COVER SHEET

PW-121

S.E.C. Registration Number

BANK OF THE PHILIPPINE ISLANDS

(Company's Full Name)

AYALA NORTH EXCHANGE, TOWER 1
AYALA AVE. CORNER SALCEDO AND
AMORSOLO STS. LEGASPI VILLAGE
BRGY. SAN LORENZO, MAKATI CITY

(Business Address: No. Street City/Town/Province)

ATTY. ANGELA PILAR B. MARAMAG

Contact Person

8246-5902

Company Telephone Number

12 31

Month *Day*

Fiscal Year

DEFINITIVE INFORMATION STATEMENT

FORM TYPE

04 23 20

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that, pursuant to Article IV of the Amended By-Laws of the Bank of the Philippine Islands (BPI), the annual meeting of the stockholders of BPI will be conducted virtually via https://asm.ayala.com/BPI2020 and, if prevailing circumstances allow, at the Ballroom 2, Fairmont Makati, 1 Raffles Drive, Makati Avenue, Makati City 1224 on **Thursday, April 23, 2020 at 9:00 A.M.**, for the transaction of the following business:

1. Calling of Meeting to Order
2. Certification of Notice of Meeting, Determination of Quorum, and Rules of Conduct and Procedures
3. Approval of the Minutes of the Annual Meeting of the Stockholders on April 25, 2019
4. Approval of Annual Report and Audited Financial Statements
5. Ratification of the Acts of the Board of Directors and Officers
6. Election of the Board of Directors (including the Independent Directors)
7. Election of External Auditors and Fixing of their Remuneration
8. Consideration of Such Other Business as May Properly Come Before the Meeting
9. Adjournment

Stockholders of record as of March 6, 2020 will be entitled to notice and to vote at this meeting.

Given the current circumstances, stockholders may only attend the meeting by appointing the Chairman of the meeting as their proxy or by remote communication. The Bank will notify the stockholders if physical attendance will be allowed at the meeting by April 15, 2020 through a disclosure at the Philippine Stock Exchange or publication of a notice in Philippine Daily Inquirer.

Duly accomplished proxies shall be submitted to the Office of the Corporate Secretary, Ayala North Exchange Tower 1, 6796 Ayala Avenue cor. Salcedo St., Legaspi Village, Makati City or by email to bpi-asm@bpi.com.ph not later than 5:00 P.M. of April 13, 2020. Validation of proxies is set for April 14, 2020 at 2:00 P.M.

Stockholders intending to participate by remote communication should notify the Bank by email to bpi-asm@bpi.com.ph on or before April 14, 2020. Stockholders may vote electronically *in absentia*, subject to validation procedures. The procedures for participation in the meeting through remote communication and for casting votes *in absentia* are set forth in the Bank's website.

For this purpose and in accordance with Article XII of the Bank's Amended By-Laws, the Stock and Transfer Book of BPI will be closed from March 24, 2020 to April 23, 2020.

Makati City, March 16, 2020

FOR THE BOARD OF DIRECTORS

(Sgd.) ANGELA PILAR B. MARAMAG
Corporate Secretary

EXPLANATION OF AGENDA ITEMS FOR STOCKHOLDERS' MEETING – APRIL 23, 2020

1. Calling of Meeting to Order

   Mr. Jaime Augusto Zobel de Ayala, Chairman of the BPI Board of Directors, will call the meeting to order.

2. Certification of Notice of Meeting, Determination of Quorum and Rules of Conduct and Procedures

   The Corporate Secretary will certify the date when written notice of the meeting was sent to all stockholders of record as of March 6, 2020, and the date of publication of the notice at a newspaper of general circulation.

   The Corporate Secretary will further certify whether a quorum is present for the valid transaction of the Annual Stockholders' Meeting. Pursuant to Sections 57 and 23 of the Revised Corporation Code which allow voting *in absentia* by stockholders, the Bank has set up a designated online web address which may be accessed by the stockholders to register and vote *in absentia* on the matters for resolution at the meeting. The holders of record of a majority of the stock of the Bank then issued and outstanding and entitled to vote, represented by proxy or participating through remote communication or voting *in absentia*, shall constitute a quorum for the transaction of business.

   The following are the rules of conduct and procedures for the meeting:

   (a) Stockholders may attend the meeting remotely through the online web address (URL) provided. Questions and comments may be sent via e-mail prior to or during the meeting to bpi-asm@bpi.com.ph, and shall be limited to the items in the Agenda of the meeting.

   (b) In the event that physical attendance will be allowed at the meeting:

   i. A stockholder who wishes to make a remark shall identify himself after being acknowledged by the Chairman and shall limit his remarks to the item in the Agenda under consideration.

   ii. On the voting procedures, stockholders present at the meeting have the option to vote online or manually. For online voting, computer stations will be placed outside the venue, where stockholders may cast their votes online. For manual voting, the stockholder will be given a ballot upon registration to enable him to vote in writing. Both ballot and website platform shall state the proposed resolutions for consideration by the stockholders.

   (c) Stockholders must notify the Bank of their intention to participate in the meeting by remote communication to be included in the determination of quorum, together with stockholders who voted *in absentia* and by proxy.

   (d) Voting shall only be allowed for stockholders registered in the Bank's Voting *In Absentia* & Shareholder (VIASH) System or through the Chairman of the meeting as proxy. Detailed requirements and instructions pertaining to the VIASH System and the user thereof are provided in the Bank's website at bpi.com.ph. Stockholders may also contact the BPI Stock Transfer Office for information and assistance.

   (e) For all items on the agenda for approval, the affirmative vote of at least a majority of the issued and outstanding stock entitled to vote and represented at the meeting will be required for approval. Each outstanding share of stock entitles the registered holder to one vote. The election of directors will be by plurality of votes and every stockholder shall be entitled to cumulate his votes. All votes received shall be tabulated by the Office of the Corporate Secretary and the results will be validated by the Bank's eternal auditor.

   (f) The meeting proceedings will be recorded in audio and video format.

3. Approval of the Minutes of the Annual Meeting of the Stockholders on April 25, 2019

   The minutes of the meeting held on April 25, 2019 are available at the Bank's website, www.bpi.com.ph. Copies of the minutes will also be distributed to the stockholders before the meeting.

4. Approval of Annual Report and Audited Financial Statements as of December 31, 2019

   The audited financial statements (AFS) as of December 31, 2019 will be presented for approval of the stockholders. Prior thereto, the Chairman, Mr. Jaime Augusto Zobel de Ayala, and the President and Chief Executive Officer, Mr. Cezar P. Consing, will deliver their report to the stockholders on the highlights of BPI's performance in 2019 and the outlook for 2020. After the presentation of the Chairman and the President/CEO, the stockholders will be given an opportunity to ask relevant questions and express appropriate comments.

   A copy of the Annual Report will be available to stockholders during the meeting. Further, a copy of the Bank's AFS is posted at the Bank's website.

5. Ratification of the acts of the Board of Directors and Officers

   The acts and resolutions of the Board of Directors and its committees were those taken or adopted since the annual stockholders' meeting on April 25, 2019 until April 23, 2020 and include approval of amendments to the By-Laws, contracts and transactions entered into by the Bank, credit/loan transactions including to related parties, projects and investments, treasury matters, manpower related decisions/approvals, corporate governance-related actions, and other matters covered by disclosures to the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). The acts of Management were those taken to implement the resolutions of the Board or its committees or made in the general conduct of business.

6. Election of the Board of Directors (including the Independent Directors)

   Any stockholder, including minority stockholders, may submit to the Nomination Committee nominations to the Board of Directors not later than March 6, 2020. The Nomination Committee will determine whether the nominees for the Board, including the nominees for independent directors, have all the qualifications and none of the disqualifications to serve as members of the Board. The profiles of the nominees to the Board will be provided in the Information Statement and in the company website.

7. Election of External Auditor and Fixing of their Remuneration

   The Audit Committee will endorse to the stockholders the appointment of the external auditor for the ensuing year as well as its proposed remuneration.

8. Consideration of Such Other Business as May Properly Come Before the Meeting

   The Chairman will open the floor for comments and questions by the stockholders. Stockholders may raise such other relevant matters or issues that may be taken up at the meeting.

9. Adjournment

   Upon determination that there are no other matters to be considered, the Chairman upon motion made and duly seconded by a stockholder shall declare the meeting adjourned.

BANK OF THE PHILIPPINE ISLANDS
2020 Annual Stockholders Meeting
April 23, 2020

PROXY

The undersigned stockholder of **The Bank of the Philippine Islands** (the "Company") hereby appoints the Chairman of the meeting, as *attorney* and *proxy*, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 23, 2020 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous meeting.
   ❑ Yes ❑ No ❑ Abstain

2. Approval of annual report.
   ❑ Yes ❑ No ❑ Abstain

3. Ratification of the acts of the Board of Directors and Officers.
   ❑ Yes ❑ No ❑ Abstain

4. Election of Directors

   ❑ Vote for all nominees listed below:
   Jaime Augusto Zobel de Ayala
   Fernando Zobel de Ayala
   Romeo L. Bernardo
   Ignacio R. Bunye (Independent)
   Cezar P. Consing
   Ramon R. del Rosario, Jr. (Independent)
   Octavio V. Espiritu (Independent)
   Rebecca G. Fernando
   Jose Teodoro K. Limcaoco
   Xavier P. Loinaz (Independent)
   Aurelio R. Montinola III
   Mercedita S. Nolledo
   Antonio Jose U. Periquet (Independent)
   Eli M. Remolona, Jr. (Independent)
   Maria Dolores B. Yuvienco (Independent)

   ❑ Withhold authority to vote for all nominees listed above.

   ❑ Withhold authority to vote for the nominees listed below:

   ______________ ______________
   ______________ ______________
   ______________ ______________
   ______________ ______________

5. Election of Isla Lipana & Co. as independent auditors and fixing of their remuneration.
   ❑ Yes ❑ No ❑ Abstain

6. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.
   ❑ Yes ❑ No ❑ Abstain

____
PRINTED NAME OF STOCKHOLDER

____
SIGNATURE OF STOCKHOLDER / AUTHORIZED SIGNATORY

____
DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 13, 2020**, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED UPON NOTICE TO THE CORPORATE SECRETARY. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSES HIS INTENTION TO VOTE IN PERSON.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

   [ ] Preliminary Information Statement

   [✓] Definitive Information Statement

2. Name of Registrant as specified in its charter: **BANK OF THE PHILIPPINE ISLANDS**

3. Province, country or other jurisdiction of incorporation or organization: **MANILA, PHILIPPINES**

4. SEC Identification Number: **PW-121**

5. BIR Tax Identification Code: **000-438-366-000**

6. Address of principal office: **Ayala North Exchange Tower 1, 6796 Ayala Ave. cor. Salcedo St., Legaspi Village, Makati City, Metro Manila**
   Postal Code: **1229**

7. Registrant's telephone number, including area code: **(632) 8246-5902**

8. Date, time and place of the meeting of security holders: **April 23, 2020, 9:00 a.m., Ballroom 2, Fairmont Makati, 1 Raffles Drive, Makati Avenue, Makati City 1224**

   Online web address/URL
   For participation by remote communication: https://asm.ayala.com/BPI2020
   For voting in absentia: ayalagroupshareholders.com

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **March 26, 2020**

10. **In case of Proxy Solicitations:**

    Name of Person Filing the Statement/Solicitor: Not Applicable

    Address and Telephone No.: Not Applicable

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding **(as of January 31, 2020)**
Common Shares	**4,507,071,644**

12. Are any or all of registrant's securities listed in a Stock Exchange?

    Yes ✓ No ______.

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

    Philippine Stock Exchange, Inc. - Common Shares

PART I.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. **Date, time and place of meeting of security holders.**

(a) Date: **April 23, 2020**
Time: **9:00 a.m.**
Place: **Ballroom 2, Fairmont Makati, 1 Raffles Drive Makati Avenue, Makati City 1224**

Online web address/URL
For participation by remote communication: https://asm.ayala.com/BPI2020
For voting in absentia: ayalagroupshareholders.com

Registrants' Mailing Address: **Ayala North Exchange Tower 1, 6796 Ayala Avenue cor. Salcedo St., Legaspi Village Makati City, Metro Manila 1229**

(b) Approximate date on which the information statement is first to be sent or given to security holders: **March 26, 2020**

WE ARE NOT ASKING FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

Item 2. **Dissenters' Right of Appraisal**

There are no matters or proposed corporate actions included in the agenda of the meeting which may give rise to a possible exercise by security holders of their appraisal rights under Sec. 80 of the Revised Corporation Code of the Philippines.

Item 3. **Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

(a) No current director or officer of the Bank, or nominee for election as director has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon other than election to office.

(b) No director has informed the Bank of his opposition to any action to be taken up at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. **Voting Securities and Principal Holders Thereof**

(a) **Class of Voting Securities** Common Shares
Number of Shares Outstanding as of January 31, 2020: 4,507,071,644
Number of Votes Entitled: One (1) vote per share

(b) **Record Date**

Stockholders of record as of March 06, 2020 are entitled to notice and to vote in the Annual Stockholders' Meeting.

(c) **Manner of Voting**

Article IV of the Amended By-Laws of the Bank states that:

"Voting for the election of members of the Board of Directors and upon all questions before the stockholders' meeting, shall be by shares of stock, that is, one share entitles the holder thereof to one vote, two shares to two votes, etc.; but in the election of members of the Board of Directors, any stockholder may cumulate his vote as provided for in the Corporation Code.

"In the election of members of the Board of Directors, the fifteen (15) nominees receiving the highest number of votes shall be declared elected."

Article IV of said Amended By-Laws further provides that a stockholder may delegate in writing their right to vote, provided the said proxy is attested by two (2) witnesses and filed with the Bank at least ten (10) days before the meeting. Voting shall be by shares and not per capita.

Pursuant to Sections 57 and 23 of the Revised Corporation Code, which allow voting by remote communication or *in absentia* by stockholders, on November 20, 2019 the Board of Directors of the Bank authorized voting through remote communication or *in absentia* during meetings of the stockholders of the Bank, and confirmed/approved the corresponding amendment of the bank's By-Laws, subject to compliance with the rules and regulations as may be issued by the Securities and Exchange Commission. The requirements and procedures for electronic voting *in absentia* or via absentee ballot are provided in the Bank's website.

(d) **Security Ownership of Certain Record and Beneficial Owners and Management**

i. Security Ownership of Certain Record and Beneficial Owners of more than 5% as of January 31, 2020

Title of Class	Name/Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	No. of Shares	Percent of Holdings
Common	**PCD Nominee Corporation**[1] **- Non-Filipino** **- Filipino** 37/F Tower 1, The Enterprise Center 6766 Ayala Avenue corner Paseo de Roxas, Makati City	PCD Participants acting for themselves or for their customers	Various Filipino	1,018,366,355 649,450,672 1,667,817,027	22.5949% 14.4096% 37.0045%
Common	**Ayala Corporation**[2] 33rd Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Ayala Corporation[3]	Filipino	1,000,261,934	22.1932%
Common	**Liontide Holdings, Inc.**[4] 33rd Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Liontide Holdings, Inc.[5]	Filipino	904,194,682	20.0617%
Common	**AC International Finance Limited** c/o Ayala Corporation 34th Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Ayala Corporation[6]	Cayman Islands	390,269,162	8.6590%
Common	**Roman Catholic Archbishop of Manila** 121 Arzobispo St., Intramuros Manila Stockholder	Roman Catholic Archbishop of Manila[7]	Filipino	327,904,251	7.2753%

[1] PCD Nominee Corporation (PCD), Non-Filipino and Filipino, is the registered owner of the shares beneficially owned by its participants. The Board of Directors of each participant generally has the power to decide on how shares are to be voted. Out of the 1,667,817,027 common shares registered in the name of PCD, 436,791,278 shares or 9.6912% and 507,395,173 shares or 11.2578% are for the accounts of Deutsche Bank Manila and The Hongkong and Shanghai Banking Corporation, respectively.

[2] Mermac, Inc. owns 47.3301% of common shares and 56.7793% of total voting shares, while Mitsubishi Corporation owns 6.0269% of common shares and 7.1714% of total voting shares, respectively, of the outstanding shares of Ayala Corporation (AC).

[3] The Board of Directors of AC has the power to decide how AC's shares in BPI are to be voted.

[4] AC owns 84.16% of the outstanding shares of Liontide Holdings, Inc. (formerly Ayala DBS Holdings, Inc.), which translates to 78.07% effective ownership.

[5] The Board of Directors of Liontide Holdings, Inc. ("Liontide") has the power to decide how Liontide's shares in BPI are to be voted.

[6] Under a Voting Trust Agreement dated October 12, 2017, the Board of Directors of AC International Finance Limited (AC International) has the power to decide how AC International's shares in BPI are to be voted.

[7] The Archbishop of Manila has the power to decide how the Roman Catholic Archbishop of Manila's shares in BPI are to be voted.

ii. Security Ownership of Directors and Management as of January 31, 2020

Title of Class	Name of Beneficial Owner	Position	No. of Shares	Nature of Ownership	Citizenship	% of Holdings
Common	Jaime Augusto Zobel de Ayala	Chairman	9,628	Direct	Filipino	0.000%
Common	Fernando Zobel de Ayala	Vice-Chairman	89,137	Direct	Filipino	0.002%
Common	Cezar P. Consing	Director & President	2,659,099	Direct	Filipino	0.059%
Common	Gerardo C. Ablaza, Jr.	Director	193	Direct	Filipino	0.000%
Common	Romeo L. Bernardo	Director	12	Direct	Filipino	0.000%
Common	Ignacio R. Bunye	Director	118,032	Direct	Filipino	0.003%
Common	Octavio V. Espiritu	Director	1,225,110	Direct	Filipino	0.027%
Common	Rebecca G. Fernando	Director	20	Direct	Filipino	0.000%
Common	Jose Teodoro K. Limcaoco	Director	11,416	Direct/Indirect	Filipino	0.000%
Common	Xavier P. Loinaz	Director	3,938,203	Direct	Filipino	0.087%
Common	Aurelio R. Montinola III	Director	1,794,863	Direct	Filipino	0.040%
Common	Mercedita S. Nolledo	Director	59,502	Direct	Filipino	0.001%
Common	Antonio Jose U. Periquet	Director	25,221	Direct	Filipino	0.001%
Common	Eli M. Remolona, Jr.	Director	10	Direct	Filipino	0.000%
Common	Maria Dolores B. Yuvienco	Director	5,813	Direct	Filipino	0.000%
Common	Ma. Theresa M. Javier	EVP & CFO	262,994	Direct	Filipino	0.006%
Common	Ramon L. Jocson	EVP & COO	13,783	Direct	Filipino	0.000%
Common	Marie Josephine M. Ocampo	EVP	274,692	Direct	Filipino	0.006%
Common	Juan Carlos L. Syquia	EVP	1,982	Direct	Filipino	0.000%
Aggregate Shareholdings of Directors & Officers as a Group			**10,489,710**			**0.233%**

None of the members of the Bank's Board of Directors and Management owns 2.0% or more of the outstanding capital stock of the Bank.

iii. Voting Trust Holders of 5% or More

Ayala Corporation has a Voting Trust Agreement with AC International Finance Limited.

iv. Changes in Control

No change of control in the Bank has occurred since the beginning of its last fiscal year.

(e) **Certain Relationships and 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), 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.

Significant related party transactions and outstanding balances as at and for the year ended December 31, 2019 are summarized and discussed in Note 25 of the 2019 Audited Financial Statements.

Item 5. **Directors and Executive Officers**

(a) **Board of Directors**

Article V of the Bank's Amended By-Laws provides:

"Unless otherwise provided in the Corporation Law, the corporate powers of the Bank are exercised, its business conducted and its properties controlled and held, by a Board of Directors consisting of fifteen (15) members elected from among the stockholders of the Bank, said members so elected to hold their office for one year and until their successors are elected annually by the stockholders during their annual meeting or adjournment thereof, or at any special meeting called for that purpose."

The attendance of the directors at the meetings of the Board of Directors held during the year 2019 is as follows:

Name	No. of Meetings Attended/Held	Percent Present
Jaime Augusto Zobel de Ayala	16/17	94%
Fernando Zobel de Ayala	16/17	94%
Cezar P. Consing	17/17	100%
Gerardo C. Ablaza, Jr.	16/17	94%
Romeo L. Bernardo	17/17	100%
Ignacio R. Bunye	17/17	100%
Octavio V. Espiritu	17/17	100%
Rebecca G. Fernando	17/17	100%
Delfin C. Gonzales, Jr.*	4/4	100%
Jose Teodoro K. Limcaoco**	15/16	94%
Xavier P. Loinaz	17/17	100%
Aurelio R. Montinola III	17/17	100%
Mercedita S. Nolledo	17/17	100%
Antonio Jose U. Periquet	17/17	100%
Eli M. Remolona, Jr.***	13/13	100%
Maria Dolores B. Yuvienco	17/17	100%

**Board member until 25 April 2019*
***Elected as Board member effective 20 February 2019*
****Elected as Board member effective 25 April 2019*

(b) **Board Committees**

The Board carries out its various responsibilities through the Executive Committee and delegates specific responsibilities to other committees that focus on certain areas as allowed by law. The different committees of the Board and its membership are as follows:

Name	Executive Committee	Corporate Governance Committee	Nomination Committee	Audit Committee	Risk Management Committee	Personnel and Compensation Committee	Retirement/ Pension Committee	Related Party Transaction Committee
Jaime Augusto Zobel de Ayala	C		M					
Fernando Zobel de Ayala	VC		M			C		
Cezar P. Consing	M							
Gerardo C. Ablaza, Jr.						M		
Romeo L. Bernardo			C			M		
Ignacio R. Bunye*		M						C
Octavio V. Espiritu**				M	C			
Rebecca G. Fernando	M						M	M
Jose Teodoro K. Limcaoco	M							
Xavier P. Loinaz*			M	C				
Aurelio R. Montinola III	M		M		M	M		
Mercedita S. Nolledo		M					C	
Antonio Jose U. Periquet*	M					M	M	
Eli M. Remolona, Jr.*					M			
Maria Dolores B. Yuvienco*		C		M				M

C – Chairman; VC – Vice-Chairman; M – Member
** Independent Director*
*** Lead Independent Director*

(c) **The Board of Directors/Nominees for Election at the Annual Stockholders' Meeting and Key Executive Officers**

Per Article V of the Amended By-Laws of the Bank, all nominations for election as Directors by the stockholders shall be submitted in writing to the Board of Directors through the Corporate Secretary, together with the written acceptance of the nominee, not later than the date prescribed by law, rules and regulations or at such earlier or later date as the Board of Directors may fix. No nominee shall qualify to be elected as Director unless this requirement is complied with. In accordance with the resolution of the Board of Directors of the Bank dated December 18, 2019, which resolution was disclosed and reported to PSE and SEC, all nominations for election of Directors for the term 2020-2021 were required to be submitted to the Corporate Secretary not later than March 06, 2020. As of said date, there were only 15 nominees to the Board received by the Corporate Secretary and all the nominees confirmed their acceptance of said nomination. Ms. Rebecca G. Fernando was nominated by the Roman Catholic Archbishop of Manila and the rest of the nominees were formally nominated by Atty. Santiago L. Garcia, Jr., a long time stockholder of BPI who is not related to any of the nominees including the nominees for independent director. The nominations were subsequently processed and evaluated by the Nomination Committee of the Bank in a meeting called for that purpose and it was determined by the Committee that all the nominees (both regular Directors and Independent Directors) possess all the qualifications required by relevant law, rules, regulations and BPI's By-Laws and Manual on Corporate Governance and no provision on disqualification would apply to any of them.

The following is the list of current directors and the list of nominees for election as members of the Board of Directors of BPI for the term 2020-2021 as approved by the Nomination Committee:

i. Current Board of Directors

Name	Age (as of 2020 ASM)	Citizenship
1. Jaime Augusto Zobel de Ayala	61	Filipino
2. Fernando Zobel de Ayala	60	Filipino
3. Cezar P. Consing	60	Filipino
4. Gerardo C. Ablaza Jr.	66	Filipino
5. Romeo L. Bernardo	65	Filipino
6. Ignacio R. Bunye (Independent Director)	75	Filipino
7. Octavio V. Espiritu (Independent Director)	76	Filipino
8. Rebecca G. Fernando	71	Filipino
9. Jose Teodoro K. Limcaoco	58	Filipino
10. Xavier P. Loinaz (Independent Director)	76	Filipino
11. Aurelio R. Montinola III	68	Filipino
12. Mercedita S. Nolledo	79	Filipino
13. Antonio Jose U. Periquet (Independent Director)	59	Filipino
14. Eli M. Remolona, Jr. (Independent Director)	67	Filipino
15. Maria Dolores B. Yuvienco (Independent Director)	72	Filipino

ii. Nominees for Election to the Board of Directors for the Term 2020-2021

Name	Age (as of 2020 ASM)	Citizenship
1. Jaime Augusto Zobel de Ayala	61	Filipino
2. Fernando Zobel de Ayala	60	Filipino
3. Cezar P. Consing	60	Filipino
4. Romeo L. Bernardo	65	Filipino
5. Ignacio R. Bunye (Independent Director)	75	Filipino
6. Ramon R. del Rosario, Jr. (Independent Director)	75	Filipino
7. Octavio V. Espiritu (Independent Director)	76	Filipino
8. Rebecca G. Fernando	71	Filipino
9. Jose Teodoro K. Limcaoco	58	Filipino
10. Xavier P. Loinaz (Independent Director)	76	Filipino
11. Aurelio R. Montinola III	68	Filipino
12. Mercedita S. Nolledo	79	Filipino
13. Antonio Jose U. Periquet (Independent Director)	59	Filipino
14. Eli M. Remolona, Jr. (Independent Director)	67	Filipino
15. Maria Dolores B. Yuvienco (Independent Director)	72	Filipino

The following is the list of Key Executive Officers of BPI:

The Key Executive Officers (As of 2020 ASM)			
Name	Rank/Title	Age	Citizenship
1. Cezar P. Consing	President & CEO	60	Filipino

The Key Executive Officers (As of 2020 ASM)			
Name	Rank/Title	Age	Citizenship
2. Maria Theresa M. Javier	EVP & CFO	49	Filipino
3. Ramon L. Jocson	EVP & COO	60	Filipino
4. Juan Carlos L. Syquia	EVP	53	Filipino
5. Marie Josephine M. Ocampo	EVP	58	Filipino

None of the above-named Directors and Officers of the Bank works for the government.

Please refer to attached Annex "A" for the brief background of the Directors/Nominees and Executive Officers of BPI.

(d) **Significant Employees**

The Bank values its human resources and considers its entire workforce as significant employees. It expects each employee to do his share in achieving the company's set goals and objectives.

(e) **Family Relationships**

The Chairman of the Board of Directors, Mr. Jaime Augusto Zobel de Ayala, and Mr. Fernando Zobel de Ayala, the Vice-Chairman of the Board, are brothers.

(f) **Legal Proceedings**

To the knowledge of the Bank, none of its nominees for election as Directors and its Executive Officers have been subject of the following legal proceedings during the last five (5) years:

i. any bankruptcy petition filed by or against any business of which such director or officer was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
ii. any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
iii. any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
iv. being found by domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading, market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

(g) **Resignation of Directors**

To date, no director has resigned from, or declined to stand for election or re-election to the Board since the date of the 2019 annual meeting of stockholders due to any disagreement with the Bank relative to its operations, policies and practices.

Item 6. **Compensation of Directors and Executive Officers**

(a) **Executive Compensation**

Names arranged By Rank/ By Surname	**Position**	**2018**		
		Salary	**Bonuses**	**Fees and Other Compensation**
Cezar P. Consing	President & CEO			
Ramon L. Jocson	EVP			
Antonio V. Paner	EVP & Treasurer			
Simon R. Paterno	EVP			
Juan Carlos L. Syquia	EVP			
All above-named Officers as a group		**185,719,878**	**85,327,500**	
All other unnamed Officers as a group		**7,622,471,109**	**970,492,665**	
All Directors				**71,810,000***

Names arranged By Rank/ By Surname	Position	2019		
		Salary	Bonuses	Fees and Other Compensation
Cezar P. Consing	President & CEO			
Maria Theresa M. Javier	EVP & CFO			
Ramon L. Jocson	EVP & COO			
Antonio V. Paner	EVP & Treasurer			
Juan Carlos L. Syquia	EVP			
All above-named Officers as a group		**160,300,573**	**82,552,300**	
All other unnamed Officers as a group		**8,722,777,830**	**1,010,488,922**	
All Directors				**69,630,000***

Names arranged By Rank/ By Surname	Position	2020 Estimates		
		Salary	Bonuses	Fees and Other Compensation
Cezar P. Consing	President & CEO			
Maria Theresa M. Javier	EVP & CFO			
Ramon L. Jocson	EVP & COO			
Juan Carlos L. Syquia	EVP			
Marie Josephine M. Ocampo	EVP			
All above-named Officers as a group		**167,523,190**	**81,552,300**	
All other unnamed Officers as a group		**8,758,633,679**	**1,277,982,796**	
All Directors				**91,190,000***

*Includes P27M, P30M, P34M for the years 2018, 2019 and 2020 respectively representing per diem of Directors for Board & Committee meetings attended

(b) **Compensation of Directors**

Article V of the Bank's Amended By-Laws provides:

> "Each director shall be entitled to receive from the Bank, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of directors exceed one percent (1%) of the net income before income tax of the Bank during the preceding year.
>
> The Personnel and Compensation Committee of the Bank shall have the responsibility for recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the Committee shall be guided by the objective of ensuring that compensation should fairly pay directors for work required in a company of the Bank's size and scope."

For 2019, the Board of Directors' fees and other compensation amounted to P69.63M, which was equivalent to less than 1% of the Bank's net income before tax.

(c) **Standard Arrangement**

Other than the usual per diem arrangement for Board and Board Committee meetings and the abovementioned fees and compensation of Directors, there is no Standard Arrangement with regards to compensation of directors, directly or indirectly for any other services provided by the said directors, for the last completed fiscal year.

Item 7. **Independent Public Accountants**

(a) The principal accountant of the Bank for the fiscal year 2019 is the accounting firm of Isla Lipana & Co. The same accounting firm is being recommended for re-election at the Annual Stockholders' Meeting of the Bank. Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Bank has engaged Isla Lipana & Co., as the external auditor with Mr. Zaldy D. Aguirre as the Partner-in-Charge starting year 2017.

The appointment or re-appointment of the Bank's external auditor is subject to the approval and endorsement by the Audit Committee, for subsequent confirmation and approval by the Board of Directors and finally the Stockholders.

The Audit Committee of BPI is chaired by Mr. Xavier P. Loinaz (Independent Director), with the following members: Mr. Octavio V. Espiritu (Independent Director) and Ms. Dolores B. Yuvienco (Independent Director).

(b) Representatives of Isla Lipana & Co. are expected to be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and they are expected to be available to respond to appropriate questions and to count and/or validate the votes, if needed, during the Annual Stockholders' Meeting.

(c) Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with Isla Lipana & Co. on accounting and financial disclosures.

(d) Audit and Audit-Related Fees

BPI has paid the following fees, inclusive of taxes, to its external auditors in the past two (2) years:

Fiscal Year	Audit Fees	Audit-related Fees
2017 paid in 2018	₱13.185 M	₱2.348 M
2018 paid in 2019 PFRS Validation*	₱13.915 M ₱ 5.500 M	₱2.535 M
Approved for 2019	₱18.210 M	-

*Approved but not yet billed

The audit and audit-related fees cover services by the external auditor that are reasonably related to the performance of the audit or review of the Bank's annual financial statements, including for the Bank's subsidiaries. There were no non-audit fees for other services not related to the audit of the annual financial statements.

Item 8. **Compensation Plans**

As provided for in Article VII of the Bank's Amended Articles of Incorporation, not more than one and one half percent (1½%) of the authorized capital stock of BPI is set aside for an Executive Stock Option Plan (ESOP) and another one and one half percent (1½%) for Executive Stock Purchase Plan (ESPP) for employees and officers of BPI and its subsidiaries, over which shares the stockholders shall have no pre-emptive rights. Said provision was approved by the Bangko Sentral ng Pilipinas, Securities and Exchange Commission and the Stockholders. On December 11, 2019, the Bank granted qualified beneficiaries/participants up to 4,035,000 shares for ESOP and 9,100,000 shares for ESPP.

C. <u>ISSUANCE AND EXCHANGE OF SECURITIES</u>

Item 9. **Authorization or Issuance of Securities Other than for Exchange**

There are no matters or actions to be taken up in the meeting with respect to the authorization or issuance of securities other than for exchange.

Item 10. **Modification or Exchange of Securities**

There are no matters or actions to be taken up in the meeting with respect to the modification of any class of the Company's securities or the issuance of authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class.

Item 11. **Financial and Other Information**

The management's discussion and analysis, market price of shares and dividends and other data related to the Company's financial information and the Statement of Management's Responsibility for Financial Statements including the audited financial statements as of December 31, 2019, are attached hereto as Annexes "A-1" and "B".

Item 12. **Mergers, Consolidations, Acquisitions and Similar Matters**

There are no matters or actions to be taken up in the meeting with respect to mergers, consolidations, acquisitions and similar matters.

Item 13. **Acquisition or Disposition of Property**

There are no matters or actions to be taken up in the meeting with respect to material acquisition or disposition of any property by the Company.

Item 14. **Restatement of Accounts**

There are no matters or actions to be taken up in the meeting with respect to restatement of accounts.

D. OTHER MATTERS

Item 15. **Action with Respect to Reports**

The following are to be submitted for approval during the stockholders' meeting:

(a) Approval of the Minutes of the Annual Meeting of the Stockholders on April 25, 2019, containing:

(i) Approval of Minutes of Annual Stockholders' Meeting on April 19, 2018 per the following resolution:

Resolution No. ASM-2019-01

RESOLVED, that the minutes of the annual meeting of Stockholders of the Bank of the Philippine Islands held on 19 April 2018, be and, are hereby, approved as recorded.

(ii) Approval of Annual Report and the Bank's Audited Financial Statements as of 31 December 2018 incorporated in the Annual Report.

Resolution No. ASM-2019-02

RESOLVED, that the Annual Report of the Bank be noted, and the 2018 Audited Financial Statements incorporated in the said Annual Report be, and are hereby approved.

(iii) Election of Board of Directors per the following resolution:

Resolution No. ASM-2019-03

RESOLVED, that there being only 15 nominees for the 15 Board seats, votes be cast in favor of the said nominees and that they be declared elected as members of the Board of Directors of BPI for the year 2019-2020 and until their successors are duly elected and qualified.

(iv) Election of External Auditors and Fixing of their Remuneration per the following resolution:

Resolution No. ASM-2019-04

RESOLVED, that the re-election of Isla Lipana & Co. as the External Auditors of BPI and its major subsidiaries and affiliates for the current fiscal year for a fee of P18.21 Million be, and is hereby, approved.

(b) Approval of the Annual Report and the Bank's Audited Financial Statements as of December 31, 2019 containing the performance of the Bank and its financial condition.

The Audited Financial Statements as of December 31, 2019 will be presented for approval of the stockholders.

(c) Election of the Board of Directors (Including the Independent Directors)

The members of the Board of Directors (regular and independent) of the Bank for the term 2020-2021 are to be elected at the Annual Stockholders' Meeting to hold office until the next succeeding annual meeting, and/or until their respective successors have been duly elected and qualified.

(d) Election of External Auditors and Fixing of their Remuneration

The Accounting Firm of Isla Lipana & Co. is proposed to be re-elected as the Bank's External Auditors for the Fiscal year 2020, at the remuneration agreed upon between BPI Management and the External Auditors.

