Bank of the Philippine Islands and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements
As at and for the nine-month period ended September 30, 2019
(With comparative figures as at December 31, 2018 and for the nine-month period ended September 30, 2018)

Report on Review of Interim Financial Statements

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
Ayala North Exchange Tower 1, Ayala Avenue
Makati City

Introduction

We have reviewed the accompanying unaudited condensed consolidated interim statement of condition of the Bank of the Philippine Islands and its subsidiaries (the "BPI Group") as at September 30, 2019, and the related unaudited condensed consolidated interim statements of income, statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the nine-month periods ended September 30, 2019 and 2018, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these unaudited condensed consolidated interim financial statements in accordance with Philippine Accounting Standard 34, 'Interim Financial Reporting' as issued by the Financial Reporting Standards Council (FRSC). Our responsibility is to express a conclusion on these unaudited condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited condensed consolidated interim financial statements are not prepared, in all material respects in accordance with Philippine Accounting Standard 34.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 8, 2019, Makati City
SEC A.N. (individual) as general auditors 1176-AR-2, Category A; effective until June 20, 2021
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 221-755-698
BIR A.N. 08-000745-077-2018, issued on January 29, 2018; effective until January 28, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
December 28, 2019

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CONDITION
SEPTEMBER 30, 2019
(With Comparative Audited Consolidated December 31, 2018 Figures)
(In Millions of Pesos)

	Notes	**2019**	2018
RESOURCES			
CASH AND OTHER CASH ITEMS	3	**28,729**	43,536
DUE FROM BANGKO SENTRAL NG PILIPINAS	3	**196,225**	225,907
DUE FROM OTHER BANKS	3	**13,786**	12,477
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	3	**40,142**	34,323
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	4	**29,625**	16,721
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	**78,642**	37,206
INVESTMENT SECURITIES AT AMORTIZED COST, net	6	**287,847**	287,571
LOANS AND ADVANCES, net	7	**1,371,671**	1,354,896
ASSETS HELD FOR SALE, net		**3,325**	3,363
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	8	**23,153**	16,252
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net		**6,583**	5,659
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS		**16,807**	16,582
DEFERRED INCOME TAX ASSETS, net		**8,848**	8,536
OTHER RESOURCES, net		**20,398**	22,199
Total resources		**2,125,781**	2,085,228

(The notes on pages 1 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CONDITION
SEPTEMBER 30, 2019
(With Comparative Audited Consolidated December 31, 2018 Figures)
(In Millions of Pesos)

	Notes	**2019**	2018
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	9	**1,619,900**	1,585,746
DERIVATIVE FINANCIAL LIABILITIES	10	**3,041**	3,891
BILLS PAYABLE AND OTHER BORROWED FUNDS	10	**154,923**	166,901
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**1,473**	3,988
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**6,110**	6,931
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**10,510**	9,057
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS		**13,215**	14,056
DEFERRED CREDITS AND OTHER LIABILITIES		**45,399**	43,120
Total liabilities		**1,854,571**	1,833,690
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI			
Share capital	11	**44,989**	44,961
Share premium		**74,379**	74,181
Reserves	11	**3,740**	4,096
Surplus		**146,062**	127,459
Accumulated other comprehensive loss		**(1,315)**	(2,176)
		267,855	248,521
NON-CONTROLLING INTEREST		**3,355**	3,017
Total capital funds		**271,210**	251,538
Total liabilities and capital funds		**2,125,781**	2,085,228

(The notes on pages 1 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Millions of Pesos, Except Per Share Amounts)

