FINAL OFFERING CIRCULAR **24 November 2017**

Bank of the Philippine Islands

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

₱12.2408 BILLION LONG TERM NEGOTIABLE CERTIFICATES OF TIME DEPOSIT DUE MAY 2023

Bank of the Philippine Islands ("BPI" or the "Bank") is offering Twelve Billion Two Hundred Forty Million Eight Hundred Thousand Pesos (₱12,240,800,000.00) worth of Long-Term Negotiable Certificates of Time Deposit due May 2023 (the "CDs") pursuant to the authority granted by the Bangko Sentral ng Pilipinas ("BSP") to the Bank on October 12, 2017 and General Banking Law of 2000 (Republic Act No. 8791), Section X233.9 of the Manual of Regulations for Banks, Circular No. 304, Series of 2001 of the BSP as amended by Circular No. 824, Series of 2014, Circular No. 834, Series of 2014, Circular No. 877, Series of 2015; Circular No. 890, Series of 2015; Circular No. M-2014-034, Series of 2014; Circular No. 822, Series of 2013; Circular No. 810, Series of 2013; Circular No. 674, Series of 2009; Circular No. 585 Series of 2007, and other related circulars and issuances as may be amended from time to time; the terms of the Registry and Paying Agency Agreement dated October 26, 2017 entered into by and between the Bank and the Philippine Depository & Trust Corp. (PDTC), the latter acting as both Registrar and Paying Agency; and shall, at all times, be subject to and governed by the terms and conditions in the Tranche Certificate. The issuance of the CDs is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The CDs will bear fixed interest at the rate of 3.75% per annum from and including November 24, 2017 to but excluding May 24, 2023 and interest will be payable quarterly in arrears at the end of each Interest Period on February 24, May 24, August 24 and November 24 in each year, except for the last Interest Period which will end on the Maturity Date. If the Interest Payment Date is not a Business Day, interest will be paid on the next succeeding Business Day, without adjustment to the amount of interest to be paid.

Unless previously redeemed, the CDs will be redeemed at their principal amount on the Maturity Date or May 24, 2023. Subject to the satisfaction of certain regulatory approval requirements, the Bank may redeem the CDs in whole and not only in part on the Pre-Termination Date at the face value of the CDs, plus accrued and unpaid interest as of but excluding the pre-Termination Date. The CDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Bank, and will, at all times, rank *pari passu* and without any preference among themselves and at least equally with all other present and future direct, unconditional, unsecured and unsubordinated obligations of the Bank, except obligations mandatorily preferred by law.

The CDs cannot be terminated by any holder of the CDs (the "CD Holder") before the Maturity Date. However, it may be pre-terminated at the instance of the Issuing Bank upon prior notice to the holder on record. Negotiations / transfers / assignments from one (1) holder to another do not constitute pre-termination. The CDs will be issued in scripless form in denominations of ₱100,000.00 and integral multiples of ₱50,000.00 thereafter and will be registered and lodged with the Registrar in the name of the CD Holders. The CDs will be represented by a Tranche Certificate deposited with the Registrar. The Electronic Registry Book (the "Registry Book") shall serve as the best evidence of ownership with respect to the CDs. The Registrar will issue a Registry Confirmation in favor of each CD Holder.

Upon issuance, the CDs will be listed in the trading platform of the Philippine Dealing & Exchange Corp. ("PDEx") for secondary market trading pursuant to the BSP rules. Upon listing of the CDs in PDEx, all negotiations / transfers / assignments of the CDs must be coursed through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Listing and Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time. This arrangement with the exchange does not guarantee an active or liquid secondary market trading for these CDs (Please refer to "Investment Considerations – Considerations Relating to the CDs").

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

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

INVESTING IN THE CDs INVOLVES CERTAIN RISKS. SEE "INVESTMENT CONSIDERATIONS" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE CDs.

ARRANGER AND SELLING AGENT

ING

OTHER SELLING AGENTS

BPI

BPI Capital Corporation

The date of this Offering Circular is 24 November 2017.

This Offering Circular has been prepared solely for the information of the intended recipients of ING Bank N.V., Manila Branch ("ING") as Arranger and Selling Agent, the Bank and BPI Capital Corporation as Selling Agents, with respect to the CDs to be issued by the Bank. This Offering Circular shall not be reproduced in any form, in whole or in part, for any purpose whatsoever nor shall it be transmitted to any other person.

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

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

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

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

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

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

Conventions

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references to the "Government" herein are references to the Government of the Philippines. All references to "United States" or "U.S." herein are to the United States of America. Unless otherwise specified or the context otherwise requires, references herein to "United States Dollars", "U.S. dollars" and "U.S.$" are to the lawful currency of the United States of America and references herein to "Pesos", "Php" and "₱" are to the lawful currency of the Philippines. Certain monetary amounts and currency translations included in this document have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures, which precede them. References in this document to ownership interests are, save as otherwise disclosed, as at the date of this document.