Item 16. **Matters Not Required to be Submitted**

All matters or actions that will require the vote of the security holders will be submitted in the meeting.

Item 17. **Amendment of Charter, By-Laws or Other Documents**

At its meeting on November 20, 2019, the Board of Directors of the Bank approved the following amendments to the By-Laws of the Bank:

(a) Deletion of Articles VII-B and XI on Trust Committee and Trust Operations, in view of the spin-off of the Trust Department of the Bank to BPI Asset Management and Trust Corporation.

(b) Incorporation of BSP Manual of Regulations for Banks (MORB) provisions (BSP Circular No. 969, s2017) on the Audit Committee in Article VII-C, which as proposed to be amended will read as follows:

Article VII-B

The Audit Committee shall be composed of at least three (3) Directors who are all Non-Executive Directors. majority of whom shall be Independent Directors including the Chairman, preferably with accounting, auditing or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The Chief Executive Officer, Chief Financial Officer and/or Treasurer, or officers holding equivalent positions shall not be appointed as members of the Audit Committee. The selection and appointment of the Audit Committee members, including its Chairman shall rest with the Board in accordance with existing rules and regulations. Provided, That the Chairperson of the Audit Committee shall not be the Chairperson of the Board of Directors or any of the board-level committees. The Audit Committee chairman shall be elected by the Board of Directors and vacancies in the Audit Committee shall also be filled by the Board of Directors.

(c) Provision of the right for stockholders to vote through remote communication or *in absentia* at the Bank's annual stockholders' meetings in Article IV, which as proposed to be amended will read as follows:

Article IV

"A holder of at least one (1) share of stock of the Bank shall have the right to be present and to vote, in every stockholders' meeting, either in person, through remote communication, in absentia, or by proxy, subject to compliance with rules and regulations

*as may be issued by the Securities and Exchange Commission; Provided that if the stockholder is represented by proxy, the stockholder shall be limited to a single proxy at any one time but he may name alternate proxies. ***"*

(d) Insertion as Article XI of the following provision stating that the Manual on Corporate Governance, board and board-level committee charters are suppletory in nature:

Article XI

MANUAL ON CORPORATE GOVERNANCE

"To aid the Board of Directors in the promotion of and adherence to the principles of good governance, the Board shall adopt a Manual of Corporate Governance, as well as board and board-level committee charters, which may be amended from time to time as may be deemed fit by the Board. Such Manual on Corporate Governance, and board and board-level committee charters, and any amendments thereto, shall be suppletory to these By-laws."

(e) Amendment of Article V to raise the minimum quorum at any meeting for the transaction of corporate business from a majority to two-thirds of the members of the Board of Directors, in pursuit of the best practices promoted by the ASEAN Corporate Governance Scorecard. As proposed to be amended, Article V will read as follows:

Article V

*"Two-thirds (2/3) of the members of the Board of Directors shall constitute a quorum at any meeting for the transaction of corporate business, and every decision of a majority of the quorum duly assembled as a board shall be valid as a corporate act, unless otherwise provided in these By-Laws."***"*

The Bank's stockholders have previously delegated to the Board of Directors the authority to amend the By-Laws (per Article XVII of the Bank's Amended By-Laws). The proposed amendments to the By-Laws will be reported to the stockholders as part of the acts of the Board for ratification, and will become effective upon approval by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission.

Item 18. **Other Proposed Action**

Confirmation/ratification of the acts and resolutions of the Board of Directors, and Officers of the Bank done in the regular course of business for the period covering the preceding year up to the date of the annual stockholders' meeting. These include approval of the amendments to the By-Laws, contracts and transactions entered into by the Bank, credit/loan transactions including to related parties, projects and investments, treasury matters, manpower related decisions/approvals, corporate governance-related actions, and other matters covered by disclosures to the Securities and Exchange Commission and the Philippine Stock Exchange.

Item 19. **Voting Procedures**

(a) Vote Required for Approval or Election

The election of directors will be by plurality of votes and every stockholder shall be entitled to cumulate his votes.

Approval of matters required to be acted upon will need the affirmative vote of at least a majority of the issued and outstanding stock entitled to vote and represented at the meeting.

(b) Method by which the Votes will be Counted

Votes will be counted by shares and not per capita. Each outstanding share of stock entitles the registered holder to one vote. Any stockholder may cumulate his vote as provided in the Corporation Code for purposes of election of the members of the Board.

All votes received shall be tabulated by the Office of the Corporate Secretary and the results will be validated by the Bank's external auditor. In light of the Regulations (as defined in Item 19(c), stockholders will only be allowed to vote by appointing the Chairman of the meeting as proxy or electronically *in absentia*.

(c) Participation of Shareholders by Remote Communication

To comply with applicable regulations prohibiting mass gatherings, identifying authorized persons outside residence, and/or requiring social distancing to prevent the spread of COVID-19 (the "Regulations") and to ensure the safety and welfare of our stockholders, the Bank will dispense with the physical attendance of stockholders at the meeting and will allow attendance only by remote communication, as set forth below, and by voting in absentia, as provided in Items 4(c) and 19(b) above, or voting through the Chairman of the meeting as proxy. If such Regulations are subsisting as of April 15, 2020 and are reasonably expected to subsist on the date of the meeting, the Bank will notify the stockholders if physical attendance will be allowed at the meeting by April 15, 2020. If such will be the case, the guidelines therefor will be provided through a disclosure at the Philippine Stock Exchange or publication of a notice in the Bank's website or a newspaper of general circulation. For the avoidance of doubt, in the absence of the foregoing notice from the Bank by April 15, 2020, stockholders shall not be allowed to physically attend the meeting and may only participate through the means identified above.

The live webcast of the meeting shall be accessible through the following online web address: https://asm.ayala.com/BPI2020. To enable the Bank to perform validation procedures, identify the shareholders participating by remote communication and record their presence for purposes of quorum, the shareholders shall inform the Bank by email to bpi-asm@bpi.com.ph on or before April 14, 2020, of their participation in the meeting by remote communication. Stockholders may email questions or comments prior to or during the meeting at the following email address: bpi-asm@bpi.com.ph. The detailed instructions for participation through remote communication will be set forth in the Bank's website.

Item 20. **Management Report - Annex "A-1"**

Item 21. **Statement of Management's Responsibility and Audited Financial Statements – Annex "B"**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on the 16th day of March 2020.

BANK OF THE PHILIPPINE ISLANDS

by : ANGELA PILAR B. MARAMAG
Corporate Secretary

ANNEX "A"

THE NOMINEES TO THE BPI BOARD OF DIRECTORS FOR THE TERM 2020-2021

1. **JAIME AUGUSTO ZOBEL DE AYALA,** Filipino, 61 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., Manila Water Company, Inc. and AC Energy Philippines, Inc. He is also the Chairman of Ayala Retirement Fund Holdings, Inc., AC Industrial Technology Holdings, Inc., AC Ventures Holdings Corp., AC Infrastructure Holdings Corporation and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Light Rail Manila Holdings, Inc. and AG Holdings Limited.

   Outside the Ayala group, he is a member of various international and local business and socio-civic organizations, including the JP Morgan International Council, JP Morgan Asia Pacific Council and Mitsubishi Corporation International Advisory Council. He sits on the board of the Singapore Management Universityand 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, a member of the Global Board of Adviser of the Council on Foreign Relations, and Co-Vice Chairman of the Makati Business Club, Chairman of Endeavor Philippines, and a board member of Eisenhower Fellowships.

   He was awarded the Presidential Medal of Merit in 2009, the Philippine Legion of Honor with rank of Grand Commander in 2010, and the Order of Mabini with rank of Commander in 2015 by the President of the Philippines in recognition of his outstanding public service. In 2017, he was recognized as a United Nations Sustainable Development Goals Pioneer by the UN Global Compact for his work in sustainable business strategy and operations. The first recipient of the award from the Philippines, he was one of 10 individuals recognized for championing sustainability and the pursuit of the 17 SDGs in business.

   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.

2. **FERNANDO ZOBEL DE AYALA,** Filipino, 60 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., AC Energy Holdings, Inc. and AC Energy Philippines, 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 chairs the Habitat for Humanity's Asia Pacific Capital Campaign Steering Committee. 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.

3. **CEZAR P. CONSING,** Filipino, 60 years old, Cezar P. Consing has been since 2013 President and Chief Executive Officer of Bank of the Philippine Islands (BPI), and a Senior Managing Director of Ayala Corporation. He has served on BPI's board of directors for 18 years (1995 - 2000, 2004 - 2007, 2010 - present). He serves as chairman of BPI's thrift bank, investment bank, UK bank, property and casualty insurance, leasing, and rental subsidiaries, and vice chairman of its foundation; and is also a board director of BPI's life insurance, asset management and micro finance subsidiaries. Mr. Consing is a member of BPI's executive committee, and is chairman of its management and credit committees.

Mr. Consing serves as President and board director of Bancnet, Inc., an industry consortium institution where BPI is a minority shareholder. He is chairman and president of the Bankers Association of the Philippines and, in that capacity, serves as chairman of Philippine Dealing System Holdings Corporation and its three operating subsidiaries.

Outside his association with BPI, Mr. Consing serves on the boards of four private companies: The Rohatyn Group, Sqreem Technologies, FILGIFTS.com and Endeavor Philippines. He has also served as an independent board director of four publicly-listed companies: Jollibee Foods Corporation (2010 – present), CIMB Group Holdings (2006 – 2013), First Gen Corporation (2005 – 2013), and National Reinsurance Corporation (2014 – 2019), where he also served as Chairman (2018 – 2019). Mr. Consing has been a member of the Trilateral Commission, the global discussion group, since 2014. He has also served on the board of the Hong Kong based Asian Youth Orchestra. He is a board director of the US-Philippines Society and a trustee of the Manila Golf Club Foundation.

Mr. Consing first worked for BPI from 1981 - 1985. He worked for J.P. Morgan & Co., based in Hong Kong and Singapore, from 1985 – 2004. He rose 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, its Asia Pacific management committee, and its global Managing Director selection committee.

Mr. Consing was a partner at The Rohatyn Group, an alternative investment firm that focuses on the emerging markets, from 2004 – 2013. He 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. He obtained an M.A. in Applied Economics from the University of Michigan, Ann Arbor, in 1980.

4. **ROMEO L. BERNARDO,** Filipino, 65 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 Committee.

Mr. Bernardo serves as an Independent Director of the following PSE-listed companies: Aboitiz Power Corporation, 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 Bond 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.

5. **IGNACIO R. BUNYE**, Filipino, 75 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 also serves as an Independent Director of BPI Asset Management and Trust Corporation, BPI Direct BanKo, Inc., A Savings Bank and BPI Capital Corporation.

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 later as 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 (rank of Bayani).

6. **RAMON R. DEL ROSARIO, JR.,** Filipino, 74, was nominated for election as **Independent Director** of Bank of the Philippine Islands (BPI) for the term 2020-2021. He currently holds the following positions in publicly listed companies: Independent Director of Ayala Corporation; President and Chief Executive Officer of Phinma Corporation; and Chairman of PHINMA Energy Corp. and PHINMA Petroleum Geothermal, Inc. He is the President and Chief Executive Officer of Philippine Investment Management, Inc.; Chairman of Araullo University, University of Iloilo, University of Pangasinan, Cagayan de Oro College, Southwestern University, United Pulp and Paper Co., Inc., PHINMA Power Generation Corporation, PHINMA Renewable Energy Corp., One Subic Power Generation Corp., PHINMA Microtel Hotels, Inc. and PHINMA Hospitality, Inc. He is Vice-Chairman of Phinma Foundation, Inc. and Phinma Property Holdings Corp., Director of Union Galvasteel Corp. and other PHINMA managed companies; Chairman of the National Museum of the Philippines and Philippine Business for Education; and Vice-Chairman of Caritas Manila and Philippine Business for Social Progress. He is a former Chairman of the Ramon Magsaysay Award Foundation and Makati Business Club, where he remains a Trustee.

Mr. del Rosario graduated from De La Salle College in 1967 with degrees in BSC-Accounting and AB Social Sciences (Magna Cum Laude) and from Harvard Business School in 1969 with a Master in Business Administration degree. He has managed Phinma since 2002 and brings with him a wealth of experience in leading a diversified conglomerate.

7. **OCTAVIO V. ESPIRITU,** Filipino, 76 years old, has been a member of the Board of Directors of BPI since April 2000 and an **Independent Director** since April 2003. He is the Chairman of the Bank's Risk Management Committee and a member of the Audit Committee. He was appointed Lead Independent Director in April 2019.

   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.

8. **REBECCA G. FERNANDO**, Filipino, 71 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.

9. **JOSE TEODORO K. LIMCAOCO,** Filipino, 58 years old, was elected as Director of BPI in February 2019 and a member of Executive Committee. 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 a Senior Managing Director and 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 Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., AC Infrastructure Holdings Corporation, Ayala Aviation Corporation, AC Education, Inc., Asiacom Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc. (formerly Ayala Automotive Holdings Corporation), A.C.S.T. Business Holdings, Inc., LICA Management Inc. and Just For Kids, Inc. He is the Treasurer of Ayala Retirement Fund Holdings, Inc.

   Mr. Limcaoco joined Ayala Corporation as a Managing Director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including Trustee and Treasurer of Ayala Foundation, Inc., President of myAyala.com, and CFO of Azalea Technology Investments, Inc. He served as the President of the Chamber of Thrift Banks from 2013-2015. He was named as the ING-Finex CFO of the Year in 2018. He has held prior positions with JP Morgan & Co. and with BZW Asia.

He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

10. **XAVIER P. LOINAZ,** Filipino, 76 years old, Mr. Loinaz 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, and 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.

11. **AURELIO R. MONTINOLA III**, Filipino, 68 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 BanKO, 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 the Roosevelt Colleges, Inc., East Asia Computer Center Inc., and Amon Trading Corporation. 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. He is now Vice President of the Management Association of the Philippines.

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.

12. **MERCEDITA S. NOLLEDO,** Filipino, 79 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 Corporate Governance Committee. Ms. Nolledo is also a Director in the following BPI subsidiaries and affiliates: BPI Investment Management, Inc., where she sits as Chairman; BPI Family Savings Bank, Inc., BPI Capital Corporation, and BPI Asset Management and Trust Corporation.

Ms. Nolledo 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. Nolledo graduated with the degree of Bachelor of Science in Business Administration major in Accounting (Magna Cum Laude) from the University of the Philippines in 1960 and placed second at the Certified Public Accountant Licensure Board Examination administered in the same year. In 1965, she obtained her Bachelor of Laws degree (Cum Laude) also from the University of the Philippines where she also placed second at the Bar Examination held in the same year.

13. **ANTONIO JOSE U. PERIQUET**, Filipino, 59 years old, has been an **Independent Director** of BPI since April 2012. He is a member of the Bank's Executive, Personnel & Compensation, and Retirement & Pension Committees. He is the Chairman/Independent Director of BPI Asset Management and Trust Corporation and also serves as an Independent Director of BPI Capital Corporation and BPI Family Savings Bank, Inc.

Mr. Periquet is 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, The Philippine Seven Corporation and Semirara Mining and Power 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.

14. **ELI M. REMOLONA, JR.**, Filipino, 67 years old, has been an **Independent Director** of BPI since April 2019. He has extensive policy experience in financial markets, international finance and monetary policy, having worked for 14 years at the Federal Reserve Bank of New York and 19 years at the Bank for International Settlements (BIS). He is currently Professor of Finance and Director of Central Banking at the Asia School of Business in Kuala Lumpur. The school is a collaborative effort with the MIT Sloan School of Management.

Until October 2018, Mr. Remolona was 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. 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.

Mr. Remolona has taught at Columbia University, New York University, Williams College and the School of Economics of the University of the Philippines. He obtained his Bachelor's Degree in Economics Honors from Ateneo de Manila University and has a Ph.D. in Economics from Stanford University.

15. **MARIA DOLORES B. YUVIENCO,** Filipino, 72 years old, was elected as Director of BPI in April 2014 and as **Independent Director** in April 2016. She is a member of the Bank's Audit Committee and Related Party Transactions Committee and the Chairman of the Corporate Governance Committee. She was also elected as an Independent Director of BPI Asset Management and Trust Corporation, a member of the AMTC Corporate Governance Committee and the Chairman of the AMTC Risk Oversight Committee.

In April 2018, Ms. Yuvienco was elected as Independent Director of First Consolidated Bank (Thrift Bank), and was chosen to chair the Nomination and Governance Committee.

Ms. Yuvienco worked for 41 years with the Bangko Sentral ng Pilipinas (formerly known as Central Bank of the Philippines) under various capacities until her compulsory retirement in March 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 attended the Ayala's Integrated Corporate Governance and Risk Summit on August 2019 to comply with the continuing educational/training required by the Securities Exchange Commission (SEC).

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.

THE KEY EXECUTIVE OFFICERS OF BPI AS OF JANUARY 31, 2020

1. **CEZAR P. CONSING**
   President & Chief Executive Officer

2. **MARIA THERESA MARCIAL JAVIER**
   Executive Vice President/CFO

Filipino, 49 years old, is the Chief Finance Officer and Head of Strategy and Finance of BPI. She is responsible for strategic planning, accounting, financial control, capital management, balance sheet management and analytics, corporate legal affairs, management and sales of bank assets, and investor relations.

She is a member of BPI's Management Committee, Asset and Liability Committee, Credit Committee, and chairs the Finance Committee. She is a board director of BPI/MS Insurance Corporation, BPI Europe Plc, and Global Payments Asia-Pacific Philippines, Inc. She is a fellow of Foundation for Economic Freedom, trustee and treasurer of World Wide Fund for Nature (WWF) Philippines, treasurer of BPI Foundation, and board director of the Philippine Inter-Island Sailing Federation.

She joined BPI in 1995 through the Bank Officers Development Program. She has 25 years of banking experience with expertise in strategic planning and finance, corporate banking, debt and equity capital markets, portfolio management, trust, and wealth management. She previously served on the BPI Trust Committee and the board of BPI Investment Management, Inc. Prior to her banking career, she worked for the National Economic and Development Authority, and the Agricultural Policy Credit Council.

She previously served as president of the Fund Managers Association of the Philippines, president of the Trust Officers Association of the Philippines, vice-chairman of Capital Markets Development Committee of FINEX, alternate governor of the Market Governance Board of Philippine Dealing and Exchange Corporation, and member of the National Advisory Council of 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.

3. **RAMON L. JOCSON**
   Executive Vice President/COO

Filipino, 60 years old, Mr. Jocson is currently an EVP and the COO of BPI. He is the Head of BPI's Enterprise Services Segment (ESS), which serves as the enterprise backbone of the organization that includes Human Resources, Centralized Operations, Information Systems, Digital Channels, Business Transformation, Data Science, 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 as a Systems Analyst with IBM Manila in 1982, subsequently taking on more responsibility as he assumed different positions, including Information Systems Manager, Systems Engineering Manager and Manager of Quality. In 1995, he was assigned in Singapore where he led IBM's Applications/Systems Integration business in ASEAN and South Asia. In 1996, he was appointed as Managing Director for IBM Philippines. In 2000, he took on a new assignment as Vice President and GM of IBM Global Services, ASEAN and South Asia. He was then appointed as Vice President and GM of IBM Global Services for Industrial Sector for Asia Pacific in 2005. 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.

4. **MARIE JOSEPHINE M. OCAMPO**
Executive Vice President

Filipino, 58 years old, Ms. Ocampo is the Head of the Mass Retail Segment of the Bank. She is responsible for BPI's Unsecured Lending and Cards Group in which she oversees BPI's credit, debit and prepaid card businesses as well as personal and micro finance loans. Ms. Ocampo is currently the Chairman of BPI Direct BanKo. She is a member of the Board of TAFE Corporation, BPI Payments Holdings Inc., Global Payments Asia-Pacific Philippines, Inc., AF Payments Inc., Zalora Philippines and CARD MRI Rizal Bank Inc.

Ms. Ocampo started her career in BPI as Vice-President for Marketing and Sales of BPI Credit Cards in 1996. She soon took the position of President for BPI Card Corporation, the bank's credit card subsidiary where she won 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 where she was responsible for retooling the bank's data warehouse and customer analytics capabilities into its distinct competitive advantage. Ms. Ocampo also developed the bank's CRM initiatives on top of driving the bank's advertising and digital initiatives across the 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.

Prior to joining BPI, Ms. Ocampo gained her extensive marketing experience as Assistant Product Manager at Johnson & Johnson Australia in 1985 and as Associate Marketing Manager in Johnson & Johnson Philippines in 1987. She led the expansion of Johnson & Johnson's 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 Ateneo de Manila University. She also completed the Advanced Management Program at the Harvard Business School in 2007.

5. ANTONIO V. PANER
Executive Vice President & Treasurer

Filipino, 61 years old, Mr. Paner serves as Treasurer and head of the Bank's Global Markets Segment. As such, he is responsible for managing the Bank's interest rate and liquidity gaps, as well as its fixed income and currency market-making, trading, and distribution 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, when the Bank acquired Family Savings Bank and performed various Treasury and Trust positions until 1989. Between 1989 and 1996, he worked at Citytrust, then the consumer banking arm of Citibank in the Philippines, which BPI acquired in 1996. At BPI, he has been responsible for various 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.

Mr. Paner retired as of December 31, 2019.

6. SIMON R. PATERNO
Executive Vice-President

Filipino, 61 years old, Mr. Paterno serves as head of BPI's Financial Products & Alternative Channels. As such, he is responsible for building and managing BPI's service capabilities across all asset, liability, payments, and bancassurance platforms. He also serves on the Bank's Management, Asset & Liability, Credit Committees, as well as on the Boards of AF Payments, Zalora Philippines, BPI Century Tokyo Lease and Finance Corporation, BPI Century Tokyo Rental Corporation, BPI/MS Insurance Corporation and BPI Direct BanKo where he is the Chairman.

Prior to joining BPI, Mr. Paterno represented CIMB in its search for a Philippine bank investment, having joined the group in late 2012 as CEO-designate of Bank of Commerce, which was targeted for acquisition by CIMB. Between 2004 and 2012, he was Managing Director and Country Manager of Credit Suisse, where he also founded and served as Chairman of Credit Suisse Securities Philippines, Inc., the firm's securities broker/dealer subsidiary. Between 2002 and 2004, Mr. Paterno was President & CEO of Development Bank of the Philippines and concurrently Chairman of the LGU Guarantee Corp. and other DBP subsidiaries. Prior to DBP, Mr. Paterno was a Managing Director at J.P. Morgan, where he spent 18 years in various capacities, rising from Head of Philippine banking to Head for sovereign clients in all of Asia. During the Asian Financial Crisis, he led the project teams that advised the Indonesian Bank Restructuring Agency (IBRA) and its Malaysian counterpart, Danaharta.

In his career, Mr. Paterno worked on some of the most significant sovereign financing transactions in the Philippines: restructuring of its foreign debt (1991), debut eurobond (1992), Brady exchanges (1994), Domestic Bond Exchanges (2006), and Debt Exchange Warrants (2008).

Mr. Paterno received his MBA from Stanford University in 1984 and his AB Honors Program in Economics (Cum Laude) from the Ateneo de Manila University in 1980.

Mr. Paterno retired as of June 30, 2019. He is the Founder and CEO of 2QR Corporation, a financial Technology start-up.

7. JUAN CARLOS L. SYQUIA
Executive Vice President

Filipino, 53 years old, is Head of Corporate Banking. Prior to taking on this role in 2018, he was the 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. in 1994. Within the banking group of ING, he took on various roles in relationship management, corporate finance origination, and investment banking execution. His last role in ING Bank was as the Head of Corporate Finance at ING Bank Manila. In 2007, he moved to a regional role as Head of Strategy and Business Development at ING Asia Pacific Ltd., the regional hub of ING Group's life insurance and asset management practice.

Mr. Syquia is a product of the Bank's Officer Training Program which he completed in 1990 during his first stint at the Bank of the Philippine Islands. In 1991, he was assigned to Cebu where he formed part of a two-man team that established the Corporate Banking Division desk in Cebu. He carries an MBA Degree (Honors) with a concentration in Finance and International Business from Fordham University, NY as well as an AB degree in Management Economics from the Ateneo de Manila University.

ANNEX “A-1”

MANAGEMENT REPORT

Description of business

The 168-year-old Bank of the Philippine Islands (“BPI”) is the first bank in the Philippines and Southeast Asia, and licensed by the Bangko Sentral ng Pilipinas (“BSP”) to provide universal banking services. The Bank is among the highest in the industry in terms of total assets, equity capital, and market capitalization, and has a significant share of total banking system deposits, loans, and investment assets under management. It is recognized as one of the country’s top providers of cross-border remittances, life and non-life bancassurance services, as well as asset finance and leasing. BPI also has a significant capital markets presence, particularly in fixed income and equities underwriting, distribution and brokerage. It is a significant provider of foreign exchange to both retail and corporate clients. The Bank also has the country’s second largest branch network and operates the second largest ATM network. It is a leader and innovator in the use of digital channels, and is a major provider of financial services through internet and mobile banking.

Principal Subsidiaries. The bank’s principal subsidiaries are:

(1) BPI Family Savings Bank, Inc. (“BFSB”) is BPI’s flagship platform for retail lending, in particular, housing and auto loans. It is also one of BPI’s primary vehicles for retail deposits. BFSB was acquired by BPI in 1984;

(2) BPI Capital Corp. (“BPI Cap”) is an investment house focused on corporate finance and the underwriting, distribution, and trading of debt and equity securities. It began operations in December 1994. BPI Cap wholly owns BPI Securities Corp., a stock brokerage;

(3) BPI Direct BanKo, Inc., A Savings Bank (“BanKo”), serves microfinance customers through branch, digital, and partnership channels. Founded in February 2000 as BPI Globe BanKO, it is now wholly-owned, following a September 2016 purchase of stakes owned by Ayala Corp. (20%) and Globe Telecom, Inc. (40%) and a December 2016 merger with BPI Direct Savings Bank, Inc.;

(4) BPI International Finance Limited (“BPI IFL”) is a deposit taking company in Hong Kong. Originally established in August 1974, it provides deposit services as well as client-directed sourcing services for international investments;

(5) BPI Remittance Centre Hong Kong Ltd. ("BERC HK") is a licensed money service operator in Hong Kong servicing the remittance services to beneficiaries residing throughout the Philippines. On November 21, 2018, BPI IFL distributed its shares in BERC HK as a property dividend to the Parent Bank. BERC HK became an immediate subsidiary of the Parent Bank following this;

(6) BPI Europe Plc. (”BPI Europe”) commenced operations in the United Kingdom in May 2007 as a bank registered in England and Wales. It is a UK-licensed bank authorized by the Prudential Regulation Authority (PRA), and regulated by the PRA and the Financial Conduct Authority (FCA). It started its operations offering retail deposit products and money services, servicing retail customers, primarily targeting the Filipino community;

(7) BPI Century Tokyo Lease & Finance Corp. (“BPI CTL”) is a non-bank financial institution (“NBFI”) that provides financing services pursuant to the Financing Company Act. BPI CTL is a joint venture with Century Tokyo Leasing Corp., who purchased a 49% stake in 2014. BPI CTL wholly owns BPI Century Tokyo Rental Corp., which offers operating leases;

(8) BPI/MS Insurance Corp. (“BPI MS”) is a non-life insurance company. It is a joint venture with Mitsui Sumitomo Insurance Co. (who owns a 49% stake), and is the result of a merger of FGU Insurance Co. and FEB Mitsui Marine Insurance Co., which was acquired as a subsidiary of Far East Bank in 2000;

(9) BPI Asset Management and Trust Corporation (“BPI AMTC”) is a Stand Alone Trust Corporation (SATC) serving both individual and institutional investors with a full suite of local and global investment solutions. BPI AMTC was established after a Certificate of Authority to

Operate was issued by the BSP on December 29, 2016 and it started operations on February 1, 2017;

(10) BPI Investment Management Inc. ("BIMI") is a wholly owned subsidiary of the Bank and serves as the Bank's manager and investment advisor to the ALFM mutual funds, which comprise a number of open-end investment companies registered with, and regulated by, the Securities and Exchange Commission (SEC). BIMI is also responsible for formulating and executing the funds' investment strategies. Effective January 29, 2020, BIMI assumed the management and distribution of nine mutual funds previously managed by PhilAm Asset Management, Inc. ("PAMI"). BIMI and PAMI first announced the agreement to transfer the management of the funds on November 20, 2019.

Legal Proceedings

The Bank does not have any material pending legal proceedings to which the registrant or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

Market Information

The common shares of BPI have been listed on the Philippine Stock Exchange (PSE) since 1966.

The table below shows the high and low prices of BPI shares transacted at the PSE for each quarter within the last three (3) fiscal years.

	High	**Low**
Year Ended December 31, 2017		
1st Quarter..............	P 102.40	88.50
2nd Quarter.............	107.00	103.50
3rd Quarter..............	107.40	99.45
4th Quarter..............	108.10	95.60
Year Ended December 31, 2018		
1st Quarter..............	P 120.98	106.10
2nd Quarter.............	111.84	86.00
3rd Quarter..............	101.00	79.50
4th Quarter..............	94.95	79.50
Year Ended December 31, 2019		
1st Quarter..............	P 95.00	83.90
2nd Quarter.............	85.65	77.30
3rd Quarter..............	94.35	78.00
4th Quarter..............	100.00	83.10

The high and low prices of BPI at the Philippine Stock Exchange on March 3, 2020 were P78.50 and P76.50, respectively, with a closing price of P77.95.

Dividends

Cash dividends declared and paid during the years ending December 31, 2017, 2018 & 2019 are as follows:

BPI	Amount Declared	Amount Paid
Year Ending December 31, 2017	7,091 Million	7,089 Million
Year Ending December 31, 2018	8,104 Million	7,598 Million
Year Ending December 31, 2019	8,113 Million	12,165 Million

Amount paid in 2019 includes the 2019 amount declared of P8,113 million and the 2018 second semester amount declared of P4,052 million.

There are no known restrictions or impediments to the company's ability to pay dividends on common equity, whether current or future.

Details of the dividend declaration and manner of payment are reflected in the 2019 Audited Financial Statements Note 18 and the Statements of Cash Flows, respectively.

Management Discussion and Analysis of Financial Condition and Results of Operations
(Last Three Years: 2017, 2018 and 2019)

The highlights of the balance sheet and income statement of BPI for each year and the compounded growth rate over the three-year period (2017 - 2019) are shown below:

In Million Pesos	2016	2017	2018	2019	CAGR
Assets	1,725,696	1,903,905	2,085,228	2,205,030	8.5%
Deposits	1,431,300	1,562,200	1,585,746	1,695,343	5.8%
Loans (Net)	1,040,720	1,202,338	1,354,896	1,475,336	12.3%
Capital	165,134	180,688	248,521	269,576	17.7%

The compounded annual growth rate (CAGR) of the Bank's asset levels from 2017 to 2019 was 8.5%, driven by the 12.3% increase in loans. Deposits likewise increased over the same period by 5.8%. Capital grew 17.7%, boosted by the May 2018 Stock Rights Offer and increasing annual profits, net of cash dividend payments.

<u>2017</u>

Total resources ended at P1.90 trillion, P178.2 billion, or 10.3% higher than last year's P1.73 trillion. **Total deposits** expanded by P130.90 billion, or 9.1% to P1.56 trillion due to balances growth in time, savings and demand deposits of P69.8 billion, or 18.4%, P40.4 billion, or 4.9%, and P20.7 billion or 8.9%, respectively. **Bills payable** grew P21.5 billion, or 34.8% on higher external borrowings. **Deferred credits and other liabilities** increased by P7.8 billion, or 24.3% due to higher foreign acceptances outstanding and miscellaneous liabilities. **Derivative financial liabilities** grew P1.7 billion or 53.9%, due to higher market valuation of certain derivative products. **Due to Bangko Sentral ng Pilipinas and other banks** increased by P548 million or 81.8% due to higher obligations to BSP and external borrowings. On the other hand, **Manager's checks and demand draft outstanding** decreased P557 million, or 7.3% due to lower balance of manager's checks issued.

Capital funds expanded by P15.6 billion, or 9.4% to P180.7 billion, from year-end 2016. **Surplus** contributed to the capital growth by P17.8 billion, or 18.1%, as a result of accumulated profits net of cash dividend payments. **Reserves** were down by P2.5 billion, or 90.6%, as a result of the incorporation of the Bank's trust business. The required reserves for the trust business is now being carried by BPI AMTC.

On the asset side, **loans and advances** increased P161.6 billion, or 15.5% driven by higher loan demand from corporate loans. **Due from Bangko Sentral ng Pilipinas (BSP)** likewise increased P16.4 billion, or 6.9% on higher volume of placement in BSP deposits and reserves. **Other resources, net** grew P3.5 billion, or 28.2% on account of higher miscellaneous assets. **Interbank loans receivable and securities purchased under agreements to resell** went up P3.4 billion, or 22.0% due to increase in RRP volume and interbank term loans with foreign banks and financial institutions. **Derivative financial assets** expanded by P2.0 billion, or 66.4%, due to higher positive fair value on certain derivative positions. **Bank premises, furniture, fixtures and equipment, net** increased by P1.2 billion, or 9.0% due to building renovations and leasehold improvements. **Assets attributable to insurance operations** increased by P1.1 billion, or 6.6%, due to the Bank's non-life insurance subsidiary's higher securities investments and insurance receivables. **Deferred income tax assets, net** grew P548 million, or 7.3%, due to higher allowance for probable loss.

On the other hand, **trading securities** declined by P9.3 billion, or 63.5%, due to decrease in holding of securities intended for trading. **Due from Other Banks**, likewise declined by P8.6 billion, or 37.5%, on lower working balances and placements maintained with correspondent banks. **Investment properties, net** decreased by P534 million, or 79.8%, due to reclassification of an investment property to bank premises as the Bank decided to use the property for its operations. **Investments in subsidiaries and associates, net** went down P432 million, or 6.3% on account of the decrease in the Bank's share in the net income from BPI-Philam.

<u>2018</u>

Total resources reached P2.09 trillion, P181.3 billion, or 9.5% higher than last year's P1.90 trillion. **Total deposits** grew P23.5 billion, or 1.5% to P1.59 trillion, on the back of savings and demand deposit growth of P23.0 billion, or 2.7%, and P4.0 billion or 1.6%, respectively. **Other borrowed funds** increased by P83.4 billion, or 99.8% largely due to the 2018 dollar and peso bond issuances. **Deferred credits and other liabilities** increased by P3.1 billion, or 7.9% due to higher accounts payable obligations. **Due to Bangko Sentral ng Pilipinas and other banks** increased by P2.8 billion or 227.5% due to higher obligations to BSP. **Accrued taxes, interest and other expenses** rose by P1.9 billion or 27.3% on higher accrual of year end taxes and interest payable. **Derivative Financial Liabilities** declined by P0.9 billion, or 18.7% due to lower market valuation of certain derivative products.

Capital funds amounted to P248.5 billion, P67.8 billion, or 37.5% higher than last year's P180.7 billion. **Share capital and share premium** contributed to the capital growth by P5.6 billion, or 14.3% and P44.4 billion, or 149.2%, respectively, due to the May 2018 Stock Rights Offer. **Surplus** also increased P11.0 billion, or 9.5% due to higher accumulated profits net of cash dividends for the period. **Reserves** likewise increased by P3.8 billion, or 1,150.0% representing appropriation of general loan loss provisions in excess of PFRS9 loan loss provisions under BSP Circ. 1011. **Accumulated other comprehensive loss** also decreased by P2.9 billion, or 57.2% due to transition to PFRS 9.