	Note	**2019**	2018
INTEREST INCOME			
On loans and advances		**65,520**	49,480
On investment securities		**9,467**	7,017
On deposits with BSP and other banks		**1,267**	841
		76,254	57,338
INTEREST EXPENSE			
On deposits		**22,322**	15,221
On bills payable and other borrowings		**5,267**	1,482
		27,589	16,703
NET INTEREST INCOME		**48,665**	40,635
PROVISIONS FOR CREDIT AND IMPAIRMENT LOSSES	7	**4,575**	2,844
NET INTEREST INCOME AFTER PROVISIONS FOR CREDIT AND IMPAIRMENT LOSSES		**44,090**	37,791
OTHER INCOME			
Fees and commissions		**6,708**	5,513
Trading gain on securities		**4,059**	637
Income from foreign exchange trading		**1,525**	1,552
Income attributable to insurance operations		**1,053**	859
Other operating income		**8,992**	7,689
		22,337	16,250
OTHER EXPENSES			
Compensation and fringe benefits		**12,879**	11,435
Occupancy and equipment-related expenses		**12,035**	10,010
Other operating expenses		**12,175**	10,639
		37,089	32,084
INCOME BEFORE INCOME TAX		**29,338**	21,957
INCOME TAX EXPENSE			
Current		**7,556**	5,210
Deferred		**(433)**	(418)
		7,123	4,792
NET INCOME FOR THE PERIOD		**22,215**	17,165
Attributable to:			
Equity holders of BPI		**22,031**	17,010
Non-controlling interest		**184**	155
		22,215	17,165
Earnings per share for net income attributable to the equity holders of BPI during the period:			
Basic and diluted		**4.89**	3.78

(The notes on pages 1 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Millions of Pesos)

	Note	**2019**	2018
NET INCOME FOR THE PERIOD		**22,215**	17,165
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value reserve on FVOCI securities, net of tax effect	12	**(289)**	(831)
Fair value reserve on investments of insurance subsidiaries, net of tax effect	12	**496**	(434)
Share in other comprehensive income (loss) of an associate		**1,199**	(1,314)
Currency translation and other adjustments		**(164)**	114
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefit plan, net of tax effect	12	**38**	126
Share in other comprehensive (loss) gain of associates		**(36)**	525
Total other comprehensive income (loss), net of tax effect		**1,244**	(1,814)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**23,459**	15,351
Attributable to:			
Equity holders of BPI		**23,120**	15,300
Non-controlling interest		**339**	51
		23,459	15,351

(The notes on pages 1 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Millions of Pesos)

	Attributable to equity holders of BPI (Note 11)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive (loss) income	Total	Non-controlling interest	Total equity
Balance, January 1, 2018	**39,336**	**29,771**	**254**	**116,353**	**(977)**	**184,737**	**2,855**	**187,592**
Comprehensive income								
Net income for the period	-	-	-	17,010	-	17,010	155	17,165
Other comprehensive loss for the period	-	-	-	-	(1,710)	(1,710)	(104)	(1,814)
Total comprehensive income (loss) for the period	-	-	-	**17,010**	**(1,710)**	**15,300**	**51**	**15,351**
Transactions with owners								
Proceeds from stock rights offering (Note 11)	5,587	44,120	-	-	-	49,707	-	49,707
Executive stock plan amortization	30	233	(37)	-	-	226	-	226
Cash dividends	-	-	-	(4,052)	-	(4,052)	-	(4,052)
Total transactions with owners	**5,617**	**44,353**	**(37)**	**(4,052)**	**-**	**45,881**	**-**	**45,881**
Balance, September 30, 2018	**44,953**	**74,124**	**217**	**129,311**	**(2,687)**	**245,918**	**2,906**	**248,824**
Balance, January 1, 2019	**44,961**	**74,181**	**4,096**	**127,459**	**(2,176)**	**248,521**	**3,017**	**251,538**
Comprehensive income								
Net income for the period	-	-	-	22,031	-	22,031	184	22,215
Other comprehensive income for the period	-	-	-	-	1,089	1,089	155	1,244
Total comprehensive income for the period	-	-	-	**22,031**	**1,089**	**23,120**	**339**	**23,459**
Transactions with owners								
Executive stock plan amortization	28	198	31	-	-	257	-	257
Cash dividends	-	-	-	(4,056)	-	(4,056)	-	(4,056)
Total transactions with owners	**28**	**198**	**31**	**(4,056)**	**-**	**(3,799)**	**-**	**(3,799)**
Other movements								
Transfer from surplus to reserves	-	-	133	(133)	-	-	-	-
Transfer from reserves to surplus	-	-	(520)	520	-	-	-	-
Others	-	-	-	242	(229)	13	(1)	12
Total other movements	**-**	**-**	**(387)**	**629**	**(229)**	**13**	**(1)**	**12**
Balance, September 30, 2019	**44,989**	**74,379**	**3,740**	**146,062**	**(1,315)**	**267,855**	**3,355**	**271,210**

