of P3,578 million (2016 - P3,667 million). The related foreclosed collaterals have aggregate fair value of P9,864 million (2016 - P9,753 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 statement of condition.

### 29.1.8 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

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	255,948	-	-	-	-	-	<b>255,948</b>
Due from other banks	14,406	-	-	-	-	-	<b>14,406</b>
Interbank loans receivable and SPAR	18,586	-	-	-	-	-	<b>18,586</b>
Financial assets at fair value through profit or loss							
Derivative financial assets	4,786	10	155	-	24	-	<b>4,975</b>
Trading securities - debt securities	-	-	1	28	4,973	-	<b>5,002</b>
Available-for-sale - debt securities	4,672	-	90	103	14,353	-	<b>19,218</b>
Held-to-maturity securities	52,583	704	3,911	1,657	218,617	-	<b>277,472</b>
Loans and advances, net	92,472	107,355	198,550	276,262	548,362	(20,663)	<b>1,202,338</b>
Other financial assets							
Accounts receivable, net	-	-	-	-	2,472	(442)	<b>2,030</b>
Other accrued interest and fees receivable	-	-	-	-	634	-	<b>634</b>
Sales contracts receivable, net	-	-	-	-	310	(31)	<b>279</b>
Rental deposits	-	-	-	-	563	-	<b>563</b>
Others, net	-	-	-	-	1,254	(84)	<b>1,170</b>
<b>At December 31, 2017</b>	<b>443,453</b>	<b>108,069</b>	<b>202,707</b>	<b>278,050</b>	<b>791,562</b>	<b>(21,220)</b>	<b>1,802,621</b>

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
	(In Millions of Pesos)						
Due from BSP	239,514	-	-	-	-	-	239,514
Due from other banks	23,037	-	-	-	-	-	23,037
Interbank loans receivable and SPAR	15,236	-	-	-	-	-	15,236
Financial assets at fair value through profit or loss							
Derivative financial assets	2,960	-	17	2	14		2,993
Trading securities - debt securities	4,937	-	1	367	9,174	-	14,479
Available-for-sale - debt securities	19,456	-	190	104	2,212	-	21,962
Held-to-maturity securities	54,610	68	3,226	502	210,077	-	268,483
Loans and advances, net	100,395	97,618	168,760	244,152	448,471	(18,676)	1,040,720
Other financial assets							
Accounts receivable, net	-	-	-	-	2,433	(808)	1,625
Other accrued interest and fees receivable	-	-	-	-	637	-	637
Sales contracts receivable, net	-	-	-	-	465	(5)	460
Rental deposits	-	-	-	-	510	-	510
Others, net	-	-	-	-	1,106	(83)	1,023
<b>At December 31, 2016</b>	<b>460,145</b>	<b>97,686</b>	<b>172,194</b>	<b>245,127</b>	<b>675,099</b>	<b>(19,572)</b>	<b>1,630,679</b>

Parent

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	227,122	-	-	-	-	-	<b>227,122</b>
Due from other banks	10,894	-	-	-	-	-	<b>10,894</b>
Interbank loans receivable and SPAR	10,504	-	-	-	-	-	<b>10,504</b>
Financial assets at fair value through profit or loss							
Derivative financial assets	4,786	10	155	-	24	-	<b>4,975</b>
Trading securities - debt securities	-	-	-	-	3,806	-	<b>3,806</b>
Available-for-sale - debt securities	4,157	-	50	-	5,462	-	<b>9,669</b>
Held-to-maturity securities	50,717	-	3,838	1,657	199,170	-	<b>255,382</b>
Loans and advances, net	91,123	52,184	194,294	154,682	508,499	(13,913)	<b>986,869</b>
Other financial assets							
Accounts receivable, net	-	-	-	-	4,923	(305)	<b>4,618</b>
Other accrued interest and fees receivable	-	-	-	-	598	-	<b>598</b>
Sales contracts receivable, net	-	-	-	-	310	(31)	<b>279</b>
Rental deposits	-	-	-	-	484	-	<b>484</b>
Others, net	-	-	-	-	1,248	(76)	<b>1,172</b>
<b>At December 31, 2017</b>	<b>399,303</b>	<b>52,194</b>	<b>198,337</b>	<b>156,339</b>	<b>724,524</b>	<b>(14,325)</b>	<b>1,516,372</b>

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	203,743	-	-	-	-	-	203,743
Due from other banks	20,558	-	-	-	-	-	20,558
Interbank loans receivable and SPAR	9,049	-	-	-	-	-	9,049
Financial assets at fair value through profit or loss							
Derivative financial assets	2,960	-	17	2	14	-	2,993
Trading securities - debt securities	4,937	-	-	-	5,377	-	10,314
Available-for-sale - debt securities	17,167	-	149	-	1,971	-	19,287
Held-to-maturity securities	52,232	-	3,226	502	189,961	-	245,921
Loans and advances, net	98,727	42,350	162,291	127,117	402,788	(11,728)	821,545
Other financial assets							
Accounts receivable, net	-	-	-	-	1,509	(617)	892
Other accrued interest and fees receivable	-	-	-	-	584	-	584
Sales contracts receivable, net	-	-	-	-	465	(5)	460
Rental deposits	-	-	-	-	430	-	430
Others, net	-	-	-	-	1,106	(76)	1,030
<b>At December 31, 2016</b>	<b>409,373</b>	<b>42,350</b>	<b>165,683</b>	<b>127,621</b>	<b>604,205</b>	<b>(12,426)</b>	<b>1,336,806</b>

Trading, available-for-sale and 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 individual and retail borrowers belonging to various industry sectors.

## 29.2 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/Board of Directors.

### Market risk management

Market risk management is incumbent on the Board of Directors 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 Bank’s market risk exposures are managed by the RMO, headed by the Bank’s CRO who reports directly to the RMC. In addition, 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.



### 29.2.1 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 other than the functional currency which they are measured.

The BPI Group takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the BPI Group's exposure to more material foreign currency exchange rate risk at December 31, 2017 and 2016. Included in the table are the BPI Group's financial instruments at carrying amounts, categorized by currency.

#### Consolidated

	USD	JPY	EUR	GBP	Less - allowance	Total
	(In Millions of Pesos)					
<b>As at December 31, 2017</b>						
<b>Financial Assets</b>						
Cash and other cash items	2,328	141	137	26	-	<b>2,632</b>
Due from other banks	9,620	1,489	849	158	-	<b>12,116</b>
Interbank loans receivable and SPAR	10,047	-	-	175	-	<b>10,222</b>
Financial assets at fair value through profit or loss						
Derivative financial assets	1,426	257	50	76	-	<b>1,809</b>
Trading securities - debt securities	1,261	-	-	-	-	<b>1,261</b>
Available-for-sale securities - debt securities	7,933	-	827	-	-	<b>8,760</b>
Held-to-maturity securities	109,117	-	-	1,702	-	<b>110,819</b>
Loans and advances, net	136,100	25	3,045	2,393	(1,032)	<b>140,531</b>
Others financial assets						
Accounts receivable, net	100	-	-	10	(16)	<b>94</b>
Other accrued interest and fees receivable	404	-	33	78	-	<b>515</b>
<b>Total financial assets</b>	<b>278,336</b>	<b>1,912</b>	<b>4,941</b>	<b>4,618</b>	<b>(1,048)</b>	<b>288,759</b>
<b>Financial Liabilities</b>						
Deposit liabilities	238,610	1,850	4,030	1,012	-	<b>245,502</b>
Derivative financial liabilities	1,429	164	34	87	-	<b>1,714</b>
Bills payable	46,820	-	585	-	-	<b>47,405</b>
Due to BSP and other banks	578	-	-	-	-	<b>578</b>
Manager's checks and demand drafts outstanding	469	-	3	2	-	<b>474</b>
Other financial liabilities						
Accounts payable	201	-	1	-	-	<b>202</b>
<b>Total financial liabilities</b>	<b>288,107</b>	<b>2,014</b>	<b>4,653</b>	<b>1,101</b>	<b>-</b>	<b>295,875</b>
<b>Net on-balance sheet financial position (in Philippine Peso)</b>	<b>(9,771)</b>	<b>(102)</b>	<b>288</b>	<b>3,517</b>	<b>(1,048)</b>	<b>(7,116)</b>