On the asset side, **loans and advances** increased P152.6 billion, or 12.7% driven by higher loan demand from corporate and credit card loans. **Interbank loans receivable and securities purchased under agreements to resell** amounted to P34.3 billion, an increase of P15.7 billion, or 84.7% on account of higher volume of RRP placements and interbank term loans. **Financial assets at fair value through OCI** likewise increased P13.9 billion, or 59.6% on higher deployment activities post-EMTN, peso bond issuance and liquidity assets build up towards year-end. **Cash and other cash items** grew P8.4 billion, or 23.9% on account of higher cash requirement for the period as compared to year-end 2017. **Trading securities** increased by P7.4 billion, or 138.0%, due to market view of declining rates. **Other resources, net** amounted to P22.1 billion, P6.3 billion, or 40.2% on account of higher miscellaneous assets. **Bank premises, furniture, fixtures and equipment, net** increased by P1.2 billion, or 7.9% due to land and building premises, renovations and leasehold improvements**.** **Deferred income tax assets, net** grew P444 million, or 5.5% on account of the impairment losses setup for the period.

On the other hand, **Assets held for sale** decreased by P215 million, or 6.0%, due to higher sell down of foreclosed properties. **Investments in subsidiaries and associates, net** declined P727 million, or 11.4% on account of the decrease in the Bank's share in the net income from BPI-Philam. **Derivative financial assets** decreased by P0.9 billion, or 19.0%, due to lower fair value on certain derivative positions. **Due from other banks**, declined by P1.9 billion, or 13.4%, on lower working balances and placements maintained with foreign correspondent banks. **Due from Bangko Sentral ng Pilipinas (BSP)** likewise decreased by P30.0 billion, or 11.7% due to cut in reserve requirements.

2019

Total resources reached P2.20 trillion, P119.8 billion, or 5.7%, higher than last year's P2.09 trillion. **Total deposits** grew P109.6 billion, or 6.9% to P1.70 trillion, on the back of growth in time, demand, and savings deposits of 17.6%, 6.1%, and 1.8%, respectively. **Deferred credits and other liabilities** increased by P4.6 billion, or 10.8%, from the recognition of lease liabilities on office spaces as part of the Bank's adoption of PFRS 16: Leases. **Manager's checks and demand draft outstanding** increased by P1.4 billion, or 19.7%, on account of higher volume of manager's checks issued. **Accrued taxes, interest and other expenses** rose by P809 million, or 8.9%, on higher accrued interest payable and accrued expenses. On the other hand, **bills payable and other borrowed funds** decreased by P16.1 billion, or 9.6%, largely due to lower bills payable. **Due to Bangko Sentral ng Pilipinas and other banks** decreased by P1.0 billion, or 26.1%, on account of lower tax collected for the Bureau of Internal Revenues (BIR). **Derivative Financial Liabilities** declined by P1.0 billion, or 26.1%, due to lower market valuation of certain derivative products.

Capital funds amounted to P269.6 billion, P21.0 billion, or 8.5%, higher than last year's P248.5 billion. **Surplus** contributed to the capital growth by P20.0 billion, or 15.7%, as a result of accumulated profits net of cash dividend payments. **Reserves** likewise increased by P1.0 billion, or 24.7%, representing required appropriation of general loan loss provisions in excess of PFRS9 loan loss provisions under BSP Circ. 1011. **Accumulated other comprehensive loss** increased by P263 million, or 12.1%, due to the increase in actuarial losses on defined benefit plan.

On the asset side, **loans and advances, net** increased P120.4 billion, or 8.9%, led by the growth in the corporate and consumer segments. **Financial assets at fair value through OCI** likewise increased P16.7 billion, or 44.9%, due to the net effect of the increase in the Bank's various holdings in hold to collect and sell debt securities. **Due from Other Banks,** increased by P9.9 billion, or 79.2%, due to net increase in the account balances with various banks. **Bank premises, furniture, fixtures and equipment, net** increased by P7.5 billion, or 46.1%, as the Bank adopted PRFS 16 which entails the recognition of Right-of-Use Asset for the Bank's leased properties and equipment. **Financial assets at fair value through profit and loss** increased by P7.4 billion, or 44.2%, due to increase in holdings of securities intended for trading on outlook of lower interest rates. **Cash and other cash items** grew P3.7 billion, or 8.5%, on account of higher cash requirement for the period as compared to year-end 2018. **Assets attributable to insurance operations** increased by P1.2 billion, or 7.3%, due to higher securities investments of the Bank's non-life insurance affiliate. **Deferred income tax assets, net** grew P1.2 billion, or 13.7%, on account of the impairment losses setup for the period. **Investments in subsidiaries and associates, net** increased P1.1 billion, or 19.2%, as a result of higher income from the asset management subsidiaries.

On the other hand, **Due from Bangko Sentral ng Pilipinas (BSP)** decreased by P18.1 billion, or 8.0% due to lower volume of placement in BSP deposits and lower reserve requirements. **Financial assets at amortized cost** decreased by P12.5 billion, or 4.3%, due to the net effect of the decrease in the Bank's various holdings in hold to collect and sell debt securities. **Interbank loans receivable and securities purchased under agreements to resell** declined P11.7 billion, or 34.2%, due to lower volume of placement in Reverse Repurchase Agreements (RRP) and interbank term loans. **Other assets, net** was lower by P6.8 billion, or 30.6%, primarily attributable to lower miscellaneous assets. **Assets held for sale, net** also declined P208 million, or 6.2%, due to sale of foreclosed properties.

Asset Quality
The Bank's loan portfolio mix is broken down into large corporates at 77%, small and medium enterprises (SMEs) at 5%, and consumer at 19% as compared to last year's 76%, 6%, and 18%, respectively.

Allowance for Impairment of P26.0 billion was up by P3.1 billion from last year's P22.9 billion. NPL ratio stood at 1.66%, an improvement from 1.85% in 2018. The Bank's NPL ratio was also better than industry average of 2.09% as of December 2019.

Details of the loan portfolio are reflected in Note 10 of the 2019 Audited Financial Statements.

Liquidity
Customer deposits account for 88% of BPI's total funding, while 8% is attributable to other borrowings. In 2019, the Bank tapped alternative sources through the following milestone transactions:
- ASEAN Green Bond issuances of CHF 100 million and USD 300 million in September 2019;
- Issuance of over P3 billion in LTNCTDs in October 2019; and
- The maiden bond issuance of its wholly-owned thrift bank and consumer lending arm, BFSB, which raised P9.6 billion.

The Bank's loan to deposit ratio was 87% in 2019, up from 85% in 2018.

Results of Operations

In Million Pesos	2016	2017	2018	2019	CAGR
Net Interest Income	42,377	48,039	55,843	65,945	15.9%
Non-Interest Income	24,174	22,981	22,681	28,389	5.5%
Impairment Losses	4,800	3,795	4,923	5,822	6.6%
Operating Expenses	34,941	38,533	43,602	50,077	12.7%
Net Income	22,050	22,416	23,078	28,803	9.3%

The Bank's net income from 2017 to 2019 grew by a CAGR of 9.3% as net interest income and non-interest income increased by 15.9% and 5.5%, respectively. Partially tempering revenues were the higher operating expenses and impairment losses recognized, which have also increased in the last three years by 12.7% and 6.6%, respectively.

2017 vs. 2016. Net income for full year 2017 ended at P22.4 billion, P366 million, or 1.7% higher than same period last year of P22.1 billion. Total revenues grew by P4.5 billion, but was partly tempered by increases recorded in other expenses and provision for income tax which were up by P3.6 billion, and P1.4 billion, respectively.

Net interest income at P48.0 billion, increased 13.4% from last year's P42.4 billion on the back of P178.5 billion average asset base expansion.

- **Interest income** increased P7.5 billion, or 12.9%, to P65.8 billion from previous year's P58.3 billion. Interest income on **loans and advances** were up by P7.7 billion, or 15.8%, due to the P147.7 billion increase in average loan volume, partly tempered by the 3-basis point drop in loan yield. Interest income on **trading securities** also increased P21 million, or 11.7%, on account of higher volume and yield. On the other hand, interest income on **available-for-sale securities** declined by P111 million, or 23.7%, largely on account of lower volume. **Gross receipts tax (GRT)** increased P219 million, or 11.0%, as a result of higher interest income.

- **Interest expense** was up by P1.9 billion to P17.8 billion, from last year's P15.9 billion. This increase was primarily driven by interest expense on **deposits**, which grew by P1.4 billion, or 8.9% on account of the average asset base expansion partly tempered by lower deposit cost. Interest expense on **bills payable and other borrowings** also increased P516 million, or 81.4%, driven by higher volume and cost.

Other income at P23.0 billion, was lower by P1.2 billion, or 4.9%, from P24.2 billion last year. **Other operating income** increased by P2.4 billion, or 27.0% mainly due to higher credit card income and profit from assets sold. **Income from foreign exchange trading** increased by P396 million, or 20.3%, from gains on proprietary positions and retail sales. The drop in other income was accounted for by the P4.4 billion, or 81.4%, decline in **trading gain (loss) on securities** as the Bank booked a one-off gain derived from the sale of the reclassified portion of certain held-to-maturity securities to AFS in 2016.

Other expenses at P38.5 billion, increased P3.6 billion, or 10.3% from last year's P34.9 billion. **Other operating expenses** increased P2.0 billion, or 17.4%, on product-related insurance premiums, third party fees and commissions, litigation expenses, and transaction related costs. **Occupancy and equipment-related expenses** grew by P1.2 billion, or 11.7% owing to increase in rent expense, depreciation and amortization costs, and significant spending on technology.

Impairment losses stood at P3.8 billion, P1.0 billion, or 20.9% lower than the previous year, as loan provisioning was slowed down.

Provision for income tax at P6.0 billion, up P1.4 billion, or 31.3% from P4.5 billion. **Current taxes** rose by P1.0 billion, or 18.4%, due to higher proportion of Bank pre-tax earnings that are subject to ordinary corporate income tax. **Deferred taxes** decreased P422 million, or 47.7% on account of the impairment losses set up for the year, and accounts with timing difference.

Income attributable to non-controlling interest increased P95 million, or 42.2%, on account of higher income from the Bank's non-life insurance subsidiary.

Comprehensive Income

Total comprehensive income was at P22.4 billion, P670 million, or 3.1% higher than last year's P21.7 billion on the back of increases on **Net income before minority interest** at P461 million, or 2.1% and **other comprehensive income** at P337 million or 95.2%.

Net change in fair value reserve on available-for-sale securities increased P170 million or 31.3% on account of higher market valuation of the Bank's investment securities**. Fair value reserve on investments of insurance subsidiaries**, also increased P327 million, or 249.6%, as a result of higher market valuation of the insurance subsidiaries' investment funds. **Currency translation differences** likewise increased by P239 million, or 211.5% due to the general weakening of the Philippine peso. **Share in other comprehensive loss of associates** increased P178 million, or 240.5% due to the downward market valuation of the investments of the bancassurance affiliate.

Actuarial losses on defined benefit plan, net of tax effect decreased P307 million, or 53.0% as impacted by the change in financial assumption.

Comprehensive income attributable to non-controlling interest increased P128 million, or 69.2% due to higher market valuation of the insurance's subsidiaries' investments.

<u>2018 vs. 2017.</u> For the year 2018, the Bank earned a **net income** of P23.1 billion, representing a P661.3 million, or 3.0% increase relative to P22.4 billion earned in 2017. This increase was driven by the P7.5 billion growth in revenues, which was partly tempered by the increase in operating expenses and impairment losses by P5.1 billion, or 13.2%, and P1.1 billion, or 29.7%, respectively.

Net interest income of P55.8 billion increased 16.2% from last year's P48.0 billion on the back of P158.0 billion average asset base expansion.

- **Interest income** increased P14.3 billion, or 21.8%, to P80.2 billion from previous year's P65.8 billion. Interest income **on loans and advances** increased by P14.8 billion, or 27.1%, as both the loan average volume and yield rose by P173.9 billion, and 48 bps, respectively. Interest income **on financial assets** grew P430 million also due to the increase in average volume and yield of P11.6 billion and 34 bps, respectively. On the other hand, interest income on **deposits with BSP and other banks** declined by P876 million, or 42.8%, due to decline in both average volume and yield by P41.5 million, and 37 bps, respectively.

- **Interest expense** of P24.3 billion increased P6.5 billion, or 36.7%, from last year's P17.8 billion. Interest expense on **deposits** increased P4.9 billion or 29.3% as both the average deposit base and cost grew by P67.5 billion and 18 bps, respectively. Interest expense on **bills payable and other borrowings** also increased P1.7 billion, or 144.4%, due to higher volume and cost attributable to the new bond issuances in 2018.

Other income at P22.7 billion, was lower by P300 million, or 1.3%, from P23.0 billion last year. The drop in other income was accounted for by the P264 million, or 22.1%, decline in **trading gain on securities** due to market volatility. **Income attributable to insurance operations** also decreased by the P190 million, or 13.5%, due to the life insurance subsidiary's lower investment income arising from mark-to-market losses and the non-life business' higher claims expenses. On the positive, **fees and commissions** increased by P572 million, or 6.9%, on increased service charges.

Other expenses at P43.6 billion, increased P5.1 billion, or 13.2% from last year's P38.5 billion. **Other operating expenses** increased P1.8 billion, or 13.9%, on product-related insurance premiums, rewards and other selling expenses, third party fees and commissions, and transaction related costs. **Occupancy and equipment-related expenses** grew by P1.8 billion, or 15.9% owing to increase in rental, depreciation and amortization costs, and significant spending on IT-related services. **Compensation and fringe benefits** also increased to P15.3 billion, up by P1.4 billion, or 10.2% on account of BanKo's manpower expansion for its new offices.

Impairment losses stood at P4.9 billion, P1.1 billion, or 29.7% higher than the previous year, due to increased loan loss provisioning.

Provision for income tax at P6.7 billion, up P714 million, or a 12.0% increase from P6.0 billion last year. **Current taxes** rose by P986 million, or 15.4%, due to higher core intermediation fees subject to regular corporate income tax. **Deferred taxes** increased P272 million, or 58.8% on account of the impairment losses set up for the year, and accounts with timing difference.

Income attributable to non-controlling interest decreased P68 million, or 21.4%, on account of lower income from the Bank's non-life insurance and leasing subsidiaries.

Total comprehensive income was at P21.9 billion, P529 million, or 2.4% lower than last year's P22.4 billion as **other comprehensive income** declined P1.3 billion, overshadowing the increase in **net income before minority interest** of P593 million.

Net change in fair value reserve on FVOCI securities, net of tax effect decreased P1.5 billion or 210.8% on account of lower market valuation of the Bank's investment securities. **Currency translation differences** likewise decreased by P152 million, or 120.3% due to the general weakening of the Philippine peso. **Fair value reserve on investments of insurance subsidiaries**, also decreased by P596 million, or 303.8%, as a result of lower market valuation of the insurance subsidiaries' investment funds. **Share in other comprehensive loss of associates** decreased P1.0 billion, or 408.2% due to the downward market valuation of the investments of the bancassurance affiliates. These decreases were partly tempered by the P885 million, or 324.6% increase in **actuarial gains (losses) on defined benefit plan, net of tax effect** as impacted by the change in financial assumption; and the P1.1 billion, or 212.7% increase in **share in other comprehensive gain (loss) of associates** due to the remeasurement/fair valuation of BPI-Philam's liabilities, property, and equipment.

Comprehensive income attributable to non-controlling interest decreased P150 million, or 48.0% due to lower market valuation of the insurance's subsidiaries' investments.

2019 vs. 2018. In 2019, the Bank's **net income** reached P28.8 billion, an increase of P5.7 billion, or 24.8%, from the P23.1 billion recognized in the prior year. This increase was boosted by revenue growth of P15.8 billion, or 20.1%, which was partially tempered by the increase in operating expenses of P6.5 billion, or 14.8%.

Net interest income stood at P65.9 billion, up P10.1 billion, or 18.1%, on account of the P165.7 billion, or 8.6%, expansion in average asset base, and 24-basis point expansion in margins.

- **Interest income** increased P21.4 billion or 26.7%, from previous year's P80.2 billion. Interest income **on loans and advances** increased by P17.7 billion, or 25.6%, on the back of higher average volume and asset yield by P122.8 billion, and 84 bps, respectively. Interest income **on financial assets** likewise increased by P3.1 billion also due to higher average volume and yield of P59.2 billion and 35 bps, respectively. Interest income **on deposits with BSP and other banks** increased by P550 million, or 46.8%, due to higher average yield, partially tempered by the decrease in average volume;

- **Interest expense** of P35.6 billion, increased P11.3 billion, or 46.4%, driven by the increases in both interest expense **on deposits** at P28.9 billion, up P7.6 billion, or 35.8%, and **on bills payable and other borrowings** at P6.8 billion, up P3.7 billion, or 118.7%, due to higher average volume and interest cost.

Other income at P28.4 billion, up P5.7 billion, or 25.2%, higher than the P22.7 billion earned in the same period of 2018 primarily from the **securities trading gain** of P4.0 billion, up P3.3 billion, or 457.7%, due to profit taking on favorable trading opportunities. **Other operating income** at P12.0 billion, increased P1.6 billion, or 15.4%, due to higher credit card income and miscellaneous income. **Fees and commissions** at P9.1 billion, increased P838 million, or 10.2%, mainly from the higher service charges.

Other expenses at P50.1 billion, increased P6.5 billion, or 14.8%, due to increased spending on the following:
- **Occupancy and equipment-related expenses** at P16.1 billion, grew P3.0 billion, or 22.6%, due to the impact of the PRFS 16 implementation and higher technology-related outsourced services costs;
- **Compensation and fringe benefits** at P17.5 billion, was up P2.2 billion, or 14.2%, on increased manpower complement for both microfinance and regular branches;
- **Other operating expenses** at P16.5 billion, also increased P1.3 billion, or 8.8%, primarily from higher costs for regulatory, marketing, transaction servicing, and outsourced services.

Impairment losses stood at P5.8 billion, which includes specific reserves for the Hanjin exposure.

Provision for income tax at P9.4 billion, up P2.7 billion, or a 40.2% increase from P6.7 billion last year. **Current taxes** at P10.0 billion, was higher by P2.6 billion, or 35.6%, attributable to the higher taxable income subject to regular corporate income tax. **Deferred taxes** at (P685) million, on account of the higher write-offs for the year.

Income attributable to non-controlling interest increased P28 million, or 11.3%, because of higher income contribution from the Bank's non-life insurance affiliates.

Comprehensive Income

Total comprehensive income at P28.8 billion, increased P6.9 billion, or 31.5%, due to increases in both **net income before minority interest** by P5.8 billion, or 24.7%, and **total other comprehensive income, net of tax effect** by P1.4 billion, or 109.9%.

Share in other comprehensive income of associates at P1.3 billion, jumped P2.6 billion, or 200.4%, due to the upward market valuation of investments of the bancassurance affiliates. **Fair value reserve on investments of insurance subsidiaries, net of tax effect** at P545.3 million, increased P945 million, or 236.4%, as a result of higher market valuation of the bancassurance affiliates' investment funds. **Net change in fair value reserve on FVOCI securities, net of tax effect** at (P51) million, increased P739 million, or 93.5%, on account of higher market valuation of the Bank's investment securities. **Currency translation differences** at (P202) million, decreased P176 million, or 684.6%, on account of the net effect from cash flow hedging. These increases were partly tempered by the decreases in **remeasurements of defined benefit obligation**, of P2.0 billion due to change in financial assumption, and **share in other comprehensive gain (loss) of associates** of P627 million, due to the remeasurement/fair valuation of BPI-Philam's liabilities, property, and equipment.

Comprehensive income attributable to non-controlling interest increased P279 million, or 171.8% due to higher market valuation of the insurance's subsidiaries' investments.

Comprehensive Income

Total comprehensive income was at P21.9 billion, P529 million, or 2.4% lower than last year's P22.4 billion as **other comprehensive income** declined P1.3 billion, overshadowing the increase in **net income before minority interest** of P593 million.

Net change in fair value reserve on FVOCI securities, net of tax effect decreased P1.5 billion or 210.8% on account of lower market valuation of the Bank's investment securities. **Currency translation differences** likewise decreased by P152 million, or 120.3% due to the general weakening of the Philippine peso. **Fair value reserve on investments of insurance subsidiaries**, also decreased by P596 million, or 303.8%, as a result of lower market valuation of the insurance subsidiaries' investment funds. **Share in other comprehensive loss of associates** decreased P1.0 billion, or 408.2% due to the downward market valuation of the investments of the bancassurance affiliates. These decreases were partly tempered by the P885 million, or 324.6% increase in **actuarial gains (losses) on defined benefit plan, net of tax effect** as impacted by the change in financial assumption; and the P1.1 billion, or 212.7% increase in **share in other comprehensive gain (loss) of associates** due to the remeasurement/fair valuation of BPI-Philam's liabilities, property, and equipment.

Comprehensive income attributable to non-controlling interest decreased P150 million, or 48.0% due to lower market valuation of the insurance's subsidiaries' investments.

<u>2019 vs. 2018.</u> In 2019, the Bank's **net income** reached P28.8 billion, an increase of P5.7 billion, or 24.8%, from the P23.1 billion recognized in the prior year. This increase was boosted by revenue growth of P15.8 billion, or 20.1%, which was partially tempered by the increase in operating expenses of P6.5 billion, or 14.8%.

Net interest income stood at P65.9 billion, up P10.1 billion, or 18.1%, on account of the P165.7 billion, or 8.6%, expansion in average asset base, and 24-basis point expansion in margins.

- **Interest income** increased P21.4 billion or 26.7%, from previous year's P80.2 billion. Interest income **on loans and advances** increased by P17.7 billion, or 25.6%, on the back of higher average volume and asset yield by P122.8 billion, and 84 bps, respectively. Interest income **on financial assets** likewise increased by P3.1 billion also due to higher average volume and yield of P59.2 billion and 35 bps, respectively. Interest income **on deposits with BSP and other banks** increased by P550 million, or 46.9%, due to higher average yield, partially tempered by the decrease in average volume;

- **Interest expense** of P35.6 billion, increased P11.3 billion, or 46.4%, driven by the increases in both interest expense **on deposits** at P28.9 billion, up P7.6 billion, or 35.8%, and **on bills payable and other borrowings** at P6.8 billion, up P3.7 billion, or 118.8%, due to higher average volume and interest cost.

Other income at P28.4 billion, up P5.7 billion, or 25.2%, higher than the P22.7 billion earned in the same period of 2018 primarily from the **securities trading gain** of P4.0 billion, up P3.3 billion, or 457.7%, due to profit taking on favorable trading opportunities. **Other operating income** at P12.0 billion, increased P1.6 billion, or 15.4%, due to higher credit card income and miscellaneous income. **Fees and commissions** at P9.1 billion, increased P838 million, or 10.2%, mainly from the higher service charges.

Other expenses at P50.1 billion, increased P6.5 billion, or 14.8%, due to increased spending of the following:

- **Occupancy and equipment-related expenses** at P16.1 billion, grew P3.0 billion, or 22.6%, due to the impact of the PRFS 16 implementation and higher technology-related outsourced services costs;
- **Compensation and fringe benefits** at P17.5 billion, was up P2.2 billion, or 14.2%, on increased manpower complement for both microfinance and regular branches;
- **Other operating expenses** at P16.5 billion, also increased P1.3 billion, or 8.8%, primarily from higher costs for regulatory, marketing, transaction servicing, and outsourced services.

Impairment losses stood at P5.8 billion, which includes specific reserves for the Hanjin exposure.

Provision for income tax at P9.4 billion, up P2.7 billion, or a 40.2% increase from P6.7 billion last year. **Current taxes** at P10.0 billion, was higher by P2.6 billion, or 35.6%, attributable to the higher taxable income subject to regular corporate income tax. **Deferred taxes** at (P685) million, or 6.6% decrease, on account of the higher write-offs for the year.

Income attributable to non-controlling interest increased P28 million, or 11.3%, because of higher income contribution from the Bank's non-life insurance affiliates.

Comprehensive Income

Total comprehensive income at P28.8 billion, increased P6.9 billion, or 31.5%, due to increases in both **net income before minority interest** by P5.8 billion, or 24.7%, and **total other comprehensive income, net of tax effect** by P1.4 billion, or 109.9%.

Share in other comprehensive income of associates at P1.3 billion, jumped P2.6 billion, or 200.4%, due to the upward market valuation of investments of the bancassurance affiliates. **Fair value reserve on investments of insurance subsidiaries, net of tax effect** at P545.3 million, increased P945 million, or 236.4%, as a result of higher market valuation of the bancassurance affiliates' investment funds. **Net change in fair value reserve on FVOCI securities, net of tax effect** at (P51) million, increased P739 million, or 93.5%, on account of higher market valuation of the Bank's investment securities. **Currency translation differences** at (P202) million, decreased P176 million, or 684.6%, on account of the net effect from cash flow hedging. These increases were partly tempered by the decreases in **remeasurements of defined benefit obligation**, of P2.0 billion due to change in financial assumption, and **share in other comprehensive gain (loss) of associates** of P627 million, due to the remeasurement/fair valuation of BPI-Philam's liabilities, property, and equipment.

Comprehensive income attributable to non-controlling interest increased P279 million, or 171.8% due to higher market valuation of the insurance's subsidiaries' investments.

Key Performance Indicators

	2017	2018	2019
Return on Equity (%)	12.7	10.2	11.0
Return on Assets (%)	1.3	1.2	1.4
Net Interest Margin (%)	2.9	3.1	3.3
Operating Efficiency Ratio (%)	54.3	55.5	53.1
Capital Adequacy Ratio (%)*	12.7	16.1	16.1

*Basel III Framework

The Bank's key financial performance ratios for the last three years showed consistent profitability and stable capitalization. The same ratios are also used to evaluate the performance of the bank's subsidiaries.

Return on equity (ROE), the ratio of net income to average equity, was higher at 11.0%, compared to last year's 10.2%, on account of higher growth in net income at 24.8% outpacing the increase in average equity of 16.1%.

Return on assets (ROA), the ratio of net income to average assets, was higher at 1.4%, versus 1.2% last year, also due to the growth in net income of 24.8% outpacing the growth in average assets of 8.6%.

Net interest margin (NIM), net interest income divided by average interest bearing assets, at 3.3% was higher by 24 basis points from last year's 3.1% on account of the 69-basis point increase in loan yields, tempered by the 52-basis point increase in cost of funds.

Operating efficiency (cost to income) ratio, the ratio of operating expenses to income, improved to 53.1% from 55.5%, due to increased profitability, where revenue growth of 20.1% was greater than the increase in operating expenses of 14.8%.

Capital adequacy ratio (CAR), the ratio of total qualifying capital to total risk-weighted assets, was maintained at 16.1%, due to the moderate growth of risk-weighted assets. Similarly, the CET 1 ratio was also maintained at 15.2%. Both of the Bank's capital ratios are above the BSP's minimum requirement.

Presented below are the additional information required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

	2018	2019
Return on Equity (%)	10.7	11.1
Return on Assets (%)	1.2	1.3
Net Interest Margin (%)	3.0	3.3

Details of the basic quantitative indicators of financial performance are reflected in Note 30 of the 2019 Audited Financial Statements.

Material Event/s and Uncertainties:

Other than the disclosure enumerated above, the Bank has nothing to report on the following:

a) Any known trends, demands, commitments, events or uncertainties that will have a material impact on its liquidity.

b) Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

c) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created during the reporting period.

d) Any material commitments for capital expenditures.

e) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

f) Any significant elements of income or loss that did not arise from the Bank's continuing operations.

g) Any seasonal aspects that had a material effect on the financial condition or results of operations.

Future Prospects

Near Term Prospects

The country's economic growth may improve in 2020 despite the global headwinds that could emerge. Household consumption will likely continue to be the main driver of growth with support from OFW remittances and manageable inflation. Meanwhile, investment spending may recover on the back of low interest rates and moderate recovery in public spending.

A manageable widening of the trade deficit is expected to translate to a modest depreciation of the Philippine Peso with additional pressure from global trade uncertainties.

Inflation may climb back to the 3-4% level in 2020 given fading base effects from oil and rice. Global oil prices may rise with upward pressure from changes in shipping regulations, rice supply constraints caused by the ongoing drought in Thailand, and geopolitical tensions in the Middle East. However, global trade uncertainties may temper the increase in oil prices.

With a higher inflation outlook in 2020 and its impact on any further monetary easing from the BSP, BPI has been prudent and strategic in maximizing the window of favorable loan repricing.

Meanwhile, the BSP may also cut its peso deposit reserve requirement ratio further as part of its efforts to implement structural reforms in the financial system. This will provide relief to the current system liquidity tightness and allow banks to book modest loan growth without generating high-cost of deposits.

Against this backdrop, BPI's strategy remains focused on prudently accelerating growth in the higher-margin SME and consumer lending businesses. With the new and improved processes in place, we have observed good growth momentum in SME's small business credit segment (highest number of new applications reported), and positive replacement ratios (where new loan releases are higher than loan pay downs) for both retail mortgage and auto loan segments. The Bank's Remittances desk has also introduced new services to complement the Overseas Filipinos' natural activity in foreign exchange markets.

The Bank will consider issuances on the domestic and foreign debt markets as opportunities arise from market volatility. With the lower reserve requirement ratio (RRR) on bond issuance at 3% vs. 14% for peso deposits, we can expect banks in general to tap debt capital markets as an alternative source of funding to support business growth.

Medium to Long Term Prospects

Household consumption and investment spending may continue to drive economic growth in the coming years. The country has a young population that supports consumer demand, thereby preventing a situation similar to aging countries where growth is sluggish. Capital spending from the private sector is expected to remain substantial given the need to expand the productive capacity of corporates in order to meet rising consumer demand.

However, a crucial element in the country's long term development is the improvement in public infrastructure. Economic activity will be constrained if transport and logistics costs remain high. The government's infrastructure initiatives will allow the economy to grow at a faster rate in the long run.

As the Philippines continues to be one of the fastest growing economies in the ASEAN region, BPI's medium term strategies are poised to capitalize on this, with a core focus on digitalization, financial inclusion, and sustainability.

The Bank recognizes the importance of building strong digital capabilities both in digital distribution platforms to increase client access points, enhance overall customer experience, as well as in the back office infrastructure to increase efficiency and reduce costs. Significant investments have been made around the five pillars of our digital ecosystem: (1) omni-channel experience, (2) customer experience, (3) high tech, high touch channels, (4) open banking, and (5) cybersecurity and privacy. We continually seek to innovate, develop, and deliver a convenient and frictionless banking experience for our clients.

Recognizing the need for the unbanked market to have access to credit, we continue to make significant strides in microfinancing. Primarily established to serve Self-Employed Micro-Entrepreneurs (SEMEs), BanKo's expansion to 300 branches in 3 years has increased the SEMEs' accessibility to affordable and appropriate financial products and services, while also empowering them with financial advice and solutions that promote the growth and expansion of their enterprises.

In June 2019, BPI successfully established its Green Finance Framework. This was followed by the successful green bond issuances of CHF100 million and USD300 million in September 2019, both landmark financial transactions undertaken in support of the Bank's sustainability goals. The net proceeds from both bond issues will be used for financing the green projects undertaken by BPI's clients. We aim to build a greener portfolio of loans catering to projects in energy efficiency, renewable energy, and climate resilience.

There were approximately 12,359 common shareholders of BPI as of January 31, 2020.

Equity Ownership of Foreigners on Common Shares as of 31 January 2020

	Nationality	Number of Stockholders	Number of Shares	Percent of Holdings
1.	American	36	1,205,191	0.0267%
2.	Australian	1	3,369	0.0000%
3.	Brazilian	1	40	0.0000%
4.	British	3	24,132	0.0005%
5.	Canadian	8	50,771	0.0011%
6.	Cayman Islands	1	390,269,162	8.6590%
7.	Chinese	30	368,550	0.0081%
8.	Danish	1	1,000	0.0000%
9.	Dutch	1	447,245	0.0099%
10.	German	2	446	0.0000%
11.	Hongkong	1	240	0.0000%
12.	Indian	1	10,000	0.0002%
13.	Indonesian	3	182,417	0.0040%
14.	Japanese	1	187	0.0000%
15.	Non-Filipino (PCD)	2	1,018,381,866	22.5952%
16.	Others	3	19,274	0.0004%
17.	Singaporean	4	2,649	0.0000%
18.	Spanish	2	229,870	0.0051%
19.	Taiwanese	1	12,500	0.0002%
	Total	**102**	**1,411,208,909**	**31.3109%**

Top 20 Stockholders as of January 31, 2020

	Name of Stockholders	Number of Shares Held	Percent of Holdings
1.	PCD Nominee Corporation (PCD)		
	(Non-Filipino)	1,018,366,355	22.5949%
	(Filipino)	649,450,672	14.4096%
2.	Ayala Corporation	1,000,261,934	22.1932%
3.	Liontide Holdings, Inc.	904,194,682	20.0617%
4.	AC International Finance Limited	390,269,162	8.6590%
5.	Roman Catholic Archbishop of Manila	327,904,251	7.2753%
6.	Michigan Holdings, Inc.	92,684,989	2.0564%
7.	Mercury Group of Companies	7,653,853	0.1698%
8.	Estate of Vicente M. Warns	7,550,868	0.1675%
9.	BPI ESPP 2018	4,417,130	0.0980%
10.	BPI Group of Companies Retirement Fund	4,174,243	0.0926%
11.	Xavier P. Loinaz	3,938,203	0.0874%
12.	BPI ESPP 2015	3,750,445	0.0832%
13.	BPI ESPP 2017	3,457,970	0.0767%
14.	Hermann Barretto Warns	2,920,000	0.0648%
15.	Bloomingdale Enterprises, Inc.	2,657,625	0.0590%
16.	Sahara Management & Dev. Corp.	2,535,146	0.0562%
17.	BPI ESPP 2016	1,966,270	0.0436%
18.	Foresight Realty & Development Corp.	1,958,595	0.0435%
19.	Hyland Realty & Dev't. Corporation	1,935,413	0.0429%
20.	Horizons Realty, Inc.	1,419,463	0.0315%
	Total	**4,433,467,269**	**98.3669%**

Discussion of compliance with leading practices on corporate governance

I. Corporate Governance Framework.

We anchor our corporate governance framework on: (i) qualified and competent leadership, (ii) rigorous internal controls, (iii) an effective risk culture and (iv) strong accountability to shareholders. The Bank's corporate governance framework is defined by its Articles of Incorporation, Amended By-Laws and Manual on Corporate Governance, and takes into account the nature, size, complexity, business activities and requirements of the Bank as well as its group operations. Banking practices, guided by BPI's Board and Committee charters, the Manual of Corporate Governance, Code of Business Conduct and Ethics and internal operating manuals, reflect the integrity and ethics that define the Bank's decision-making, conduct and behavior, and are consistent with statutory laws, rules and regulations of the Bangko Sentral ng Pilipinas (BSP), Securities Exchange Commission (SEC), Anti-Money Laundering Council, Philippine Deposit Insurance Corporation, among others.

As a publicly listed company, BPI recognizes that robust corporate governance policies and practices promote a fair and sound market valuation of BPI shares and maintain the confidence of customers and investors alike. BPI strives to be jointly compliant with corporate governance and listed company disclosure requirements and standards of the SEC and the Philippine Stock Exchange. As an issuer in capital markets, the Bank also has a policy of continuous disclosure and transparency and utilizes disclosure mechanisms of the various exchanges in which its capital market issuances are traded. BPI also actively pursues alignment with best practices of counterparts in the region. The Bank strongly supports initiatives to strengthen regional capital market development and integration, especially through adoption of rigorous benchmarking methodology of the ASEAN Corporate Governance Scorecard. In addition, considering BPI's role in the group as parent and publicly-listed company, the Board maintains an effective, high-level risk management and oversight process across other companies in the group to ensure consistent adoption of or alignment with the aforementioned corporate governance policies and systems.