(The notes on pages 1 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Millions of Pesos)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**29,338**	21,957
Adjustments for:		
Provisions for credit and impairment losses	**4,575**	2,844
Depreciation and amortization	**5,085**	3,518
Share in net income of associates	**(319)**	(439)
Dividend income	**(45)**	(55)
Share based compensation	**31**	(37)
Interest income	**(76,254)**	(57,338)
Interest received	**77,396**	56,222
Interest expense	**27,589**	16,703
Interest paid	**(26,699)**	(16,016)
(Increase) decrease in:		
Interbank loans and receivable and securities purchased under agreement to resell	**2,717**	1,790
Financial assets at fair value through profit or loss	**(13,758)**	(25,171)
Loans and advances	**(21,466)**	(66,572)
Assets held for sale	**106**	382
Assets attributable to insurance operations	**1,188**	1,838
Other resources	**245**	(3,913)
Increase (decrease) in:		
Deposit liabilities	**34,155**	(19,729)
Due to Bangko Sentral ng Pilipinas and other banks	**(2,514)**	(16)
Manager's checks and demand drafts outstanding	**(820)**	(44)
Accrued taxes, interest and other expenses	**354**	875
Liabilities attributable to insurance operations	**(841)**	(1,787)
Derivative financial instruments	**(15)**	(10)
Deferred credits and other liabilities	**(1,405)**	(2,300)
Net cash from (used in) operations	**38,643**	(87,298)
Income taxes paid	**(7,235)**	(5,215)
Net cash from (used in) operating activities	**31,408**	(92,513)

(The notes on pages 1 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Millions of Pesos)

	Notes	**2019**	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) decrease in:			
Investment securities		**(42,774)**	(1,362)
Bank premises, furniture, fixtures and equipment		**(2,945)**	(3,992)
Investment in subsidiaries and associates, net		**889**	(401)
Assets attributable to insurance operations		**(1,268)**	595
Investment property, net		**(3)**	1
Dividends received		**45**	55
Net cash used in investing activities		**(46,056)**	(5,104)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends	11	**(8,108)**	(7,598)
Issuance of shares via exercise of stock options		**226**	49,970
Decrease in bills payable and other borrowed funds		**(11,978)**	17,480
Net cash (used in) from financing activities		**(19,860)**	59,852
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(34,508)**	(37,765)
CASH AND CASH EQUIVALENTS	3		
Beginning of period		**313,270**	322,129
End of period		**278,762**	284,364

(The notes on pages 1 to 17 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2019
(With comparative figures as at December 31, 2018 and for the nine-month period ended September 30, 2018)
(In Millions of Pesos, unless otherwise stated)

Note 1 - General information

Bank of the Philippine Islands ("BPI" or the "Parent Bank") is a domestic commercial bank with an expanded banking license and has its registered office address, which is also its principal place of business, at BPI Building, Ayala Avenue corner Salcedo St., Makati City. BPI and its subsidiaries (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At September 30, 2019, the BPI Group has 19,776 employees (September 2018 - 18,374 employees) and operates 1,108 branches and 2,900 ATMs and CAMs (September 2018 - 1,055 branches and 3,167 ATMs and CAMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities. Likewise, BPI is a listed entity with its shares traded in the Philippine Stock Exchange (PSE) since October 12, 1971. As at September 30, 2019, the Parent Bank has 12,362 common shareholders (September 2018 - 11,632).

The condensed consolidated interim financial statements have been approved by the Board of Directors of the Parent Bank on October 16, 2019. There are no material events that occurred subsequent to October 16, 2019 until December 28, 2019.

These condensed consolidated interim financial statements have been reviewed, not audited.

Note 2 - Segment information

Operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (CEO), who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the BPI Group meet the definition of a reportable segment under PFRS 8, Operating Segments.

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

The BPI Group's main operating business segments follow:

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

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

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

The performance of the Parent Bank is assessed as a single unit using financial information presented in the separate or Parent only financial statements. Likewise, the CEO assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings.