Forward-looking Statements

All statements contained in this Offering Circular that are not statements of historical fact constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "plan", "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Group's expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Group's business strategy, revenue and profitability, planned projects and other matters discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Bank or any third party) involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

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OFFERING CIRCULAR SUMMARY

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

Description of the Bank

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

BPI is the third largest universal bank in the country in terms of total assets with a balance sheet size of ₱1.716 trillion as of 30 June 2017. The Bank also holds significant market share in the deposit, lending, and asset management markets. The Bank is the country's third largest in terms of deposits and loans with market shares of 13.0% and 14.4%, respectively and ranked second in asset management at 19.0% market share based on data published by the BSP. BPI Family Savings Bank, the Bank's primary subsidiary in retail lending, is the Philippines' largest savings bank in terms of total assets. The Bank also enjoys significant presence in the finance and operating lease business, government securities dealership, securities distribution and foreign exchange business. It is also a market leader in electronic banking where it has been a first mover and innovator in the use of automated teller machine ("ATMs"), cash deposit machines ("CDMs"), point-of-sale debit systems, kiosk banking, phone banking, internet banking and mobile banking.

As of 31 December 2014, 2015 and 2016 and 30 June 2017, BPI had a network of 825, 823, 834 and 844 branches (which include full service branches and ECBs) respectively, which is among the largest branch networks among Philippine banks. Of the Group's 844 branches as of 30 June 2017, 841 branches are in the country, of which, 673 are BPI branches, 155 are BPI Family Savings Bank branches, and 13 are BPI Direct BanKo branches. In terms of geographic distribution, 457 are located in Metro Manila, 234 in Luzon, 94 in the Visayas and 56 in Mindanao. The Bank also provides 24-hour banking services through its call center and network of 3,079 ATMs and CDMs as of 30 June 2017, the second largest network owned by a single bank in the Philippines, which are located in both branches and off-site locations, such as shopping malls and high density office buildings. The Bank's overseas network includes three banking locations in Hong Kong and the United Kingdom. The Bank also has two representative offices in Tokyo and Dubai, four (4) foreign remittance centers and maintains correspondent relationships with several banks and financial institutions worldwide.

Over the past three years, the bank has enjoyed recognition from various award giving bodies. In 2017, alone, the Bank has been recognized for the following:

Award Giving Body	Award
Finance Asia Country Awards	Best Debt Capital Markets House in the Philippines
The Asset Triple A Asia Infrastructure Awards 2017	Renewable Energy Deal of the Year (Asia) Most Innovative Deal (Asia) Project Finance House of the Year (Philippines) Project Finance Deal of the Year (Philippines) Most Innovative Deal (Philippines) Renewable Energy Deal of the Year - Highly commended for its role in the syndication process of the Angat Hydropower Corporation facility Power Deal of the Year – Highly commended for the Redondo Peninsula Energy Project
The Asset Asia Local Currency Bond Benchmark Review	Emilio S. Neri, Jr. – One of the Top Sell-Side Individuals in Research for 2017
The Asian Banker 2017 Transaction Banking Awards	Best FX Bank in the Philippines
Asiamoney FX Poll	Best Domestic Provider for Foreign Exchange (FX) Products and Services
International Finance Magazine Awards	Best Asset Manager in the Philippines
Alpha Southeast Asia	Best Asset and Fund Manager in the Philippines
The Asset Triple A Asset Servicing, Fund Management and Investor Awards	Asset Management Company of the Year

The Bank's consolidated common equity tier 1 ("CET1") capital adequacy ratio stood at 12.8% while total capital adequacy ratio ("CAR") stood at 13.7 %, as of 30 June 2017, both above the minimum regulatory requirements set by the BSP under Basel III. As of 30 June 2017, BPI had a market capitalization of ₱409.7 billion. The Bank's significant base of reputable shareholders includes Ayala Corporation, one of the Philippines' oldest and largest conglomerates and the Roman Catholic Archbishop of Manila.

Competitive Strengths

Over the course of its long corporate history, BPI believes that it has established a preeminent brand that embodies financial strength and prudence and that it has developed a diversified financial services franchise for institutional, corporate and retail clients. Through generations of best-in-class management, the Bank has instilled a culture of excellence across its organization with a core focus on providing differentiated services to its clients as well as being vigilant risk managers. The Bank considers the following to be its principal competitive strengths:

Solid reputation resulting in strong brand equity

With over 166 years of history, BPI has developed one of the country's most trusted and widely-recognized brands in financial services. BPI also maintains a leadership position in the Philippine banking industry with market share on total loans, total deposits, and trust assets under management of 14.4%, 13.0% and 19.0%, respectively as of 30 June 2017, according to data published by the BSP

Extensive channels and substantial deposit customer base

The Bank reaches a broad span of the Philippine socio-economic community. As of 30 June 2017, the bank had a network of 841 domestic branches, including 28 Express Banking Centers ("EBCs") and 13 BPI Direct BanKo branches. Overseas, the Bank has two banking subsidiaries.