II. Board Governance

(a) **Advisory Council**. As part of the Bank's efforts to strengthen stewardship further, the Bank has a three member Advisory Council to the Chairman, created in 2016, composed of senior thought leaders, captains of industry and luminaries in their respective fields.

(b) **Board of Directors**. Our fifteen-member Board plays a key role in setting our governance standards to meet our stakeholders' expectations. In 2019, Non-Executive Directors (NEDs) which includes 6 Independent Directors (IDs), comprising a majority or 14 out of the 15, were elected to the Board in April. The only Executive Director (ED) is the President and CEO. The size of our Board is deemed appropriate given the complexity of operations of the Bank and the entire BPI group, the geographical spread of our business, and the significant time demands placed on the Directors.

Chairman and Vice-Chairman. The Board has a Chairman and Vice-Chairman, both of whom are non-executive directors. The Chairman, who is not the CEO of the Bank in the past three years, is separately appointed from the President and CEO. Said positions are currently held by two individuals who are not related to each other and have roles and responsibilities that are also separate and distinct, as detailed in the Manual on Corporate Governance. The Chairman guides the Board through its decision-making process and ensures that the Board operates effectively as a team. The Chairman also forges a very positive and constructive working relationship between the Board and management. With the Chairman at the helm, the Board sets BPI's strategy and risk appetite, and approves capital and operating plans presented by management for sustainable achievement of strategic objectives. In the absence of the Chairman of the Board, the Vice-Chairman assumes and performs all the powers and duties of the Chairman of the Board.

Lead Independent Director. Under BSP Circular 969 "Enhanced Corporate Governance Guidelines for BSP Supervised Financial Institutions", amending Section X142.4.b. of the MORB, on the qualifications of the Chairperson of the Board of Directors, the Board of Directors shall define the responsibilities of the Lead Independent Director, which shall be documented in the corporate governance manual. The Board of Directors shall ensure that the Lead Independent Director functions in an environment that allows him to effectively challenge the CEO as circumstances may warrant. The Lead Independent Director shall also perform a more enhanced function over the other independent directors and shall: (1) lead the independent directors at board of directors' meetings in raising queries and pursuing matters; and (2) lead meetings of independent directors, without the presence of the executive directors. Last May 7, 2018, the BPI Board approved the amendment to the Manual on Corporate Governance providing for the designation of a Lead Independent Director role in the Board. And in the Organizational Meeting of the Board of Directors following the 2019 Annual Stockholders Meeting, the Board appointed independent member Octavio V. Espiritu as Lead Independent Director.

Diversity and Independence. Our leadership model ensures an appropriate balance of power, accountability and independence in decision-making. As disclosed on the company website, the Board Diversity Policy, adopted in 2015 to institute diversity at the board level; the 2019 Board of Directors elected in April 2019 included three women, one of whom is also an Independent Director, comprising 20% of the Board. Six Independent Directors were elected to the 2019 Board, higher than the regulatory requirement to have at least one-third (1/3) but not less than two (2) Independent Directors as members of the board. This constitutes 40%, which is key to fairness and integrity, and allows the board to strike a balance between public, corporate and all stakeholder interests.

(c) **Board Charter**. The Board Charter articulates the governance and oversight responsibilities exercised by the Board, its roles and functions, composition, and committees subject to provisions of BPI's Articles of Incorporation, Amended By-Laws and applicable laws. It is incorporated in BPI's Manual on Corporate Governance and is reviewed together with the annual review of the Manual. As stated in the Board Charter, the Board's key areas of focus include:

- Governance – Ensuring that corporate responsibility and ethical standards underpin the conduct of BPI's business; developing succession plans for the Board and CEO; establishing the general framework of corporate governance for the Bank;
- Strategy - Reviewing BPI's strategic and business plans; growing the business sensibly and building resilience into the franchise;
- Risk management – Ensuring that effective risk management, compliance and assurance processes undergird our business;
- Financial performance – Monitoring management performance; achieving goals and targets;
- Sustainability - Considering sustainability issues (including environmental and social factors) and including these as part of the Bank's strategy.

(d) **Board Committees**. To heighten the efficiency of board operations, the Board has established Committees that assist in exercising its authority for oversight of internal control, risk management, and performance monitoring. In 2019, the Bank had eight board-level committees: Executive, Risk Management, Audit, Corporate Governance, Personnel and Compensation, Nominations, Retirement and Pension, and Related Party Transactions Committees. Board-level committee memberships were also evaluated and calibrated to improve on the committees' focused oversight and high level engagement with management. The respective charters stating committee purpose, membership, structure, operations, reporting processes and other information, are disclosed in regulatory reports and posted on the company website. Annual performance reviews are conducted by all board-level committees.

(e) **Corporate Secretary**. The Board is assisted in its duties by a Corporate Secretary who is not a member of the Board of Directors and is a senior, strategic-level corporate officer who plays a leading role in the Bank's corporate governance, serving as an adviser to the directors on their responsibilities and obligations. The Board has separate and independent access to the Corporate Secretary. All directors and board committees also have unrestricted access to company records and information in addition to receipt of regular detailed financial and operational reports from senior management. Our Corporate Secretary is suitably trained and experienced in legal, accountancy or company secretarial practices and is professionally qualified for these responsibilities. Our Corporate Secretary also possesses the legal skills of a chief legal officer whose training is complemented by business, organizational, human relations and administrative work skills. Our Corporate Secretary is also Corporate Secretary of various BPI subsidiaries and affiliates.

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

(g) **Nominations**. As we are a financial institution imbued with public interest, fit and proper qualifications for membership in our Board of Directors are dictated by our Amended By-Laws, Manual on Corporate Governance, the Corporation Code, and relevant regulations of the Bangko Sentral and the SEC. As a publicly listed company, we also ensure that Board composition and director qualifications also meet pertinent governance regulations, requirements, and standards of the PSE. As disclosed in the Manual on Corporate Governance, candidates for directorship may be recommended by shareholders to the Nominations Committee through the Office of the Corporate Secretary. Among other qualifications, candidates must be fit and proper for the position of a director, taking into consideration integrity/probity, physical/mental fitness, relevant education/financial literacy/training, possession of competencies relevant to the job such as knowledge and experience, skills, diligence and independence of mind and sufficiency of time to carry out responsibilities. Candidates recommended by shareholders are evaluated in the same manner as director candidates identified by any other means. The Committee itself may likewise identify and recommend qualified individuals for nomination and election to the board and may make use of professional search firms or other external sources to search for qualified candidates to the board. Separate qualifications and disqualifications for Independent Directors based on regulations, are enumerated in the Bank's Manual on Corporate Governance. Directors must remain qualified throughout the term. All of the Bank's annual reports contain comprehensive profiles of the Board of Directors which disclose the age, qualifications, date of appointment, relevant experience and directorships both in the BPI group as well as in other companies, listed or otherwise. In compliance with SEC Memo.Cir. No. 11, s2014, the Bank also posts biographical details of the Board of Directors and Senior Management on the company website.

(h) **Election and Term of Directors**. Board members are elected by BPI stockholders who are entitled to one vote per share at the Bank's Annual Stockholders Meeting. Voting for the election of members of the Board of Directors is considered on a poll, by shares of stock, that is, one share entitles the holder to one vote, two shares to two votes. Votes may be cumulated as provided for in the Corporation Code. The fifteen nominees receiving the highest number of votes are declared elected. The Bank's Amended By-Laws state that elections for the Board of Directors will be held yearly during the Annual Stockholders Meeting. Directors are to hold office for a term of one (1) year immediately upon their election and until the next election when their successor shall have been elected and qualified in accordance with the Amended By-Laws and Corporation Code. No meeting of stockholders shall be competent to transact business unless a majority of the outstanding and subscribed capital stock entitled to vote is represented, except to adjourn from day to day or until such time as may be deemed proper. The Rules of Conduct, voting and vote tabulation procedures are explained during the Annual Stockholders Meeting. In its meeting held on November 20, 2019, the Board also approved Management's recommendations to amend the Bank's By-Laws to, among others:1) provide for the right for stockholders to vote through remote communication or in absentia at the Bank's annual stockholders' meetings. At the April 25, 2019 Annual Stockholders Meeting, through an online system, BPI stockholders were able to effectively participate and cast votes in absentia, as also provided for in the Revised Corporation Code. The Office of the Corporate Secretary tabulates all votes received and the Bank's external auditor validates the results. Voting results are likewise disclosed on the various exchanges where BPI's capital market issuances are traded and the company's website as soon as possible after the meeting. The election/appointment of directors/officers must also be confirmed by the Monetary Board of the BSP. Elected/appointed directors/officers must submit required certifications and other documentary proof of qualifications for the confirmation of their election/appointment. The nomination and election processes and their effectiveness, are reviewed annually by the Nomination Committee during its review of the committee charter and its self-assessment, by its members, of committee performance. In adherence to Recommendation 2.6 of the SEC CG Code for PLCs, these nomination and election policies are disclosed in BPI's Manual on Corporate Governance as well as on the company website.

(i) **Continuing Education**. The Bank ensures that it has in place a formal board and director development program. For new directors, there is a deliberate, systematic and rapid familiarization with the organization and the operations of the board, Articles of Incorporation and Amended By-Laws, Manual of Corporate Governance, Board Charter as well as the Code of Conduct, standards of Conflict of interest and policies such as Insider Trading, Whistleblowing, Anti-Bribery and Anti-Corruption, Data Privacy and Related Party Transactions. The Bank, through its various units, also provides continuing director education in relation to current developments; these include regulatory initiatives like Data Privacy, the Anti-Money Laundering and Terrorist Financing Prevention Program, Foreign Account Tax Compliance Act, Securities Regulations Code, SEC memorandum circulars, and BSP regulations, among others. All of the Bank's directors undergo the requisite corporate governance seminar provided by an SEC or Bangko Sentral-accredited institution. On August 09, 2019, members of the Board, including senior officers of the Bank, attended the Annual CG Training Program conducted by the Institute of Corporate Directors (ICD). Other directors attended the Corporate Governance Orientation Program conducted by the ICD on November 19, 2019 and Corporate Governance Training conducted by GGAPP on July 17, 2019.

(j) **Remuneration**. Our remuneration decisions for the Board and management are aligned with risk incentives and support sustainable, long-term value creation. Apart from ensuring that Board and management pay appropriately reflects industry conditions and financial performance, the Bank likewise rebalances returns back to shareholders through a robust dividend policy. Under the Bank's Amended By-Laws, as approved by the shareholders, the Board of Directors, as a whole, determines the level of remuneration and/or benefits for directors sufficient to attract and retain directors and compensate them for their time commitments and responsibilities of their role. Our Personnel and Compensation Committee recommends to the Board the fees and other compensation for directors, ensuring that compensation fairly remunerates directors for work required in a company of BPI's size and scope. As provided by our Amended By-Laws and pursuant to a Board resolution, each director is entitled to receive fees and other compensation for his services as director. The Board has the sole authority to determine the amount, form, and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of the Board exceed 1% of the Bank's net income before income tax during the preceding year. Board members receive per diems for each occasion of attendance at meetings of the Board or of a board committee. All fixed or variable remuneration paid to directors may be given as approved by stockholders during the Annual Stockholders Meeting, upon recommendation of the Personnel and Compensation Committee. Other than the usual per diem arrangement for Board and Committee meetings and the aforementioned compensation of Directors, there is no standard arrangement as regards compensation of directors, directly or indirectly, for any other service provided by the directors for the last completed fiscal year. Board members with executive responsibilities within the BPI group are compensated as full-time officers of the company, not as Non-Executive Directors. No director participates in discussions of the remuneration scheme for himself or herself. Historically, total compensation paid annually to all directors has been significantly less than the cap of 1% of the total net income stipulated by the Bank's Amended By-Laws. The remuneration policy is reviewed annually to ensure that it remains competitive and consistent with the Bank's high performance culture, objectives, and long-term outlook, risk assessment and strategies. This relationship between remuneration and performance aligns remuneration of the Board with the long-term interests of the Bank.

(k) **Performance Evaluation**. The Board conducts an annual board effectiveness review under the guidance of the Corporate Governance Committee, which ascertains alignment of leadership fundamentals and issues, and validates the Board's appreciation of its roles and responsibilities across four levels: the Board, Board Committees, individual Directors and the President and CEO. Performance evaluation criteria is built around the Board and Committee Charters as well as broad leadership and best practice standards in each of the levels. Such an exercise will be conducted in early 2020 to assess the 2019 performance of the Board.

(l) **Succession Planning**. The Board understands the importance of succession planning and, through its Personnel and Compensation Committee (PerCom), manages the talent pipeline and assembles the right executive and leadership appetency capable of navigating the Bank through strategic, market, technology and regulatory shifts. In consultation with the Board and the President and CEO, either the PerCom evaluates and nominates potential successors to the President and CEO, as well as ensures there is a sufficient pool of qualified internal candidates to fill other senior and leadership positions. The Bank's effective succession planning has ensured leadership continuity within the last two decades, witnessing three

President and CEO changes, marked by early planning and mentoring, smooth organizational and operational transitioning and prudent but progressive institutional building at BPI and across the BPI group. We believe that it is crucial to have a good balance between continuity and fresh perspectives on the Board. In much the same way, our Board is regularly refreshed in a continuing cycle. The Nomination Committee and the Corporate Governance Committee work within a general board succession plan framework to ensure that the Board is able to fulfill its fiduciary duties so that the Bank remains relevant, agile, and anticipatory of future programs and directions.

(m) **Retirement Policy**. The Bank believes that imposing uniform and fixed limits on director tenure is counter-productive as it may force the arbitrary retirement of valuable directors. It is the Bank's strong view that with age often comes unmatched wisdom and experience, expert business judgment, invaluable industry and community relations and authority, and that the best interests of the Bank are served by its being able to retain directors that make very meaningful contributions to the Board and the organization regardless of age. The Bank, therefore, sets the retirement age for Directors at 80 years of age but which the Board may opt to waive depending on specific conditions. Term limits of Independent Directors are set at a maximum cumulative term of nine (9) years as prescribed in the Manual of Regulations for Banks and SEC Mem.Cir.No. 9, Series of 2011 and No. 4, Series of 2017. Retirement of senior management is done with the requisite succession planning and in accordance with the Bank's policies and implementing guidelines of its retirement plan for all employees, the Bank's Amended By-Laws, Labor Code and the Corporation Code of the Philippines. Currently, the retirement age for employees of the Bank is set at 60 years of age.

III. Risk, Control, and Compliance Oversight and Management Relations

(n) **Audit.** Based on Internal Audit assurance activities, Internal Audit provides reasonable assurance to the Audit Committee, Board of Directors and Senior Management that the Bank's systems of internal controls, corporate governance, and risk management processes are adequate and generally effective. This unit reports directly to the Board through its Audit Committee. It collaborates with other assurance providers such as the Risk Management Office, Compliance Office, external auditors, and other oversight units. Through this system for the comprehensive monitoring and review of risks and compliance in the institution, the Board ensures that the Bank and all business units proactively manage the risk and compliance exposures impacting the business. The Internal Audit Division is headed by a Chief Audit Executive who is appointed by the Board and reports functionally to the Board of Directors through the Audit Committee and administratively to the President and CEO. The Audit Committee recommends to the Board the appointment of a Bangko Sentral-accredited external auditor for the purpose of preparing or issuing an audit report or related work. The appointment or re-appointment of the Bank's external auditor is subject to the approval and endorsement by the Audit Committee, for subsequent confirmation and approval by the Board of Directors and finally the Stockholders.

(o) **Risk Management**. In the same way, the Board's Risk Management Committee, with the assistance of management's Risk Management Office (RMO) and its Chief Risk Officer (CRO), reviews and recommends the Bank's enterprise risk and capital management framework to ensure that it conforms not only to the Bank's own rigorous standards, but also to Bangko Sentral directives promoting an effective Internal Capital Adequacy Assessment Process. The Chief Risk Officer is appointed by the Risk Management Committee, with approval and confirmation of the Board. The CRO is responsible for leading the formulation of risk management policies, methodologies, and metrics in alignment with the overall strategy of the Bank, ensuring that risks are prudently and rationally undertaken and within the Bank's risk appetite, as well as commensurate and disciplined to maximize returns on capital. The CRO and the RMO facilitate risk management learning programs and promote best practices on an enterprise-wide basis. The RMC also assesses the annual performance of the Chief Risk Officer and risk management functions taking into account how it carried out its duties and responsibilities.

(p) **Compliance.** Oversight of the management of the Bank's business risk and implementation of its compliance function is the responsibility of our Board of Directors, through the Audit Committee. At the management level, the compliance function is carried out by the Compliance Office, led by our Chief Compliance Officer (CCO). Designated by the Chairman of the Board, our CCO, is not a member of the Board of Directors and has the rank of at least a Vice President. The CCO's qualifications are subject to the applicable provisions of the Manual of Regulations for Banks, particularly considering fit and proper criteria such as integrity/probity, competence, education, diligence, experience and training. The CCO annually attends corporate governance training.

(q) **Strategy Process**. The Bank's vision, mission, strategic objectives, key policies and procedures for management of the company are clearly established and communicated down the line. The Board of Directors creates the framework within which the executive team, under the President and CEO, can lead the business and deliver the agreed strategy. The Board conducts a periodic review of the foregoing and has continuing oversight in its implementation. The management team articulates the agreed strategy in periodic planning exercises and distills business plans in formal budgets. Periodic performance reviews are conducted against budgets and past performance. Management acts in accordance with well-defined operating policies and procedures, and ensures accuracy and transparency of operational and financial reporting to protect the Bank's reputation for integrity and fair dealing. The management team strives to achieve accountability in revenue performance, efficiency in expenditure of resources, and high quality in delivery of services and achievement of customer satisfaction. Management is periodically reviewed and rewarded according to performance relative to innovation, initiatives, assigned targets, and feedback from customers, peers, and Board. The President heads a management team who lead supervise work of the Bank's business units, which includes but is not limited to the Chief Finance Officer, Chief Risk Officer, Chief Audit Executive, and Chief Compliance Officer who provide focused and strategic, functional leadership and expertise. Management level committees are in place to deal with operational functions from a strategic level and serve as counterpoints to senior and mid-level managers

IV. Corporate Governance Policies and Practices

(r) **Manual on Corporate Governance**. The Bank has a Manual on Corporate Governance which documents the framework of policies, rules, systems and processes in the corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders. A certification on the Bank's full compliance with the Manual, signed and issued by the Chief Compliance Officer, is posted on the Corporate Governance section of the company website. The Manual on Corporate Governance, reviewed annually, was last amended in early 2019, and amendments were approved by the Board of Directors on February 12, 2019. When updated or amended, the Manual is resubmitted to the SEC. The Manual is also posted on the company website.

(s) **Code of Conduct**. BPI has Codes of Business Conduct and Ethics for its directors, officers and employees that provide the key practices and behaviors derived from the BPI Credo and Core Values, that guides what they say and do, in order that the right decisions are taken in performing their respective roles and responsibilities across various functions in the Bank and in handling relationships with all stakeholders.

Employee Code of Business Conduct and Ethics. The Code is applicable to and mandatory for all BPI employees at all levels, including officers, as are the core values embodied in the Bank's Credo. As no code could address every situation an employee may encounter, all employees, including officers, are required to follow both the spirit and the letter of the Code, its policies, and procedures. All BPI officers and employees must abide and fulfill their duty and personal responsibility to read, understand and comply with the Code.

Director's Code of Conduct. BPI has a Code of Conduct for its Board of Directors, adopted in September 2017, which applies to and is binding on all directors of the Bank. The Director's Code is intended to provide guidance to directors, whether executive, non-executive or independent, with policies on standards for conduct of the business of the Bank, the protection of the rights of the Bank and its stakeholders, maintaining BPI's reputation for integrity and fostering compliance with applicable laws and regulations. The Director's Code, therefore, sets forth policy in several basic areas that commonly require directors to exercise sound and informed judgment, recognize and deal with ethical issues, report possible unethical conduct, and foster a culture of openness, fair dealing, diligence and accountability.

Compliance with the Codes. All employees, including senior officers and directors, acknowledge annually through a Statement of Affirmation that they have read and understood the employee Code of Conduct and/or the Director's Code, respectively, as well as the Manual on Corporate Governance, and fully comply and adhere to principles, standards and policies therein.

(t) **Conflict of Interest**. BPI does not tolerate those who place their interest above that of our institution, our clients, or our business partners. We have in place standards on conflict-of-interest that elevate the interest of the Bank above that of the personal interests of Directors, officers, and employees. These standards prohibit Directors, officers, and employees from using their position of authority or rank to directly or indirectly derive personal gain or advantage. Our standards on conflict of interest expect all Directors, officers and employees to refrain from any conduct that could be viewed unfavorably by our clients, co-employees, competitors, suppliers, investors, regulators, or the public. The standards also require full cooperation and provision of complete and accurate information from employees during government, regulatory or internal enquiries, investigations and audits. The standards also cover specific conflict-of-interest situations such as receipt of gifts from third parties, respect for trade secrets, and use of non-public information, and use of company funds, assets and information.

(u) **Whistleblower Policy**. This policy covers all employees of BPI and all wrongful acts that adversely impact the Bank and its stakeholders. Under the policy, it is the responsibility of all personnel to comply with rules and regulations of the Bank and to report violations or suspected violations in accordance with the policy. Anybody who knowingly aids, abets, or conceals or otherwise deliberately permits the commission of any irregular or fraudulent act directed against the Bank shall be considered as guilty as the principal perpetrators of the fraud or irregularity. Hence, all employees have a duty to cooperate with investigations initiated under the policy. No action will be taken against anyone for reporting such violations in good faith, or participating or assisting in investigations of a suspected violation. Any act of retaliation against a whistleblower is a violation of the Whistleblower Policy and Code of Business Conduct and Ethics.

(v) **Related Party Transactions Policy**. This policy guards against internal conflicts of interest between the company and/or its group and their directors, officers and significant shareholders and ensures that 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 course of banking activities with terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market. Vetting transactions with related parties is done either by the board-level Related Party Transaction Committee (RPTC) or Management Vetting Committee (MVC), depending on materiality, prior to implementation. The two committees provide guidance and vet on credit and non-credit related party transactions of significant amounts (P50Mn and above for RPTC and below P50Mn for MVC). Related party transactions are properly disclosed in BPI's audited financial statements, and applicable fillings in accordance with relevant rules and issuances of SEC, BSP, etc.

In addition, the Bank in compliance with the SEC Memo Cir. No. 10, s2019, considers related party transaction/s, that are either individually, or in aggregate amounting to ten percent (10%) or higher of the Banks total assets based on its latest audited financial statement as Material Related Party Transactions, subject to the rules set on the policy. The policy also ensures that all Material RPTs are entered and conducted in fair and at arm's length terms.

(w) **Insider Trading Policy**. This policy, in general, prohibits covered persons, i.e., directors, officers, employees of BPI and BPI's subsidiaries, and other parties who are considered to have knowledge, made aware of or have access to inside information or material non-public information, from buying or selling BPI stocks for their own personal account to benefit themselves or others, especially during the blackout trading period. All directors and senior management (SVP and up), Treasurer, Corporate Secretary and Assistant Corporate Secretary, are also required to report to the Compliance Office within ten (10) days from the end of each quarter their trades of shares of BPI stock during such quarter. In compliance with the SEC, all directors and senior management file within three (3) business days the required SEC Form 23A/B. Officers and directors are expected to strictly comply with the Policy and to be knowledgeable of BPI's related policies, standards or internal procedures such as on information barriers, which impact on compliance with the Insider Trading Policy. A breach of the Insider Trading Policy may result in internal disciplinary action and any violation of related securities laws may also subject the Bank and/or the director to civil liability and possibly monetary penalties.

(x) **ABC Policy, Anti-Money Laundering and Financial Crime Policies**. The Bank puts the highest premium on sound, responsible and effective corporate governance and does not tolerate bribery, corruption or improper payments of any kind. It advocates that Directors, officers and employees do not tolerate corruption or any form of bribery nor provide or accept improper inducements in the course of any business dealing. Aligned with the Bank's commitment to act fairly and with integrity in all business dealings and relationships, the Anti-Bribery and Anti-Corruption Policy complements the BPI's financial crime policies/programs such as the Money Laundering and Terrorist Financing Prevention Program and Whistleblower Policy. Guidance on the Bank's Anti-Corruption and Anti-Bribery program is supplemented by the Bank's Standards on Conflict of Interest under Request or Acceptance of Fees, Commissions, Gifts. Monitoring and compliance with the Code of Conduct and related policies are undertaken by departments or units of the Bank such as Human Resources and Corporate Governance, Compliance Division.

(y) **Data Privacy Policy**. BPI has a strong Data Privacy Policy in place, which complies with the requirements of the Data Privacy Act and the National Privacy Commission (NPC). BPI's Data Privacy Policy, posted on the company website, is supported by a comprehensive program utilizing a combination of policies, organizational structure, access controls and technologies designed for risk reduction. The Bank has a Data Privacy Office, headed by a Board-appointed Data Privacy Officer (DPO), a lead senior management officer. The key focus of the DPO is to oversee data privacy compliance and manage data protection risks consistent with Data Privacy Act rules and regulations, issuances by the NPC and other applicable laws. Management has also appointed Compliance Officers for Privacy for major business units of the Bank.

(z) **Employee Welfare, Health and Safety**. Having engaged and competent employees is BPI's goal for delivering best-in-class customer experiences and for achieving its vision of being recognized as the most trusted partner and financial advisor. The Bank strives to be an employer of choice among Philippine financial institutions. We have a wide array of training and development programs and activities designed along the Bank's business objectives, aimed at honing the skills and capabilities of our employees in carrying out their daily duties, as well as preparing them to assume higher responsibilities as the next leaders of the organization. The Bank has adopted a compensation policy that it believes is competitive with industry standards in the Philippines. Regular employees are provided with a comprehensive pay and benefits package, which is reviewed periodically and adjusted to retain current employees and attract new talent. Tied to this is a performance management system that calls for the alignment of individual key results, competencies, and development plans with the Bank's overall business targets and strategy. Officers and employees undergo regular performance evaluations based on their individual accomplishments vis-a-vis their responsibilities, as well as that of the business unit or the Bank. The Bank has an Executive Stock Purchase Plan (ESPP), a major initiative under its long-term incentive program, which aligns management's interest with shareholders and the long-term prospects of the Bank. Moreover, we strive to provide a safe, secure and conducive working environment for our employees, to continually safeguard their health and rights and provide equal opportunity for everyone to realize their fullest potential and make them agents of uplifting change for their communities. (Recommendation 2.9 of the SEC CG Code for PLCs).

V. Investor Relations, Continuous Disclosure and Transparency

(aa) **Investor Relations**. Through its Investor Relations Unit, the Bank employs a program of proactive, uniform, appropriate and timely communication and reporting, in the spirit of full disclosure and in compliance with the Securities Regulation Code and Bangko Sentral, SEC and PSE rules, regulations and disclosure guidelines. The Bank provides company presentations in the Annual Stockholders Meeting and conducts analyst and media or press briefings apart from maintaining the relevant disclosures on its website. The Board has a policy of continuous disclosure and transparency and commits at all times to fully disclose all material information about the company for the benefit of the stockholder and other stakeholders. Such information includes earnings results, materially significant acquisition or disposal of assets, board changes, related party transactions which are not in the ordinary course of business, shareholding of directors and major changes to ownership/voting rights, group structures, intra-group relations, ownership data, and beneficial ownership. As a listed company, BPI files structured and unstructured disclosures through the, appropriate Exchange mechanisms for listed companies and submits mandated regulatory reports to the SEC. The Bank also maintains an official company website in accordance with the SEC-prescribed format and template to ensure a comprehensive, cost-efficient, transparent, timely manner of disseminating relevant information to the public. BPI also maintains official company sites on social media-based platforms.

(bb) **Annual Stockholders Meeting (ASM)**. The ASM is held annually and is organized in an easy to reach and cost-efficient venue and location in Metro Manila. The ASM allows shareholders to advise and adopt resolutions on important matters affecting the Bank, such as: ratification of all acts and resolutions of the Board of Directors and Management, approval of the annual report of the President and Bank's statement of condition, amendments to the Articles of Incorporation or By-Laws, election of Board of Directors and external auditor as well as measures to amend the shareholders' equity. Last year's ASM was held on Thursday, April 25, 2019, 9:00 A.M., at Ballroom 2, Fairmont Makati, 1 Raffles Drive, Makati Avenue, Makati City.

Notice of the ASM. The Notice is sent to shareholders well before the meeting date to allow shareholders to review the meeting's agenda and provide shareholders with sufficient information regarding issues to be decided at the meeting; the Definitive Information Statement, or SEC Form 20-IS is issued in accordance with BPI's Amended By-Laws and SRC 20. Last year, the Notice was sent out to stockholders of record by March 26, 2019, 30 days before the ASM.

Voting and Voting Results. All items in the agenda requiring stockholder approval need the affirmative vote of at least a majority of the issued and outstanding voting stock. Stockholders may vote in person or by proxy executed in writing by the stockholder or by a duly authorized attorney-in-fact. In its meeting held on November 20, 2019, the Board also approved Management's recommendations to amend the Bank's By-Laws to, among others:1) provide for the right for stockholders to vote through remote communication or in absentia at the Bank's annual stockholders' meetings. At the April 25, 2019 Annual Stockholders Meeting, through an online system, BPI stockholders were able to effectively participate and cast votes in absentia, as also provided for in the Revised Corporation Code. Voting is considered on a poll, by shares of stock, that is, one share entitles the holder to one vote. Cumulative voting as provided for in the Corporation Code may be applied in the election of the Board of Directors and directors are elected individually. The Rules of Conduct, voting and vote tabulation procedures are likewise explained during the meeting. The Office of the Corporate Secretary tabulates all votes received and the Bank's external auditor validates the results. Voting results are disclosed on PSE EDGE and company's website.

Shareholder Participation. BPI proactively encourages the full participation of all shareholders, including institutional shareholders, at the ASM each year. Shareholders are encouraged to ask questions at the ASM to ensure accountability and identification with the Board of Directors' and Management's strategy and goals for the business of BPI.

Minutes of the Annual Stockholders' Meeting. The Minutes includes all information pertinent to the meeting and is promptly disclosed on the company website within the period mandated by the SEC. Minutes of the 2019 ASM were posted on the company website within five (5) calendar days from the date of the ASM.

(cc) **Annual and Quarterly Reports**. Our Annual, Quarterly and Current Reports are our primary disclosure mechanisms used to impart knowledge about the Bank to all our stakeholders in an informative, structured and cost-effective manner. The Annual and Quarterly accountability reports effectively detail our performance during the period under review and put that performance in context of the objectives of the Bank, its strategies and future direction. The Current accountability reports similarly provide timely updates on significant corporate actions undertaken by the Bank. The Annual, Quarterly and Current Reports are regularly submitted to the SEC pursuant to Section 17 of the SRC, which also prescribes format and content. The Annual, Quarterly and Current Reports are also disclosed on the websites of the various exchanges where BPI capital market issues are traded and on the company's website. The Annual, Quarterly and Current Reports may be viewed at www.bpiexpressonline.com.

VI. Sustainability, Stakeholder Engagement and ESG Reporting

(dd) **Sustainability and Stakeholder Engagement**. The Bank operates on a sustainability framework of shared values which emphasizes importance of all stakeholders and how their interests are integrated into the business of BPI. Stakeholder engagement takes on various forms and is carried out through a range of information, communication and consultative activities and disclosures. For employees: learning and development programs; long-term, merit-based performance incentive mechanisms such as executive stock purchase plans and regular subscription plans. For communities: extending credit and financial services to underserved and unbanked sectors; improving financial literacy initiatives and factoring ESG dimensions into its business and risk models and loan products and services. For clients: financial wellness, financial inclusion and sustainable development investments. For suppliers: a supplier policy based on the principle of transparency - equal opportunity for qualified suppliers and contractors while ensuring a properly managed supply chain from the point-of-view of sustainability and good governance. For creditors: counterparties are protected by fairness, accountability and transparency; policies and procedures are in place safeguarding creditor's rights as required by the BSP.

(ee) **Environmental, Social and Governance Reporting**. BPI considers the most appropriate way to report non-financial information to ensure that its ESG reporting provides internal and external stakeholders with the non-financial information needed to understand the context that the Bank operates in today. ESG reporting may be through a stand-alone sustainability report, an integrated annual report, and company website. It has adopted a globally-recognized standard/ framework, G4 Framework by the Global Reporting Initiative, for its ESG reporting.

VII. Corporate Governance Awards and Recognition

ACGS Golden Arrow Award. In June 11, 2019, BPI was awarded as top-performing publicly-listed company scoring 90 to 99.99 points in the 2018 ACGS assessment. The ACGS Golden Arrow award was given in recognition of the Bank's continued adherence to local requirements and international best practices on corporate governance.

SEC FORM 17-A (Annual Report)

Upon the written request of the stockholders, the Corporation undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC Form 17-A should be addressed to:

Office of the Corporate Secretary
Bank of the Philippine Islands
Ayala North Exchange Tower 1,
6796 Ayala Avenue cor. Salcedo St.,
Legaspi Village, Makati City

BPI

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Bank of the Philippine Islands (the "Bank") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

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

Isla Lipana & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Jaime Augusto Zobel de Ayala
Chairman of the Board

Cezar P. Consing
President and Chief Executive Officer

Maria Theresa Marcial Javier
Executive Vice President and
Chief Finance Officer

MAR 11 2020

SUBSCRIBED AND SWORN to before me at Makati City, Metro Manila this ________________, affiants exhibited to me their Passport with the following details:

Name	Passport No.	Date/Place of Issue	Valid Until
Jaime Augusto Zobel de Ayala	EC4856934	Aug. 4, 2015/DFA Manila	Aug. 3, 2020
Cezar P. Consing	P6868155A	Apr. 17, 2018/DFA NCR South	Apr. 16, 2028
Maria Theresa Marcial Javier	P7958774A	Jul. 16, 2018/DFA Manila	Jul. 15, 2028

Doc. No. 27;
Page No. 7;
Book No. 67;
Series of 2020.

FELIPE I. ILEDAN JR.
Notary Public for and in Makati City
Until Dec. 31, 2020, Appt. No. M-02
Roll No. 27625, TIN 136897808
Rm. 412, 4th Flr. VGP Center, Ayala, Makati City
2019 PTR No.Mla 8009506 12/18/2018
IBP No. 1046422, 8/5/2016
MCLE Comp. VI-0012066, 9/11/201
PTR MLA 8067886/12/9/2019/MLA

Bank of the Philippine Islands

Financial Statements
As at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

pwc

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
Ayala North Exchange
Ayala Avenue corner Salcedo Street, Legaspi Village,
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, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 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, 2019 and 2018;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2019;
- the consolidated and parent statements of comprehensive income for each of the three years in the period ended December 31, 2019;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2019;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2019; 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.