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

Revenues of the BPI Group's segment operations are derived mainly from the lending business in the form of interest (net interest income). The segment report forms part of management's assessment of the performance of the segment, among other performance indicators.

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

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

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

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

The segment assets and liabilities as at September 30, 2019 and December 31, 2018 and results of operations of the reportable segments of the BPI Group as at and for the nine-month periods ended September 30, 2019 and 2018 follow:

	September 30, 2019			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
	(In Millions of Pesos)			
Net interest income	30,922	11,497	9,764	**52,183**
Provisions for credit and impairment losses	2,803	1,779	(7)	**4,575**
Net interest income after provisions for credit and impairment losses	28,119	9,718	9,771	**47,608**
Fees, commissions and other income, net	10,576	2,922	7,167	**20,665**
Total income	38,695	12,640	16,938	**68,273**
Compensation and fringe benefits	10,441	1,842	810	**13,093**
Occupancy and equipment-related expenses	7,281	1,610	213	**9,104**
Other operating expenses	10,896	2,436	1,263	**14,595**
Total operating expenses	28,618	5,888	2,286	**36,792**
Operating profit	10,077	6,752	14,652	**31,481**
Share in net income of associates				**489**
Income tax expense				**7,123**
Total resources				
September 30, 2019	483,953	1,124,151	483,208	**2,091,312**
December 31, 2018	534,234	1,113,367	409,797	**2,057,398**
Total liabilities				
September 30, 2019	1,145,327	539,422	152,359	**1,837,108**
December 31, 2018	1,124,800	552,969	137,872	**1,815,641**

	September 30, 2018			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	23,437	9,499	11,183	44,119
Provisions for credit and impairment losses	1,593	1,240	12	2,845
Net interest income after provisions for credit and impairment losses	21,844	8,259	11,171	41,274
Fees, commissions and other income, net	8,737	2,560	3,983	15,280
Total income	30,581	10,819	15,154	56,554
Compensation and fringe benefits	9,160	1,497	771	11,428
Occupancy and equipment-related expenses	6,047	1,470	194	7,711
Other operating expenses	10,082	2,228	1,122	13,432
Total operating expenses	25,289	5,195	2,087	32,571
Operating profit	5,292	5,624	13,067	23,983
Share in net income of associates				
Income tax expense				
Total resources				
September 30, 2018	476,079	1,059,516	398,741	1,934,336
December 31, 2017	476,749	1,007,058	389,085	1,872,892
Total liabilities				
September 30, 2018	1,074,708	519,786	106,143	1,700,637
December 31, 2017	1,063,069	550,367	85,946	1,699,382

Reconciliation of segment results to consolidated results of operations:

	September 30, 2019		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
	(In Millions of Pesos)		
Net interest income	52,183	(3,518)	**48,665**
Provisions for credit and impairment losses	4,575	-	**4,575**
Net interest income after provisions for credit and impairment losses	47,608	(3,518)	**44,090**
Fees, commissions and other income, net	20,665	1,672	**22,337**
Total income	68,273	(1,846)	**66,427**
Compensation and fringe benefits	13,093	(214)	**12,879**
Occupancy and equipment-related expenses	9,104	2,931	**12,035**
Other operating expenses	14,595	(2,420)	**12,175**
Total operating expenses	36,792	297	**37,089**
Operating profit	31,481	(2,143)	**29,338**
Share in net income of associates (included in Other income)	489	-	**489**
Income tax expense	7,123	-	**7,123**
Total resources			
September 30, 2019	2,091,312	34,469	**2,125,781**
December 31, 2018	2,057,398	27,830	**2,085,228**
Total liabilities			
September 30, 2019	1,837,108	17,463	**1,854,571**
December 31, 2018	1,815,641	18,049	**1,833,690**