	USD	JPY	EUR	GBP	Less - allowance	Total
	(In Millions of Pesos)					
As at December 31, 2016						
Financial Assets						
Cash and other cash items	2,566	103	157	29	-	2,855
Due from other banks	15,482	1,744	3,393	240	-	20,859
Interbank loans receivable and SPAR	9,182	-	-	524	-	9,706
Financial assets at fair value through profit or loss						
Derivative financial assets	2,002	-	70	101	-	2,173
Trading securities - debt securities	8,945	-	-	-	-	8,945
Available-for-sale securities - debt securities	18,960	-	-	-	-	18,960
Held-to-maturity securities	90,110	-	-	741	-	90,851
Loans and advances, net	121,204	61	138	2,161	(622)	122,942
Others financial assets						
Accounts receivable, net	81	-	-	4	(16)	69
Other accrued interest and fees receivable	334	-	14	66	-	414
<b>Total financial assets</b>	<b>268,866</b>	<b>1,908</b>	<b>3,772</b>	<b>3,866</b>	<b>(638)</b>	<b>277,774</b>
Financial Liabilities						
Deposit liabilities	210,223	1,618	3,494	1,450	-	216,785
Derivative financial liabilities	1,944	-	50	116	-	2,110
Bills payable	54,301	-	26	-	-	54,327
Due to BSP and other banks	268	-	-	-	-	268
Manager's checks and demand drafts outstanding	133	-	13	3	-	149
Other financial liabilities						
Accounts payable	92	-	2	-	-	94
<b>Total financial liabilities</b>	<b>266,961</b>	<b>1,618</b>	<b>3,585</b>	<b>1,569</b>	<b>-</b>	<b>273,733</b>
<b>Net on-balance sheet financial position (in Philippine Peso)</b>	<b>1,905</b>	<b>290</b>	<b>187</b>	<b>2,297</b>	<b>(638)</b>	<b>4,041</b>



Parent

	USD	JPY	EUR	GBP	Less - allowance	Total
	(In Millions of Pesos)					
<b>As at December 31, 2017</b>						
<b>Financial Assets</b>						
Cash and other cash items	2,128	140	136	23	-	<b>2,427</b>
Due from other banks	7,238	1,488	842	127	-	<b>9,695</b>
Interbank loans receivable and SPAR	8,240	-	-	-	-	<b>8,240</b>
Financial assets at fair value through profit or loss						
Derivative financial assets	1,426	257	50	76	-	<b>1,809</b>
Trading securities - debt securities	1,261	-	-	-	-	<b>1,261</b>
Available-for-sale securities - debt securities	5,250	-	827	-	-	<b>6,077</b>
Held-to-maturity securities	99,360	-	-	412	-	<b>99,772</b>
Loans and advances, net	134,977	25	2,460	2,380	(1,024)	<b>138,818</b>
Other financial assets						
Accounts receivable, net	100	-	-	-	(16)	<b>84</b>
Other accrued interest and fees receivable	391	-	32	63	-	<b>486</b>
<b>Total financial assets</b>	<b>260,371</b>	<b>1,910</b>	<b>4,347</b>	<b>3,081</b>	<b>(1,040)</b>	<b>268,669</b>
<b>Financial Liabilities</b>						
Deposit liabilities	225,244	1,850	4,030	757	-	<b>231,881</b>
Derivative financial liabilities	1,429	164	34	87	-	<b>1,714</b>
Bills payable	43,562	-	-	-	-	<b>43,562</b>
Due to BSP and other banks	578	-	-	-	-	<b>578</b>
Manager's checks and demand drafts outstanding	461	-	3	2	-	<b>466</b>
Other financial liabilities						
Accounts payable	198	-	1	-	-	<b>199</b>
<b>Total financial liabilities</b>	<b>271,472</b>	<b>2,014</b>	<b>4,068</b>	<b>846</b>	<b>-</b>	<b>278,400</b>
<b>Net on-balance sheet financial position (in Philippine Peso)</b>	<b>(11,101)</b>	<b>(104)</b>	<b>279</b>	<b>2,235</b>	<b>(1,040)</b>	<b>(9,731)</b>

	USD	JPY	EUR	GBP	Less - allowance	Total
	(In Millions of Pesos)					
As at December 31, 2016						
Financial Assets						
Cash and other cash items	2,390	103	157	27	-	2,677
Due from other banks	13,836	1,744	3,387	152	-	19,119
Interbank loans receivable and SPAR	7,210	-	-	-	-	7,210
Financial assets at fair value						
through profit or loss						
Derivative financial assets	2,002	-	70	101	-	2,173
Trading securities - debt securities	5,246	-	-	-	-	5,246
Available-for-sale securities - debt securities	18,840	-	-	-	-	18,840
Held-to-maturity securities	80,318	-	-	-	-	80,318
Loans and advances, net	121,179	61	115	2,142	(617)	122,880
Other financial assets						
Accounts receivable, net	77	-	-	-	(16)	61
Other accrued interest and fees receivable	326	-	14	49	-	389
<b>Total financial assets</b>	<b>251,424</b>	<b>1,908</b>	<b>3,743</b>	<b>2,471</b>	<b>(633)</b>	<b>258,913</b>
Financial Liabilities						
Deposit liabilities	195,466	1,618	3,494	1,183	-	201,761
Derivative financial liabilities	1,944	-	50	115	-	2,109
Bills payable	52,196	-	-	-	-	52,196
Due to BSP and other banks	268	-	-	-	-	268
Manager's checks and demand drafts outstanding	133	-	13	3	-	149
Other financial liabilities						
Accounts payable	90	-	2	-	-	92
<b>Total financial liabilities</b>	<b>250,097</b>	<b>1,618</b>	<b>3,559</b>	<b>1,301</b>	<b>-</b>	<b>256,575</b>
<b>Net on-balance sheet financial position (in Philippine Peso)</b>	<b>1,327</b>	<b>290</b>	<b>184</b>	<b>1,170</b>	<b>(633)</b>	<b>2,338</b>

Presented below is a sensitivity analysis demonstrating the impact on the BPI Group's and the Parent Bank's 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.

Year	Change in currency	Effect on pre-tax income (In Millions of Pesos)	
		Consolidated	Parent
<b>2017</b>	<b>+/- 1.17%</b>	<b>+/- 114</b>	<b>+/- 130</b>
2016	+/- 2.33%	+/- 30	+/- 17

### 29.2.2 Interest rate risk

Interest rate risk is the risk that the BPI Group will experience deterioration in its financial position brought about by movements in the absolute level of interest rates. Interest rate risk in the banking book arises from the BPI Group's core banking activities. The main source of this type of interest rate risk is re-pricing risk, which reflects the fact that the BPI Group's assets and liabilities have different maturities and are re-priced at different interest rates. The Bank 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.

First, the BPI Group employs the Balance Sheet Value-at-Risk (BSVaR) 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 assets and the amounts of rate-sensitive 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.