As of 30 June 2017, the bank's ATM network, branded ExpressTeller, had a total of 3,079 ATMs and CDMs, which the Bank believes is the largest in the Philippines.

Low cost deposit base

As of 30 June 2017, current account and savings account ("CASA") deposits, which unlike time deposits offer lower interest rates, accounted for 73.3% of the Bank's total deposit base. This has grown steadily from 69.4% as of year-end 2014. The Bank represented 14.1%, 14.1%, 14.0% and 13.4% total industry CASA, based on industry data from the BSP, as of 31 December 2014, 2015, and 2016 and 30 June 2017, respectively.

Strong retail lending franchise through multiple channels and product innovation

The Bank has a history of innovation and fast-to-market introduction of retail lending products, including small business loans, home loans, auto loans, credit card payment and lending services, personal loans, life and non-life insurance, and investment funds. As of 30 June 2017, based on BSP published industry data, BPI enjoyed 19.4%, 12.3%, and 19.5% market shares in house loans, auto loans and credit card receivables, respectively.

Prudent risk management and responsible cost discipline

The Bank continues to apply a disciplined and prudent approach to risk management, not only to conform to increasingly stringent regulatory standards, but also to protect against market, credit, operational and reputational risks. In addition, the Bank maintains prudent and conservative lending practices which have resulted in a diversified loan portfolio of which 53.7% was secured as of 30 June 2017. As a result, the Bank has been able to achieve lower levels of NPLs which are past due by 90 days or more, which stood at 1.48% as of 30 June 2017, as compared to many of its peers.

The Bank believes that its diversified and stringent credit and risk management standards, as well as its strong cost discipline, allow it to consistently withstand market adversity. For the years ended 31 December 2014, 2015, and 2016 and the six months ended 30 June 2017, the Bank has posted cost-to-income ratios of 53.7%, 53.7%, 52.5% and 51.6%, respectively, and returns on equity of 13.8%, 12.3%, 13.8% and 13.7%, respectively.

Highly experienced management team with a proven track record

The Bank has a long history of highly qualified and experienced management teams with sound and proven succession plans in place. Members of the Bank's senior management have track records of delivering on business plans and achieving results in the financial services industry, while prudently assessing risk in an increasingly complex and regulated banking environment. The Bank believes it is able to consistently attract talented personnel, and is often seen as a partner of choice in strategic transactions.

Strategy

The Bank's mission is to reinforce its position as the preferred provider of financial services in the Philippines. The Bank intends to capitalize on the Philippines' economic growth by further investing in its already significant institutional, corporate and retail banking franchises. The Bank believes this will position it to tap the growing market of middle class Filipinos, heightened activity of government and private enterprises, as well as more substantial capital flows from offshore investors and multinational and regional corporations.

The Bank will leverage its trusted brand name, enhance its relevance to clients, and ensure customer satisfaction through superior execution. The Bank will also continue to explore and capitalize on potential inorganic growth opportunities.

The Bank will continue to pursue its best-in-class profitability metrics, consistent and sustainable growth, and increasing shareholder value. The standard against which the Bank measures itself is not only that of its Philippine peers, but also among other leading banks in the ASEAN region. The following are key elements of the Bank's strategy:

Organize around clients for growth

The Bank's executive team has been organized along 6 major Groups, each directly reporting to the President and Chief Executive Officer: Retail Clients, Corporate Clients, Financial Products and Services, Global Markets, Enterprise Services, and Strategy and Development.

Enhance deposit franchise

The Bank regards its deposit product as the key entry point into its overall customer experience. The Bank intends to penetrate the growing market of middle class customers as well as take advantage of the robust economic activity not only in Metro Manila but also in key provincial cities where economic activity has increased. The Bank intends to grow the amount of funds it intermediates for its customers, coming from deposits, investments in retail funds, insurance products, bonds, securities and other capital and money market instruments.

Integrate corporate banking and investment banking solutions

The Bank has successfully and will continue to integrate its investment banking offerings to improve the profitability of the traditional lending business, generate additional fee income and provide clients with solutions that go beyond credit and cash management facilities.

Leverage treasury and fixed income capabilities

The Bank's Global Markets Group intends to use its extensive treasury, fixed-income and trading experience to capture profitable opportunities in investing its excess liquidity and in market-making for its institutional clients. The Bank's treasury operation has significant trading and market-making expertise as well as institutional client access across the Philippine government securities, corporate credit and foreign exchange markets.