	September 30, 2018		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	44,119	(3,484)	40,635
Provisions for credit and impairment losses	2,845	(1)	2,844
Net interest income after provisions for credit and impairment losses	41,274	(3,483)	37,791
Fees, commissions and other income, net	15,280	970	16,250
Total income	56,554	(2,513)	54,041
Compensation and fringe benefits	11,428	7	11,435
Occupancy and equipment - related expenses	7,711	2,299	10,010
Other operating expenses	13,432	(2,793)	10,639
Total operating expenses	32,571	(487)	32,084
Operating profit	23,983	(2,026)	21,957
Share in net income of associates (included in Other income)			499
Income tax expense			4,792
Total resources			
September 30, 2018	1,934,336	26,285	1,960,621
December 31, 2017	1,872,892	31,013	1,903,905
Total liabilities			
September 30, 2018	1,700,637	11,147	1,711,784
December 31, 2017	1,699,382	20,972	1,720,354

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

Note 3 - Cash and cash equivalents

Cash and cash equivalents consist of:

	September 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Cash and other cash items	**28,729**	43,536
Due from BSP	**196,225**	225,907
Due from other banks	**13,786**	12,477
Interbank loans receivable and securities purchased under agreements to resell	**39,787**	31,261
Cash and cash equivalents attributable to insurance operations	**235**	89
	278,762	313,270

The decline in Due from BSP of P29,682 million is due to the change in the BSP's regulatory reserve requirement against the BPI Group's deposit and deposit substitute liabilities from 18% to 16% as at September 30, 2019. Interbank loans receivable and SPAR increased due to higher volume of placements in Reverse Repurchase Agreements (RRP) and interbank term loans.

For cash flow statement purposes, cash and cash equivalents consist of:

	September 30, 2019	September 30, 2018
	(In Millions of Pesos)	
Cash and other cash items	**28,729**	30,905
Due from BSP	**196,225**	221,041
Due from other banks	**13,786**	12,477
Interbank loans receivable and securities purchased under agreements to resell	**39,787**	19,709
Cash and cash equivalents attributable to insurance operations	**235**	232
	278,762	284,364

Note 4 - Financial Assets at Fair Value through Profit or Loss (FVTPL)

The account consists of:

	September 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Debt securities		
Government securities	**22,658**	8,953
Commercial papers of private companies	**3,711**	3,497
Equity securities - listed	**135**	238
Derivative financial assets	**3,121**	4,033
	29,625	16,721

The increase in the account is mainly due to higher volume of government securities acquired in the early part of 2019 in line with the BPI Group's expectation of lower interest rates.

Derivatives held by the BPI Group for non-hedging purposes mainly consist of foreign exchange forwards, foreign exchange swaps, interest rate swaps and cross-currency swaps. The decrease is due to lower volume of transactions and settlements during the period ended September 30, 2019.

Note 5 - Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

The account consists of:

	September 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Debt securities		
Government securities	**66,281**	32,718
Commercial papers of private companies	**9,168**	2,695
	75,449	35,413
Accrued interest receivable	**403**	118
	75,852	35,531
Equity securities		
Listed	**2,377**	1,129
Unlisted	**413**	546
	2,790	1,675
	78,642	37,206

The increase in the portfolio of debt securities is in line with the BPI Group's expectation of declining interest rates.

Note 6 - Investment securities at amortized cost, net

The account consists of:

	September 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Government securities	**203,257**	196,957
Commercial papers of private companies	**81,912**	86,826
	285,169	283,783
Accrued interest receivable	**2,678**	3,790
	287,847	287,573
Allowance for credit losses	**-**	(2)
	287,847	287,571

The increase in the account of P276 million is due to the Bank's preference on FVTPL and FVOCI positioning in view of declining interest rates.

Note 7 - Loans and advances, net

The account consists of:

	September 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Corporate loans		
Large corporate customers	**1,052,651**	1,043,855
Small and medium enterprise	**80,013**	87,998
Retail loans		
Real estate mortgages	**135,047**	126,088
Credit cards	**68,837**	60,843
Auto loans	**52,747**	51,845
Others	**6,692**	5,145
	1,395,987	1,375,774
Accrued interest receivable	**8,122**	8,454
Unearned discount/income	**(6,915)**	(6,430)
	1,397,194	1,377,798
Allowance for credit losses	**(25,523)**	(22,902)
	1,371,671	1,354,896

The expansion in loans and advances is driven by higher demand for retail loans, specifically credit cards and housing loans.

The higher provision for credit losses as at September 30, 2019 is mainly caused by the specific provisions recognized for corporate loans as well as incremental collective provisions on account of growing loan portfolio.