The Bank sets limits for BPI Group and each legal entity 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	
	2017	2016	2017	2016
BSVaR	10,586	3,142	9,310	2,695

The second re-pricing risk metric used by the Bank is Earnings-at-Risk (EaR). This metric measures the potential deterioration in the Bank's net interest income due to changes in interest rates. The Bank'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 Group projects interest receivables out of its assets, and interest payables on its liabilities, in the next 12 months. Net interest income - the difference between interest receipts and payments - is projected in this exercise. BPI, on a group level, is positively gapped hence increase in rates becomes beneficial to the Bank. As of December 31, 2017, the net interest income impact of movement in interest rates amounts to P406 million (2016 - P293 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

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
<b>As at December 31, 2017</b>					
<b>Financial Assets</b>					
Cash and other cash items	-	-	-	35,132	<b>35,132</b>
Due from BSP	-	-	-	255,948	<b>255,948</b>
Due from other banks	-	-	-	14,406	<b>14,406</b>
Interbank loans receivable and SPAR	-	-	-	18,586	<b>18,586</b>
Financial assets at fair value through profit or loss					
Derivative financial assets	73	327	1,110	3,465	<b>4,975</b>
Trading securities - debt securities	-	-	-	5,002	<b>5,002</b>
Available-for-sale - debt securities	1,991	245	-	16,982	<b>19,218</b>
Held-to-maturity securities	-	1	-	277,471	<b>277,472</b>
Loans and advances, net	744,317	79,649	267,120	111,252	<b>1,202,338</b>
Other financial assets					
Accounts receivable, net	-	-	-	2,030	<b>2,030</b>
Other accrued interest and fees receivable	-	-	-	634	<b>634</b>
Sales contracts receivable, net	-	-	-	279	<b>279</b>
Rental deposits	-	-	-	563	<b>563</b>
Others, net	-	-	-	1,170	<b>1,170</b>
<b>Total financial assets</b>	<b>746,381</b>	<b>80,222</b>	<b>268,230</b>	<b>742,920</b>	<b>1,837,753</b>
<b>Financial Liabilities</b>					
Deposit liabilities	818,811	556,700	186,689	-	<b>1,562,200</b>
Derivative financial liabilities	46	263	1,072	3,407	<b>4,788</b>
Bills payable	-	19,846	-	63,671	<b>83,517</b>
Due to BSP and other banks	-	-	-	1,218	<b>1,218</b>
Manager's checks and demand drafts outstanding	-	-	-	7,022	<b>7,022</b>
Other financial liabilities					
Accounts payable	-	-	-	5,534	<b>5,534</b>
Dividends payable	-	-	-	3,545	<b>3,545</b>
Outstanding acceptances	-	-	-	2,992	<b>2,992</b>
Deposits on lease contracts	-	-	-	2,136	<b>2,136</b>
Others	-	-	-	1,254	<b>1,254</b>
<b>Total financial liabilities</b>	<b>818,857</b>	<b>576,809</b>	<b>187,761</b>	<b>90,779</b>	<b>1,674,206</b>
<b>Total interest gap</b>	<b>(72,476)</b>	<b>(496,587)</b>	<b>80,469</b>	<b>652,141</b>	<b>163,547</b>

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2016					
Financial Assets					
Cash and other cash items	-	-	-	35,692	35,692
Due from BSP	-	-	-	239,514	239,514
Due from other banks	-	-	-	23,037	23,037
Interbank loans receivable and SPAR	-	-	-	15,236	15,236
Financial assets at fair value through profit or loss					
Derivative financial assets	1,574	627	792	-	2,993
Trading securities - debt securities	-	-	-	14,479	14,479
Available-for-sale - debt securities	12,476	1,996	245	7,245	21,962
Held-to-maturity securities	1	-	1	268,481	268,483
Loans and advances, net	743,278	66,798	167,822	62,822	1,040,720
Other financial assets					
Accounts receivable, net	-	-	-	1,625	1,625
Other accrued interest and fees receivable	-	-	-	637	637
Sales contracts receivable, net	-	-	-	460	460
Rental deposits	-	-	-	510	510
Others, net	-	-	-	1,023	1,023
<b>Total financial assets</b>	<b>757,329</b>	<b>69,421</b>	<b>168,860</b>	<b>670,761</b>	<b>1,666,371</b>
Financial Liabilities					
Deposit liabilities	806,779	580,998	43,523	-	1,431,300
Derivative financial liabilities	1,985	319	808	-	3,112
Bills payable	-	19,693	-	42,280	61,973
Due to BSP and other banks	-	-	-	670	670
Manager's checks and demand drafts outstanding	-	-	-	7,579	7,579
Other financial liabilities					
Accounts payable	-	-	-	4,875	4,875
Outstanding acceptances	-	-	-	1,452	1,452
Deposits on lease contracts	-	-	-	1,970	1,970
Dividends payable	-	-	-	3,543	3,543
Others	-	-	-	1,786	1,786
<b>Total financial liabilities</b>	<b>808,764</b>	<b>601,010</b>	<b>44,331</b>	<b>64,155</b>	<b>1,518,260</b>
<b>Total interest gap</b>	<b>(51,435)</b>	<b>(531,589)</b>	<b>124,529</b>	<b>606,606</b>	<b>148,111</b>

Parent

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
<b>As at December 31, 2017</b>					
<b>Financial Assets</b>					
Cash and other cash items	-	-	-	34,160	<b>34,160</b>
Due from BSP	-	-	-	227,122	<b>227,122</b>
Due from other banks	-	-	-	10,894	<b>10,894</b>
Interbank loans receivable and SPAR	-	-	-	10,504	<b>10,504</b>
Financial assets at fair value through profit or loss					
Derivative financial assets	73	327	1,110	3,465	<b>4,975</b>
Trading securities - debt securities	-	-	-	3,806	<b>3,806</b>
Available-for-sale - debt securities	1,991	245	-	7,433	<b>9,669</b>
Held-to-maturity securities	-	1	-	255,381	<b>255,382</b>
Loans and advances, net	679,036	37,490	216,993	53,350	<b>986,869</b>
Other financial assets					
Accounts receivable, net	-	-	-	4,618	<b>4,618</b>
Other accrued interest and fees receivable	-	-	-	598	<b>598</b>
Sales contracts receivable, net	-	-	-	279	<b>279</b>
Rental deposits	-	-	-	484	<b>484</b>
Others, net	-	-	-	1,172	<b>1,172</b>
<b>Total financial assets</b>	<b>681,100</b>	<b>38,063</b>	<b>218,103</b>	<b>613,266</b>	<b>1,550,532</b>
<b>Financial Liabilities</b>					
Deposit liabilities	726,560	494,304	103,099	-	<b>1,323,963</b>
Derivative financial liabilities	46	263	1,072	3,407	<b>4,788</b>
Bills payable	-	19,846	-	50,876	<b>70,722</b>
Due to BSP and other banks	-	-	-	1,218	<b>1,218</b>
Manager's checks and demand drafts outstanding	-	-	-	5,762	<b>5,762</b>
Other financial liabilities					
Accounts payable	-	-	-	3,339	<b>3,339</b>
Dividends payable	-	-	-	3,545	<b>3,545</b>
Outstanding acceptances	-	-	-	2,992	<b>2,992</b>
Others	-	-	-	1,242	<b>1,242</b>
<b>Total financial liabilities</b>	<b>726,606</b>	<b>514,413</b>	<b>104,171</b>	<b>72,381</b>	<b>1,417,571</b>
<b>Total interest gap</b>	<b>(45,506)</b>	<b>(476,350)</b>	<b>113,932</b>	<b>540,885</b>	<b>132,961</b>