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 Matter	How our audit addressed the Key Audit Matter
Impairment losses on loans and advances	
We focused on this account because of the complexity involved in the estimation process, and the significant judgments that management makes in ascertaining the provision for loan impairment. The calculation of impairment losses is inherently judgmental for any bank. As at December 31, 2019, the total allowance for impairment for loans and advances amounted to PHP25,974 million for the BPI Group and PHP18,605 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP6,073 million for the BPI Group and PHP5,011 million for the Parent Bank. Refer to Notes 10 and 26 of the financial statements for the details of the impairment losses on loans and advances. Provision for impairment losses on loans that are assessed to be individually credit impaired is determined in reference to the estimated future cash repayments and proceeds from the realization of collateral held by the BPI Group and Parent Bank. For other loan accounts which are not individually credit impaired, they are included in a group of loans with similar risk characteristics and are collectively assessed on a portfolio basis using internal models developed by the BPI Group and Parent Bank.	We assessed the design and tested the operating effectiveness of key controls over loan loss provisioning. These key controls included: • governance over the development, validation and approval of the BPI Group's ECL models to assess compliance with Philippine Financial Reporting Standard (PFRS) 9, *Financial instruments*; including continuous re-assessment by the BPI Group that the impairment models are operating in a way which is appropriate for the credit risks in the BPI Group and Parent Bank's loan portfolios; • review and approval of key judgments, assumptions and forward-looking information used in the ECL models; • reconciliations of data from source systems to the detailed ECL model analyses; • assessment of credit quality of loans and advances relative to the established internal credit risk rating system; and • the review and approval process for the outputs of the impairment models. Our work over the impairment of loans and advances included: • assessment of the methodology applied by the BPI Group and Parent Bank in the development of the ECL models vis-a-vis the requirements of PFRS 9; • testing of key assumptions in the ECL models such as PD, LGD, EAD built from historical data. Our assessment included the involvement of our internal specialist;

Key Audit Matter	How our audit addressed the Key Audit Matter
(cont'd.) Key elements in the impairment of loans and advances include: • the identification of credit-impaired loans, and estimation of cash flows (including the expected realizable value of any collateral held) supporting the calculation of individually assessed provisions; and • the application of appropriate impairment models for the collectively assessed accounts. This include the use of key assumptions in the impairment models (i.e., staging of accounts, significant increase in credit risk, forward-looking information), the exposure at default (EAD), the probability of default (PD) and the loss given default (LGD). In calculating the loan loss provisioning, the BPI Group and Parent Bank applied the expected credit loss (ECL) model prescribed by PFRS 9, which is a complex process that takes into account forward-looking information reflecting the BPI Group and Parent Bank's view on potential future economic events.	• assessment of the appropriateness of the BPI Group's and Parent Bank's definition of significant increase in credit risk and staging of accounts through analysis of historical trends and past credit behavior of loan portfolios; • independent comparison of economic information used within, and weightings applied to, forward-looking scenarios in the ECL models against available macro-economic data; • testing of the accuracy and completeness of data in the ECL models by comparing them with the information obtained from source systems; • 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; and • recalculation of the collective loan loss allowance for selected accounts and portfolios at reporting date using the ECL models adopted by the BPI Group and Parent Bank.

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 is therefore the key audit matter. 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 the Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP) and Bureau of Internal Revenue (BIR)

Out audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 30 and BIR Revenue Regulations 15-2010 in Note 31 to the financial statements is presented for purposes of filing with the BSP and BIR, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the BPI Group. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the 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 7, 2020, 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 26, 2020

Isla Lipana & Co.

Statements Required by Rule 68,
Securities Regulation Code (SRC),
As Amended

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
Ayala North Exchange
Ayala Avenue corner Salcedo Street, Legaspi Village,
Makati City

We have audited the financial statements of Bank of the Philippine Islands, as at and for the year ended December 31, 2019, on which we have rendered the attached report dated February 26, 2020. The supplementary information shown in the Reconciliation of Retained Earnings Available for Dividend Declaration, Map of the Conglomerate or Group of Companies within which the Bank of the Philippine Islands belongs effective as at December 31, 2019, as additional components required by Part I, Section 5 of Rule 68 of the Securities Regulation Code, and Schedules A, B, C, D, E, F and G, as required by Part II, Section 6 of Rule 68 of the Securities Regulation Code, is presented for purposes of filing with the Securities and Exchange Commission 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 the audit of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the Securities Regulation Code.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 7, 2020, 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 26, 2020

Isla Lipana & Co.

Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
Ayala North Exchange
Ayala Avenue corner Salcedo Street, Legaspi Village,
Makati City

None of the partners of the firm has any financial interest in Bank of the Philippine Islands or any family relationships with its president, manager, or principal shareholder.

The supplementary information on taxes and licenses is presented in Note 31 to the financial statements.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 7, 2020, 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 26, 2020

Isla Lipana & Co.

Statements Required by Rule 68
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
Ayala North Exchange
Ayala Avenue corner Salcedo Street, Legaspi Village,
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of 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") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated February 26, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the BPI Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the BPI Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 7, 2020, 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 26, 2020

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2019 and 2018
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2019	2018	**2019**	2018
A S S E T S					
CASH AND OTHER CASH ITEMS	4	**47,256**	43,536	**45,982**	42,419
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	**207,845**	225,907	**181,815**	202,487
DUE FROM OTHER BANKS	4	**22,356**	12,477	**18,356**	8,615
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	**22,570**	34,323	**18,364**	22,659
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	6,7	**24,105**	16,721	**17,688**	10,346
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	**53,905**	37,206	**48,320**	30,583
INVESTMENT SECURITIES AT AMORTIZED COST, net	9	**275,105**	287,571	**252,006**	267,497
LOANS AND ADVANCES, net	10	**1,475,336**	1,354,896	**1,231,776**	1,125,956
ASSETS HELD FOR SALE, net		**3,155**	3,363	**342**	455
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	**23,748**	16,252	**16,595**	10,146
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	12	**6,746**	5,659	**10,031**	9,942
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	**17,790**	16,582	**-**	-
DEFERRED INCOME TAX ASSETS, net	13	**9,706**	8,536	**6,653**	5,723
OTHER ASSETS, net	14	**15,407**	22,199	**9,910**	16,313
Total assets		**2,205,030**	2,085,228	**1,857,838**	1,753,141

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2019 and 2018
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2019	2018	**2019**	2018
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	15	**1,695,343**	1,585,746	**1,456,458**	1,347,207
DERIVATIVE FINANCIAL LIABILITIES	7	**2,877**	3,891	**2,877**	3,888
BILLS PAYABLE AND OTHER BORROWED FUNDS	16	**150,837**	166,901	**126,529**	150,880
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**2,946**	3,988	**2,946**	3,988
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**8,299**	6,931	**6,421**	5,354
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**9,865**	9,057	**7,418**	6,875
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	**14,061**	14,056	**-**	-
DEFERRED CREDITS AND OTHER LIABILITIES	17	**47,768**	43,120	**38,939**	35,793
Total liabilities		**1,931,996**	1,833,690	**1,641,588**	1,553,985
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	18				
Share capital		**44,999**	44,961	**44,999**	44,961
Share premium		**74,449**	74,181	**74,449**	74,181
Reserves		**5,108**	4,096	**4,892**	3,977
Surplus		**147,460**	127,459	**94,226**	76,958
Accumulated other comprehensive loss		**(2,439)**	(2,176)	**(2,316)**	(921)
		269,577	248,521	**216,250**	199,156
NON-CONTROLLING INTERESTS		**3,457**	3,017	**-**	-
Total capital funds		**273,034**	251,538	**216,250**	199,156
Total liabilities and capital funds		**2,205,030**	2,085,228	**1,857,838**	1,753,141

(The notes on pages 1 to 109 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, 2019
(In Millions of Pesos, Except Per Share Amounts)

		Consolidated			Parent		
	Notes	**2019**	2018	2017	**2019**	2018	2017
INTEREST INCOME							
On loans and advances		**87,151**	69,401	54,615	**67,895**	51,901	38,752
On investment securities		**12,709**	9,616	9,185	**11,776**	8,942	8,403
On deposits with BSP and other banks		**1,723**	1,173	2,049	**808**	548	977
		101,583	80,190	65,849	**80,479**	61,391	48,132
INTEREST EXPENSE							
On deposits	15	**28,874**	21,255	16,660	**21,476**	15,645	11,413
On bills payable and other borrowed funds	16	**6,764**	3,092	1,150	**6,031**	2,588	885
		35,638	24,347	17,810	**27,507**	18,233	12,298
NET INTEREST INCOME		**65,945**	55,843	48,039	**52,972**	43,158	35,834
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	5,9,10,14	**5,822**	4,923	3,795	**4,666**	4,279	3,519
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		**60,123**	50,920	44,244	**48,306**	38,879	32,315
OTHER INCOME							
Fees and commissions		**9,062**	8,224	7,716	**8,502**	7,219	6,224
Income from foreign exchange trading		**2,102**	2,128	2,136	**1,930**	1,831	1,798
Income attributable to insurance operations	2	**1,223**	1,223	1,413	**-**	-	-
Securities trading gain		**4,010**	719	923	**3,678**	258	754
Other operating income	19	**11,992**	10,387	10,793	**10,487**	5,919	14,171
		28,389	22,681	22,981	**24,597**	15,227	22,947
OTHER EXPENSES							
Compensation and fringe benefits	21	**17,487**	15,315	13,897	**13,479**	11,834	10,691
Occupancy and equipment-related expenses	11,20	**16,123**	13,146	11,344	**12,943**	10,570	9,062
Other operating expenses	21	**16,467**	15,141	13,292	**12,058**	11,257	9,626
		50,077	43,602	38,533	**38,480**	33,661	29,379
PROFIT BEFORE INCOME TAX		**38,435**	29,999	28,692	**34,423**	20,445	25,883
INCOME TAX EXPENSE	22						
Current		**10,037**	7,404	6,418	**8,788**	5,793	4,248
Deferred	13	**(685)**	(734)	(462)	**(583)**	(776)	(462)
		9,352	6,670	5,956	**8,205**	5,017	3,786
NET INCOME FOR THE YEAR		**29,083**	23,329	22,736	**26,218**	15,428	22,097
Attributable to:							
Equity holders of BPI		**28,803**	23,078	22,416	**26,218**	15,428	22,097
Non-controlling interests		**280**	251	320	**-**	-	-
		29,083	23,329	22,736	**26,218**	15,428	22,097
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	18	**6.39**	5.35	5.69	**5.82**	3.57	5.61

(The notes on pages 1 to 109 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, 2019
(In Millions of Pesos)

		Consolidated			Parent		
	Note	**2019**	2018	2017	**2019**	2018	2017
NET INCOME FOR THE YEAR		**29,083**	**23,329**	22,736	**26,218**	15,428	22,097
OTHER COMPREHENSIVE (LOSS) INCOME	18						
Items that may be subsequently reclassified to profit or loss							
Share in other comprehensive income (loss) of associates		**1,286**	(1,281)	(252)	**-**	-	-
Net change in fair value reserve on investments in debt instruments measured at FVOCI, net of tax effect		**262**	(771)	-	**249**	(461)	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		**545**	(400)	196	**-**	-	-
Currency translation differences and others		**(202)**	(26)	126	**(124)**	-	-
Net change in fair value reserve on AFS, net of tax effect		**-**	-	713	**-**	-	449
Items that will not be reclassified to profit or loss							
Remeasurements of defined benefit obligation		**(1,418)**	612	(272)	**(1,141)**	431	(338)
Share in other comprehensive (loss) income of associates		**(32)**	596	(528)	**-**	-	-
Net change in fair value reserve on investments in equity instruments measured at FVOCI, net of tax effect		**(313)**	(19)	-	**(379)**	320	-
Total other comprehensive (loss) income, net of tax effect		**128**	(1,289)	(17)	**(1,395)**	290	111
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**29,211**	22,040	22,719	**24,823**	15,718	22,208
Attributable to:							
Equity holders of BPI		**28,769**	21,878	22,406	**24,823**	15,718	22,208
Non-controlling interests		**442**	162	313	**-**	-	-
		29,211	22,040	22,719	**24,823**	15,718	22,208

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 18)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance, January 1, 2017	**39,308**	**29,591**	**2,711**	**98,602**	**(5,078)**	**165,134**	**2,550**	**167,684**
Comprehensive income								
Net income for the year	-	-	-	22,416	-	22,416	320	22,736
Other comprehensive loss for the year	-	-	-	-	(10)	(10)	(7)	(17)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,416**	**(10)**	**22,406**	**313**	**22,719**
Transactions with owners								
Exercise of stock option plans	28	180	31	-	-	239	-	239
Cash dividends	-	-	-	(7,091)	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**31**	**(7,091)**	**-**	**(6,852)**	**-**	**(6,852)**
Transfer from surplus to reserves	-	-	90	(90)	-	-	-	-
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-	-	-
	-	**-**	**(2,488)**	**2,488**	**-**	**-**	**-**	**-**
Balance, December 31, 2017	**39,336**	**29,771**	**254**	**116,415**	**(5,088)**	**180,688**	**2,863**	**183,551**
Impact of PFRS 9 adoption	-	-	-	(62)	4,111	4,049	(8)	4,041
Restated balance, January 1, 2018	**39,336**	**29,771**	**254**	**116,353**	**(977)**	**184,737**	**2,855**	**187,592**
Comprehensive income								
Net income for the year	-	-	-	23,078	-	23,078	251	23,329
Other comprehensive loss for the year	-	-	-	-	(1,200)	(1,200)	(89)	(1,289)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**23,078**	**(1,200)**	**21,878**	**162**	**22,040**
Transactions with owners								
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707	-	49,707
Exercise of stock option plans	38	290	(25)	-	-	303	-	303
Cash dividends	-	-	-	(8,104)	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(25)**	**(8,104)**	**-**	**41,906**	-	**41,906**
Transfer from surplus to reserves	-	-	3,867	(3,867)	-	-	-	-
Other movements	-	-	-	(1)	1	-	-	-
	-	**-**	**3,867**	**(3,868)**	**1**	**-**	**-**	**-**
Balance, December 31, 2018	**44,961**	**74,181**	**4,096**	**127,459**	**(2,176)**	**248,521**	**3,017**	**251,538**
Comprehensive income								
Net income for the year	-	-	-	28,803	-	28,803	280	29,083
Other comprehensive loss for the year	-	-	-	-	(34)	(34)	162	128
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**28,803**	**(34)**	**28,769**	**442**	**29,211**
Transactions with owners								
Exercise of stock option pans	38	268	30	-	-	336	-	336
Cash dividends	-	-	-	(8,113)	-	(8,113)	-	(8,113)
Total transactions with owners	**38**	**268**	**30**	**(8,113)**	**-**	**(7,777)**	**-**	**(7,777)**
Transfer from surplus to reserves	-	-	2,002	(2,002)	-	-	-	-
Transfer from reserves to surplus	-	-	(1,020)	1,020	-	-	-	-
Other movements	-	-	-	293	(229)	64	(2)	62
	-	**-**	**982**	**(689)**	**(229)**	**64**	**(2)**	**62**
Balance, December 31, 2019	**44,999**	**74,449**	**5,108**	**147,460**	**(2,439)**	**269,577**	**3,457**	**273,034**

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

	Parent (Note 18)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2017	**39,308**	**29,591**	**2,695**	**56,095**	**(4,807)**	**122,882**
Comprehensive income						
Net income for the year	-	-	-	22,097	-	22,097
Other comprehensive income for the year	-	-	-	-	111	111
Total comprehensive income for the year	**-**	**-**	**-**	**22,097**	**111**	**22,208**
Transactions with owners						
Exercise of stock option plans	28	180	25	-	-	233
Cash dividends	-	-	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**25**	**(7,091)**	**-**	**(6,858)**
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-
Balance, December 31, 2017	**39,336**	**29,771**	**142**	**73,679**	**(4,696)**	**138,232**
Impact of PFRS 9 adoption	-	-	-	(178)	3,485	3,307
Restated balance, January 1, 2018	**39,336**	**29,771**	**142**	**73,501**	**(1,211)**	**141,539**
Comprehensive income						
Net income for the year	-	-	-	15,428	-	15,428
Other comprehensive income for the year	-	-	-	-	290	290
Total comprehensive income for the year	**-**	**-**	**-**	**15,428**	**290**	**15,718**
Transactions with owners						
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707
Exercise of stock option plans	38	290	(32)	-	-	296
Cash dividends	-	-	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(32)**	**(8,104)**	**-**	**41,899**
Transfer from surplus to reserves	**-**	**-**	3,867	(3,867)	-	-
Balance, December 31, 2018	**44,961**	**74,181**	**3,977**	**76,958**	**(921)**	**199,156**
Comprehensive income						
Net income for the year	-	-	-	26,218	-	26,218
Other comprehensive loss for the year	-	-	-	-	(1,395)	(1,395)
Total comprehensive income for the year	**-**	**-**	**-**	**26,218**	**(1,395)**	**24,823**
Transactions with owners						
Exercise of stock option plans	38	268	43	-	-	349
Cash dividends	-	-	-	(8,113)	-	(8,113)
Total transactions with owners	**38**	**268**	**43**	**(8,113)**	**-**	**(7,764)**
Transfer from surplus to reserves	-	-	1,892	(1,892)	-	-
Transfer from reserves to surplus	-	-	(1,020)	1,020	-	-
Other movements	-	-	-	35	-	35
	-	**-**	**872**	**(837)**	**-**	**35**
Balance, December 31, 2019	**44,999**	**74,449**	**4,892**	**94,226**	**(2,316)**	**216,250**

(The notes on pages 1 to 109 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, 2019
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2019**	2018	2017	**2019**	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before income tax		**38,435**	29,999	28,692	**34,423**	20,445	25,883
Adjustments for:							
Impairment losses	5,9,10,14	**5,822**	4,923	3,795	**4,666**	4,271	3,519
Depreciation and amortization	11,14	**7,132**	4,797	4,255	**4,767**	2,916	2,783
Share in net income of associates	12	**(372)**	(700)	(772)	**-**	-	-
Dividend and other income	19	**(77)**	(76)	(68)	**(3,794)**	(904)	(9,492)
Share-based compensation	18	**30**	(25)	31	**42**	(32)	25
Interest income		**(101,583)**	(80,190)	(68,053)	**(83,279)**	(61,391)	(49,783)
Interest received		**100,293**	77,715	66,816	**83,294**	59,960	48,753
Interest expense		**35,638**	24,347	17,810	**27,507**	18,233	12,298
Interest paid		**(35,300)**	(23,440)	(17,495)	**(27,375)**	(17,494)	(11,901)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		**1,898**	(821)	595	**1,895**	(966)	(353)
Financial assets at fair value through profit or loss		**(8,472)**	(2,257)	9,272	**(8,469)**	(236)	6,498
Loans and advances, net		**(125,028)**	(154,077)	(164,957)	**(109,711)**	(140,860)	(168,485)
Assets held for sale		**400**	655	313	**353**	509	447
Assets attributable to insurance operations		**287**	465	(944)	**-**	-	-
Other assets		**5,611**	(8,096)	(3,940)	**5,702**	(3,761)	(6,745)
Increase (decrease) in:							
Deposit liabilities		**109,598**	23,546	130,900	**109,252**	23,244	139,485
Due to Bangko Sentral ng Pilipinas and other banks		**(1,041)**	2,770	548	**(1,041)**	2,770	548
Manager's checks and demand drafts outstanding		**1,368**	(91)	(557)	**1,067**	(408)	(131)
Accrued taxes, interest and other expenses		**303**	1,033	(51)	**411**	562	(252)
Liabilities attributable to insurance operations		**5**	(457)	146	**-**	-	-
Derivative financial instruments		**(38)**	52	(311)	**(28)**	45	(306)
Deferred credits and other liabilities		**7,335**	2,493	7,550	**6,094**	2,506	6,037
Net cash from (used in) operations		**42,244**	(97,435)	13,575	**45,776**	(90,591)	(1,172)
Income taxes paid		**(10,363)**	(7,115)	(6,505)	**(9,135)**	(5,560)	(4,395)
Net cash from (used in) operating activities		**31,881**	(104,550)	7,070	**36,641**	(96,151)	(5,567)

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2019**	2018	2017	**2019**	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Investment securities, net	8,9	**(4,343)**	(25,828)	(7,029)	**(3,574)**	(31,400)	727
Bank premises, furniture, fixtures and equipment, net	11	**(13,400)**	(5,048)	(4,191)	**(10,285)**	(2,518)	(2,018)
Investment properties, net	14	**(57)**	1	-	**(55)**	12	-
Investment in subsidiaries and associates, net	12	**933**	305	745	**(89)**	(899)	(95)
Assets attributable to insurance operations		**(1,368)**	364	58	**-**	-	-
Dividends received	18	**77**	76	68	**3,794**	904	9,492
Net cash (used in) from investing activities		**(18,158)**	(30,130)	(10,349)	**(10,209)**	(33,901)	8,106
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid	17,18	**(12,167)**	(7,598)	(7,089)	**(12,165)**	(7,598)	(7,089)
Proceeds from share issuance	18	**306**	50,035	207	**306**	50,035	207
(Decrease) increase in bills payable and other borrowed funds	16	**(16,064)**	83,384	21,544	**(24,351)**	80,158	18,466
Net cash (used in) from financing activities		**(27,925)**	125,821	14,662	**(36,210)**	122,595	11,584
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(14,202)**	(8,859)	11,383	**(9,778)**	(7,457)	14,123
CASH AND CASH EQUIVALENTS							
January 1	4,5	**313,270**	322,129	310,746	**273,122**	280,579	266,456
December 31		**299,068**	313,270	322,129	**263,344**	273,122	280,579

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2019 and 2018 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2019

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 was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. The Parent Bank's license was extended for another 50 years on January 4, 1993.

In 2019, the Bank's office address, which also serves as its principal place of business, was transferred to Ayala North Exchange, Ayala Avenue corner Salcedo Street, Legaspi Village, Makati City. Prior to 2019, BPI's registered office address and principal place of business were both located 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, 2019, the BPI Group has 21,429 employees (2018 - 18,911 employees) and operates 1,167 branches (2018 - 1,056 branches) and 2,822 ATMs (2018 - 3,034 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 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 19, 2020. There are no material events that occurred subsequent to February 19, 2020 until February 26, 2020.

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

Subsidiaries	Country of incorporation	Principal activities	% of ownership 2019	2018
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	Asset management	**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
Ayala Plans, Inc.	Philippines	Pre-need	**98.93**	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:

	2019	2018
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 4)	**217**	89
Insurance balances receivable, net	**5,010**	5,596
Investment securities		
Financial assets at fair value through profit or loss	**5,382**	1,788
Financial assets at fair value through other comprehensive income (OCI)	**4,344**	6,522
Financial assets at amortized cost	**153**	202
Investment in associates	**167**	167
Accounts receivable and other assets, net	**2,320**	2,106
Land, building and equipment	**197**	112
	17,790	16,582

	2019	2018
	(In Millions of Pesos)	
Liabilities		
Reserves and other balances	**12,544**	12,909
Accounts payable, accrued expenses and other payables	**1,517**	1,147
	14,061	14,056

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

	2019	2018	2017
	(In Millions of Pesos)		
Premiums earned and related income	**3,841**	3,750	3,624
Investment and other income	**712**	755	864
	4,553	4,505	4,488
Benefits, claims and maturities	**1,942**	2,049	2,006
Decrease in actuarial reserve liabilities	**(412)**	(379)	(524)
Commissions	**938**	800	789
Management and general expenses	**838**	799	791
Other expenses	**24**	13	13
	3,330	3,282	3,075
Income before income tax and minority interest	**1,223**	1,223	1,413

Note 3 - Business Segments

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 individually 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 serves the individual and retail markets. Services cover deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. The segment also includes the entire transaction processing and service delivery infrastructure consisting of network of branches and ATMs as well as phone and internet-based banking platforms.

- Corporate banking - this segment caters both high-end corporations and middle market clients. Services offered include deposit taking and servicing, loan facilities, leasing, trade and cash management for 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 the insurance business as a standalone business segment separate from the banking and allied financial undertakings. Information on the assets, liabilities and results of operations of the insurance business is fully disclosed in Note 2.

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

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

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

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

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

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

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

	2019			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
	(In Millions of Pesos)			
Net interest income	41,494	17,168	11,860	**70,522**
Provision for credit and impairment losses	3,489	2,328	5	**5,822**
Net interest income after provision for credit and impairment losses	38,005	14,840	11,855	**64,700**
Fees, commissions and other income, net	14,313	4,020	8,329	**26,662**
Total income	52,318	18,860	20,184	**91,362**
Compensation and fringe benefits	14,373	2,598	1,108	**18,079**
Occupancy and equipment-related expenses	10,147	2,126	314	**12,587**
Other operating expenses	15,057	3,389	1,721	**20,167**
Total other expenses	39,577	8,113	3,143	**50,833**
Operating profit	12,741	10,747	17,041	**40,529**
Share in net income of associates				**563**
Income tax expense				**9,352**
Total assets	539,093	1,208,553	427,571	**2,175,217**
Total liabilities	1,211,212	552,549	145,398	**1,909,159**

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

	2017			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	28,083	10,195	13,384	51,662
Provision for credit and impairment losses	2,085	1,710	5	3,800
Net interest income after provision for credit and impairment losses	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 other 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

Reconciliation of segment results to consolidated results of operations:

	2019		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
		(In Millions of Pesos)	
Net interest income	**70,522**	(4,577)	**65,945**
Provision for credit and impairment losses	**5,822**	-	**5,822**
Net interest income after provision for credit and impairment losses	**64,700**	(4,577)	**60,123**
Fees, commissions and other income, net	**26,662**	1,727	**28,389**
Total income	**91,362**	(2,850)	**88,512**
Compensation and fringe benefits	**18,079**	(592)	**17,487**
Occupancy and equipment-related expenses	**12,587**	3,536	**16,123**
Other operating expenses	**20,167**	(3,700)	**16,467**
Total other expenses	**50,833**	(756)	**50,077**
Operating profit	**40,529**	(2,094)	**38,435**
Share in net income of associates (included in Other income)	**563**		**563**
Income tax expense	**9,352**		**9,352**
Total assets	**2,175,217**	29,813	**2,205,030**
Total liabilities	**1,909,159**	22,837	**1,931,996**

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

	2017		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	51,662	(3,623)	48,039
Provision for credit and impairment losses	3,800	(5)	3,795
Net interest income after provision for credit and impairment losses	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 other 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

"Consolidation adjustments/Others" pertain to amounts 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	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Cash and other cash items	**47,256**	43,536	**45,982**	42,419
Due from Bangko Sentral ng Pilipinas (BSP)	**207,845**	225,907	**181,815**	202,487
Due from other banks	**22,356**	12,477	**18,356**	8,615
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	**21,394**	31,261	**17,191**	19,601
Cash and cash equivalents attributable to insurance operations (Note 2)	**217**	89	**-**	-
	299,068	313,270	**263,344**	273,122

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

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
BSP	**20,306**	24,791	**16,947**	14,000
Other banks	**2,293**	9,552	**1,451**	8,686
	22,599	34,343	**18,398**	22,686
Accrued interest receivable	**11**	30	**6**	23
	22,610	34,373	**18,404**	22,709
Allowance for impairment	**(40)**	(50)	**(40)**	(50)
	22,570	34,323	**18,364**	22,659

As at December 31, 2019, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P21,394 million (2018 - P31,261 million) for BPI Group and P17,191 million (2018 - P19,601 million) for the Parent Bank are classified as cash equivalents in the statements of cash flows (Note 4).

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The aggregate face value of securities pledged approximates 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	
	2019	2018	**2019**	2018
Peso-denominated	**3.49 - 5.74**	2.65 - 5.40	**4.33 - 10.48**	3.12 - 7.37
US dollar-denominated	**1.55 - 2.62**	1.50 - 2.34	**1.55 - 2.62**	1.50 - 2.34

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

The account at December 31 consists of:

		Consolidated		Parent	
	Note	**2019**	2018	**2019**	2018
		(In Millions of Pesos)			
Debt securities					
Government securities		**17,017**	8,953	**14,482**	5,515
Commercial papers of private companies		**4,082**	3,497	**283**	800
Listed equity securities		**73**	238	**-**	-
Derivative financial assets	7	**2,933**	4,033	**2,923**	4,031
		24,105	16,721	**17,688**	10,346

Note 7 - Derivative Financial Instruments

Derivatives held by the BPI Group consist mainly 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 at 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.

- 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 and fair values of derivative financial instruments as at December 31 are set out below:

Consolidated

	Fair Values			
	Assets		Liabilities	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Held for trading				
Foreign exchange derivatives				
Currency swaps	**630**	1,077	**950**	830
Currency forwards	**436**	250	**450**	219
Interest rate derivatives				
Interest rate swap	**1,856**	2,702	**1,414**	2,839
Interest rate futures	**-**	-	**-**	3
Warrants	**2**	4	**-**	-
Equity option	**9**	-	**-**	-
Held for hedging				
Cross currency swap	**-**	-	**63**	-
	2,933	4,033	**2,877**	3,891

Parent

	Fair Values			
	Assets		Liabilities	
	2019	2018	**2019**	2018
Held for trading				
Foreign exchange derivatives				
Currency swaps	**630**	1,077	**950**	827
Currency forwards	**436**	250	**450**	219
Interest rate derivatives				
Interest rate swap	**1,855**	2,702	**1,414**	2,839
Interest rate futures	**-**	-	**-**	3
Warrants	**2**	2	**-**	-
Held for hedging				
Cross currency swap	**-**	-	**63**	-
	2,923	4,031	**2,877**	3,888

Cash flow hedge of foreign currency-denominated bond
Consistent with its established risk management framework and asset liability management strategies, the Parent Bank decided to hedge the foreign currency exposure arising from the CHF-denominated debt (hedged item) issued in 2019 (Note 16).

The Parent Bank aims to minimize or reduce the volatility in the overall portfolio brought about by the movement of CHF against the US Dollar through a hedging instrument - cross currency interest rate swap (CCIRS). Under the terms of the CCIRS, the Parent Bank agrees to receive CHF in exchange for US Dollar at settlement date which coincides with the maturity date of the hedged item. The volatility arising from movement of US Dollar against the functional currency (Philippine Peso), however, is managed in conjunction with the Parent Bank's overall foreign currency risk management. The hedge ratio of 1:1 is observed so as not to create an imbalance that would create hedge ineffectiveness. The hedge has been assessed to be effective as of reporting date.

Critical accounting estimate - Determination of fair value of derivatives and other financial instruments
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, however, to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

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

Details of the account at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Debt securities				
Government securities	**39,751**	32,718	**36,409**	27,814
Commercial papers of private companies	**10,624**	2,695	**9,914**	2,090
	50,375	35,413	**46,323**	29,904
Accrued interest receivable	**704**	118	**686**	89
	51,079	35,531	**47,009**	29,993
Equity securities				
Listed	**1,738**	1,129	**972**	406
Unlisted	**1,088**	546	**339**	184
	2,826	1,675	**1,311**	590
	53,905	37,206	**48,320**	30,583

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
Peso-denominated	**4.09 - 5.40**	1.18 - 4.20	**4.42 - 5.75**	1.65 - 5.43
Foreign currency-denominated	**2.14 - 2.94**	2.09 - 2.85	**2.14 - 2.94**	2.33 - 2.85

Interest income from debt instruments recognized in the statement of income for the year ended December 31, 2019 amounts to P1,937 million (2018 - P278 million; 2017 - P200 million) and P1,871 million (2018 - P160 million; 2017 - P323 million) for the BPI Group and Parent Bank, respectively.

Dividend income from equity instruments recognized in the statement of income for the year ended December 31, 2019 amounts to P76 million (2018 - P64 million; 2017 - P53 million) and P48 million (2018 - P41 million; 2017 - P26 million) for the BPI Group and Parent Bank, respectively.

Note 9 - Investment Securities at Amortized cost, net

Details of the account at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Government securities	**190,773**	196,957	**170,366**	180,044
Commercial papers of private companies	**80,644**	86,826	**78,285**	83,964
	271,417	283,783	**248,651**	264,008
Accrued interest receivable	**3,688**	3,790	**3,355**	3,491
	275,105	287,573	**252,006**	267,499
Allowance for impairment	**-**	(2)	**-**	(2)
	275,105	287,571	**252,006**	267,497

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
Peso-denominated	**3.62 - 4.03**	3.53 - 3.90	**3.64 - 4.05**	3.55 - 3.93
Foreign currency-denominated	**3.08 - 4.69**	2.80 - 3.16	**3.11 - 4.83**	2.84 - 3.19

Interest income from these investment securities recognized in the statements of income for the year ended December 31, 2019 amounts to P10,318 million (2018 - P9,035 million; 2017 - P8,631 million) and P9,675 million (2018 - P8,514 million; 2017 - P7,912 million) for the BPI Group and the Parent Bank, respectively.

Investment securities are expected to be realized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Current (within 12 months)	**15,165**	30,159	**10,686**	28,038
Non-current (over 12 months)	**259,940**	257,414	**241,320**	239,461
	275,105	287,573	**252,006**	267,499

Critical accounting judgment- Classification of investment securities at amortized cost
The BPI Group classifies its financial assets at initial recognition as to 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.

Note 10 - Loans and Advances, net

Details of this account at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Corporate loans	(In Millions of Pesos)			
Large corporate customers	**1,147,643**	1,043,855	**1,121,050**	1,019,626
Small and medium enterprise	**73,357**	87,998	**54,553**	62,058
Retail loans				
Credit cards	**75,100**	60,843	**72,785**	59,228
Real estate mortgages	**137,380**	126,088	**11**	12
Auto loans	**53,789**	51,845	**-**	-
Others	**11,421**	5,145	**499**	14
	1,498,690	1,375,774	**1,248,898**	1,140,938
Accrued interest receivable	**9,660**	8,454	**6,958**	5,963
Unearned discount/income	**(7,040)**	(6,430)	**(5,475)**	(4,978)
	1,501,310	1,377,798	**1,250,381**	1,141,923
Allowance for impairment	**(25,974)**	(22,902)	**(18,605)**	(15,967)
	1,475,336	1,354,896	**1,231,776**	1,125,956

Loans and advances aggregating P19,628 million (2017 - P31,520 million) are used as security for bills payable of the Parent Bank (Note 16).

Loans and advances include amounts due from related parties (Note 25).

Loans and advances are expected to be realized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Within 12 months (Current)	**552,190**	554,183	**517,516**	515,723
Over 12 months (Non-current)	**949,120**	823,615	**732,865**	626,200
	1,501,310	1,377,798	**1,250,381**	1,141,923

Finance lease operations (the BPI Group as the lessor)
The BPI Group, through BPI Century Tokyo Lease and Finance Corporation, is engaged in the leasing out of transportation equipment under various finance lease arrangements which typically run for a non-cancellable period of five years. The lease contracts generally include an option for the lessee to purchase the leased asset after the lease period at a price that approximates to about 5% to 40% of the fair value of the asset at the inception of the lease. Likewise, the lease contract requires the lessee to put up a guarantee deposit equivalent to the residual value of the leased asset at the end of lease term. 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.

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

	Consolidated	
	2019	2018
	(In Millions of Pesos)	
Total future minimum lease collections	**12,666**	11,203
Unearned finance income	**(1,395)**	(1,321)
Present value of future minimum lease collections	**11,271**	9,882
Allowance for credit losses	**(628)**	(304)
	10,643	9,578

Details of future gross minimum lease payments receivable follow:

	Consolidated	
	2019	2018
	(In Millions of Pesos)	
Not later than one year	**1,532**	4,299
Later than one year but not later than five years	**10,373**	6,270
More than five years	**761**	634
	12,666	11,203
Unearned finance income	**(1,395)**	(1,321)
	11,271	9,882

There are no contingent rents arising from lease contracts outstanding at December 31, 2019 and 2018.

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
Commercial loans				
Peso-denominated loans	**5.00 - 5.95**	4.11 - 5.52	**5.24 - 5.88**	3.98 - 5.44
Foreign currency-denominated loans	**4.18 - 4.91**	3.61 - 4.86	**4.18 - 4.91**	3.61 - 4.86
Real estate mortgages	**7.30 - 7.74**	6.61 - 6.97	**0.10 - 4.26**	7.04 - 8.00
Auto loans	**8.31 - 10.69**	7.46 - 10.93	**-**	-

Details of the loans and advances portfolio at December 31 as to collateral (amounts net of unearned discounts and exclusive of accrued interest receivable) are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**278,099**	220,587	**138,607**	97,170
Chattel mortgage	**57,037**	54,731	**10**	9
Others	**148,385**	172,503	**146,038**	168,260
	483,521	447,821	**284,655**	265,439
Unsecured loans	**1,008,129**	921,523	**958,768**	870,521
	1,491,650	1,369,344	**1,243,423**	1,135,960

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.