Focus on operational efficiency, risk management and compliance

The Bank will continue to focus on the continuous delivery of the service standards of its physical, information technology and human infrastructure in order to deliver best-in-class service, increased employee productivity, cost competitiveness and ultimately profitability. The Bank will continually focus its investments in technology, cybersecurity, communications systems, software applications, and management information systems such that they are aligned with the acquisition, development organization of the Bank's human resources, business processes and operational and financial performance objectives. The Bank also seeks to optimize its management of credit, market and operational risks while ensuring strict regulatory compliance.

Investment Considerations

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Bank. These risks include:

- Risks relating to the Bank, its subsidiaries and their businesses
- Risk relating to the Philippine banking industry
- Risks relating to the Philippines
- Risks relating to the CDs

Please refer to the section entitled "Investment Considerations", which, while not intended to be an exhaustive enumeration of all risks, should be considered in connection with a purchase of the CDs.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following summary financial information has been derived from the Consolidated Financial Statements, and is qualified in its entirety by reference to such Financial Statements, including the notes thereto.

The Bank's audited consolidated financial statements for the year ended 31 December 2016 with comparatives presented for the years ended 31 December 2015 and 2014, as well as the unaudited financial information as at and for the six months ended 30 June 2016 and 2017, have been prepared in accordance with Philippine Financial Reporting Standards ("PFRS").

The following data should be read together with more detailed information contained in "Investment Considerations", "Description of the Bank" and the financial statements and notes included elsewhere in this Offering Circular. The Bank's financial report for the quarterly period ended September 30, 2017 has been released and is included in the Offering Circular in F-181.

	For the years ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
		(audited)		**(unaudited)**	
CONSOLIDATED STATEMENTS OF INCOME DATA			(₱ millions)		
INTEREST INCOME					
On loans and advances	36,441	42,156	48,843	23,379	27,268
On held-to-maturity and trading securities	8,141	8,790	8,746	4,560	4,308
On deposits with BSP and other banks	1,769	2,083	2,059	1,199	1,148
On available-for-sale securities	831	757	469	248	225
On trading securities	406	241	180	114	116
Gross receipts tax	(1,596)	(1,728)	(1,985)	(938)	(1,053)
	45,992	52,299	58,312	28,562	32,012
INTEREST EXPENSE					
On deposits	10,834	13,326	15,301	7,626	7,922
On bills payable	350	332	634	232	575
	11,184	13,658	15,935	7,858	8,497
NET INTEREST INCOME	34,808	38,641	42,377	20,704	23,515
IMPAIRMENT LOSSES	2,807	3,976	4,800	3,103	2,461
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	32,001	34,665	37,577	17,601	21,054
OTHER INCOME					
Trading gain on securities	1,362	1,311	5,400	5,559	952
Fees and commissions	7,370	7,530	7,998	3,651	4,165
Income from foreign exchange trading	2,007	1,545	1,951	847	1,102
Income attributable to insurance operations	1,007	1,109	1,360	913	753
Other operating income	10,668	10,650	8,955	4,351	5,555
Gross receipts tax	(1,435)	(1,427)	(1,490)	(824)	(703)
	20,979	20,718	24,174	14,497	11,824
OTHER EXPENSES					
Compensation and fringe benefits	11,850	12,463	13,463	7,192	6,808
Occupancy and equipment-related expenses	9,017	9,194	10,156	4,833	5,331
Other operating expenses	9,093	10,213	11,322	5,284	6,113
	29,960	31,870	34,941	17,309	18,252
INCOME BEFORE INCOME TAX	23,020	23,513	26,810	14,789	14,626

	For the years ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
CONSOLIDATED STATEMENTS OF		**(audited)**		**(unaudited)**	
PROVISION FOR INCOME TAX					
Current	5,374	5,736	5,419	2,823	3,357
Deferred	(416)	(598)	(884)	(827)	(578)
	4,958	5,138	4,535	1,996	2,779
NET INCOME FOR THE PERIOD	18,062	18,375	22,275	12,793	11,847
Attributable to:					
Equity holders of BPI	18,039	18,234	22,050	12,670	11,692
Non-controlling interests	23	141	225	123	155
	18,062	18,375	22,275	12,793	11,847