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2016					
Financial Assets					
Cash and other cash items	-	-	-	34,855	34,855
Due from BSP	-	-	-	203,743	203,743
Due from other banks	-	-	-	20,558	20,558
Interbank loans receivable and SPAR	-	-	-	9,049	9,049
Financial assets at fair value through profit or loss					
Derivative financial assets	1,574	627	792	-	2,993
Trading securities - debt securities	-	-	-	10,314	10,314
Available-for-sale - debt securities	12,476	1,996	245	4,570	19,287
Held-to-maturity securities	1	-	1	245,919	245,921
Loans and advances, net	672,099	26,674	111,374	11,398	821,545
Other financial assets					
Accounts receivable, net	-	-	-	892	892
Other accrued interest and fees receivable	-	-	-	584	584
Sales contracts receivable, net	-	-	-	460	460
Rental deposits	-	-	-	430	430
Others, net	-	-	-	1,030	1,030
<b>Total financial assets</b>	<b>686,150</b>	<b>29,297</b>	<b>112,412</b>	<b>543,802</b>	<b>1,371,661</b>
Financial Liabilities					
Deposit liabilities	572,877	515,446	96,155	-	1,184,478
Derivative financial liabilities	1,985	319	808	-	3,112
Bills payable	-	19,693	-	32,564	52,257
Due to BSP and other banks	-	-	-	670	670
Manager's checks and demand drafts outstanding	-	-	-	5,893	5,893
Other financial liabilities					
Accounts payable	-	-	-	3,325	3,325
Outstanding acceptances	-	-	-	1,452	1,452
Dividends payable	-	-	-	3,543	3,543
Others	-	-	-	1,245	1,245
<b>Total financial liabilities</b>	<b>574,862</b>	<b>535,458</b>	<b>96,963</b>	<b>48,692</b>	<b>1,255,975</b>
<b>Total interest gap</b>	<b>111,288</b>	<b>(506,161)</b>	<b>15,449</b>	<b>495,110</b>	<b>115,686</b>

### **29.3 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 Bank'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 Bank. 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.

#### **29.3.1 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 (Note 16);
- 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 29.3.3 and 29.3.4) 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.

#### **29.3.2 Funding approach**

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



### 29.3.3 Non-derivative cash flows

The table below presents 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

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
(In Millions of Pesos)				
<b>As at December 31, 2017</b>				
<b>Financial Assets</b>				
Cash and other cash items	35,132	-	-	<b>35,132</b>
Due from BSP	255,965	-	-	<b>255,965</b>
Due from other banks	14,406	-	-	<b>14,406</b>
Interbank loans receivable and SPAR	19,457	217	306	<b>19,980</b>
Financial assets at fair value through profit or loss				
Trading securities - debt securities	1,959	601	3,140	<b>5,700</b>
Available-for-sale securities - debt securities	10,489	2,931	7,734	<b>21,154</b>
Held-to-maturity securities	29,157	58,551	260,276	<b>347,984</b>
Loans and advances, net	661,461	179,426	532,172	<b>1,373,059</b>
Other financial assets				
Accounts receivable, net	2,030	-	-	<b>2,030</b>
Other accrued interest and fees receivable	634	-	-	<b>634</b>
Sales contracts receivable, net	279	-	-	<b>279</b>
Rental deposits	563	-	-	<b>563</b>
Others, net	1,170	-	-	<b>1,170</b>
<b>Total financial assets</b>	<b>1,032,702</b>	<b>241,726</b>	<b>803,628</b>	<b>2,078,056</b>
<b>Financial Liabilities</b>				
Deposit liabilities	714,564	733,100	142,546	<b>1,590,210</b>
Bills payable	64,511	20,207	-	<b>84,718</b>
Due to BSP and other banks	1,218	-	-	<b>1,218</b>
Manager's checks and demand drafts outstanding	7,022	-	-	<b>7,022</b>
Other financial liabilities				
Accounts payable	5,534	-	-	<b>5,534</b>
Outstanding acceptances	2,992	-	-	<b>2,992</b>
Deposits on lease contracts	2,136	-	-	<b>2,136</b>
Dividends payable	3,545	-	-	<b>3,545</b>
Others	1,254	-	-	<b>1,254</b>
<b>Total financial liabilities</b>	<b>802,776</b>	<b>753,307</b>	<b>142,546</b>	<b>1,698,629</b>
<b>Total maturity gap</b>	<b>229,926</b>	<b>(511,581)</b>	<b>661,082</b>	<b>379,427</b>

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2016				
Financial Assets				
Cash and other cash items	35,692	-	-	35,692
Due from BSP	239,539	-	-	239,539
Due from other banks	23,037	-	-	23,037
Interbank loans receivable and SPAR	14,833	238	371	15,442
Financial assets at fair value through profit or loss				
Trading securities - debt securities	13,615	532	864	15,011
Available-for-sale securities - debt securities	15,393	4,094	3,339	22,826
Held-to-maturity securities	45,425	61,683	230,340	337,448
Loans and advances, net	501,878	106,506	475,347	1,083,731
Other financial assets				
Accounts receivable, net	1,625	-	-	1,625
Other accrued interest and fees receivable	637	-	-	637
Sales contracts receivable, net	460	-	-	460
Rental deposits	510	-	-	510
Others, net	1,023	-	-	1,023
<b>Total financial assets</b>	<b>893,667</b>	<b>173,053</b>	<b>710,261</b>	<b>1,776,981</b>
Financial Liabilities				
Deposit liabilities	480,124	234,072	734,648	1,448,844
Bills payable	35,306	28,372	-	63,678
Due to BSP and other banks	670	-	-	670
Manager's checks and demand drafts outstanding	7,579	-	-	7,579
Other financial liabilities				
Accounts payable	4,875	-	-	4,875
Outstanding acceptances	1,452	-	-	1,452
Deposits on lease contracts	1,970	-	-	1,970
Dividends payable	3,543	-	-	3,543
Others	1,786	-	-	1,786
<b>Total financial liabilities</b>	<b>537,305</b>	<b>262,444</b>	<b>734,648</b>	<b>1,534,397</b>
<b>Total maturity gap</b>	<b>356,362</b>	<b>(89,391)</b>	<b>(24,387)</b>	<b>242,584</b>

Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
<b>As at December 31, 2017</b>				
<b>Financial Assets</b>				
Cash and other cash items	34,160	-	-	<b>34,160</b>
Due from BSP	227,122	-	-	<b>227,122</b>
Due from other banks	10,894	-	-	<b>10,894</b>
Interbank loans receivable and SPAR	10,140	217	306	<b>10,663</b>
Financial assets at fair value through profit or loss				
Trading securities - debt securities	1,697	197	2,449	<b>4,343</b>
Available-for-sale securities - debt securities	2,344	2,400	6,538	<b>11,282</b>
Held-to-maturity securities	26,387	52,523	242,121	<b>321,031</b>
Loans and advances, net	604,818	129,349	415,758	<b>1,149,925</b>
Other financial assets, net				
Accounts receivable, net	4,618	-	-	<b>4,618</b>
Other accrued interest and fees receivable	598	-	-	<b>598</b>
Sales contracts receivable, net	279	-	-	<b>279</b>
Rental deposits	484	-	-	<b>484</b>
Others, net	1,172	-	-	<b>1,172</b>
<b>Total financial assets</b>	<b>924,713</b>	<b>184,686</b>	<b>667,172</b>	<b>1,776,571</b>
<b>Financial Liabilities</b>				
Deposit liabilities	607,581	626,359	105,246	<b>1,339,186</b>
Bills payable	51,553	20,207	-	<b>71,760</b>
Due to BSP and other banks	1,218	-	-	<b>1,218</b>
Manager's checks and demand drafts outstanding	5,762	-	-	<b>5,762</b>
Other financial liabilities				
Accounts payable	3,339	-	-	<b>3,339</b>
Outstanding acceptances	2,992	-	-	<b>2,992</b>
Dividends payable	3,545	-	-	<b>3,545</b>
Others	1,242	-	-	<b>1,242</b>
<b>Total financial liabilities</b>	<b>677,232</b>	<b>646,566</b>	<b>105,246</b>	<b>1,429,044</b>
<b>Total maturity gap</b>	<b>247,481</b>	<b>(461,880)</b>	<b>561,926</b>	<b>347,527</b>