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

The details of and movements in the account are summarized below:

Consolidated

		2019				
	Note	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	**Total**
		(In Millions of Pesos)				
Cost						
January 1, 2019, as previously reported		3,028	10,889	16,496	5,580	**35,993**
Impact of adoption of PFRS 16	20,29	-	9,051	-	-	**9,051**
January 1, 2019, as restated		3,028	19,940	16,496	5,580	**45,044**
Additions		-	2,607	1,326	1,570	**5,503**
Disposals		(9)	(224)	(707)	(1,019)	**(1,959)**
Transfers		-	(367)	(92)	-	**(459)**
December 31, 2019		**3,019**	**21,956**	**17,023**	**6,131**	**48,129**
Accumulated depreciation						
January 1, 2019		-	5,511	13,040	1,190	**19,741**
Depreciation and amortization		-	2,829	1,712	1,364	**5,905**
Disposals		-	(141)	(383)	(687)	**(1,211)**
Transfers		-	(20)	(12)	(22)	**(54)**
December 31, 2019		**-**	**8,179**	**14,357**	**1,845**	**24,381**
Net book value, December 31, 2019		**3,019**	**13,777**	**2,666**	**4,286**	**23,748**

	2018				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2018	3,023	9,591	15,278	5,502	33,394
Additions	-	1,443	2,052	1,875	5,370
Disposals	(1)	(145)	(840)	(1,765)	(2,751)
Transfers	6	-	6	(32)	(20)
December 31, 2018	3,028	10,889	16,496	5,580	35,993
Accumulated depreciation					
January 1, 2018	-	4,849	11,749	1,739	18,337
Depreciation and amortization	-	755	1,831	1,269	3,855
Disposals	-	(93)	(541)	(1,800)	(2,434)
Transfers	-	-	1	(18)	(17)
December 31, 2018	-	5,511	13,040	1,190	19,741
Net book value, December 31, 2018	3,028	5,378	3,456	4,390	16,252

Parent

		2019			
	Note	Land	Buildings and leasehold improvements	Furniture and equipment	Total
		(In Millions of Pesos)			
		(In Millions of Pesos)			
Cost					
January 1, 2019, as previously reported		2,677	9,615	14,708	**27,000**
Impact of adoption of PFRS 16	20,29	-	7,900	-	**7,900**
January 1, 2019, as restated		2,677	17,515	14,708	**34,900**
Additions		-	1,767	1,036	**2,803**
Disposals		(9)	(223)	(567)	**(799)**
Transfers		-	(103)	-	**(103)**
December 31, 2019		**2,668**	**18,956**	**15,177**	**36,801**
Accumulated depreciation					
January 1, 2019		-	5,040	11,814	**16,854**
Depreciation and amortization		-	2,352	1,484	**3,836**
Disposals		-	(141)	(324)	**(465)**
Transfers		-	(19)	-	**(19)**
December 31, 2019		-	7,232	12,974	**20,206**
Net book value, December 31, 2019		**2,668**	**11,724**	**2,203**	**16,595**

	2018			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2018	2,661	8,582	13,850	25,093
Additions	(1)	1,178	1,590	2,767
Disposals	-	(145)	(732)	(877)
Transfers	17	-	-	17
December 31, 2018	2,677	9,615	14,708	27,000
Accumulated depreciation				
January 1, 2018	-	4,492	10,696	15,188
Depreciation and amortization	-	642	1,634	2,276
Disposals	-	(94)	(516)	(610)
December 31, 2018	-	5,040	11,814	16,854
Net book value, December 31, 2018	2,677	4,575	2,894	10,146

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

In 2019, the Parent Bank realized a gain of P855 million (2018 - P969 million) (Note 19) from disposal of certain properties.

Critical accounting estimate - Useful lives of bank premises, furniture, fixtures and equipment
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.

Note 12 - Investments in Subsidiaries and Associates, net

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**6,746**	5,659	**-**	-
Investments at cost method	**-**	-	**10,031**	9,942
	6,746	5,659	**10,031**	9,942

Investments in associates accounted for using the equity method in the consolidated statements of condition are as follows:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Acquisition cost	
		2019	2018	**2019**	2018
		(in %)		(In Millions of Pesos)	
BPI-Philamlife Assurance Corporation (BPLAC)	Philippines	**47.96**	47.67	**389**	371
AF Payments, Inc. (AFPI)	Philippines	**20.00**	20.00	**820**	750
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
				2,829	2,741

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

The movements in investments in associates accounted for using the equity method in the consolidated financial statements are summarized as follows:

	2019	2018
	(In Millions of Pesos)	
Acquisition cost		
At January 1	**2,741**	2,681
Additions during the year	**88**	60
At December 31	**2,829**	2,741
Accumulated equity in net income		
At January 1	**3,264**	3,239
Share in net income for the year	**372**	700
Dividends received	**(629)**	(675)
At December 31	**3,007**	3,264
Accumulated share in other comprehensive income (loss)		
At January 1	**(206)**	466
Share in other comprehensive income (loss) for the year	**1,256**	(672)
At December 31	**1,050**	(206)
Allowance for impairment	**(140)**	(140)
	6,746	5,659

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:

	2019	2018
	(In Millions of Pesos)	
Total assets	**132,126**	122,616
Total liabilities	**113,282**	105,960
Total revenues	**25,911**	18,618
Total net income	**2,007**	1,425

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	
	2019	2018	**2019**	2018	**2019**	2018
			(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**	1,502	**-**	-	**1,502**	1,502
BPI Direct BanKo, Inc., A Savings Bank	**1,009**	1,009	**-**	-	**1,009**	1,009
Ayala Plans, Inc. (API)	**864**	863	**-**	-	**864**	863
BPI Capital Corporation	**623**	623	**-**	-	**623**	623
BPI Payments Holdings Inc.	**573**	503	**(299)**	(299)	**274**	204
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. (BERC HK)	**132**	132	**-**	-	**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	**-**	-	**321**	321
Associates	**2,009**	1,991	**-**	-	**2,009**	1,991
	10,330	10,241	**(299)**	(299)	**10,031**	9,942

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

In 2019, the Parent Bank made an additional capital infusion to BPHI amounting to P70 million (2018 - P60 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 November 21, 2018, BPI International Finance Limited (included in "Others" subsidiaries in the table above) distributed its shares in BERC HK valued at P132 million as a property dividend to the Parent Bank. BERC HK became an immediate subsidiary of the Parent Bank following the property dividend declaration.

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.

Note 13 - Deferred Income Taxes

Details of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for credit and impairment losses	**8,345**	7,833	**5,644**	5,329
Pension liability	**1,129**	661	**897**	454
Provisions	**394**	329	**313**	248
Others	**354**	225	**263**	195
Total deferred income tax assets	**10,222**	9,048	**7,117**	6,226
Deferred income tax liabilities				
Unrealized gain on property appraisal	**(483)**	(491)	**(483)**	(491)
Others	**(33)**	(21)	**19**	(12)
Total deferred income tax liabilities	**(516)**	(512)	**(464)**	(503)
Deferred income tax assets, net	**9,706**	8,536	**6,653**	5,723

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**8,536**	8,091	**5,723**	5,180
Amounts recognized in statements of income	**685**	734	**583**	776
Amounts recognized in other comprehensive income	**485**	(289)	**347**	(233)
At December 31	**9,706**	8,536	**6,653**	5,723

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

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos)					
Allowance for impairment	**(946)**	(547)	(443)	**(718)**	(593)	(563)
Provisions	**-**	(1)	(27)	**-**	6	(9)
Pension	**18**	68	174	**9**	9	(65)
NOLCO	**83**	129	(66)	**-**	-	-
Others	**160**	(383)	(100)	**126**	(198)	175
	(685)	(734)	(462)	**(583)**	(776)	(462)

Critical accounting judgment - Realization of deferred income tax assets

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 14 - Other Assets, net

The account at December 31 consists of the following:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Intangible assets	**2,797**	3,070	**2,435**	2,416
Accounts receivable	**2,358**	2,761	**2,218**	2,509
Residual value of equipment for lease	**2,781**	2,601	**-**	-
Sundry debits	**1,663**	3,392	**1,518**	3,292
Prepaid expenses	**944**	1,343	**578**	1,007
Accrued trust and other fees	**747**	540	**338**	131
Rental deposits	**734**	671	**623**	573
Creditable withholding tax	**503**	408	**107**	79
Investment properties	**156**	129	**143**	118
Miscellaneous assets	**3,239**	8,108	**2,260**	6,853
	15,922	23,023	**10,220**	16,978
Allowance for impairment	**(515)**	(824)	**(310)**	(665)
	15,407	22,199	**9,910**	16,313

Sundry debits are float items caused by timing differences in recording of transactions. These float items are normally cleared within seven days.

Miscellaneous assets include prepaid expenses, postage stamps, stationery and supplies.

The allowance for impairment as at December 31, 2019 and 2018 mainly pertains to accounts receivable. The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**825**	848	**665**	701
Provision for (reversal of) impairment losses	**54**	89	**5**	(69)
Transfer/reallocation	**(38)**	(34)	**(36)**	110
Write-off	**(326)**	(79)	**(324)**	(77)
At December 31	**515**	824	**310**	665

Other assets are expected to be realized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(in millions of pesos)			
Current (within 12 months)	**10,089**	17,143	**7,632**	14,434
Non-current (over 12 months)	**5,833**	5,880	**2,588**	2,544
	15,922	23,023	**10,220**	16,978

Note 15 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Demand	**272,020**	256,279	**262,149**	245,620
Savings	**899,181**	883,650	**795,936**	778,246
Time	**524,142**	445,817	**398,373**	323,341
	1,695,343	1,585,746	**1,456,458**	1,347,207

Deposit liabilities include amounts due to related parties (Note 25).

Deposit liabilities are expected to be settled as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(in millions of pesos)			
Current (within 12 months)	**796,447**	602,031	**711,910**	534,119
Non-current (over 12 months)	**898,896**	983,715	**744,548**	813,088
	1,695,343	1,585,746	**1,456,458**	1,347,207

In 2019, the Parent Bank issued the first tranche of long-term negotiable certificates of deposit (LTNCD) amounting to P3 billion out of the established P50-billion LTNCD program approved by the BSP. The LTNCDs pay interest on a quarterly basis at a rate 4% per annum and carry a tenor of 5.5 years maturing on April 25, 2025. The proceeds from the LTNCD issuance are included in “Time deposits” category

Related interest expense on deposit liabilities is presented below:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos)					
Demand	**628**	687	616	**574**	630	557
Savings	**6,738**	7,384	6,723	**5,541**	6,061	5,489
Time	**21,508**	13,184	9,321	**15,361**	8,954	5,367
	28,874	21,255	16,660	**21,476**	15,645	11,413

BSP reserve requirement
The Parent Bank and its bank and non-bank subsidiaries with quasi-banking functions should comply with a minimum reserve requirement on deposit and deposit substitute liabilities in local currency.

In 2018, the reserve ratio decreased to 18% from 20% following the BSP’s decision to reduce the requirements. In 2019, the BSP approved further reductions in reserves which brought the requirement down to 14% effective December 6, 2019 by virtue of BSP Circular 1063. Further, the BSP requires a 4% reserve requirement for LTNCDs.

Reserves must be set aside in deposits with the BSP. As at December 31, 2019, the reserves (included in Due from BSP) amounted to P178,591 million (2018 - P214,196 million) for the BPI Group and P169,303 million (2018 - P195,883 million) for the Parent Bank. The BPI Group is in full compliance with the reserve requirement as at December 31, 2019 and 2018.

Note 16 - Bills Payable and Other Borrowed Funds

The account at December 31 consists of:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Bills payable				
Local banks	**34,364**	58,810	**21,810**	46,761
Foreign banks	**31,417**	51,813	**29,255**	47,841
Other borrowed funds	**85,056**	56,278	**75,464**	56,278
	150,837	166,901	**126,529**	150,880

Bills payable
Bills payable include mainly funds borrowed from various banking institutions which were lent out to customers of the BPI Group in accordance with the agreed financing programs. Loans and advances arising from these financing programs serve as collateral for this liability (Note 10). The average payment term of these bills payable is 0.90 years (2018 - 0.39 years).

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
Private firms and local banks - Peso-denominated	**2.20 - 6.67**	2.75 - 7.35	**2.25 - 6.25**	2.75 - 5.06
Foreign banks - Foreign currency-denominated	**0.63 - 4.20**	1.32 - 4.20	**1.45 - 3.66**	1.32 - 3.26

Other borrowed funds
This represents funds raised via debt issuance programs as follows:

a) *Peso Bond and Commercial Paper Program*

In 2018, the Parent Bank established a Peso Bond and Commercial Paper Program in the aggregate amount of up to P50,000 million, out of which a total of P25,000 million notes were issued with a coupon of 6.7970% per annum, payable quarterly to mature on March 6, 2020. Last 20 November 2019, BPI's Board of Directors approved the issuance of peso-denominated bonds and commercial papers of up to Php 100Bn, in one or more tranches, under an updated Bank Bond Issuance Program.

Likewise, on October 31, 2019, the BOD of BPI Family Savings Bank, Inc. (BPI Family), a subsidiary, approved the establishment of a Peso Bond Program in the aggregate amount of P35,000 million. In line with the said program, on December 16, 2019, BPI Family issued P9,600 million with a coupon of 4.30% per annum, payable quarterly to mature on June 16, 2022.

b) Medium-Term Note (MTN) Program

On June 21, 2018, the BOD of the Parent Bank approved the establishment of the MTN Program in the aggregate amount of up to US$2,000 million with drawdowns as follows:

Description of instrument	Date of drawdown	Interest rate	Maturity	Amount (In Millions of Pesos)
US$ 600 million, 5-year senior unsecured Bonds	September 4, 2018	4.25%	September 4, 2023	32,000
US$ 300 million, 5-year senior unsecured Green Bonds	September 10, 2019	2.5%	September 10, 2024	15,572
CHF 100 million, 2-year senior unsecured Green Bonds	September 24, 2019	-	September 24, 2021	5,250

The CHF-denominated bonds are designated as hedged items in a cash flow hedge initiated by the Parent Bank in 2019. See Note 7 for the related disclosures.

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

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos)					
Bills payable	**3,549**	2,517	1,150	**2,834**	2,013	885
Other borrowed funds	**3,215**	575	-	**3,197**	575	-
	6,764	3,092	1,150	**6,031**	2,588	885

The movements in bills payable and other borrowed funds are summarized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**166,901**	83,517	**150,880**	70,722
Additions	**374,332**	706,779	**291,585**	651,065
Maturities	**(387,343)**	(623,196)	**(313,027)**	(570,594)
Amortization of discount	**(17)**	121	**(19)**	120
Exchange differences	**(3,036)**	(320)	**(2,890)**	(433)
At December 31	**150,837**	166,901	**126,529**	150,880

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Current (within 12 months)	**48,291**	99,381	**35,948**	84,086
Non-current (over 12 months)	**102,546**	67,520	**90,581**	66,794
	150,837	166,901	**126,529**	150,880

Note 17 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

		Consolidated		Parent	
	Notes	**2019**	2018	**2019**	2018
		(In Millions of Pesos)			
Bills purchased - contra		**15,301**	12,872	**15,299**	12,862
Lease liabilities	20,29	**7,856**	-	**6,739**	-
Accounts payable		**4,738**	8,096	**3,078**	5,635
Outstanding acceptances		**3,855**	2,394	**3,855**	2,394
Deposits on lease contracts		**2,639**	2,438	**-**	-
Other deferred credits		**1,576**	810	**323**	67
Withholding tax payable		**1,062**	674	**892**	514
Due to the Treasurer of the Philippines		**947**	650	**827**	575
Vouchers payable		**51**	-	**51**	-
Dividends payable		**-**	4,053	**-**	4,052
Miscellaneous liabilities		**9,743**	11,133	**7,875**	9,694
		47,768	43,120	**38,939**	35,793

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

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

The account is expected to be settled as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Current (within 12 months)	**36,818**	41,343	**36,455**	34,753
Non-current (over 12 months)	**10,950**	1,777	**2,484**	1,040
	47,768	43,120	**38,939**	35,793

Note 18 - Capital Funds

a) *Share capital*

Details of authorized share capital of the Parent Bank follow:

	2019	2018	2017
	(In Millions of Pesos, except par value per share)		
Authorized capital (at P10 par value per share)			
Common shares	**49,000**	49,000	49,000
Preferred A shares	**600**	600	600
	49,600	49,600	49,600

Details of outstanding common shares are as follows:

	2019	2018	2017
		(In Number of Shares)	
Issued common shares			
At January 1	**4,502,449,501**	3,939,412,661	3,937,043,603
Issuance of shares during the year	**4,622,143**	563,036,840	2,369,058
At December 31	**4,507,071,644**	4,502,449,501	3,939,412,661
Subscribed common shares	**7,163,739**	6,341,738	5,785,721

The BPI common 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. Likewise, 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.

As at December 31, 2019, 2018 and 2017, the Parent Bank has 12,396, 12,588, and 11,488 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2019, 2018 and 2017.

b) Reserves

The account consists of:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
			(In Millions of Pesos)			
General loan loss provision	**4,739**	3,867	-	**4,739**	3,867	-
Reserve for trust business	**199**	90	90	**-**	-	-
Executive stock option plan amortization	**136**	105	130	**119**	76	108
Reserve for self-insurance	**34**	34	34	**34**	34	34
	5,108	4,096	254	**4,892**	3,977	142

General loan loss provision (GLLP)

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 "Stage 1" 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 P4,739 million at December 31, 2019 (2018 - 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.

Reserve for trust business

In compliance with existing BSP regulations, 10% of BPI AMTC'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 authorized capital of BPI AMTC.

Reserve for self-insurance

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.

Share-based compensation plan
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, 2019	4,035,000	9,100,000
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 and P17.41 for the years ended December 31, 2018 and 2017 respectively.

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

	2019	2018	2017
At January 1	**11,773,334**	11,338,333	9,100,000
Granted	**4,000,000**	3,480,000	3,485,000
Exercised	**(1,116,666)**	(2,786,665)	(746,667)
Cancelled	**(691,667)**	(258,334)	(500,000)
At December 31	**13,965,001**	11,773,334	11,338,333
Exercisable	**6,733,334**	5,120,000	6,745,000

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 February 4, 2020, January 7, 2019 and February 15, 2017.

c) *Accumulated other comprehensive loss*

Details of and movements in the account are as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
			(In Millions of Pesos)			
Fair value reserve on available-for-sale securities						
At January 1	**-**	(3,125)	(3,838)	**-**	(3,275)	(3,724)
Effect of PFRS 9 adoption	**-**	3,125	-	**-**	3,275	-
Unrealized fair value loss before tax	**-**	-	264	**-**	-	23
Amount recycled to profit or loss	**-**	-	447	**-**	-	424
Deferred income tax effect	**-**	-	2	**-**	-	2
At December 31	**-**	-	(3,125)	**-**	-	(3,275)
Fair value reserve on financial assets at FVOCI						
At January 1	**(33)**	-	-	**69**	-	-
Unrealized fair value loss before tax	**(424)**	(364)	-	**(94)**	(12)	-
Amount recycled to profit or loss	**387**	(390)	-	**(32)**	(128)	-
Effect of PFRS 9 adoption	**-**	757	-	**-**	210	-
Deferred income tax effect	**(14)**	(36)	-	**(4)**	(1)	-
At December 31	**(84)**	(33)	-	**(61)**	69	-
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	**(36)**	45	(158)	**-**	-	-
Share in other comprehensive income (loss) for the year, before tax	**389**	(316)	175	**-**	-	-
Effect of PFRS 9 adoption	**(229)**	229	-	**-**	-	-
Deferred income tax effect	**(6)**	6	28	**-**	-	-
At December 31	**118**	(36)	45	**-**	-	-
Share in other comprehensive income (loss) of associates						
At January 1	**(206)**	479	1,259	**-**	-	-
Share in other comprehensive income (loss) for the year	**1,254**	(685)	(780)	**-**	-	-
At December 31	**1,048**	(206)	479	**-**	-	-
Translation adjustment on foreign operations						
At January 1	**(704)**	(678)	(804)	**-**	-	-
Translation differences and others	**(202)**	(26)	126	**(124)**	-	-
At December 31	**(906)**	(704)	(678)	**(124)**	-	-
Remeasurements of defined benefit obligation, net						
At January 1	**(1,197)**	(1,809)	(1,537)	**(990)**	(1,421)	(1,083)
Actuarial (losses) gains for the year	**(1,851)**	877	(387)	**(1,508)**	616	(358)
Deferred income tax effect	**433**	(265)	115	**367**	(185)	20
At December 31	**(2,615)**	(1,197)	(1,809)	**(2,131)**	(990)	(1,421)
	(2,439)	(2,176)	(5,088)	**(2,316)**	(921)	(4,696)

d) Dividend declarations

Cash dividends declared by the BOD of the Parent Bank are as follows:

Date declared	Amount of dividends Per share	Total (In Millions of Pesos)
For the year ended December 31, 2019		
May 15, 2019	0.90	4,056
November 20, 2019	0.90	4,057
		8,113
For the year ended December 31, 2018		
June 20, 2018	0.90	4,052
December 19, 2018	0.90	4,052
		8,104
For the year ended December 31, 2017		
June 15, 2017	0.90	3,545
December 15, 2017	0.90	3,546
		7,091

e) Earnings per share (EPS)

EPS is calculated as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos, except earnings per share amounts)					
a) Net income attributable to equity holders of the Parent Bank	**28,803**	23,078	22,416	**26,218**	15,428	22,097
b) Weighted average number of common shares outstanding during the year	**4,507**	4,316	3,939	**4,507**	4,316	3,939
c) Basic EPS (a/b)	**6.39**	5.35	5.69	**5.82**	3.57	5.61

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 are as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos)					
Credit card income	**3,525**	3,197	2,953	**3,423**	3,126	2,894
Trust and asset management fees	**2,868**	2,818	3,516	**4**	-	190
Rental income	**2,047**	1,898	1,672	**267**	254	219
Gain on sale of assets	**1,165**	1,243	1,204	**898**	658	302
Dividend income	**77**	76	68	**3,794**	904	9,492
Miscellaneous income	**2,310**	1,155	1,380	**2,101**	977	1,074
	11,992	10,387	10,793	**10,487**	5,919	14,171

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

Miscellaneous income includes recoveries on charged-off assets and fees arising from service arrangements with customers and related parties.

Note 20 - Leases

The BPI Group (as lessee) has various lease agreements which mainly pertain to branch premises and equipment that are renewable under certain terms and conditions. Rental contracts are typically made for fixed periods of 4 to 6 years. The balances arising from these leases are presented below:

a) Right-of-use assets and lease liabilities (PFRS 16)

On January 1, 2019, the BPI Group adopted PFRS 16, *Leases* which requires recognition of both right-of-use assets and lease liability arising from long-term leases. The impact of initial adoption of PFRS 16 are summarized in Note 29.

Details of right-of-use assets and lease liabilities at December 31, 2019 are as follows:

	Note	**Consolidated**	Parent
		(In Millions of Pesos)	
Right-of-use assets	11		
Buildings and leasehold improvements		**7,787**	6,733
Lease liabilities (included in "Deferred credits and other liabilities")	17		
Current		**1,485**	1,251
Non-current		**6,371**	5,488
		7,856	6,739

Additions to the right-of-use assets (Note 11) in 2019 aggregated P669 million and P442 million for BPI Group and BPI Parent, respectively. Total cash outflow for leases in 2019 amounted to P1,869 million and P1,466 million for BPI Group and BPI Parent, respectively.

Amounts recognized in the statement of income relating to leases:

	Note	**Consolidated**	Parent
		(In Millions of Pesos)	
Depreciation expense	11		
Buildings and leasehold improvements		**1,933**	1,609
Interest expense (included in "Interest expense")		**398**	315
Expense relating to short-term leases (included in "Occupancy and equipment-related expenses")		**228**	203
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in "Occupancy and equipment-related expenses")		**55**	43
		2,614	2,170

Critical accounting judgment - Determining the lease term

In determining the lease term, the BPI Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Critical accounting judgment - Determining the incremental borrowing rate

To determine the incremental borrowing rate, each entity within the BPI Group:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; or
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held which do not have recent third-party financing, and
- makes adjustments specific to the lease, (e.g. term, currency and security).

The BPI Group's weighted average incremental borrowing rates applied to the lease liabilities ranged from 6.6% to 6.9%. The rates were determined in reference to the borrowing rates arising from the most recent debt issuances of the Parent Bank.

b) Operating leases (PAS 17)

Prior to January 1, 2019, the BPI Group's lease contracts were accounted for as operating leases following the provisions of PAS 17. The rentals pertaining to branch premises (included in Occupancy and equipment-related expenses) under these lease contracts were as follows:

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

The future minimum lease payments under non-cancellable operating leases of the BPI Group as of December 31, 2018 are as follows:

	Amount
No later than 1 year	107
Later than 1 year but no later than 5 years	214
More than 5 years	57
	378

Note 21 - Operating Expenses

Details of compensation and fringe benefits expenses are as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
			(In Millions of Pesos)			
Salaries and wages	**14,613**	12,624	11,642	**11,231**	9,702	8,891
Retirement expense (Note 23)	**631**	755	720	**536**	608	574
Other employee benefit expenses	**2,243**	1,936	1,535	**1,712**	1,524	1,226
	17,487	15,315	13,897	**13,479**	11,834	10,691

Details of other operating expenses are as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
			(In Millions of Pesos)			
Insurance	**4,162**	4,105	3,940	**2,861**	2,789	2,448
Advertising	**1,492**	1,310	1,215	**1,316**	1,123	1,002
Travel and communication	**1,203**	1,002	902	**974**	825	748
Management and other professional fees	**506**	606	501	**388**	626	419
Supervision and examination fees	**653**	587	542	**506**	441	401
Litigation expenses	**558**	526	598	**308**	255	348
Taxes and licenses	**492**	791	714	**657**	539	491
Office supplies	**480**	592	328	**389**	490	267
Amortization expense	**311**	293	296	**30**	11	289
Shared expenses	**-**	-	-	**39**	26	16
Others	**6,610**	5,329	4,256	**4,590**	4,132	3,197
	16,467	15,141	13,292	**12,058**	11,257	9,626

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

The reconciliation between the income tax expense at the statutory tax rate and the effective income tax for the years ended December 31 is shown below:

	Consolidated					
	2019		2018		2017	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	**11,531**	**30.00**	9,000	30.00	8,608	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(1,553)**	**(4.04)**	(517)	(1.72)	(696)	(2.42)
Tax-exempt income	**(2,926)**	**(7.61)**	(1,582)	(5.27)	(4,350)	(15.16)
Others, net	**2,300**	**5.98**	(231)	(0.77)	2,394	8.34
Effective income tax	**9,352**	**24.33**	6,670	22.24	5,956	20.76

	Parent					
	2019		2018		2017	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	**10,327**	**30.00**	6,134	30.00	7,765	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(1,445)**	**(4.20)**	(519)	(2.54)	(606)	(2.34)
Tax-exempt income	**(1,637)**	**(4.76)**	(495)	(2.42)	(2,907)	(11.23)
Others, net	**960**	**2.79**	(103)	(0.50)	(466)	(1.80)
Effective income tax	**8,205**	**23.83**	5,017	24.54	3,786	14.63

Note 23 - Retirement Plans

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

a) Defined benefit retirement plan

BPI Group (excluding insurance operations)

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

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

Non-life insurance subsidiary

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

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

Following are the amounts recognized based on recent actuarial valuations:

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Present value of defined benefit obligation	**14,892**	10,892	**12,545**	9,171
Fair value of plan assets	**(12,172)**	(9,851)	**(10,130)**	(8,195)
Pension liability recognized in the statements of condition	**2,720**	1,041	**2,415**	976
Effect of asset ceiling	**46**	-	**-**	-
	2,766	1,041	**2,415**	976

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	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**9,851**	10,710	**8,195**	9,003
Contributions	**861**	781	**715**	627
Interest income	**648**	616	**535**	513
Benefit payments	**(1,187)**	(1,206)	**(985)**	(1,072)
Remeasurement - return on plan assets	**1,999**	(1,050)	**1,665**	(876)
Transfer to defined contribution plan	**-**	-	**5**	-
At December 31	**12,172**	9,851	**10,130**	8,195

The carrying values of the plan assets represent their fair value as at December 31, 2019 and 2018.

The plan assets are comprised of the following:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Debt securities	**3,773**	3,054	**3,140**	2,540
Equity securities	**5,721**	4,630	**4,761**	3,852
Others	**2,678**	2,167	**2,229**	1,803
	12,172	9,851	**10,130**	8,195

The plan assets of the unified retirement plan include investment in BPI's common shares with aggregate fair value of P421 million at December 31, 2019 (2018 - P451 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	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**10,892**	12,718	**9,171**	10,508
Interest cost	**944**	712	**795**	582
Current service cost	**545**	659	**456**	539
Remeasurement - change in assumptions and experience adjustment	**3,698**	(1,991)	**3,096**	(1,386)
Benefit payments	**(1,187)**	(1,206)	**(985)**	(1,072)
Transfers to defined contribution plan	**-**	-	**12**	-
At December 31	**14,892**	10,892	**12,545**	9,171

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		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos)					
Current service cost	**545**	659	619	**456**	539	507
Net interest cost	**86**	96	82	**80**	69	56
Settlement loss	**-**	-	9	**-**	-	9
Past service cost	**-**	-	(5)	**-**	-	(5)
	631	755	705	**536**	608	567

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
Discount rate	**5.57%**	8.66%	**5.57%**	8.66%
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 P1,001 million and P836 million, (2018 - P659 million and P539 million, respectively) respectively. The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2019 is 9.65 years (2018 - 8 years).

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

	Consolidated		**Parent**	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Up to one year	**1,135**	1,310	**873**	1,076
More than 1 year to 5 years	**3,967**	3,632	**3,470**	3,036
More than 5 years to 10 years	**8,200**	7,437	**6,923**	6,388
More than 10 years to 15 years	**11,617**	11,116	**9,765**	9,310
More than 15 years to 20 years	**6,825**	8,014	**5,853**	6,869
Over 20 years	**25,238**	27,103	**19,527**	21,193

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

Consolidated

2019

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 4.60%	Increase by 5.00%
Salary growth rate	1.0%	Increase by 10.40%	Decrease by 9.10%

2018

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

Parent

2019

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 4.60%	Increase by 5.00%
Salary growth rate	1.0%	Increase by 10.30%	Decrease by 9.00%

2018

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

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	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Fair value of plan assets	**1,748**	1,254	**1,325**	930
Present value of defined benefit obligation	**(811)**	(298)	**(604)**	(219)
	937	956	**721**	711
Effect of asset ceiling	**945**	956	**721**	711
	(8)	-	**-**	-

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**298**	239	**219**	172
Interest cost	**27**	15	**20**	10
Current service cost	**59**	48	**40**	31
Benefit payments	**(56)**	(20)	**(41)**	(18)
Remeasurement - change in assumptions and experience adjustment	**483**	16	**366**	24
At December 31	**811**	298	**604**	219

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**1,254**	916	**930**	707
Contribution paid by employer	**237**	183	**163**	139
Interest income	**114**	62	**88**	48
Benefit payments	**(56)**	(20)	**(41)**	(18)
Transfer to the plan	**-**	-	**2**	54
Remeasurement - return on plan assets	**199**	113	**183**	-
At December 31	**1,748**	1,254	**1,325**	930

Total retirement expense for the year ended December 31, 2019 under the defined contribution plan for the BPI Group and Parent Bank is P142 million (2018 - P43 million) and P98 million (2018 - P27 million).
The components of plan assets of the defined contributions as at December 31, 2019 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Debt securities	**663**	966	**506**	716
Equity securities	**962**	213	**730**	214
Others	**123**	75	**89**	-
	1,748	1,254	**1,325**	930

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 20.83 years (2018 - 19 years).

Critical accounting estimate – Calculation of defined benefit obligation
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, 2019 and 2018 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.

Note 24 - Asset Management Business

At December 31, 2019, the net asset value of trust and fund assets managed by the BPI Group through BPI AMTC amounts to P731 billion (2018 - P591 billion).

As required by the General Banking Act, BPI AMTC has deposited government securities with the BSP valued at P377 million (2018 - P349 million).

Note 25 - 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

	2019		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**5**	**58**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 4.18% to 10.69% (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	**(38)**	**350**	
Ayala Group	**27,306**	**59,885**	
Other related parties	**275**	**736**	
	27,548	**61,029**	
Deposits from:			
Subsidiaries	**1,024**	**9,746**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.27% Savings - 0.59% to 0.62% Time - 3.61% to 5.15%
Associates	**1,486**	**1,903**	
Ayala Group	**(3,517)**	**13,287**	
Key management personnel	**694**	**1,238**	
	(313)	**26,174**	

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

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

Parent

	2019		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**5**	**58**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 0.10% to 5.88% (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	**(38)**	**350**	
Ayala Group	**27,306**	**59,885**	
Other related parties	**275**	**736**	
	27,548	**61,029**	
Deposits from:			
Subsidiaries	**1,083**	**9,715**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.26% Savings - 0.55% to 0.58% Time - 3.27% to 5.41%
Associates	**1,473**	**1,887**	
Ayala Group	**(2,053)**	**12,921**	
Key management personnel	**642**	**1,105**	
	1,145	**25,628**	

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

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

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

	2019	2018	2017
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**99**	84	39
Associates	**21**	14	-
Ayala Group	**2,867**	1,346	966
Other related parties	**44**	20	15
	3,031	1,464	1,020
Other income			
Subsidiaries	**2,260**	1,801	1,485
Associates	**1,511**	1,222	977
Ayala Group	**580**	203	247
	4,351	3,226	2,709
Interest expense			
Subsidiaries	**99**	84	38
Associates	**3**	2	1
Ayala Group	**128**	119	21
Key management personnel	**9**	3	1
	239	208	61
Other expenses			
Subsidiaries	**2,148**	1,698	1,371
Associates	**22**	51	34
Ayala Group	**435**	501	319
	2,605	2,250	1,724
Retirement benefits			
Key management personnel	**51**	47	44
Salaries, allowances and other short-term benefits			
Key management personnel	**871**	800	744
Directors' remuneration	**121**	93	87

Parent

	2019	2018	2017
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**-**	1	3
Associates	**21**	14	-
Ayala Group	**2,867**	1,346	966
Other related parties	**44**	20	15
	2,932	1,381	984
Other income			
Subsidiaries	**2,157**	1,620	1,433
Associates	**1,272**	1,035	977
Ayala Group	**372**	137	155
	3,801	2,792	2,565
Interest expense			
Subsidiaries	**99**	84	34
Associates	**3**	2	1
Ayala Group	**123**	98	20
Key management personnel	**5**	3	1
	230	187	56
Other expenses			
Subsidiaries	**28**	145	27
Ayala Group	**435**	501	319
	463	646	346
Retirement benefits			
Key management personnel	**44**	40	37
Salaries, allowances and other short-term benefits			
Key management personnel	**751**	697	629
Directors' remuneration	**92**	77	73

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

Other expenses mainly consist of rental expenses and management fees.

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
		(In Millions of Pesos)		
Outstanding DOSRI loans	**10,026**	8,248	**10,024**	8,248

As at December 31, 2019, allowance for credit losses amounting to P10 million (2018 - P40 million) have been recognized against receivables from related parties.