CONSOLIDATED STATEMENTS OF CONDITION DATA	2014	2015	2016	2017
	As at 31 December			As at June 30
		(audited)		(unaudited)
		(₱ millions)		
RESOURCES				
Cash and other cash items	38,427	35,681	35,692	29,401
Due from Bangko Sentral ng Pilipinas	211,946	214,960	239,514	258,841
Due from other banks	22,227	22,238	23,037	9,078
Interbank loans receivable and securities purchased under agreements to resell	5,782	12,902	15,236	8,003
Financial assets at fair value through profit or loss				
- Derivative financial assets	35,981	4,529	2,993	2,738
- Trading securities	15,862	8,084	14,603	14,318
Available-for-sale securities, net	51,309	42,287	24,301	14,483
Held-to-maturity securities	209,409	244,809	268,483	260,158
Loans and advances, net	800,170	872,861	1,040,720	1,056,912
Asset held for sale, net	5,018	4,385	3,667	3,615
Bank premises, furniture, fixtures and equipment, net	12,760	12,826	13,809	13,716
Investment properties, net	808	733	669	619
Investments in subsidiaries and associates, net	4,784	6,453	6,818	6,646
Assets attributable to insurance operations	16,445	16,320	16,326	15,990
Deferred income tax assets, net	5,718	6,433	7,543	8,105
Other resources, net	13,551	10,855	12,285	13,365
TOTAL RESOURCES	1,450,197	1,516,356	1,725,696	1,715,988
LIABILITIES AND CAPITAL FUNDS				
Deposit liabilities	1,176,213	1,275,699	1,431,300	1,432,464
Derivative financial liabilities	34,846	3,216	3,112	2,927
Bills payable	32,993	20,941	61,973	42,509
Due to Bangko Sentral ng Pilipinas and other banks	687	431	670	522
Manager's checks and demand drafts outstanding	8,353	8,308	7,579	7,063
Accrued taxes, interest and other expenses	5,597	5,685	6,853	7,289
Liabilities attributable to insurance operations	13,561	14,648	14,367	13,389
Deferred credits and other liabilities	31,268	34,698	32,158	33,613
TOTAL LIABILITIES	1,303,518	1,363,626	1,558,012	1,539,776

CONSOLIDATED STATEMENTS OF CONDITION DATA	As at 31 December			As at 30 June
	2014	2015	2016	2017
		(audited)		(unaudited)
		(₱ millions)		
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI				
Share capital	39,272	39,285	39,308	39,323
Share premium	29,341	29,439	29,591	29,683
Reserves	2,098	2,563	2,711	2,735
Surplus	76,575	83,761	98,602	106,748
Accumulated other comprehensive loss	(3,223)	(4,764)	(5,078)	(5,007)
	144,063	150,284	165,134	173,482
NON-CONTROLLING INTERESTS	2,616	2,446	2,550	2,730
Total capital funds	146,679	152,730	167,684	176,212
TOTAL LIABILITIES AND CAPITAL FUNDS	1,450,197	1,516,356	1,725,696	1,715,988

	For the years ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
SELECTED FINANCIAL RATIOS					
Return on assets(1)	1.4%	1.3%	1.4%	1.6%	1.4%
Return on shareholders' equity(2)	13.8%	12.3%	13.8%	16.4%	13.7%
Net interest margin(3)	3.0%	3.0%	2.8%	2.9%	2.9%
Cost-income ratio(4)	53.7%	53.7%	52.5%	49.2%	51.6%
Loans to deposits(5)	68.0%	68.4%	72.7%	68.2%	73.8%
Tier I capital adequacy ratio(6)	14.0%	12.7%	12.1%	13.0%	12.8%
Total capital adequacy ratio(7)	14.9%	13.6%	13.0%	13.9%	13.7%
Total equity to total assets(8)	1.4%	1.3%	1.4%	1.6%	1.4%
Total gross non-performing loans (90 days) to total loans(9)	1.5%	1.6%	1.5%	1.6%	1.5%
Total net non-performing loans (30 days) to total loans (BSP ratio)(10)	0.5%	0.6%	0.5%	0.6%	0.5%
Allowances for probable loan losses to total loans(11)	1.7%	1.8%	1.8%	1.9%	1.9%
Allowances for probable loan losses to total gross non-performing loans (90 days)(12)	108.9%	110.2%	118.7%	117.8%	126.1%
Earnings per share (₱)13	₱4.62	₱4.64	₱5.60	₱3.22	₱2.97

Notes:

(1) Net income divided by average total resources for the period indicated.

(2) Net income divided by average total common capital funds for the period indicated.

(3) Net interest income divided by average interest-earning assets.

(4) Total operating expenses divided by the sum of net interest income and other income.

(5) Total loans (excluding interbank loans) divided by total deposits amounts due (excluding from other banks).

(6) Tier I capital divided by total risk-weighted assets.

(7) Total capital divided by total risk-weighted assets.

(8) Total capital funds divided by total resources.

(9) Total gross non-performing loans (90 days) divided by total loans (excluding interbank loans).

(10) Total net non-performing loans (30 days) divided by total loans including interbank loans (BSP definition).

(11) Total allowance for probable loan losses divided by total loans.

(12) Total allowance for probable loan losses divided by total non-performing loans (90 days).

(13) Earnings per share based on 3,937,042,962 and 3,939,376,937 shares for 30 June 2016 and 2017, respectively, and 3,932,214,184 for the year 2014, 3,932,220,179 for 2015 and 3,937,043,603 for 2016.