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
(In Millions of Pesos)				
As at December 31, 2016				
Financial Assets				
Cash and other cash items	34,855	-	-	34,855
Due from BSP	203,747	-	-	203,747
Due from other banks	20,558	-	-	20,558
Interbank loans receivable and SPAR	8,785	223	181	9,189
Financial assets at fair value through profit or loss				
Trading securities - debt securities	9,870	46	858	10,774
Available-for-sale securities - debt securities	13,141	3,735	3,241	20,117
Held-to-maturity securities	42,447	57,001	209,576	309,024
Loans and advances, net	444,691	70,089	342,750	857,530
Other financial assets, net				
Accounts receivable, net	892	-	-	892
Other accrued interest and fees receivable	584	-	-	584
Sales contracts receivable, net	460	-	-	460
Rental deposits	430	-	-	430
Others, net	1,030	-	-	1,030
<b>Total financial assets</b>	<b>781,490</b>	<b>131,094</b>	<b>556,606</b>	<b>1,469,190</b>
Financial Liabilities				
Deposit liabilities	377,784	196,485	624,237	1,198,506
Bills payable	25,615	28,131	-	53,746
Due to BSP and other banks	670	-	-	670
Manager's checks and demand drafts outstanding	5,893	-	-	5,893
Other financial liabilities				
Accounts payable	3,325	-	-	3,325
Outstanding acceptances	1,452	-	-	1,452
Dividends payable	3,543	-	-	3,543
Others	1,245	-	-	1,245
<b>Total financial liabilities</b>	<b>419,527</b>	<b>224,616</b>	<b>624,237</b>	<b>1,268,380</b>
<b>Total maturity gap</b>	<b>361,963</b>	<b>(93,522)</b>	<b>(67,631)</b>	<b>200,810</b>

### 29.3.4 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

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
<b>2017</b>	(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)
<b>- Net inflow</b>	<b>27</b>	<b>74</b>	<b>24</b>	<b>125</b>
Non-deliverable forwards and swaps - held for trading				
- Inflow	30,387	-	-	30,387
- Outflow	(30,661)	-	-	(30,661)
<b>- Net outflow</b>	<b>(274)</b>	<b>-</b>	<b>-</b>	<b>(274)</b>
<b>2016</b>	(In Millions of Pesos)			
Interest rate swap contracts - held for trading				
- Inflow	254	372	797	1,423
- Outflow	(210)	(303)	(808)	(1,321)
<b>- Net inflow (outflow)</b>	<b>44</b>	<b>69</b>	<b>(11)</b>	<b>102</b>
Non-deliverable forwards and swaps - held for trading				
- Inflow	988	-	-	988
- Outflow	(990)	-	-	(990)
<b>- Net outflow</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>(2)</b>

#### (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				
<b>2017</b>				
- Inflow	178,511	99	-	178,610
- Outflow	(178,183)	(100)	-	(178,283)
<b>- Net inflow (outflow)</b>	<b>328</b>	<b>(1)</b>	<b>-</b>	<b>327</b>
<b>2016</b>				
- Inflow	120,012	4,130	-	124,142
- Outflow	(120,469)	(3,892)	-	(124,361)
<b>- Net (outflow) inflow</b>	<b>(457)</b>	<b>238</b>	<b>-</b>	<b>(219)</b>

#### 29.4 Fair value of financial assets and liabilities

The table below summarizes the carrying amount and fair value of those significant financial assets and liabilities not presented on the statement of condition at fair value at December 31.

##### Consolidated

	Carrying amount		Fair value	
	2017	2016	2017	2016
	(In Millions of Pesos)			
<b>Financial assets</b>				
Cash and other cash items	<b>35,132</b>	35,692	<b>35,132</b>	35,692
Due from BSP	<b>255,948</b>	239,514	<b>255,948</b>	239,514
Due from other banks	<b>14,406</b>	23,037	<b>14,406</b>	23,037
Interbank loans receivable and SPAR	<b>18,586</b>	15,236	<b>18,586</b>	15,236
Held-to-maturity securities	<b>277,472</b>	268,483	<b>268,301</b>	261,742
Loans and advances, net	<b>1,202,338</b>	1,040,720	<b>1,250,321</b>	1,225,785
Other financial assets				
Accounts receivable, net	<b>2,030</b>	1,625	<b>2,030</b>	1,625
Other accrued interest and fees receivable	<b>634</b>	637	<b>634</b>	637
Sales contracts receivable, net	<b>279</b>	460	<b>279</b>	460
Rental deposits	<b>563</b>	510	<b>563</b>	510
Others, net	<b>1,170</b>	1,023	<b>1,170</b>	1,023
<b>Financial liabilities</b>				
Deposit liabilities	<b>1,562,200</b>	1,431,300	<b>1,533,475</b>	1,422,203
Bills payable	<b>83,517</b>	61,973	<b>83,154</b>	61,489
Due to BSP and other banks	<b>1,218</b>	670	<b>1,218</b>	670
Manager's checks and demand drafts outstanding	<b>7,022</b>	7,579	<b>7,022</b>	7,579
Other financial liabilities				
Accounts payable	<b>5,534</b>	4,875	<b>5,534</b>	4,875
Outstanding acceptances	<b>2,992</b>	1,452	<b>2,992</b>	1,452
Deposits on lease contracts	<b>2,136</b>	1,970	<b>2,136</b>	1,970
Dividends payable	<b>3,545</b>	3,543	<b>3,545</b>	3,543
Others	<b>1,254</b>	1,786	<b>1,254</b>	1,786

Parent

	Carrying amount		Fair value	
	2017	2016	2017	2016
	(In Millions of Pesos)			
<b>Financial assets</b>				
Cash and other cash items	<b>34,160</b>	34,855	<b>34,160</b>	34,855
Due from BSP	<b>227,122</b>	203,743	<b>227,122</b>	203,743
Due from other banks	<b>10,894</b>	20,558	<b>10,894</b>	20,558
Interbank loans receivable and SPAR	<b>10,504</b>	9,049	<b>10,504</b>	9,049
Held-to-maturity securities	<b>255,382</b>	245,921	<b>246,219</b>	238,906
Loans and advances, net	<b>986,869</b>	821,545	<b>1,008,730</b>	981,180
Other financial assets				
Accounts receivable, net	<b>4,618</b>	892	<b>4,618</b>	892
Other accrued interest and fees receivable	<b>598</b>	584	<b>598</b>	584
Sales contracts receivable, net	<b>279</b>	460	<b>279</b>	460
Rental deposits	<b>484</b>	430	<b>484</b>	430
Others, net	<b>1,172</b>	1,030	<b>1,172</b>	1,030
<b>Financial liabilities</b>				
Deposit liabilities	<b>1,323,963</b>	1,184,478	<b>1,296,092</b>	1,173,276
Bills payable	<b>70,722</b>	52,257	<b>70,284</b>	51,772
Due to BSP and other banks	<b>1,218</b>	670	<b>1,218</b>	670
Manager's checks and demand drafts outstanding	<b>5,762</b>	5,893	<b>5,762</b>	5,893
Other financial liabilities				
Accounts payable	<b>3,339</b>	3,325	<b>3,339</b>	3,325
Outstanding acceptances	<b>2,992</b>	1,452	<b>2,992</b>	1,452
Dividends payable	<b>3,545</b>	3,543	<b>3,545</b>	3,543
Others	<b>1,242</b>	1,245	<b>1,242</b>	1,245

(i) *Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPAR*

The fair value of floating rate placements and overnight deposits approximates their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All of these financial assets have a maturity of one year, thus their fair values approximate their carrying amounts.