Note 26 - Financial Risk Management

The BOD carries out its risk management function through the Risk Management Committee (RMC). 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.

26.1 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.

26.1.1 Credit risk management

The Credit Policy and Risk Management (CPRM) division is responsible for the overall management of the Bank's credit risk. CPRM supports the senior management in coordination with various business lending and operations units in identifying, measuring and managing credit risk.

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. 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 group 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. Methodologies for measuring credit risk vary depending on several factors, including type of asset, risk measurement parameters and risk management and collection processes. Credit risk measurement is based on the probability of default of an obligor or counterparty, the loss severity given a default event and the exposure at default.

A rigorous control framework is applied in the determination of expected credit loss (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 of ECL models are performed by groups that are independent of the team that prepares the calculations, e.g., Risk Models Validation and Internal Auditors. Expert judgments on measurement methodologies and assumptions are reviewed by a group of internal experts from various functions.

Credit loss estimates are based on estimates of the probability of default (PD) and loss severity given a default. The probability of default is the likelihood that a borrower will default on its obligation; the loss given default (LGD) is the estimated loss on the loan that would be realized upon the default and takes into consideration collateral and structural support for each credit facility. The estimation process includes assigning risk ratings to each borrower and credit facility to differentiate risk within the portfolio. These risk ratings are reviewed regularly by Credit Risk Management and revised as needed to reflect the borrower's current financial position, risk profile and related collateral. The calculations and assumptions are based on both internal and external historical experience and management judgment and are reviewed 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 specific control and risk mitigation measures, some of which 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) Market Limits

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 and therefore carry less risk than a direct loan.

26.1.2 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 uses its internal credit risk rating system, credit models or external ratings from reputable credit rating agencies. Specific data about the borrower and loan are 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) and are fed into the internal credit scoring models. In addition, the internal models allow expert judgment from the Credit Risk Rating Committee and consideration of other data inputs not captured into the model in the determination of the final internal credit score for each loan.

The BPI Group has adopted a credit classification system that aims to identify deteriorating exposures on a timely basis. Exposures are classified into each of the following categories:

- *Standard monitoring* - This category includes 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* - This category includes accounts which need closer and frequent monitoring to prevent any further credit deterioration. 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* - This category includes accounts which exhibit probable to severe weaknesses wherein probability of non-repayment of loan obligation is ranging from high to extremely high.

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

The BPI Group's internal credit risk rating system comprises a 22-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 classifications:

Classifications	Large corporate	Cross-border	SME
Standard monitoring	AAA to B- or unrated and based on prescribed days past due (dpd) threshold	Investment grade (IG) or Non-IG with no SICR; or based on prescribed dpd threshold	AAA to B- or unrated and based on prescribed dpd threshold
Special monitoring	CCC to C or based on prescribed dpd threshold	Non-IG with SICR but assessed to be non-impaired; based on prescribed dpd threshold	CCC to C or based on prescribed dpd threshold
Default	Adversely classified accounts (ACA) or based on prescribed dpd threshold or Item in litigation (IL)	Default, with objective evidence of impairment; or based on prescribed dpd threshold	ACA or based on prescribed dpd threshold or IL

ii. Retail loans

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

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

**Self-employed micro-entrepreneurs*

iii. Treasury and other investment debt securities

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

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

iv. Other financial assets at amortized cost

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

26.1.3 Maximum exposure to credit risk

26.1.3.1 Loans and advances

Credit risk exposures relating to on-balance sheet loans and advances are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Corporate and SME loans, net	**1,204,950**	1,122,610	**1,167,582**	1,074,782
Retail loans, net	**270,386**	232,286	**64,194**	51,174
	1,475,336	1,354,896	**1,231,776**	1,125,956

The carrying amount of loans and advances above also represents the BPI Group's maximum exposure to credit risk.

Credit quality of loans and advances, net
The following tables contain an analysis of the credit risk exposure of each financial instrument for which an ECL allowance is recognized.

Consolidated

Corporate and SME loans

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring	1,091,916	28,701	-	1,120,617	1,034,673	23,243	-	1,057,916
Special monitoring	45,963	41,416	-	87,379	48,392	16,077	-	64,469
Default	-	-	13,091	13,091	-	-	13,564	13,564
Gross carrying amount	**1,137,879**	**70,117**	**13,091**	**1,221,087**	**1,083,065**	**39,320**	**13,564**	**1,135,949**
Loss allowance	(6,870)	(3,110)	(6,157)	(16,137)	(5,768)	(1,843)	(5,728)	(13,339)
Carrying amount	**1,131,009**	**67,007**	**6,934**	**1,204,950**	**1,077,297**	**37,477**	**7,836**	**1,122,610**

Retail loans

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring	251,736	10,638	-	262,374	217,645	8,531	-	226,176
Special monitoring	322	6,764	-	7,086	1,002	5,727	-	6,729
Default	-	-	10,763	10,763	-	-	8,944	8,944
Gross carrying amount	**252,058**	**17,402**	**10,763**	**280,223**	**218,647**	**14,258**	**8,944**	**241,849**
Loss allowance	(3,236)	(1,780)	(4,821)	(9,837)	(4,114)	(1,405)	(4,044)	(9,563)
Carrying amount	**248,822**	**15,622**	**5,942**	**270,386**	**214,533**	**12,853**	**4,900**	**232,286**

Parent

Corporate and SME loans

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring	1,064,720	25,034	-	1,089,754	995,540	22,727	-	1,018,267
Special monitoring	42,297	39,478	-	81,775	43,147	14,737	-	57,884
Default	-	-	9,824	9,824	-	-	9,772	9,772
Gross carrying amount	**1,107,017**	**64,512**	**9,824**	**1,181,353**	**1,038,687**	**37,464**	**9,772**	**1,085,923**
Loss allowance	(5,972)	(2,990)	(4,809)	(13,771)	(5,108)	(1,734)	(4,299)	(11,141)
Carrying amount	**1,101,045**	**61,522**	**5,015**	**1,167,582**	**1,033,579**	**35,730**	**5,473**	**1,074,782**

Retail loans

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring	59,732	4,277	-	64,009	51,886	338	-	52,224
Special monitoring	183	1,323	-	1,506	203	935	-	1,138
Default	-	-	3,513	3,513	-	-	2,638	2,638
Gross carrying amount	**59,915**	**5,600**	**3,513**	**69,028**	**52,089**	**1,273**	**2,638**	**56,000**
Loss allowance	(808)	(941)	(3,085)	(4,834)	(1,839)	(482)	(2,505)	(4,826)
Carrying amount	**59,107**	**4,659**	**428**	**64,194**	**50,250**	**791**	**133**	**51,174**

The tables below present the gross amount of “Stage 2” loans and advances by age category.

Consolidated

	2019			2018		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			(In Millions of Pesos)		
Current	68,517	5,999	**74,516**	35,632	5,697	41,329
Past due up to 30 days	505	4,749	**5,254**	175	2,834	3,009
Past due 31 - 90 days	1,095	6,654	**7,749**	3,513	5,727	9,240
Past due 91 - 180 days	-	-	**-**	-	-	-
Over 180 days	-	-	**-**	-	-	-
	70,117	**17,402**	**87,519**	39,320	14,258	53,578

Parent

	2019			2018		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			(In Millions of Pesos)		
Current	63,673	3,494	**67,167**	34,696	241	34,937
Past due up to 30 days	400	783	**1,183**	47	97	144
Past due 31 - 90 days	439	1,323	**1,762**	2,721	935	3,656
Past due 91 - 180 days	-	-	**-**	-	-	-
Over 180 days	-	-	**-**	-	-	-
	64,512	**5,600**	**70,112**	37,464	1,273	38,737

26.1.3.2 Treasury and other investment securities

Credit risk exposures arising from treasury and other investment securities are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Due from BSP	**207,845**	225,907	**181,815**	202,487
Due from other banks	**22,356**	12,477	**18,356**	8,615
Interbank loans receivable and SPAR	**22,570**	34,323	**18,364**	22,659
Financial assets at FVTPL	**24,032**	16,483	**17,688**	10,346
Financial assets at FVOCI	**51,079**	35,531	**47,009**	29,993
Investment securities at amortized cost	**275,105**	287,571	**252,006**	267,497
	602,987	612,292	**535,238**	541,597

Credit quality of treasury and other investment securities

Consolidated

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring								
Due from BSP	207,845	-	-	207,845	225,907	-	-	225,907
Due from other banks	22,356	-	-	22,356	12,480	-	-	12,480
Interbank loans receivable and SPAR	22,561	-	-	22,561	34,306	-	-	34,306
Financial assets at FVTPL	24,032	-	-	24,032	16,483	-	-	16,483
Financial assets at FVOCI	51,079	-	-	51,079	35,531	-	-	35,531
Investment securities at amortized cost	275,105	-	-	275,105	287,573	-	-	287,573
Default								
Interbank loans receivable and SPAR	-	-	49	49	-	-	67	67
Gross carrying amount	**602,978**	**-**	**49**	**603,027**	**612,280**	**-**	**67**	**612,347**
Loss allowance	-	-	(40)	(40)	(5)	-	(50)	(55)
Carrying amount	**602,978**	**-**	**9**	**602,987**	**612,275**	**-**	**17**	**612,292**

Parent

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring								
Due from BSP	181,815	-	-	181,815	202,487	-	-	202,487
Due from other banks	18,356	-	-	18,356	8,615	-	-	8,615
Interbank loans receivable and SPAR	18,355	-	-	18,355	22,642	-	-	22,642
Financial assets at FVTPL	17,688	-	-	17,688	10,346	-	-	10,346
Financial assets at FVOCI	47,009	-	-	47,009	29,993	-	-	29,993
Investment securities at amortized cost	252,006	-	-	252,006	267,499	-	-	267,499
Default								
Interbank loans receivable and SPAR	-	-	49	49	-	-	67	67
Gross carrying amount	**535,229**	**-**	**49**	**535,278**	**541,582**	**-**	**67**	**541,649**
Loss allowance	-	-	(40)	(40)	(2)	-	(50)	**(52)**
Carrying amount	**535,229**	**-**	**9**	**535,238**	**541,580**	**-**	**17**	**541,597**

26.1.3.3 Other financial assets at amortized cost

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

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Accounts receivable, net	**1,509**	1,916	**1,785**	1,315
Other accrued interest and fees receivable	**264**	671	**209**	573
Rental deposits	**734**	360	**623**	131
Sales contracts receivable, net	**-**	541	**-**	360
Others, net	**84**	2,179	**150**	2,047
	2,591	5,667	**2,767**	4,426

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 at amortized cost (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.

26.1.3.4 Loan commitments

Credit risk exposures arising from undrawn loan commitments are as follows:

Consolidated

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	389,148	3,608	-	392,756	232,257	74	-	232,331
Special monitoring	11,417	-	-	11,417	3,246	264	-	3,510
Default	-	-	411	411	-	-	63	63
Gross carrying amount	**400,565**	**3,608**	**411**	**404,584**	**235,503**	**338**	**63**	**235,904**
Loss allowance*	(506)	(104)	(40)	(650)	(710)	(30)	(13)	(753)
Carrying amount	**400,059**	**3,504**	**371**	**403,934**	**234,793**	**308**	**50**	**235,151**

**Included in "Miscellaneous liabilities" in Note 17*

Parent

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	382,750	3,374	-	386,124	229,849	69	-	229,918
Special monitoring	11,417	-	-	11,417	3,242	258	-	3,500
Default	-	-	408	408	-	-	63	63
Gross carrying amount	**394,167**	**3,374**	**408**	**397,949**	**233,091**	**327**	**63**	**233,481**
Loss allowance*	(488)	(92)	(39)	(619)	(682)	(28)	(13)	(723)
Carrying amount	**393,679**	**3,282**	**369**	**397,330**	**232,409**	**299**	**50**	**232,758**

**Included in "Miscellaneous liabilities" in Note 17*

26.1.4 Credit impaired loans and advances

The BPI Group closely monitors collaterals held for financial assets considered to be credit-impaired (Stage 3), as it becomes more likely that the BPI Group will take possession of collateral to mitigate potential credit losses. Loans and advances that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Consolidated

	2019			2018		
	Gross exposure	**Impairment allowance**	**Net carrying amount**	**Gross exposure**	**Impairment allowance**	**Net carrying amount**
			(In Millions of Pesos)			
Credit-impaired assets						
Corporate and SME loans	13,091	6,157	6,934	13,564	5,728	7,836
Retail loans	10,763	4,821	5,942	8,944	4,044	4,900
Total credit-impaired assets	**23,854**	**10,978**	**12,876**	22,508	9,772	12,736
Fair value of collateral	**11,662**			12,611		

Parent

	2019			2018		
	Gross exposure	**Impairment allowance**	**Carrying amount**	**Gross exposure**	**Impairment allowance**	**Carrying amount**
			(In Millions of Pesos)			
Credit-impaired assets						
Corporate and SME loans	9,824	4,809	5,015	9,772	4,299	5,473
Retail loans	3,513	3,085	428	2,638	2,505	133
Total credit-impaired assets	**13,337**	**7,894**	**5,443**	12,410	6,804	5,606
Fair value of collateral	**6,354**			7,704		

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2019, the BPI Group's foreclosed collaterals have carrying amount of P3,155 million (2018 - P3,363 million). The related foreclosed collaterals have aggregate fair value of P9,583 million (2018 - P9,859 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.

26.1.5 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 and releases for financial instruments de-recognized in the period;
- Write-offs of allowances related to assets that were written off during 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; and
- Foreign exchange translations for assets denominated in foreign currencies and other movements.

The following tables summarize the changes in the loss allowance for loans and advances between the beginning and the end of the annual period. No movement analysis of allowance for impairment is presented 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.

Consolidated

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**5,768**	**1,843**	**5,728**	**13,339**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(2,072)	2,707	1,691	2,326
Transfer from Stage 2	6	(680)	291	(383)
Transfer from Stage 3	10	2	(177)	(165)
New financial assets originated	3,688	-	-	3,688
Financial assets derecognized during the period	(1,959)	(295)	(1,203)	(3,457)
Changes in assumptions and other movements in provision	1,521	(508)	70	1,083
	1,194	1,226	672	3,092
Write-offs and other movements	(92)	41	(243)	(294)
Loss allowance, at December 31, 2019	**6,870**	**3,110**	**6,157**	**16,137**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**4,114**	**1,405**	**4,044**	**9,563**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(1,031)	1,418	2,456	2,843
Transfer from Stage 2	33	(716)	559	(124)
Transfer from Stage 3	3	33	(161)	(125)
New financial assets originated	1,070	-	-	1,070
Financial assets derecognized during the period	(308)	(115)	(339)	(762)
Changes in assumptions and other movements in provision	(613)	(190)	882	79
	(846)	430	3,397	2,981
Write-offs and other movements	(32)	(55)	(2,620)	(2,707)
Loss allowance, at December 31, 2019	**3,236**	**1,780**	**4,821**	**9,837**

Parent

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**5,108**	**1,734**	**4,299**	**11,141**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(1,846)	2,614	1,360	2,128
Transfer from Stage 2	3	(658)	251	(404)
Transfer from Stage 3	6	1	(88)	(81)
New financial assets originated	3,450	-	-	3,450
Financial assets derecognized during the period	(1,844)	(279)	(842)	(2,965)
Changes in assumptions and other movements in provision	1,205	(469)	23	759
	974	1,209	704	2,887
Write-offs and other movements	(110)	47	(194)	(257)
Loss allowance, at December 31, 2019	**5,972**	**2,990**	**4,809**	**13,771**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**1,839**	**482**	**2,505**	**4,826**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(558)	877	1,749	2,068
Transfer from Stage 2	11	(286)	350	75
Transfer from Stage 3	-	1	(9)	(8)
New financial assets originated	217	-	-	217
Financial assets derecognized during the period	(36)	(41)	(205)	(282)
Changes in assumptions and other movements in provision	(667)	(41)	762	54
	(1,033)	510	2,647	2,124
Write-offs and other movements	2	(51)	(2,067)	(2,116)
Loss allowance, at December 31, 2019	**808**	**941**	**3,085**	**4,834**

Consolidated

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,905	1,136	4,372	12,413
Provision for credit losses 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 assumptions and other movements in provision	(1,782)	(49)	331	(1,500)
	(1,155)	701	1,675	1,221
Write-offs and other movements	18	6	(319)	(295)
Loss allowance, at December 31, 2018	5,768	1,843	5,728	13,339

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	3,148	1,188	3,925	8,261
Provision for credit losses 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 assumptions and other movements in provision	1,085	(210)	643	1,518
	1,169	211	1,903	3,283
Write-offs and other movements	(203)	6	(1,784)	(1,981)
Loss allowance, at December 31, 2018	4,114	1,405	4,044	9,563

Parent

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,332	1,029	3,128	10,489
Provision for credit losses 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 assumptions and other movements in provision	(1,783)	(42)	388	(1,437)
	(1,241)	699	1,404	862
Write-offs and other movements	17	6	(233)	(210)
Loss allowance, at December 31, 2018	5,108	1,734	4,299	11,141

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	929	205	2,290	3,424
Provision for credit losses 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 assumptions and other movements in provision	1,106	2	686	1,794
	910	277	1,617	2,804
Write-offs and other movements	-	-	(1,402)	(1,402)
Loss allowance, at December 31, 2018	1,839	482	2,505	4,826

Critical accounting estimate - Measurement of expected credit loss for loans and advances
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 judgments 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 both 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, 2019

	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 (%)	6.3	6.6	6.6	7.2	0.0	4.2
Inflation rate (%)	3.0	3.1	2.7	2.4	11.0	5.9
BVAL 5Y (%)	4.5	4.7	4.0	4.3	11.2	10.3
US Treasury 5Y (%)	2.5	2.5	2.8	3.4	1.4	1.3
Exchange rate	52.300	54.874	51.550	52.856	56.970	62.653

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

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 P554 million as at December 31, 2019 from the baseline scenario (2018 - P1,850 million).

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. 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 P1,312 million as at December 31, 2019 (2018 - P1,436 million).

26.1.6 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 (December 31, 2019)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	207,845	-	-	-	-	-	**207,845**
Due from other banks	22,356	-	-	-	-	-	**22,356**
Interbank loans receivable and SPAR	22,610	-	-	-	-	(40)	**22,570**
Financial assets at FVTPL	6,620	27	1	6	17,378	-	**24,032**
Financial assets at FVOCI	5,034	-	-	258	45,787	-	**51,079**
Investment securities at amortized cost, net	58,564	1,258	4,595	3,189	207,499	-	**275,105**
Loans and advances, net	162,335	124,841	229,745	365,874	618,515	(25,974)	**1,475,336**
Other financial assets	-	-	-	-	3,423	(832)	**2,591**
At December 31, 2019	**485,364**	**126,126**	**234,341**	**369,327**	**892,602**	**(26,846)**	**2,080,914**

Consolidated (December 31, 2018)

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

Parent (December 31, 2019)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	181,815	-	-	-	-	-	**181,815**
Due from other banks	18,356	-	-	-	-	-	**18,356**
Interbank loans receivable and SPAR	18,404	-	-	-	-	(40)	**18,364**
Financial assets at FVTPL	3,041	110	56	-	14,481	-	**17,688**
Financial assets at FVOCI	4,714	-	-	258	42,037	-	**47,009**
Investment securities at amortized cost, net	56,942	585	4,595	3,189	186,695	-	**252,006**
Loans and advances, net	161,348	68,302	226,235	222,217	572,279	(18,605)	**1,231,776**
Other financial assets	-	-	-	-	3,076	(309)	**2,767**
At December 31, 2019	**444,620**	**68,997**	**230,886**	**225,664**	**818,568**	**(18,954)**	**1,769,781**

Parent (December 31, 2018)

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

26.2 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 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. Most derivatives while used to hedge open exposures to mitigate price risk inherent in the BPI Group's portfolios do not qualify as accounting hedges.

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

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

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

	Consolidated		**Parent**	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Local fixed-income	**92**	33	**91**	25
Foreign fixed-income	**127**	168	**120**	154
Foreign exchange	**45**	44	**10**	9
Derivatives	**127**	95	**127**	95
Equity securities	**30**	28	**-**	-
Mutual fund	**5**	7	**-**	-
	426	375	**348**	283

26.2.1 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 (PhP). Volatilities caused by movement of USD against PhP are regularly monitored in line with the limits established internally.

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

<u>Consolidated</u>

	2019			2018		
	USD	Others*	**Total**	USD	Others*	Total
			(In Millions of Pesos)			
Financial Assets						
Cash and other cash items	3,060	285	**3,345**	2,742	752	3,494
Due from other banks	16,126	1,583	**17,709**	6,749	2,620	9,369
Interbank loans receivable and SPAR	813	132	**945**	6,639	146	6,785
Financial assets at FVTPL	9,149	178	**9,327**	8,491	119	8,610
Financial assets at FVOCI - debt securities	16,977	-	**16,977**	25,385	172	25,557
Investment securities at amortized cost	127,442	1,414	**128,856**	127,260	1,507	128,767
Loans and advances, net	149,012	7,621	**156,633**	145,995	4,970	150,965
Others financial assets	13,746	1,697	**15,443**	1,230	106	1,336
Total financial assets	**336,325**	**12,910**	**349,235**	324,491	10,392	334,883
Financial Liabilities						
Deposit liabilities	228,362	6,130	**234,492**	241,547	6,692	248,239
Derivative financial liabilities	1,438	75	**1,513**	1,967	118	2,085
Bills payable	80,817	482	**81,299**	82,692	458	83,150
Due to BSP and other banks	942	-	**942**	1,250	-	1,250
Manager's checks and demand drafts outstanding	316	10	**326**	87	61	148
Other financial liabilities	17,749	1,668	**19,417**			
Accounts payable	129	13	**142**	119	3	122
Total financial liabilities	**329,753**	**8,378**	**338,131**	327,662	7,332	334,994
Net on-balance sheet position	**6,572**	**4,532**	**11,104**	(3,171)	3,060	(111)

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

Parent

	2019			2018		
	USD	Others*	**Total**	USD	Others*	Total
			(In Millions of Pesos)			
Financial Assets						
Cash and other cash items	2,858	284	**3,142**	2,552	751	3,303
Due from other banks	14,556	1,553	**16,109**	4,874	2,269	7,143
Interbank loans receivable and SPAR	-	-	**-**	5,260	-	5,260
Financial assets at FVTPL	6,807	78	**6,885**	5,144	119	5,263
Financial assets at FVOCI - debt securities	15,030	-	**15,030**	25,132	172	25,304
Investment securities at amortized cost	117,006	145	**117,151**	117,143	220	117,363
Loans and advances, net	147,803	7,148	**154,951**	144,486	4,787	149,273
Others financial assets	13,445	1,566	**15,011**	1,220	90	1,310
Total financial assets	**317,505**	**10,774**	**328,279**	305,811	8,408	314,219
Financial Liabilities						
Deposit liabilities	214,389	5,965	**220,354**	227,621	6,442	234,063
Derivative financial liabilities	1,438	75	**1,513**	1,967	115	2,082
Bills payable	77,749	-	**77,749**	79,178	-	79,178
Due to BSP and other banks	942	-	**942**	1,250	-	1,250
Manager's checks and demand drafts outstanding	314	10	**324**	81	61	142
Other financial liabilities	17,817	1,588	**19,405**	20,947	1,500	22,447
Accounts payable	121	12	**133**	117	2	119
Total financial liabilities	**312,770**	**7,650**	**320,420**	331,161	8,120	339,281
Net on-balance sheet position	**4,735**	**3,124**	**7,859**	(25,350)	288	(25,062)

**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 against the Philippine Peso year on year.

		Effect on pre-tax income	
Year	Change in currency	Consolidated	Parent
		(In millions of Pesos)	
2019	**+/- 1.24%**	**-/+ 81**	**-/+ 59**
2018	+/- 1.92%	-/+ 71	-/+ 95

26.2.2 Interest rate risk

Interest rate risk is the risk that cash flows or fair value of a financial instrument 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: (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.

Interest rate risk in the banking book
Interest rate risk in the banking book (IRRBB) is the current and prospective risk to the Bank's capital and earnings arising from the adverse movements in interest rates that affect its banking book positions. Excessive levels of interest rate risks in the banking book can pose a significant threat to the Bank's earnings and capital base. The Bank has established comprehensive risk management policies, procedures, risk limits structures and employs risk measurement models supported by a robust risk management system.

Interest rate exposures from core banking activities are measured using the following earnings-based and economic value-based models: (a) Earnings-at-Risk (EaR) measures the potential deterioration in net interest income over the next 12 months due to adverse movements in interest rates, and (b) Balance Sheet Value-at-Risk (BS VaR) measures the impact on the economic value of the future cash flows in the banking book due to changes in interest rates.

Earnings-at-Risk (EaR)
The EaR is built on repricing profile of the Bank and considers principal payments only. The Bank projects interest inflows from its financial assets and interest outflows from its financial liabilities in the next 12 months as earnings are affected when interest rate moved against the Bank's position. As of December 31, 2019, the net interest income impact of movement in interest rates amounts to P2,424 million (2018 - P806 million) for the whole BPI Group and P1,986 million (2018 - P715 million) for the Parent Bank.

Balance Sheet Value-at-Risk (BSVaR)
The BS VaR model is also built on repricing gap or the difference between the amount of rate-sensitive financial assets and liabilities which considers both principal and interest payments. It is the present value of the Bank's expected net cash flows based on the current interest rates. As at December 31, the average BSVaR, computed on a monthly basis, for the banking book stood at P13,754 million (2018 - P15,507 million) for the whole BPI Group and P9,530 million (2018 - P13,483 million) for the Parent Bank.

The IRRBB levels are closely monitored against RMC-approved limits and results are reported and discussed regularly at the Management level through the ALCO and at the Board level through the Risk Management Committee (RMC). The BPI Group manages interest rate exposures related to its assets and liabilities through a transfer-pricing system administered by Treasury. Investment securities and interest rate derivatives are also used to hedge interest rate risk and manage repricing gaps in the balance sheet.

The BPI Group also conducts price stress tests in the banking book and EaR stress tests for a variety of interest rate shock scenarios to identify the impact of adverse movements in interest rates on the Bank's economic value and earnings. The design of the price and EaR stress tests include steepening and flattening yield curves, parallel up/down and short rate up/down shocks. The interest rate shocks applied is calibrated for all major currencies in which the Bank has significant positions. The results of the stress test are reported to the RMC and Senior Management and are integrated into the overall risk management framework of the BPI Group.

The risk management process, including its various components, is subject to periodic independent review (i.e. internal audit and model validation) and consistently calibrated to ensure accuracy, relevance, propriety and timeliness of data and assumptions employed. The assumptions and parameters used in building these metrics are properly documented. Any changes in the methodology and assumptions used are duly approved by the Chief Risk Officer and noted by the RMC.

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

Consolidated (December 31, 2019)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2019					
Financial Assets					
Cash and other cash items	-	-	-	47,256	**47,256**
Due from BSP	-	-	-	207,845	**207,845**
Due from other banks	-	-	-	22,356	**22,356**
Interbank loans receivable and SPAR	-	-	-	22,570	**22,570**
Financial assets at FVTPL	334	472	1,050	22,176	**24,032**
Financial assets at FVOCI	-	-	-	51,079	**51,079**
Investment securities at amortized cost	-	-	-	275,105	**275,105**
Loans and advances, net	890,934	136,779	311,924	135,699	**1,475,336**
Other financial assets	-	-	-	2,591	**2,591**
Total financial assets	**891,268**	**137,251**	**312,974**	**786,677**	**2,128,170**
Financial Liabilities					
Deposit liabilities	796,447	359,265	539,631	-	**1,695,343**
Derivative financial liabilities	81	397	936	1,463	**2,877**
Bills payable and other borrowed funds	-	15,415	-	135,422	**150,837**
Due to BSP and other banks	-	-	-	1,288	**1,288**
Manager's checks and demand drafts outstanding	-	-	-	8,299	**8,299**
Other financial liabilities	-	-	-	9,392	**9,392**
Total financial liabilities	**796,528**	**375,077**	**540,567**	**155,864**	**1,868,036**
Total interest gap	**94,740**	**(237,826)**	**(227,593)**	**630,813**	**260,134**

Consolidated (December 31, 2018)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2018					
Financial Assets					
Cash and other cash items	-	-	-	43,536	43,536
Due from BSP	-	-	-	225,907	225,907
Due from other banks	-	-	-	12,477	12,477
Interbank loans receivable and SPAR	-	-	-	34,323	34,323
Financial assets at FVTPL	70	1,172	1,125	14,116	16,483
Financial assets at FVOCI	-	-	-	35,531	35,531
Investment securities at amortized cost	-	1	-	287,570	287,571
Loans and advances, net	828,847	130,082	270,105	125,862	1,354,896
Other financial assets	-	-	-	5,667	5,667
Total financial assets	828,917	131,255	271,230	784,989	2,016,391
Financial Liabilities					
Deposit liabilities	602,032	831,505	152,209	-	1,585,746
Derivative financial liabilities	43	1,204	1,279	1,365	3,891
Bills payable and other borrowed funds	20,915	10,516	-	135,470	166,901
Due to BSP and other banks	-	-	-	3,988	3,988
Manager's checks and demand drafts outstanding	-	-	-	6,931	6,931
Other financial liabilities	-	-	-	19,313	19,313
Total financial liabilities	622,990	843,225	153,488	167,067	1,786,770
Total interest gap	205,927	(711,970)	117,742	617,922	229,621

Parent (December 31, 2019)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2019					
Financial Assets					
Cash and other cash items	-	-	-	45,982	**45,982**
Due from BSP	-	-	-	181,815	**181,815**
Due from other banks	-	-	-	18,356	**18,356**
Interbank loans receivable and SPAR	-	-	-	18,364	**18,364**
Financial assets at FVTPL	334	472	1,050	15,832	**17,688**
Financial assets at FVOCI	-	-	-	47,009	**47,009**
Investment securities at amortized cost	-	-	-	252,006	**252,006**
Loans and advances, net	824,718	90,806	257,603	58,649	**1,231,776**
Other financial assets	-	-	-	2,767	**2,767**
Total financial assets	**825,052**	**91,278**	**258,653**	**640,780**	**1,815,763**
Financial Liabilities					
Deposit liabilities	711,910	301,381	443,167	-	**1,456,458**
Derivative financial liabilities	81	397	936	1,463	**2,877**
Bills payable and other borrowed funds	-	15,118	-	111,411	**126,529**
Due to BSP and other banks	-	-	-	1,288	**1,288**
Manager's checks and demand drafts outstanding	-	-	-	6,421	**6,421**
Other financial liabilities	-	-	-	4,801	**4,801**
Total financial liabilities	**711,991**	**316,896**	**444,103**	**125,384**	**1,598,374**
Total interest gap	**113,061**	**(225,618)**	**(185,450)**	**515,396**	**217,389**

Parent (December 31, 2018)

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

26.3 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.

26.3.1 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 and the expected collection date of the financial assets. Sources of liquidity are regularly reviewed by the BPI Group to maintain a wide diversification by currency, geography, counterparty, product and term.

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.

Liquidity Coverage Ratio (LCR)
Pursuant to BSP Circular No. 905 issued in 2016, the Parent Bank is required to hold and maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that are sufficient to meet its estimated total cash outflows over a 30 calendar-day period of liquidity stress. The LCR is the ratio of HQLAs to total net cash outflows which should be no lower than 100% on a daily basis. It is designed to promote short-term resilience of the BPI Group's liquidity risk profile to withstand significant liquidity shocks that may last over 30 calendar days. HQLA represents the Parent Bank's stock of liquid assets that qualify for inclusion in the LCR which consists mainly of cash, regulatory reserves and unencumbered high-quality liquid securities. HQLAs therefore, serve as defense against potential stress events.

The main drivers of the Parent Bank's LCR comprise the changes in the total stock of HQLA as well as changes in net cash outflows related to deposits, unsecured borrowings, commitment facilities, derivatives cash flows and cash inflows from maturing corporate, business and retail loans, among others. Cash outflows from derivatives contracts are effectively offset by derivatives cash inflows. These two are accorded 100% outflow and inflow factors, respectively.

Net Stable Funding Ratio (NSFR)
On January 1, 2019, the Parent Bank adopted BSP Circular No. 1007 issued in 2018 regarding the NSFR requirement. The NSFR is aimed at strengthening the Parent Bank's long-term resilience by maintaining a stable funding in relation to its assets and off-balance sheet items as well as to limit the maturity transformation risk of the BPI Group. The NSFR is expressed as the ratio of available stable funding and the required stable funding and complements the LCR as it takes a longer view of the BPI Group's liquidity risk profile. The BPI Group's capital, retail deposits and long-term debt are considered as stable funding sources whereas the BPI Group's assets including, but not limited to, performing and non-performing loans and receivables, HQLA and non-HQLA securities as well as off-balance items form part of the required stable funding. The Parent Bank's solo and consolidated NSFRs are well-above the regulatory minimum of 100%.

The Parent Bank maintains a well-diversified funding base and has a substantial amount of core deposits, thereby avoiding undue concentrations by counterparty, maturity, and currency. The Parent Bank manages its liquidity position through asset-liability management activities supported by a well-developed funds management practice as well as a sound risk management system. As part of risk oversight, the Parent Bank monitors its liquidity risk on a daily basis, in terms of single currency and significant currencies, to ensure it is operating within the risk appetite set by the BOD and to assess ongoing compliance with the minimum requirement of the liquidity ratios. Furthermore, the Parent Bank has a set of policies and escalation procedures in place that govern its day-to-day risk monitoring and reporting processes.

The table below shows the actual liquidity metrics of the BPI Group and the Parent Bank:

	Consolidated		**Parent**	
	2019	2018	**2019**	2018
Liquidity ratio	**167.06%**	160.92%	**168.13%**	160.10%
Net stable funding ratio	**130.74%**	141.99%	**122.65%**	139.81%
Leverage ratio	**10.70%**	10.43%	**10.06%**	9.79%
Total exposure measure	**2,224,550**	2,120,270	**1,887,364**	1,795,947

The improvement in the Parent Bank's LCR in 2019 was attained due to growing portfolio of government securities while cash, reserves and claims on the BSP make up on average 53% of the total stock of HQLA.