INVESTMENT CONSIDERATIONS

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

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

CONSIDERATIONS RELATING TO THE BANK

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

BPI intends to sustain its strong growth momentum along multiple fronts. The Bank intends to continue to grow across both corporate and retail customers, thereby maintaining its healthy mix of credit exposure across a diverse cross section of the Philippine economy. Recognizing the role SMEs play in the economic growth of the country, the bank is building its competencies to increase focus on this underserved sector. The Bank will also continue to develop its capabilities in the areas of equity and debt capital markets, project financing, and financial advisory. While these strategies will diversify the Bank’s revenue sources, these may likewise expose the bank to a number of risks and challenges including, but not limited to, the following:

- New and expanded business activities may have less growth or profit potential than the bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- The Bank’s competitors may have substantially greater experience and resources for the new and expanded business activities; and
- Economic conditions, such as rising interest rates or inflation, could hinder the Bank’s expansion.

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

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

As of 30 June 2017, BPI's total exposure to borrowers was ₱1.1 trillion. The ten largest individual borrowers in aggregate accounted for approximately 10.3% of BPI's total exposure, and its ten largest borrower groups in aggregate accounted for approximately 21.6% of BPI's total exposure. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth. BPI believes it is committed to ensure strict compliance with laws, regulations and reporting requirements relating to single borrower limits. The largest borrower group as of 30 June 2017 accounted for approximately 3.0% of BPI's total exposure and for 18.8% of BPI's net worth. Credit losses on these large single borrower and group exposures could adversely affect the business, financial condition and results of operations of BPI.

The Bank has extended loans to several sectors in the Philippines. As of 30 June 2017 five (5) industries account for 70.3% of the Bank's loan portfolio, namely real estate, manufacturing, wholesale and retail trade, electricity, gas and water, and financial institution. The Bank's exposure to these sectors amounted to ₱754.3 billion. The Bank's largest loan exposure is to the real estate industry, which accounted for 23.2% of the Bank's loan portfolio as of 30 June 2017. Although the Bank continues to adopt risk controls and diversification strategies to minimize risk concentrations, financial difficulties in these industries could increase the level of non-performing assets and restructured assets, and adversely affect the Bank's business, its financial condition and results of operations.

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

The Bank's results of operations have been, and continue to be, affected by the level of its NPLs. The Bank's total gross 90-day NPLs were equal to ₱12,320 million, ₱14,543 million, ₱15,368 million and ₱15,893 million as of 31 December 2014, 2015, 2016 and 30 June 2017, respectively. For the years ended 31 December 2014, 2015, and 2016 and the six month period ended 30 June 2017, the Bank's provisions for credit losses on receivables from customers were ₱2,807 million, ₱3,976 million, ₱4,800 million and ₱2,461 million, respectively, representing approximately 8.1%, 10.3%, 11.3%, and 10.5% of the Bank's net interest income for these periods, respectively. The Bank plans to continue to expand its SME and consumer loan operations. Such expansion plans will increase the Bank's exposure to SME and consumer debt and volatile economic conditions in the Philippines may adversely affect the future ability of the bank's borrowers, including SME and credit card holders, to meet their obligations under their indebtedness and, as a result, the Bank may continue to experience significant levels of non-performing loans and provisions for impairment losses in the future.

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

As of 30 June 2017, the Bank's secured loans represented 53.7% of the Bank's total loans, and 34.8% of the collateral on these secured loans consisted of real property. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its provisions for credit losses may be inadequate and the Bank may need to increase such provisions. Any increase in the Bank's provisions for credit losses could adversely affect its business, its financial condition, results of operations and capital adequacy ratio.

In addition, the Bank may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system. The resulting delays can last several years and lead to the deterioration in the physical condition and market value of the collateral. These difficulties may significantly reduce the Bank's ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it makes. The Bank initially carries the value of the foreclosed properties at the lower of loan exposure or fair value of the properties at the time of foreclosure. Subsequently, the foreclosed properties are carried at the lower of amount initially recognized or fair value less cost to sell. While the Bank, at each balance sheet date, provides for impairment losses on its foreclosed properties in accordance with PFRS, it may incur further expenses to maintain such properties and to prevent their deterioration. There can be no assurance that the Bank will be able to realize the full value, or any value, of any collateral on its loans.

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

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

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

In addition, the level of loan loss provisions which the Bank recognizes may increase significantly in the future due to the introduction of new accounting standards.

The level of the Bank's provisions may not be adequate to cover further increases in the amount of its NPLs or any future deterioration in the overall credit quality of the Bank's loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank's reported credit losses may increase in the future as a result of factors beyond the Bank's control.

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

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

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

The Bank is subject to risks relating to its information and technology systems and processes. The hardware and software used by the Bank in its information technology is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in the Bank. These may, in turn, adversely affect the Bank's business, financial condition and results of operations.