The movements in allowance for credit losses are summarized below:

	September 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Beginning balance	**22,902**	20,674
Provision for credit losses	**4,526**	4,504
Transfers	**(159)**	(164)
Write off/Disposal	**(1,698)**	(2,092)
Accretion/Unwind of discount	**(48)**	(20)
Ending balance	**25,523**	22,902

Note 8 - Bank premises, furniture, fixtures and equipment

Movements of the account are summarized as follows:

	September 30, 2019				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2019	3,028	10,889	16,496	5,580	35,993
Additions	-	1,462	1,040	1,109	3,611
Disposals	(9)	(260)	(566)	(778)	(1,613)
Impact of PFRS 16 adoption (Note 17)	-	8,178	-	-	8,178
September 30, 2019	**3,019**	20,269	16,970	5,911	46,169
Accumulated depreciation					
January 1, 2019	-	5,511	13,040	1,190	19,741
Depreciation	-	436	1,259	1,028	2,723
Amortization	-	269	-	17	286
Disposals	-	(144)	(223)	(571)	(938)
Impact of PFRS 16 adoption (Note 17)	-	1,204	-	-	1,204
September 30, 2019	**-**	7,276	14,076	1,664	23,016
Net book value, September 30, 2019	**3,019**	**12,993**	**2,894**	**4,247**	**23,153**

	December 31, 2018				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost	3,028	10,889	16,496	5,580	35,993
Accumulated depreciation	-	5,511	13,040	1,190	19,741
Net book value	3,028	5,378	3,456	4,390	16,252

The movement in buildings and leasehold improvements brought about by the BPI group’s adoption of PFRS 16 is considered a non-cash transaction.

Note 9 - Deposit liabilities

Deposit liabilities increased mainly due to the growth in demand deposit and time deposit placements for the period.

Note 10 - Bills payable and other borrowed funds

The reduction in bills payable and other borrowed funds of P11,978 million at September 30, 2019 is primarily due to settlement of short-term interbank borrowings which were not renewed upon maturities. This is in line with the BPI Group's strategy to manage cost of funds by resorting to low-cost deposit products.

Other borrowed funds

On September 19, 2018, the BOD of the Parent Bank approved the establishment of a Peso Bond and Commercial Paper Program in the aggregate amount of up to P50,000 million. Consequently, on December 6, 2018, the Parent Bank issued P25,000 million with a coupon of 6.7970% per annum, payable quarterly to mature on March 6, 2020. On November 20, 2019, the BOD of the Parent Bank approved the issuance of Peso-denominated Bonds and Commercial Papers up to P100,000 million under an updated Bank Bond Issuance Program.

On June 21, 2018, the BOD of the Parent Bank approved the establishment of a medium-term note (MTN) program in the aggregate amount of up to US$2,000 million with drawdowns as follows:

- On September 4, 2018, the Parent Bank issued US$600 million in 5-year Senior Unsecured Fixed Rate Reg S Notes with a coupon of 4.25% to mature on September 4, 2023.
- On September 10, 2019, the Parent Bank issued US$300 million, 5-year Senior Unsecured Fixed Rate Green Bonds bearing coupon of 2.50% per annum payable semi-annually.
- On September 24, 2019, the Bank issued CHF100 million, 2-year negative-yielding Green Bond. Proceeds from the Parent Bank's Green Bonds are used to fund projects with clear environmental benefits, in accordance with its Green Finance Framework. Simultaneously, the Parent Bank entered into a two-year cross-currency interest rate swap to hedge the foreign currency risk arising from the Green Bonds designated as the hedged item in a cash flow hedge. The objective of the hedge transaction is to fix the variability in cash flows of the foreign currency denominated bond. As at September 30, 2019, the hedge continues to be fully effective as the critical terms perfectly match and the movement in the fair value of the hedging instrument (loss of P66 million) is therefore recognized as cash flow hedging reserve in other comprehensive income.

  As at September 30, 2019, the cross-currency interest rate swap has a net liability position of P93 million presented as part of the derivative financial liabilities in the statement of condition.