(ii) *Investment securities*

Fair value of held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iii) *Loans and advances*

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with the use of assumptions regarding appropriate credit spread for the loan, derived from other market instruments.

(iv) *Financial liabilities*

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

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using market interest rates for new debts with similar remaining maturity.

(v) *Other financial assets / liabilities*

Carrying amounts of other financial assets / liabilities which have no definite repayment dates are assumed to be their fair values.

### 29.5 Fair value hierarchy

The following table presents the fair value hierarchy of the BPI Group's assets and liabilities at December 31:

Consolidated

2017	Fair value		Total
	Level 1	Level 2	
<b>Recurring measurements</b>			
<b>Financial assets</b>			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	4,981	<b>4,981</b>
Trading securities			
- Debt securities	4,973	29	<b>5,002</b>
- Equity securities	330	-	<b>330</b>
Available-for-sale financial assets			
- Debt securities	16,981	2,237	<b>19,218</b>
- Equity securities	3,755	661	<b>4,416</b>
	<b>26,039</b>	<b>7,908</b>	<b>33,947</b>
<b>Financial liabilities</b>			
Derivative financial liabilities	-	4,788	<b>4,788</b>
<b>Non-recurring measurements</b>			
Assets held for sale, net	-	1,617	<b>1,617</b>



2017	Fair value		Total
	Level 1	Level 2	
	(In Millions of Pesos)		
<b>Fair values disclosed</b>			
<b>Financial assets</b>			
Cash and other cash items	-	35,132	<b>35,132</b>
Due from BSP	-	255,948	<b>255,948</b>
Due from other banks	-	14,406	<b>14,406</b>
Interbank loans receivable and SPAR	-	18,586	<b>18,586</b>
Held-to-maturity securities	264,379	3,922	<b>268,301</b>
Loans and advances, net	-	1,250,321	<b>1,250,321</b>
Other financial assets			
Accounts receivable, net	-	2,030	<b>2,030</b>
Other accrued interest and fees receivable	-	634	<b>634</b>
Sales contracts receivable, net	-	279	<b>279</b>
Rental deposits	-	563	<b>563</b>
Others, net	-	1,170	<b>1,170</b>
<b>Financial liabilities</b>			
Deposit liabilities	-	1,533,475	<b>1,533,475</b>
Bills payable	-	83,154	<b>83,154</b>
Due to BSP and other banks	-	1,218	<b>1,218</b>
Manager's checks and demand drafts outstanding	-	7,022	<b>7,022</b>
Other financial liabilities			
Accounts payable	-	5,534	<b>5,534</b>
Outstanding acceptances	-	2,992	<b>2,992</b>
Deposits on lease contracts	-	2,136	<b>2,136</b>
Dividends payable	-	3,545	<b>3,545</b>
Others	-	1,254	<b>1,254</b>
<b>Non-financial assets</b>			
Investment properties	-	1,281	<b>1,281</b>

2016	Fair value		Total
	Level 1	Level 2	
	(In Millions of Pesos)		
Recurring measurements			
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	2,993	2,993
Trading securities			
- Debt securities	9,411	5,068	14,479
- Equity securities	124	-	124
Available-for-sale financial assets			
- Debt securities	8,282	13,680	21,962
- Equity securities	1,991	266	2,257
	<b>19,808</b>	<b>22,007</b>	<b>41,815</b>
Financial liabilities			
Derivative financial liabilities	-	3,112	3,112
Non-recurring measurements			
Assets held for sale, net	-	2,267	2,267

2016	Fair value		
	Level 1	Level 2	Total
<b>Fair values disclosed</b>	(In Millions of Pesos)		
Financial assets			
Cash and other cash items	-	35,692	35,692
Due from BSP	-	239,514	239,514
Due from other banks	-	23,037	23,037
Interbank loans receivable and SPAR	-	15,236	15,236
Held-to-maturity securities	258,266	3,476	261,742
Loans and advances, net	-	1,225,785	1,225,785
Other financial assets			
Accounts receivable, net	-	1,625	1,625
Other accrued interest and fees receivable	-	637	637
Sales contracts receivable, net	-	460	460
Rental deposits	-	510	510
Others, net	-	1,023	1,023
Financial liabilities			
Deposit liabilities	-	1,422,203	1,422,203
Bills payable	-	61,489	61,489
Due to BSP and other banks	-	670	670
Manager's checks and demand drafts outstanding	-	7,579	7,579
Other financial liabilities			
Accounts payable	-	4,875	4,875
Outstanding acceptances	-	1,452	1,452
Deposits on lease contracts	-	1,970	1,970
Dividends payable	-	3,543	3,543
Others	-	1,786	1,786
Non-financial assets			
Investment properties	-	3,090	3,090

#### Parent

2017	Fair value		
	Level 1	Level 2	Total
<b>Recurring measurements</b>	(In Millions of Pesos)		
<b>Financial assets</b>			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	4,975	<b>4,975</b>
Trading securities - debt securities	3,806	-	<b>3,806</b>
Available-for-sale financial assets			
- Debt securities	7,433	2,236	<b>9,669</b>
- Equity securities	447	232	<b>679</b>
	<b>11,686</b>	<b>7,443</b>	<b>19,129</b>
<b>Financial liabilities</b>			
Derivative financial liabilities	-	4,788	<b>4,788</b>
<b>Non-recurring measurements</b>			
Assets held for sale, net	-	656	<b>656</b>

2017	Fair value		Total
	Level 1	Level 2	
<b>Fair values disclosed</b>	(In Millions of Pesos)		
<b>Financial assets</b>			
Cash and other cash items	-	34,160	<b>34,160</b>
Due from BSP	-	227,122	<b>227,122</b>
Due from other banks	-	10,894	<b>10,894</b>
Interbank loans receivable and SPAR	-	10,504	<b>10,504</b>
Held-to-maturity securities	242,297	3,922	<b>246,219</b>
Loans and advances, net	-	1,008,730	<b>1,008,730</b>
Other financial assets			
Accounts receivable, net	-	4,618	<b>4,618</b>
Other accrued interest and fees receivable	-	598	<b>598</b>
Sales contracts receivable, net	-	279	<b>279</b>
Rental deposits	-	484	<b>484</b>
Others, net	-	1,172	<b>1,172</b>
<b>Financial liabilities</b>			
Deposit liabilities	-	1,296,092	<b>1,296,092</b>
Bills payable	-	70,284	<b>70,284</b>
Due to BSP and other banks	-	1,218	<b>1,218</b>
Manager's checks and demand drafts outstanding	-	5,762	<b>5,762</b>
Other financial liabilities			
Accounts payable	-	3,339	<b>3,339</b>
Outstanding acceptances	-	2,992	<b>2,992</b>
Dividends payable	-	3,545	<b>3,545</b>
Others	-	1,242	<b>1,242</b>
<b>Non-financial assets</b>			
Investment properties	-	1,281	<b>1,281</b>
<hr/>			
2016	Fair value		Total
	Level 1	Level 2	
Recurring measurements	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	2,993	2,993
Trading securities - debt securities	5,621	4,693	10,314
Available-for-sale financial assets			
- Debt securities	6,068	13,219	19,287
- Equity securities	248	-	248
	11,937	20,905	32,842
Financial liabilities			
Derivative financial liabilities	-	3,112	3,112
<hr/>			
Non-recurring measurements			
Assets held for sale, net	-	1,036	1,036

2016	Fair value		Total
	Level 1	Level 2	
Fair values disclosed			
	(In Millions of Pesos)		
Financial assets			
Cash and other cash items	-	34,855	34,855
Due from BSP	-	203,743	203,743
Due from other banks	-	20,558	20,558
Interbank loans receivable and SPAR	-	9,049	9,049
Held-to-maturity securities	235,430	3,476	238,906
Loans and advances, net	-	981,180	981,180
Other financial assets			
Accounts receivable, net	-	892	892
Other accrued interest and fees receivable	-	584	584
Sales contracts receivable, net	-	460	460
Rental deposits	-	430	430
Others, net	-	1,030	1,030
Financial liabilities			
Deposit liabilities	-	1,173,276	1,173,276
Bills payable	-	51,772	51,772
Due to BSP and other banks	-	670	670
Manager's checks and demand drafts outstanding	-	5,893	5,893
Other financial liabilities			
Accounts payable	-	3,325	3,325
Outstanding acceptances	-	1,452	1,452
Dividends payable	-	3,543	3,543
Others	-	1,245	1,245
Non-financial assets			
Investment properties	-	3,090	3,090

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, 2017 and 2016. There were no transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016.