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

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

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

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

The Bank has a credit rating of Baa2 with a stable outlook for its foreign and local long-term bank deposits from Moody's and a BBB- with stable outlook for its long-term issuer default rating from Fitch. These ratings are at par with the Philippines' sovereign rating. In the event of a downgrade of the Bank by one or more credit rating agencies, the bank may have to accept terms that are not as favorable in its transactions with counterparties or may be unable to enter into certain transactions. This could have a negative impact on the bank's treasury operations and also adversely affect its financial condition and results of operations. Rating agencies may reduce or indicate their intention to lower the ratings at any time. The rating agencies can also decide to withdraw their ratings altogether, which may have the same effect as a lowering of ratings. Any downgrade in the Bank's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce the Bank's liquidity and negatively impact its operating results and financial condition.

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

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

CONSIDERATIONS RELATING TO THE PHILIPPINE BANKING INDUSTRY

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

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including, in some instances, competitors that have greater financial and other capital resources, greater market share and greater brand name recognition than the Bank. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership regulations with the passage of RA10641 in July 2014. RA10641 lifted restrictions that previously barred the full entry and operation of foreign banks in the country. Since the enactment of RA10641, several foreign banks have obtained approvals from the BSP to venture into the Philippine banking market, in entry modes including setting up branches, subsidiaries and acquisition of equity stake in domestic banks. In addition, the establishment of ASEAN economic integration which envisions providing a platform for ASEAN banks to enjoy greater market access and operational flexibility.

According to data published by the BSP, there were a total of 41 domestic and foreign universal and commercial banks operating in the Philippines as of 31 December 2016.

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

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

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks’ operating margins, but this would also enhance the industry’s overall efficiency, business opportunities and service delivery.

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

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

The Philippine banking sector has recovered from the global economic crisis as evidenced by the steady decrease in average NPL ratios (including interbank loans) in the Philippine banking system from 3.57% in 2010 to 1.94% as of March 31, 2016. The Bank has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

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

The Bank's banking interests are regulated and supervised principally by, and have reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation and other BSP rules and laws in effect in the Philippines, administered by agencies such as the Bureau of Internal Revenue (the "BIR"), the Securities and Exchange Commission (SEC), and the Anti-Money Laundering Council ("AMLC"), as well as international bodies such as the Financial Action Task Force ("FATF").

In recent years, existing BSP and BIR rules have been modified, new regulations and rules have been enacted and reforms have been implemented by the BSP and the BIR which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities and BSP rules governing the capital adequacy of banks in the Philippines. Institutions that are subject to the AMLA are required to establish and record the identities of their clients based on official documents. In addition, under the AMLA regulations, all records of customer identification and transaction documents are required to be maintained and stored for a minimum of five years from the date of a transaction. Records of closed accounts must also be kept for at least five years after their closure. On the other hand, the BIR requires taxpayers to preserve their books of accounts and other accounting records for a period of ten years reckoned from the day following the deadline for filing or from the date of filing (as applicable) of the relevant returns.

In the event of any changes to the existing guidelines or rules, or introduction of additional regulations, the Bank, as far as applicable, will have to comply with the same and may incur substantial compliance and monitoring costs. The Bank's failure to comply with current or future BSP rules and guidelines issued by other regulatory authorities in the Philippines could have a material adverse effect on the Bank's business, financial condition and results of operations.

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

On January 15, 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process ("ICAAP") which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e. credit concentration risk); and (iii) evaluates the quality of capital. In 2011, the BSP issued BSP Circular 709, which aligns with the Basel Committee on Banking Supervision on the eligibility criteria on Additional Group Concern Capital and Tier 2 Capital to determine eligibility of capital instruments to be issued by Philippine banks/quasi-banks as Hybrid Tier 1 Capital and Lower Tier 2 Capital. Further, in January 2013, the BSP issued Circular No. 781 as the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect on January 2014, highlights of which include:

- adopting a new categorization of the capital base;
- adopting eligibility criteria for each capital category that is not yet included in Circular 709;
- as applicable, allowing the BSP to adopt regulatory deductions in Basel III;

- keeping minimum CAR at 10%, and prescribing:
- a minimum Common Equity Tier 1 (CET1) ratio of 6.0%;
- a minimum Tier 1 ratio of 7.5%; and
- a capital conservation buffer of 2.5%;
- by January 1, 2014, rendering ineligible existing capital instruments as of December 31, 2010 that do not meet eligibility criteria for capital instruments under the revised capital framework;
- by January 1, 2016, rendering ineligible regulatory capital instruments issued under circulars 709 and 716 before the revised capital framework became effective; and
- by subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On October 29, 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks ("DSIBs") under Basel III" to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks that will be identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Identified DSIBs will need to put up an additional 1.5 – 3.5% common equity Tier 1 depending on their classification. Compliance with this requirement shall be phased-in starting January 1, 2017, with full compliance on January 1, 2019.