Note 11 - Capital funds

(a) Share capital

Details of authorized capital stock of the Parent Bank follow:

	September 30, 2019	December 31, 2018
	(In Millions of Pesos Except Par Value Per Share)	
Authorized capital (at P10 par value per share)		
Common shares	**49,000**	49,000
Preferred A shares	**600**	600
	49,600	49,600

The outstanding common shares as at September 30, 2019 and December 31, 2018 are 4,506,945,108 and 4,502,448,426, respectively.

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

There are no preferred shares issued as at September 30, 2019 and December 31, 2018.

(b) Reserves

The account consists of:

	September 30, 2019	December 31, 2018
	(In Millions of Pesos)	
General loan loss provision (GLLP)	**3,424**	3,867
Executive stock option plan amortization	**138**	105
Reserve for trust business	**144**	90
Reserve for self-insurance	**34**	34
	3,740	4,096

The appropriation for GLLP is recognized to comply with BSP Circular 1011 (the "Circular"). Under the Circular, banks are required to set up GLLP equal to 1% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Further, the Circular states that if the PFRS 9 loan loss provision is lower than the required GLLP, the deficiency shall be recognized as an appropriation of retained earnings or surplus.

In compliance with existing BSP regulations, 10% of the BPI AMTC's income from trust business is appropriated to surplus reserve. This appropriation is required until the surplus reserve for trust business reaches 20% of the BPI AMTC's regulatory net worth.

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

(c) Dividend declarations

Details of cash dividends declared by the Parent Bank follow:

	Amount of Dividends	
Date Declared	Per Share	Amounts in millions of Pesos
June 20, 2018	0.90	4,052
December 19, 2018	0.90	4,052
May 15, 2019	0.90	4,056

Note 12 - Commitments and contingencies

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

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

Note 13 - Related party transactions

In the normal course of the business, the Parent Bank transacts with related parties consisting of its subsidiaries and associates. Likewise, the BPI Group has transactions with Ayala Corporation (AC) and its subsidiaries (Ayala Group). AC has a significant influence over the BPI Group as at reporting date.

These transactions include loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses. Transactions with related parties are made in the normal banking activities and have terms and conditions comparable to those offered to non-related parties or to similar transactions in the market.

Details of directors, officers, stockholders, and their related interests (DOSRI) loans follow:

	September 30, 2019	December 31, 2018
	(In Millions of Pesos)	
Outstanding DOSRI loans	**10,146**	8,248
	In percentage (%)	
% to total outstanding loans and advances	**0.73**	0.60
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	**17.28**	21.51
Past due DOSRI loans	**0.01**	-
Non-performing DOSRI loans	**-**	-

At September 30, 2019 and December 31, 2018, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

Note 14 - Critical accounting estimates and judgments

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial statements, the significant accounting estimates and judgments made by management in applying the BPI Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2018, except with respect to accounts and transactions affected by the adoption of PFRS 16 specifically on the determination of incremental borrowing rate and lease term.

Critical accounting judgment in determining the incremental borrowing rate

The lease payments for lease of assets are discounted using the lessee's incremental borrowing rate, 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 uses recent internal cost of funding as a starting point, adjusted to reflect changes in financing conditions since third party financing was obtained. Where third party financing cannot be obtained, the BPI Group uses the government bond yield, adjusted for the (1) credit spread specific to each entity under the BPI Group and (2) security using the right-of-use asset.

Critical judgment in determining the lease term

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 BPI Group considers the factors below as the most relevant in assessing the options:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Note 15 - Fair value measurements of financial instruments

This note provides an update on the judgments and estimates made by the BPI Group in determining the fair values on the financial instruments since the last annual financial report.

a. Fair value hierarchy

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter (OTC) derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at and for the period ended September 30, 2019 and December 31, 2018.