26.3.2 Maturity profile - Non-derivative financial instruments

The tables below present the maturity profile of non-derivative financial instruments based on undiscounted cash flows (inclusive of 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 (December 31, 2019)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2019				
Financial Assets				
Cash and other cash items	47,256	-	-	**47,256**
Due from BSP	207,845	-	-	**207,845**
Due from other banks	22,356	-	-	**22,356**
Interbank loans receivable and SPAR	22,551	17	114	**22,682**
Financial assets at FVTPL	6,862	1,558	16,756	**25,176**
Financial assets at FVOCI	10,575	8,161	47,820	**66,556**
Investment securities at amortized cost	46,278	84,560	221,296	**352,134**
Loans and advances, net	656,088	267,511	581,062	**1,504,661**
Other financial assets	2,591	-	-	**2,591**
Total financial assets	**1,022,402**	**361,807**	**867,048**	**2,251,257**
Financial Liabilities				
Deposit liabilities	796,447	359,265	539,631	**1,695,343**
Bills payable and other borrowed funds	49,564	57,590	46,207	**153,361**
Due to BSP and other banks	1,288	-	-	**1,288**
Manager's checks and demand drafts outstanding	8,299	-	-	**8,299**
Other financial liabilities	9,392	-	-	**9,392**
Total financial liabilities	**864,990**	**416,855**	**585,838**	**1,867,683**
Total maturity gap	**157,412**	**(55,048)**	**281,210**	**383,574**

Consolidated (December 31, 2018)

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

Parent (December 31, 2019)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2019				
Financial Assets				
Cash and other cash items	45,982	-	-	**45,982**
Due from BSP	181,815	-	-	**181,815**
Due from other banks	18,356	-	-	**18,356**
Interbank loans receivable and SPAR	18,245	17	114	**18,376**
Financial assets at FVTPL	926	1,522	15,612	**18,060**
Financial assets at FVOCI	5,023	8,074	45,980	**59,077**
Investment securities at amortized cost	25,347	76,282	209,930	**311,559**
Loans and advances, net	605,833	196,549	449,524	**1,251,906**
Other financial assets, net	2,767	-	-	**2,767**
Total financial assets	**904,294**	**282,444**	**721,160**	**1,907,898**
Financial Liabilities				
Deposit liabilities	711,910	301,381	443,167	**1,456,458**
Bills payable and other borrowed funds	36,025	45,421	45,988	**127,434**
Due to BSP and other banks	1,288	-	-	**1,288**
Manager's checks and demand drafts outstanding	6,421	-	-	**6,421**
Other financial liabilities	4,801	-	-	**4,801**
Total financial liabilities	**760,445**	**346,802**	**489,155**	**1,596,402**
Total maturity gap	**143,849**	**(64,358)**	**232,005**	**311,496**

Parent (December 31, 2018)

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

26.3.3 Maturity profile - Derivative instruments

(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
2019		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	334	472	1,050	**1,856**
- Outflow	(81)	(397)	(936)	**(1,414)**
- Net inflow	**253**	**75**	**114**	**442**
Non-deliverable forwards and swaps - held for trading				
- Inflow	22	-	-	**22**
- Outflow	(107)	(484)	(356)	**(947)**
- Net outflow	**(85)**	**(484)**	**(356)**	**(925)**

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

(a) 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				
2019				
- Inflow	527	509	11	**1,047**
- Outflow	(451)	(66)	-	**(517)**
- **Net inflow (outflow)**	76	443	11	**530**
2018				
- Inflow	127,002	4,184	-	131,186
- Outflow	(127,082)	(4,136)	-	(131,218)
- Net inflow (outflow)	(80)	48	-	(32)
Foreign exchange derivatives - held for hedging				
- Inflow	-	5,174	-	**5,174**
- Outflow	-	(5,316)	-	**(5,316)**
- Net (outflow)	-	(142)	-	**(142)**

26.4 Fair value measurement

The following tables present the carrying value of assets and liabilities and the level of fair value hierarchy within which the fair value measurements are categorized:

26.4.1 Assets and liabilities measured at fair value on a recurring or non-recurring basis

Consolidated (December 31, 2019)

	Carrying Amount	Fair value		
		Level 1	Level 2	**Total**
Recurring measurements:			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	2,933	-	2,933	**2,933**
Trading assets				
- Debt securities	21,099	17,562	3,537	**21,099**
- Equity securities	73	73	-	**73**
Financial assets at FVOCI				
- Debt securities	51,079	50,995	84	**51,079**
- Equity securities	2,826	1,738	1,088	**2,826**
	78,010	70,368	7,642	**78,010**
Financial liabilities				
Derivative financial liabilities	2,877	-	2,877	**2,877**
Non-recurring measurements:				
Assets held for sale, net	3,155	-	9,583	**9,583**

Consolidated (December 31, 2018)

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

Parent Bank (December 31, 2019)

	Carrying Amount	Fair value Level 1	Level 2	**Total**
Recurring measurements		(In Millions of Pesos)		
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	2,923	-	2,923	**2,923**
Trading securities - debt securities	14,765	14,765	-	**14,765**
Financial assets at FVOCI				
- Debt securities	47,009	47,009	-	**47,009**
- Equity securities	1,311	972	339	**1,311**
	66,008	62,746	3,262	**66,008**
Financial liabilities				
Derivative financial liabilities	2,877	-	2,877	**2,877**
Non-recurring measurements				
Assets held for sale, net	342	-	3,296	**3,296**

Parent Bank (December 31, 2018)

	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements		(In Millions of Pesos)		
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,031	-	4,031	4,031
Trading securities - debt securities	6,315	5,528	787	6,315
Financial assets at FVOCI				
- Debt securities	29,993	29,838	155	29,993
- Equity securities	590	406	184	590
	40,929	35,772	5,157	40,929
Financial liabilities				
Derivative financial liabilities	3,888	-	3,888	3,888
Non-recurring measurements				
Assets held for sale, net	455	-	3,496	3,496

There are no assets and liabilities whose fair values fall under the Level 3 category as at December 31, 2019 and 2018. Likewise, there were no transfers between Level 1 and Level 2 during the years ended December 31, 2019 and 2018.

26.4.2 Fair value disclosures of assets and liabilities not measured at fair value

Consolidated (December 31, 2019)

	Carrying Amount	Fair value		
		Level 1	Level 2	**Total**
Financial assets				
Cash and other cash items	47,256	-	47,256	**47,256**
Due from BSP	207,845	-	207,845	**207,845**
Due from other banks	22,356	-	22,356	**22,356**
Interbank loans receivable and SPAR	22,570	-	22,610	**22,610**
Investment securities at amortized cost	275,105	276,454	-	**276,454**
Loans and advances, net	1,475,336	-	1,480,074	**1,480,074**
Other financial assets	2,591	-	2,591	**2,591**
Financial liabilities				
Deposit liabilities	1,695,343	-	1,678,607	**1,678,607**
Bills payable and other borrowed funds	150,837	84,973	65,461	**150,434**
Due to BSP and other banks	2,946	-	2,946	**2,946**
Manager's checks and demand drafts outstanding	8,299	-	8,299	**8,299**
Other financial liabilities	9,392	-	9,392	**9,392**
Non-financial assets				
Investment properties	155		638	**638**

Consolidated (December 31, 2018)

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

Parent Bank (December 31, 2019)

	Carrying Amount	Fair value Level 1	Level 2	Total
Financial assets				
Cash and other cash items	45,982	-	45,982	**45,982**
Due from BSP	181,815	-	181,815	**181,815**
Due from other banks	18,356	-	18,356	**18,356**
Interbank loans receivable and SPAR	18,346	-	18,405	**18,405**
Investment securities at amortized cost	252,006	252,964	-	**252,964**
Loans and advances, net	1,231,776	-	1,230,551	**1,230,551**
Other financial assets	2,767	-	2,767	**2,767**
Financial liabilities				
Deposit liabilities	1,456,458	-	1,450,164	**1,450,164**
Bills payable and other borrowed funds	126,529	75,463	50,663	**126,126**
Due to BSP and other banks	1,288	-	1,288	**1,288**
Manager's checks and demand drafts outstanding	6,421	-	6,421	**6,421**
Other financial liabilities	4,801	-	4,801	**4,801**
Non-financial assets				
Investment properties	143		638	**638**

Parent Bank (December 31, 2018)

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

26.5 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 27 - 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 maintains sufficient capital to absorb unexpected losses, stay in business for the long haul, and 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 (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	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Tier 1 capital	**262,873**	244,276	**262,239**	243,519
Tier 2 capital	**14,079**	13,116	**11,500**	10,795
Gross qualifying capital	**276,952**	257,392	**273,739**	254,314
Less: Regulatory adjustments/required deductions	**24,810**	23,152	**72,400**	68,491
Total qualifying capital	**252,142**	234,240	**201,339**	185,823
Risk weighted assets	**1,568,855**	1,455,746	**1,347,976**	1,252,790
CAR (%)	**16.07**	16.09	**14.94**	14.83
CET1 (%)	**15.17**	15.19	**14.08**	13.97

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

Likewise, regulatory capital structures of certain subsidiaries on a standalone basis are managed to meet the requirements of the relevant regulatory bodies (i.e. Insurance Commission, SEC, PSE etc.). These subsidiaries have fully complied with the applicable regulatory 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 is likewise fully compliant with this requirement.

Note 28 - 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 29 - 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.

29.1 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 statements of condition, statements of income and statements of comprehensive income shown as two statements, statements of changes in capital funds, statements 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 FVTPL, financial assets at FVOCI, 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 shown below

Critical accounting estimates
- Fair value of derivatives and other financial instruments (Note 7)
- Calculation of defined benefit obligation (Note 23)
- Useful lives of bank premises, furniture, fixtures and equipment (Note 11)
- Impairment of investments subsidiaries and associates (Note 12)

Critical accounting judgments
- Classification of investment securities at amortized cost (Note 9)
- Realization of deferred income tax assets (Note 13)

29.2 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, 2019:

PFRS 16, 'Leases'
PFRS 16 replaces the guidance of PAS 17 that relate to the accounting by lessees and 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.

On adoption of PFRS 16, the BPI Group recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.87% and 4.25% for the Subsidiaries and BPI Parent, respectively.

The reconciliation between the operating lease commitments under PAS 17 at December 31, 2018 discounted using the BPI Group's incremental borrowing rate and the lease liability recognized as at January 1, 2019 is as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
Operating lease commitments, December 31, 2018	11,896	10,161
Discounted amount using the incremental borrowing rate	8,926	7,696
Add: Finance lease liabilities recognized at December 31, 2018	-	-
Less: Short-term leases recognized on a straight-line basis as expense	228	203
Low-value leases and contracts reassessed as service agreements	54	44
Lease liability, January 1, 2019	**8,644**	**7,449**

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statements of condition as at December 31, 2018. The amount of prepaid lease payments amount to P452 million and P451 million for BPI Group and Parent Bank, respectively.

In applying PFRS 16 for the first time, the BPI Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- apply the provisions of PFRS 16 to contracts that were previously identified as leases applying PAS 7, *'Statement of cash flows'* and IFRIC 4, *'Determining whether an arrangement contains a lease'*.

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 by the BPI Group

The following new accounting standards and interpretations are not mandatory for December 31, 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 as of reporting date.

Likewise, the following amendments are not mandatory for December 31, 2019 reporting period and have not been early adopted by the BPI Group:

- Amendments to PAS 1, Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to PFRS 3, Business Combinations
- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Revised Conceptual Framework for Financial Reporting

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

29.3 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.

29.3.1 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 29.3.2.2) 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 29.3.2.1 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 realized through settlement.

29.3.2 Financial assets

29.3.2.1 Classification and subsequent measurement

The BPI Group 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 assets.

- *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.

Solely Payment of Principal and Interest (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 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.

29.3.2.2 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 recognized; 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 recognized.

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). The BPI Group has no POCI as at December 31, 2019 and 2018.

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

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

- substantial deterioration in credit quality as measured by the applicable internal or external ratings or credit score or the shift from investment grade category to non-investment grade category;
- adverse changes in business, financial and/or economic conditions of the borrower;
- early warning signs of worsening credit where the ability of the counterparty to honor his obligation is dependent upon the business or economic condition;
- the account has become past due beyond 30 days where an account is classified under special monitoring category (refer to Note 26.1.2 for the description of special monitoring); and
- expert judgment for the other quantitative and qualitative factors which may result to SICR as defined by the BPI Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

Forward-looking information incorporated in the ECL models
The BPI Group incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and expected credit losses for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgment. The BPI Group's economics team establishes possible global and domestic economic scenarios. With the use of economic theories and conventions, expert judgment 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 26.

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.

29.3.3 Modification of loans

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.

29.3.4 Derecognition of financial assets other than modification

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.

29.3.5 Write-off of financial assets

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 are fully covered with allowance.

29.3.6 Financial liabilities

29.3.6.1 Classification of financial liabilities

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.

29.3.6.2 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.

29.3.7 Loan commitments

Loan commitments are contracts in which the BPI Group is required to provide loans with pre-specified terms to customers. These contracts, which are not issued at below-market interest rates, and are not settled net in cash or by delivering or issuing another financial instrument, are not recorded in the statements of condition.

29.3.8 Derivative financial instruments

A derivative instrument is initially recognized at fair value on the date a derivative contract is entered into, and is subsequently remeasured to its fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument or is held for trading.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting (and therefore, held for trading) are recognized immediately in profit or loss and are included in "Trading gain on securities".

Hedge accounting
The BPI Group designates derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the BPI Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The BPI Group documents its risk management objective and strategy for undertaking its hedge transactions.

As disclosed in Note 7, the BPI Group has existing cash flow hedge activity. There are no fair value hedges or net investment hedges as of reporting date.

Cash flow hedges that qualify for hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the "Cash flow hedge reserve" within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within "Other operating income".

When the group excludes the forward element of a forward contract and foreign currency basis spread of financial instruments in the hedge designation, the fair value change of the forward element and currency basis spread that relates to the hedged item ('aligned forward element/currency basis spread') is recognized within OCI in the costs of hedging reserve within equity. If the group designates the full change in fair value of the derivative (including forward points and currency basis spreads) the gains or losses relating to the effective portion of the change in fair value of the entire derivative are recognized in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified to profit or loss within other operating income in the same periods during which the hedged future cash flows affect profit or loss. However, if the amount is a loss and the BPI Group expects that all or a portion of that loss will not be recovered in one or more future periods, the amount that is not expected to be recovered shall immediately be reclassified to profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time shall be reclassified to profit or loss in the same periods during which the future cash flows affect profit or loss. When the future cash flows are no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

29.3.8.1 Embedded derivatives

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 29.3.2 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 statements of income unless the BPI Group chooses to designate the hybrid contracts at fair value through profit or loss.

29.3.9 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, 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, 2019 and 2018.

29.3.10 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 have 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.

29.3.11 Dividend income

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

29.3.12 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, 2019 and 2018, there are no financial assets and liabilities presented at net amounts due to offsetting.

29.3.13 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.

29.3.14 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 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.

29.4 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 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.

29.5 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.

29.6 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).

29.7 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, 2019 and 2018.

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.

29.8 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.

29.9 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.

29.10 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.

29.11 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.

29.12 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, which is the 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, 2019 and 2018.

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.

29.13 Fees and commission income

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.

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.

29.14 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., annual membership fees, late payment 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 BPI Group, as the card issuer, to perform activities such as process redemption of loyalty points by providing goods, services, or other benefits 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. Therefore, a portion of the interchange fee is allocated to the performance obligations based on stand-alone transaction price and revenue is recognized when these performance obligations are satisfied.

29.15 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:

- assets and liabilities are translated at the closing rate at reporting date;
- 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
- 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.

29.16 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.

29.17 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.

29.18 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.

29.19 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.

29.20 Capital funds

Share capital consists of common shares which are instruments that meet the definition of "equity".

Share premium includes any premiums or consideration received in excess of the total par value of the common shares issued.

Incremental costs directly attributable to the issue of new shares are treated as a deduction from the share issuance proceeds.

29.21 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.

29.22 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.

29.23 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 24).

29.24 Leases

29.24.1 BPI Group is the lessee

Until December 31, 2018, leases of bank premises, furniture and fixtures and equipment were classified as either finance leases or operating leases. From January 1, 2019, the BPI Group recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

From January 1, 2019 (PFRS 16)
Assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Measurement of lease liabilities
Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the BPI Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the BPI Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense 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.

Measurement of right-of-use assets
Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the BPI Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the BPI Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Short-term leases and leases of low-value assets
Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statements of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Accounting policies prior to January 1, 2019 (PAS 17)

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.

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.

29.24.2 BPI Group is the lessor

PFRS 16 substantially carries forward the lessor accounting requirements in PAS 17. Accordingly, the BPI Group (as a lessor) continues to classify its leases as operating leases or finance leases.

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.

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.

29.25 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.

29.26 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.

29.27 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.

29.28 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 30 - Supplementary information required under BSP Circular No. 1074

Presented below are the additional information required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

(i) Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2019	2018	**2019**	2018
Return on average equity				
- Daily average[1]	**10.97**	10.21	**12.51**	8.50
- Simple average[2]	**11.12**	10.75	**12.62**	9.15
Return on average assets				
- Daily average[3]	**1.38**	1.20	**1.50**	0.96
- Simple average[4]	**1.34**	1.16	**1.45**	0.92
Net interest margin				
- Daily average[5]	**3.35**	3.11	**3.18**	2.87
- Simple average[6]	**3.26**	2.96	**3.08**	2.72

[1]Net income divided by average total equity for the period indicated. Average equity is based on the daily average balance of equity for the years ended December 31, 2019 and 2018.
[2]Net income divided by average total equity for the period indicated. Average total equity is based on the year-on-year balance of equity for the years ended December 31, 2019 and 2018.
[3]Net income divided by average total assets as at period indicated. Average total assets is based on the daily average balance of total assets as at December 31, 2019 and 2018.
[4]Net income divided by average total assets as at period indicated. Average total assets is based on the year-on-year balance of total assets as at December 31, 2019 and 2018.
[5]Net interest income divided by average interest-earning assets. Average interest earning assets is based on the daily average balance of interest earning assets as at December 31, 2019 and 2018.
[6]Net interest income divided by average interest-earning assets. Average interest earning assets is based on the year-on-year balance of interest earning assets as at December 31, 2019 and 2018.

(ii) Description of Capital Instrument Issued

The Bank considers its common shares as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2019 and 2018.

(iii) Significant Credit Exposures

Details of the loans and advances portfolio as to concentration as to industry/economic sector (in %) at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Real estate, renting and other related activities	**24.37**	23.08	**17.77**	16.00
Manufacturing	**15.30**	16.28	**18.09**	19.26
Wholesale and retail trade	**11.35**	12.56	**12.61**	14.16
Consumer	**8.32**	8.16	**5.46**	5.08
Financial institutions	**10.81**	6.09	**12.90**	7.28
Agriculture and forestry	**2.87**	2.74	**3.40**	3.26
Others	**26.98**	31.09	**29.77**	34.96
	100.00	100.00	**100.00**	100.00

(iv) Breakdown of Total Loans

Details of the loans and advances portfolio at December 31 as to collateral (amounts net of unearned discounts and exclusive of accrued interest receivable) are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**278,099**	220,587	**138,607**	97,170
Chattel mortgage	**57,037**	54,731	**10**	9
Others	**148,385**	172,503	**146,038**	168,260
	483,521	447,821	**284,655**	265,439
Unsecured loans	**1,008,129**	921,523	**958,768**	870,521
	1,491,650	1,369,344	**1,243,423**	1,135,960

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.

Breakdown of performing and non-performing loans net of allowance for credit losses are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Performing loans	**1,389,937**	1,301,712	**1,166,932**	1,090,776
Non-performing loans (NPL)	**24,835**	25,391	**12,174**	12,985
	1,414,772	1,327,103	**1,179,106**	1,103,761
Allowance attributable to performing loans	**(10,106)**	(9,882)	**(6,780)**	(6,947)
Allowance attributable to NPL	**(15,304)**	(12,597)	**(11,685)**	(8,861)
	(25,410)	(22,479)	**(18,465)**	(15,808)
Net carrying amount	**1,389,362**	1,304,624	**1,160,641**	1,087,953

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

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

(v) Information on Related Party Loans

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Outstanding DOSRI loans	**10,026**	8,248	**10,024**	8,248

	In percentages (%)			
	Consolidated		Parent	
	2019	2018	**2019**	2018
% to total outstanding loans and advances	**0.67**	0.60	**0.81**	0.73
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	**17.30**	21.51	**17.30**	21.51
Past due DOSRI loans	**0.01**	-	**0.01**	-
Non-performing DOSRI loans	**-**	-	**-**	-

The BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans. At December 31, 2019 and 2018.

(vi) Secured Liabilities and Assets Pledged as Security

The Bank's Bills payable (Note 16) include mainly funds borrowed from various banking institutions which were lent out to customers of the BPI Group in accordance with the agreed financing programs. Loans and advances arising from these financing programs serve as collateral for this liability (Note 10).

(vii) Contingencies and commitments arising from off-balance sheet items

Credit risk exposures arising from off-balance sheet items, which are mainly composed of undrawn loan commitments and unused letters of credit, are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Gross carrying amount	**404,584**	235,904	**397,949**	233,481
Loss allowance*	**(650)**	(753)	**(619)**	(723)
Carrying amount	**403,934**	235,151	**397,330**	232,758

**Included in "Miscellaneous liabilities" in Note 17*

Note 31 - 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, 2019 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	7,208
Trade finance documents	584
Mortgage documents	432
Shares of stocks	-
Others	6
	8,230

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2019 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Income taxes withheld on compensation	1,751	205	1,956
Withholding tax on withdrawal from decedent's account	10	2	12
Final income taxes withheld on interest on deposits and yield on deposit substitutes	3,435	252	3,687
Final income taxes withheld on income payment	642	374	1,016
Creditable income taxes withheld (expanded)	460	44	504
Fringe benefit tax	121	29	150
VAT withholding tax	39	5	44
	6,458	911	7,369

(iii) All other local and national taxes

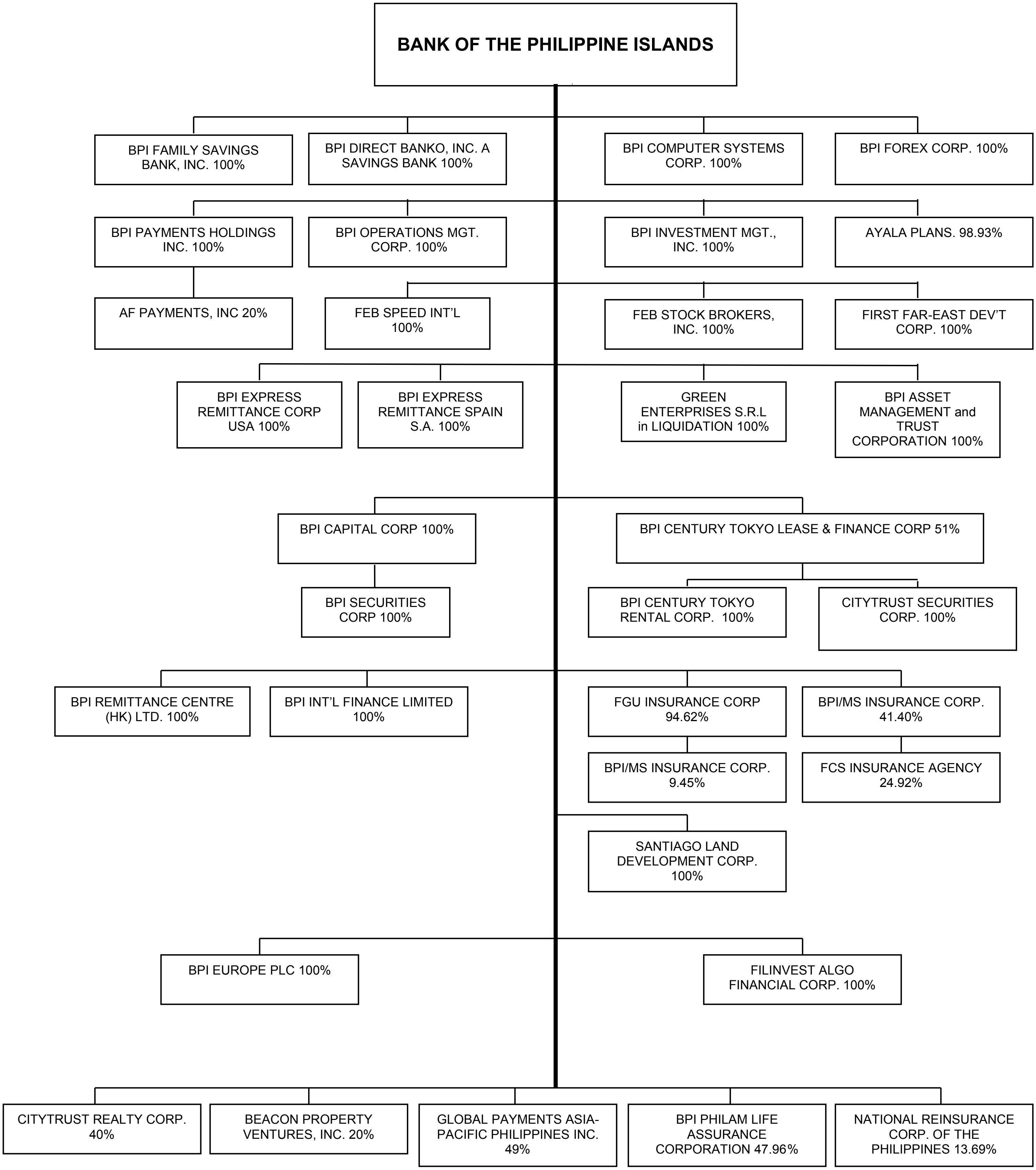
All other local and national taxes paid/accrued for the year ended December 31, 2019 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Gross receipts tax	3,711	382	4,093
Real property tax	119	-	119
Municipal taxes	209	-	209
Others	9	-	9
	4,048	382	4,430

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, 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
BPI FAMILY SAVINGS BANK, INC. 100%
BPI DIRECT BANKO, INC. A SAVINGS BANK 100%
BPI COMPUTER SYSTEMS CORP. 100%
BPI FOREX CORP. 100%
BPI PAYMENTS HOLDINGS INC. 100%
BPI OPERATIONS MGT. CORP. 100%
BPI INVESTMENT MGT., INC. 100%
AYALA PLANS. 98.93%
AF PAYMENTS, INC 20%
FEB SPEED INT'L 100%
FEB STOCK BROKERS, INC. 100%
FIRST FAR-EAST DEV'T CORP. 100%
BPI EXPRESS REMITTANCE CORP USA 100%
BPI EXPRESS REMITTANCE SPAIN S.A. 100%
GREEN ENTERPRISES S.R.L in LIQUIDATION 100%
BPI ASSET MANAGEMENT and TRUST CORPORATION 100%
BPI CAPITAL CORP 100%
BPI CENTURY TOKYO LEASE & FINANCE CORP 51%
BPI SECURITIES CORP 100%
BPI CENTURY TOKYO RENTAL CORP. 100%
CITYTRUST SECURITIES CORP. 100%
BPI REMITTANCE CENTRE (HK) LTD. 100%
BPI INT'L FINANCE LIMITED 100%
FGU INSURANCE CORP 94.62%
BPI/MS INSURANCE CORP. 41.40%
BPI/MS INSURANCE CORP. 9.45%
FCS INSURANCE AGENCY 24.92%
SANTIAGO LAND DEVELOPMENT CORP. 100%
BPI EUROPE PLC 100%
FILINVEST ALGO FINANCIAL CORP. 100%
CITYTRUST REALTY CORP. 40%
BEACON PROPERTY VENTURES, INC. 20%
GLOBAL PAYMENTS ASIA-PACIFIC PHILIPPINES INC. 49%
BPI PHILAM LIFE ASSURANCE CORPORATION 47.96%
NATIONAL REINSURANCE CORP. OF THE PHILIPPINES 13.69%

Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2019
(In Millions of Pesos)

BANK OF THE PHILIPPINE ISLANDS
Ayala North Exchange
Tower 1, Corner Salcedo Street
Makati City

Unappropriated Retained Earnings, based on audited financial statements, December 31, 2018		**76,958**
Add: Net income actually earned/realized during the period	26,218	
Less: Non-actual/unrealized income net of tax	-	
Equity in Net income of associate/joint venture	-	
Unrealized foreign exchange gain - net (except Cash and Cash Equivalents)	198	
Unrealized actuarial gain	-	
Unrealized trading gain	1,129	
Fair value adjustment of Investment Property resulting to gain	-	
Adjustment due to deviation from PFRS/GAAP-gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	-	
	1,327	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRS/GAAP - loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Subtotal	-	
Net income actually earned during the period		**24,891**
Add (Less):		
Dividend declarations during the period	(8,113)	
Appropriations of Retained Earnings during the period	(1,892)	
Reversals of appropriations	1,020	
Effects of prior period adjustments/others	35	
Treasury shares	-	
		(8,950)
Total Retained Earnings, End Available for Dividend		**92,899**

BANK OF THE PHILIPPINE ISLANDS
As at December 31, 2019
(in Millions of Pesos)

Schedule A - Financial Assets

	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received and accrued
Due from Bangko Sentral ng Pilipinas		207,845	
Due from other banks		22,356	
Interbank loans receivable and Securities purchase under agreements to resell		22,570	
Sub-total		252,771	1,723
Financial assets at fair value through profit or loss - Trading securities (*)		21,172	
Financial assets at fair value through profit or loss - Derivative financial assets		2,933	
Sub-total		24,105	454
Financial assets at fair value through other comprehensive income (*)		53,905	1,937
Investment Securities at amortized cost (*)		275,105	10,318
Loans and advances, net		1,475,336	87,151
Others		2,591	-
TOTAL		**2,083,813**	**101,583**

(*) Please refer succeeding pages for the detailed information on these financial assets.

BANK OF THE PHILIPPINE ISLANDS
As of December 31, 2019
(In millions of Pesos)

Schedule B: Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

Name and Designation of debtor	Balance at beginning of period	Additions	Amount Collected	Amount written off	Current	Not Current	Balance at end of period
Nothing to report. Transactions with these parties are made under the normal course of business.							

BANK OF THE PHILIPPINE ISLANDS
December 31, 2019
(In Millions of Pesos)

SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS.

Name and designation of debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts written-off	Current	Not Current	Balance at end of period
BANK OF THE PHILIPPINE ISLANDS	5	9	3	-	11	-	11
BPI CAPITAL CORPORATION	(2)	2	-	-	1	-	1
BPI CENTURY TOKYO LEASE AND FINANCE CORP.	1	5	-	-	6	-	6
BPI CENTURY TOKYO RENTAL CORP.	1	22	-	-	23	-	23
BPI DIRECT BANKO, INC.	362	168	-	-	530	-	530
BPI FAMILY SAVINGS BANK, INC.	26	94	-	-	120	-	120
BPI SECURITIES CORP.	35	55	-	-	90	-	90
BPI ASSET MANAGEMENT AND TRUST CORP.	202	-	161	-	41	-	41
AYALA PLANS	-	5	-	-	5	-	5
Total	631	360	164	-	827	-	827

BANK OF THE PHILIPPINE ISLANDS
December 31, 2019

Schedule D - Long-term Debt

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet	Terms of Long-term debts
Parent Bank				
Bills Payable Interbank term Loan	$99,693,606	-	$99,693,606	Int Rate: 2.84963 % Frequency of Payment: Quarterly Maturity Date: 3/26/2021 Face Value: USD 100,000,000
Bills Payable Interbank term Loan	$99,673,175	-	$99,673,175	Int Rate: 2.75425 % Frequency of Payment: Quarterly Maturity Date: 4/30/2021 Face Value: USD 100,000,000
Bills Payable Interbank term Loan	$99,196,810	-	$99,196,810	Int Rate: 2.608 % Frequency of Payment: Quarterly Maturity Date: 3/25/2022 Face Value: USD 100,000,000
Bonds Payable	$596,670,038	-	$596,670,038	Int Rate: 4.25 % Frequency of Payment: Semi - Annual Maturity Date: 9/4/2023 Face Value: USD 600,000,000
Bonds Payable	$298,034,146	-	$298,034,146	Int Rate: 2.5% Frequency of Payment: Semi - Annual Maturity Date: 9/10/2024 Face Value: USD 300,000,000

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet	Terms of Long-term debts
Bonds Payable	CHF 99,850,745	-	CHF 99,850,745	Int Rate: 0 % Frequency of Payment: N/A Maturity Date: 9/24/2021 Face Value: CHF 100,000,000
Bonds Payable	PHP 24,993,088,873	PHP 24,993,088,873	-	NA
BPI Family Savings Bank				
Bonds Payable	PHP 9,509,727,880	-	PHP 9,509,727,880	Int Rate: 4.30 % Frequency of Payment: Quarterly Maturity Date: 6/16/2022 Face Value: PHP 9,600,000,000
BPI Century Tokyo Leasing				
Long Term Loan	PHP 1,000,000,000	PHP 50,000,000	PHP 950,000,000	Int. Rate: 5.25%-7.32% Frequency of Payment: Lump sum Maturity Date: March 5, 2021, July 30, 2021, August 9, 2021, August 18, 2021
Long Term Loan	PHP 50,000,000	-	PHP 50,000,000	Int. Rate: 7.8%, Frequency of Payment: lump sum, Maturity Date: October 29, 2021
Long Term Loan	PHP 50,635,000	-	PHP 50,635,000	Int. Rate: 4.11%, Frequency of Payment: lump sum, Maturity Date: August 26, 2021
Long Term Loan	PHP 403,499,161	-	PHP 403,499,161	Int. Rate: 3.08%-4.20% Frequency of Payment: lump sum Maturity Date: July 27, 2021, August 2, 2021, November 28, 2022, May 26, 2023

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption “Current portion of long-term debt” in related balance sheet	Amount shown under caption “Long-term debt” in related balance sheet	Terms of Long-term debts
BPI Century Tokyo Rental				
Long Term Loan	PHP 1,000,000,000	PHP 33,000,000	PHP 967,000,000	Int. Rate:5.25% to 6%, Frequency of Payment: lump sum, Maturity Date: July 2, 2021, August 9, 2021, August 13, 2021, August 18, 2021

BANK OF THE PHILIPPINE ISLANDS
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Schedule E - Indebtedness to Related Parties (Long-Term Loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period
Nothing to report.		

BANK OF THE PHILIPPINE ISLANDS
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Schedule F - Guarantees of Securities of Other Issuers

Name of Issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
Nothing to report.				

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Schedule G - Capital Stock

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights *	Number of shares held by related parties	Directors, officers and employees	Others
Common Shares	4, 900,000,000	4,507,071,644	13,965,001	2,294,725,778	32,051,231	2,180,294,635
Preferred A Shares	60,000,000	-	-	-	-	

** Shares granted but not yet exercised*

Bank of the Philippine Islands
Financial Indicators
As at December 31, 2019 and 2018

Ratio	Formula	Current Year	Prior Year
		in percentage	
Liquidity ratio	Total current assets divided by total current liabilities Total current assets 1,022,402 Divided by: Total deposits 1,695,343 Current ratio 0.6031	60.31	62.04
Debt-to-equity ratio	Total liabilities (Bills payable and Bonds payable) divided by total equity Total liabilities (bills payable & bonds payable) 150,837 Divided by: Total equity 269,576 Debt-to-equity ratio 0.5595	55.95	67.16
Asset-to-equity ratio	Total assets divided by total equity Total assets 2,205,030 Divided by: Total equity 269,577 Asset-to-equity ratio 8.1796	817.96	839.06
Interest rate coverage ratio	Earning before interest expense, income taxes, depreciation, and amortization EBIT 81,205 Divided by: Total interest expense 35,638 Interest rate coverage ratio 2.2786	227.86	242.92
Return on equity	Net income divided by average equity Net income 28,803 Divided by: Average equity 262,630 Return on equity 0.1097	10.97	10.21
Return on assets	Net income divided by average assets Net income 28,803 Divided by: Average assets 2,085,790 Return on assets 0.0138	1.38	1.20
Net interest margin (NIM)	Net interest (return on investment less interest paid) divided by average assets Net interest 65,945 Divided by: Average assets 1,969,382 NIM 0.0335	3.35	3.11

Ratio	Formula	Current Year	Prior Year
Other ratios: Average assets to average equity	Average assets divided by average equity Average assets 2,085,790 Divided by: Average equity 262,630 Average asset to average equity 7.94	794.19	849.09
Net interest to average assets (NRFF)	Net interest income divided by average assets Net interest 65,945 Divided by: Average assets 2,085,790 NRFF 0.0316	3.16	2.91
Cost to income ratio	Total operating expense divided by total income Total operating expense 50,077 Divided by: Total income 94,334 Cost to income ratio 0.5308	53.08	55.53
Cost to asset ratio	Total operating expense divided by average asset Total operating expense 50,077 Divided by: Average assets 2,085,790 Cost to asset ratio 0.0240	2.40	2.27
Capital to assets ratio	Total equity divided by total assets Total equity 269,576 Divided by: Total assets 2,205,030 Cost to asset ratio 0.1223	12.23	11.92