## 29.6 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 Board of Directors' approval.

## 29.7 Capital management

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.

The BPI Group manages its capital following the framework of Basel Committee on Banking Supervision Accord II (Basel II) and its implementation in the Philippines by the BSP. The BSP through its Circular 538 requires each bank and its financial affiliated subsidiaries to keep its Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. In quantifying its CAR, BPI currently uses the Standardized Approach (for credit risk and market risk) and the Basic Indicator Approach (for operational risk). Capital adequacy reports are filed with the BSP every quarter.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Parent Bank consists of core tier 1 capital and tier 2 capital. Tier 1 capital comprises paid-up capital stock, paid-in surplus, surplus including net income for the year, surplus reserves and minority interest less deductions such as deferred income tax, unsecured credit accommodations to DOSRI, goodwill and net unrealized fair value losses on available-for-sale securities. Tier 2 capital includes general loan loss provisions for BSP reporting purposes.

The Basel II framework following BSP Circular 538 took into effect on July 1, 2007 and was relevant until 2013.

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 6.0% 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.

In addition, existing capital requirements as at December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III.

The table below summarizes the CAR of the Bank (combined regular and FCDU books) under the Basel III framework for the years ended December 31, 2017 and 2016.

	Consolidated		Parent	
	2017	2016	2017	2016
	(In Millions of Pesos)			
Tier 1 capital	<b>177,172</b>	160,901	<b>176,842</b>	160,549
Tier 2 capital	<b>11,682</b>	10,299	<b>10,180</b>	8,722
Gross qualifying capital	<b>188,854</b>	171,200	<b>187,022</b>	169,271
Less: Regulatory adjustments/required deductions	<b>22,371</b>	22,210	<b>59,246</b>	58,155
Total qualifying capital	<b>166,483</b>	148,990	<b>127,776</b>	111,116
Risk weighted assets	<b>1,306,907</b>	1,145,846	<b>1,122,119</b>	956,478
CAR (%)	<b>12.74</b>	13.00	<b>11.39</b>	11.62
CET1 (%)	<b>11.84</b>	12.10	<b>10.48</b>	10.71

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.

On January 17, 2018, the Board of Directors approved the capital raising of up to P50 billion through a stock rights offering of common shares to eligible shareholders to support its growth and strategic initiatives in the coming years. The BPI Group expects to launch the rights offer after receiving the required regulatory approvals.

### **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 (Note 29.1.4) 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 trading securities, available-for-sale financial assets and all derivative contracts.

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 28.

### **31.2 Changes in accounting policy and disclosures**

#### *(a) Amendments adopted by the BPI Group*

The following amendments have been adopted by the BPI Group effective January 1, 2017:

- Amendments to PAS 12, Recognition of Deferred Tax Assets for Unrealized Losses
- Amendments to PAS 7, Disclosure Initiative
- Amendment to PFRS 12 - Clarification on the scope of the standard

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

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

The following new accounting standards and interpretations are not mandatory for December 31, 2017 reporting period and have not been early adopted by the BPI Group:

##### PFRS 9, Financial instruments (effective for annual periods beginning on or after January 1, 2018)

PFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The BPI Group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

The BPI Group has embarked on PFRS 9 Implementation Project (the “PFRS 9 Project”) to enable the BPI Group to transition to PFRS 9. The PFRS 9 project is a collaborative undertaking primarily driven by the Parent Bank and participated in by various committees and working groups across the BPI Group.

##### *Classification and measurement of financial assets*

###### *Investments in debt instruments*

Under PFRS 9, a financial asset should be subsequently measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset should be subsequently measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

If the financial asset is measured at FVOCI, all movements in the fair value should be taken through OCI, except for the recognition of impairment gains or losses, interest revenue in line with the effective interest method and foreign exchange gains and losses, which are recognized in profit or loss.

If the financial asset does not pass the business model assessment and SPPI criteria, or the fair value option is applied, it is measured at fair value through profit or loss (FVTPL). This is the residual measurement category.

### *Investments in equity instruments*

Under PFRS 9, investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified at FVTPL, with dividend income recognized in profit or loss.

For all other equities within the scope of PFRS 9, the standard allows entities to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss (except for equities that give an investor significant influence over an investee according to PAS 28, which can only be accounted for under PFRS 9 if they are measured at FVTPL). Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of an investment, in which case they are recognized in OCI. There is no recycling of amounts from OCI to profit or loss – for example, on sale of an equity investment – nor are there any impairment requirements. The entity however, can transfer the cumulative gain or loss within equity.

The initial results of the impact assessment done by the PFRS 9 Project team of the BPI Group on the classification and measurement of financial assets follow:

- Majority of the investments in debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at FVOCI, hence, there will be no change on the accounting for these investments.
- The BPI Group expects that held-to-maturity (HTM) securities will largely remain at amortized cost. Likewise, the BPI Group has initially assessed that previously classified as AFS will satisfy the conditions for classification as at amortized cost. Hence, management will go back to the assets' initial recognition and measure them as if it had always been measured at amortized cost under PFRS 9.
- Existing trading equity and debt securities will likely remain at FVTPL.
- Most of the AFS equity securities will likely be measured still at FVOCI following the irrevocable election available under PFRS 9.
- Financial assets classified as loans and receivables under PAS 39 will remain at amortized cost under PFRS 9.

### *Classification and measurement of financial liabilities*

PFRS 9 will have no impact on the BPI Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the BPI Group does not have any such liabilities. The de-recognition rules have been transferred from PAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

### *Impairment of financial assets*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under PAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, loan commitments and certain financial guarantee contracts.

Based on the initial assessments performed to date, the BPI Group expects that the ECL model will have a significant impact on the impairment provisioning for loans and advances.

### *Hedge accounting*

The new hedge accounting rules under PFRS 9 will align the accounting for hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new hedge accounting rules will not have a significant impact on the BPI Group as there are no formal hedge accounting relationships as of December 31, 2017.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the BPI Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.



PFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after January 1, 2018)

PFRS 15 will replace 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 will not have a material impact on the financial statements of 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 on balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial 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 likely affect the accounting of certain assets currently held by the BPI Group under operating lease arrangements.

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

Likewise, the following amendments are not mandatory for December 31, 2017 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 PFRS 15 - Clarifications to PFRS 15
- Amendments to PFRS 4 - Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts
- Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions

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

### 31.3 Consolidation

The subsidiaries financial statements are prepared for the same reporting year as the consolidated financial statements. These includes the financial statements of the Parent Bank and the subsidiaries enumerated below:

Subsidiaries	Country of incorporation	Principal activities	% of ownership	
			2017	2016
BPI Family Savings Bank, Inc.	Philippines	Banking	100	100
BPI Capital Corporation	Philippines	Investment house	100	100
BPI Direct BankO, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.)	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. (formerly BPI Card Finance Corp.)	Philippines	Financing	100	100
Filinvest Algo Financial Corp.	Philippines	Financing	100	100
BPI Investment Management, Inc.	Philippines	Investment management	100	100
Santiago Land Dev. Corp.	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

On March 29, 2017 and August 30, 2016, the Parent Bank made an additional capital infusion to BPI Payments Holdings Inc. amounting to P103 million and P290 million, respectively.