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

The following tables present the carrying value and fair value hierarchy of the BPI Group's assets and liabilities measured at fair value at September 30, 2019:

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	3,121	-	3,121	**3,121**
Trading assets				
- Debt securities	26,369	26,214	155	**26,369**
- Equity securities	135	135	-	**135**
Financial assets at FVOCI				
- Debt securities	75,852	72,593	3,259	**75,852**
- Equity securities	2,790	985	1,805	**2,790**
Financial liabilities				
Derivative financial liabilities	3,041	-	3,041	**3,041**
Non-recurring measurements				
Assets held for sale, net	3,325	-	10,016	**10,016**

There were no transfers between Level 1 and Level 2 during the periods ended September 30, 2019 and December 31, 2018.

b. Valuation techniques used to derive Level 2 fair values

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

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

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

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

c. Fair values of other financial instruments carried at amortized cost

The BPI Group also holds financial instruments that are not measured at fair value in the statements of condition at September 30, 2019 as follows:

	Carrying amount	Fair value
Financial assets		
Investment securities at amortized cost	287,847	287,094
Loans and advances, net	1,371,671	1,376,205
Financial liability		
Deposit liabilities	1,619,900	1,602,821

Note 16 - Basis of preparation

These unaudited condensed consolidated interim financial statements as at and for the nine-month period ended September 30, 2019 have been prepared in accordance with PAS 34, *Interim Financial Reporting*. These unaudited condensed consolidated interim financial statements do not include all the notes normally included in an annual financial report. Accordingly, these unaudited condensed consolidated interim financial statements are to be read in conjunction with the annual audited consolidated financial statements of the BPI Group for the year ended December 31, 2018, which have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

(a) New and amended standards and interpretations adopted by the BPI Group

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.

PFRS 16, Leases

The impact of the adoption of PFRS 16 and the new accounting policies are disclosed in Note 17.

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

The following new accounting standard is not mandatory for September 30, 2019 reporting period and has not been early adopted by the BPI Group:

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

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

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

Note 17 - Changes in accounting policies

This note presents the impact of the adoption of PFRS 16 on the BPI Group's financial statements and the new accounting policies that have been applied from January 1, 2019.

(a) PFRS 16, Leases

The BPI Group has adopted PFRS 16, '*Leases*' effective January 1, 2019. 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.

The adoption of PFRS 16 resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The BPI Group did not early adopt any provisions of PFRS 16 in previous periods.

As permitted by the transitional provisions of PFRS 16, the BPI Group elected not to restate comparative figures and adopt the modified retrospective approach with simplified right-of-use asset to transition to the new leases standard.

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.

- The lease liabilities were measured at the present value of the remaining lease payments, discounted using the appropriate incremental borrowing rates as of January 1, 2019.
- The associated right-of-use assets for leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to certain leases recognized in the statement of condition as at December 31, 2018.

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

(a) For all contracts entered into before January 1, 2019 and that were previously identified as leases under PAS 17, Leases, and IFRIC 4, 'Determining whether an arrangement contains a Lease', the BPI Group has not reassessed if such contracts contain leases under PFRS 16; and

(b) On a lease-by-lease basis, the BPI Group has:
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Set out below are disclosures relating to the impact of the adoption of PFRS 16 on the BPI Group.

(i) Amounts recognized in the statement of condition

	September 30, 2019	January 1, 2019
	(In Millions of Pesos)	
Right-of-use assets		
Buildings and leasehold improvements (Note 8)	**7,047**	8,178
Lease liabilities		
Current	**1,727**	1,664
Non-current	**5,213**	6,009
	6,940	7,673

(ii) Amounts recognized in the statement of income

	September 30, 2019
	(In Millions of Pesos)
Depreciation expense	1,204
Interest expense	408

(b) Hedge accounting model under PFRS 9

The hedge accounting model under PFRS 9 aims to establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses on the hedge accounting model in PAS 39. As indicated in Note 10, the BPI Group has entered into a hedge accounting transaction in 2019. The relevant accounting policy on hedge accounting not included in the BPI Group's last audited financial statements are provided below:

<u>Derivatives and hedging activities</u>

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their 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 and, if so, the nature of the item being hedged. The BPI Group designates certain 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 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 group documents its risk management objective and strategy for undertaking its hedge transactions.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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 forward contracts are used as hedging instruments, the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognized within OCI in the costs of hedging reserve within equity. In some cases, the group may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract 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 Bank 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.

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in OCI and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss within other operating income.

Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

Derivatives that do not qualify for hedge accounting

There are no fair value hedges and net investment hedges that qualify for hedge accounting as at September 30, 2019 and December 31, 2018. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss and are included in trading gain on securities.