On September 20, 2016, the Bank acquired an additional 60% of the issued shares of BPI Globe BankO, Inc. for P29 million. Prior to the purchase, the carrying amount of the existing non-controlling interest was P10 million. The BPI Group recognized a decrease in non-controlling interests of P10 million and a decrease in equity attributable to owners of the Parent Bank of P19 million. The effect on the equity attributable to the owners of the Bank for the year ended December 31, 2016 is summarized as follows:

	(In Millions of Pesos)
Consideration paid to non-controlling interests	(29)
Carrying amount of non-controlling interests acquired	10
Difference in consideration paid recognized in equity	(19)

On October 6, 2016, BPI Asset Management and Trust Corporation, with an initial paid-in capital of P600 million, was incorporated with the SEC as a wholly-owned subsidiary of the Parent Bank. The primary business purpose of BPI Asset Management and Trust Corporation is to carry and engage in the business of trust, other fiduciary activities and investment management activities.

On December 29, 2016, the merger of BPI Direct Savings Bank, Inc. and BPI Globe BankO, Inc. was approved by the SEC with BPI Direct Savings Bank, Inc. as the surviving entity. The surviving company's corporate name was changed to BPI Direct BankO, Inc., A Savings Bank as a result of the merger transaction.

*(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.

Acquisition-related costs are expensed as incurred.

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 PAS 39 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 statement 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.

#### **31.4 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 statement 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.

#### **31.5 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).

#### **31.6 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.

#### **31.7 Repurchase and reverse repurchase agreements**

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 statement of condition under "Interbank loans receivable and securities purchased under agreements to resell". Securities lent to counterparties are also retained in the financial statements.

## **31.8 Financial assets**

### **31.8.1 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 statement 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 resources.

#### *(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.

### **31.8.2 Recognition and measurement**

#### *(a) Initial recognition and measurement*

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity securities and available-for-sale securities are recognized on trade date, the date on which the BPI Group commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers or when the right to receive payment is established. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized in profit or loss.

*(b) 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 statement 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 statement 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.

### **31.8.3 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.

### **31.8.4 Derecognition**

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the BPI Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

### **31.9 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 statement 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.

### **31.10 Financial liabilities**

#### **31.10.1 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 statement of income and are reported as "Trading gains/losses". 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.

#### **31.10.2 Recognition and measurement**

*(a) Initial recognition and measurement*

Financial liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial liabilities carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized as expense in profit or loss.

*(b) Subsequent measurement*

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.

**31.10.3 Derecognition**

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.

**31.11 Fair value measurement**

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, Philippine Stock Exchange, Inc., 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, 2017 and 2016.

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, FX 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, the instruments are carried at cost less impairment. 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, 2017 and 2016.

### 31.12 Classes of financial instruments

The BPI Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments as follows:

	Categories (as defined by PAS 39)	Classes (as determined by the BPI Group)		
		Main classes	Sub-classes	
Financial assets	Financial assets at fair value through profit or loss	- Trading securities	- Debt securities - Equity securities	
		- Derivative financial assets		
		- Cash and other cash items	- Due from BSP - Due from other banks	
		- Loans and advances to banks	- Interbank loans receivable and securities purchased under agreements to resell	
			- Real estate mortgages - Auto loans - Credit cards - Others	
	Loans and receivables		- Loans to individuals (retail) - Large corporate customers - Small and medium-sized enterprises	
		- Loans and advances to customers		
			- Accounts receivables - Sales contracts receivable - Rental deposits - Other accrued interest and fees receivable	
		- Others		
		Held-to-maturity investments	- Investment securities (debt securities)	- Government - Others
	Available-for-sale financial assets	- Investment securities (debt securities)	- Government - Others	
		- Investment securities (equity securities)	- Listed - Unlisted	
Financial liabilities	Financial liabilities at fair value through profit or loss	- Derivative financial liabilities		
			- Deposits from customers - Demand - Savings - Time	
		- Deposits from banks		
		- Bills payable		
		- Due to BSP and other banks		
	Financial liabilities at amortized cost		- Manager's check and demand drafts outstanding	
			- Interest payable	
			- Unsecured subordinated debt	
			- Other liabilities	- Accounts payable - Outstanding acceptances - Dividend payable
	Off-balance sheet financial instruments	Loan commitments		
Guarantees, acceptances and other financial facilities				

### **31.13 Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement 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, 2017 and 2016, there are no financial assets and liabilities that have been offset.

### **31.14 Derivative financial instruments**

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.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The assessment of whether an embedded derivative is required to be separated from the host contract is done when the BPI Group first becomes a party to the contract. Reassessment of embedded derivative is only done when there are changes in the contract that significantly modify the contractual cash flows. The embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

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 statement of income under "Trading gain/loss on securities".

### **31.15 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, 2017 and 2016.

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.

### **31.16 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.

### **31.17 Foreclosed assets**

Assets foreclosed shown as Assets held for sale in the statement 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 classified as available-for-sale.

### **31.18 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 resources in the statement 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 resources in the statement 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 resources in the statement 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 resources 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.

### **31.19 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.

### **31.20 Borrowings and borrowing costs**

The BPI Group's borrowings consist mainly of bills payable. 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, 2017 and 2016.

### **31.21 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.

### **31.22 Fees and commission income**

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.

### **31.23 Dividend income**

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



### **31.24 Credit card income**

Credit card income is recognized upon receipt from merchants of charges arising from credit card transactions. These are computed based on rates agreed with merchants and are deducted from the payments to establishments.

### **31.25 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 available-for-sale 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)” in the statement of income. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale, 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 (Translation adjustments) 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.

### **31.26 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.

### **31.27 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.

### **31.28 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 available-for-sale investments) 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.

### **31.29 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 statement 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.

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.

Past-service costs are recognized immediately in profit or loss.

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 Group pays fixed contributions based on the employees' monthly salaries. The 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 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 statement 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.

**31.30 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.

**31.31 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.

**31.32 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 Board of Directors.

### **31.33 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 26).

### **31.34 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 statement 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 statement 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.

### **31.35 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 PAS 39.

#### *(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.

### **31.36 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.

### **31.37 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.

### **31.38 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, 2017 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	4,046
Trade finance documents	296
Mortgage documents	175
Shares of stocks	-
Others	3
<b>4,520</b>	<b>4,520</b>

(ii) *Withholding taxes*

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2017 consist of:

(In Millions of Pesos)	Amount		
	Paid	Accrued	Total
Income taxes withheld on compensation	1,886	222	<b>2,108</b>
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,539	180	<b>1,719</b>
Final income taxes withheld on income payment	619	11	<b>630</b>
Creditable income taxes withheld (expanded)	331	38	<b>369</b>
Fringe benefit tax	88	32	<b>120</b>
VAT withholding tax	45	8	<b>53</b>
<b>4,508</b>	<b>4,508</b>	<b>491</b>	<b>4,999</b>

(iii) *All other local and national taxes*

All other local and national taxes paid/accrued for the year ended December 31, 2017 consist of:

(In Millions of Pesos)	Amount		
	Paid	Accrued	Total
Gross receipts tax	2,688	282	<b>2,970</b>
Real property tax	117	-	<b>117</b>
Municipal taxes	159	-	<b>159</b>
Others	6	-	<b>6</b>
	<b>2,970</b>	<b>282</b>	<b>3,252</b>

(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.