Furthermore, banks face new liquidity requirements under Basel III's new liquidity framework, namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30 day-liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90 percent which will then be increased to 100 percent beginning 1 January 2019. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. This is being finalized and the BSP said that the exposure draft may be issued within the year. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

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

Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10%, the Monetary Board of the BSP (the "Monetary Board"), may impose monetary and non-monetary sanctions. The Monetary Board will also prohibit opening of new branches whenever a bank's CAR falls below 12% on a non-consolidated and consolidated basis. Likewise, it will also prohibit the distribution of dividends whenever a bank's CET1 ratio and CAR falls below 8.5% and 10% respectively.

As of 30 June 2017, based on data published by the BSP, the universal and commercial banking industry's CAR was at 15.98% on a consolidated basis and 15.31% on a non-consolidated basis. As of 30 June 2017, the Bank's consolidated CAR was 13.7% and solo CAR was 12.39% as reported to BSP.

Any future changes in PFRS may affect the financial reporting of the Bank

PFRS continues to evolve as standards and interpretations promulgated effective 1 January 2016 and onwards come into effect. PFRS 9 replaces PAS 39, Financial Instruments: Recognition and Measurement and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option ("FVO") is not invoked, be subsequently measured at: (a) amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal; or (b) at fair value through other comprehensive income if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income ("OCI") or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

PFRS 9 also introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses. Under the impairment approach on PFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

PFRS 9 also replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship. PFRS 9 is effective for annual periods beginning on or after 1 January 2018. The window for early adoption of PFRS 9 by banks and other BSP-supervised financial institutions was closed in 2016 under BSP Circular No. 912 (s. 2016).

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Bank's financial liabilities. The Bank is currently assessing the impact of adopting this standard.

The following PFRS will become effective beginning on or after 1 January 2018:

PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions (Amendments). The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4 (Amendments). The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or 1 January 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

PFRS 15, Revenue from Contracts with Customers. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

PFRS 16, Leases. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with terms of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs

There can be no assurance as to the implementation of new accounting standards in the Philippines and the significance of the impact it may have on the Bank’s financial statements in the future.

CONSIDERATIONS RELATING TO THE PHILIPPINES

Political instability in the Philippines may have a negative effect on the general economic conditions in the Philippines which could have a material impact on the financial results of the Bank and the Group

The Philippines has from time to time experienced political and military instability. The Philippine Constitution provides that in time of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business.

The Philippine Presidential elections were held on 9 May 2016 and on 30 June 2016 President Rodrigo Duterte assumed the presidency with a mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte administration has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. The shift to the federal-parliamentary form of government is likewise targeted to be achieved in two years.

Last 23 May 2017, President Duterte issued Proclamation No. 216 declaring a state of martial law in the Mindanao group of islands and suspending the privilege of the writ of habeas corpus in the aforesaid area for a period not exceeding sixty (60) days, the duration of which was extended by the Philippine Congress until December 2017. The President issued this proclamation in response to the alleged attempt of a certain Maute terrorist group, which is said to have links to the Islamic State of Iraq and Syria (ISIS) terrorist group, to remove from the allegiance of the Philippine government the province of Marawi City in Lanao del Sur thereby depriving the President of his powers and prerogatives to enforce the laws of the land and maintain public order and safety in Mindanao. Currently, the same group continues to sow terror, cause death and damage to property in this part of Mindanao. Proclamation No. 216 was immediately met with criticisms from different sectors of society because of Congress' refusal to convene to review the propriety of the declaration as required by Article VII, Section 18 of the 1987 Constitution. Moreover, anti-martial law groups are questioning the coverage of the proclamation as, according to them, the declaration is too expansive and not limited to the area of the actual conflict and that the presence of an actual rebellion is still questionable. The Philippine Supreme Court has overwhelmingly upheld the enforcement of martial law in the southern region of Mindanao, with eleven justices of the 15-member high tribunal voting to dismiss petitions that challenged the martial law. On 23 October 2017, the government declared an end to the hostilities in Marawi.

No assurance can be given that the future political environment in the Philippines will be stable or that current or future administrations will adopt economic policies conducive to sustaining economic growth. Political instability in the Philippines could negatively affect the general economic conditions in the Philippines which could have a material impact on the financial results of the Bank.

Most of the Bank's business activities and assets are based in the Philippines, which exposes the bank to risks associated with the country, including the performance of the Philippine economy.

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

- Decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- Scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- Foreign exchange rate fluctuations;
- Foreign exchange controls;
- Inflation or increase in interest rates;
- Levels of employment, consumer confidence and income;
- Changes in the Government's fiscal policies;
- Government budget deficits;
- A re-emergence of SARS, bird flu, or H1N1, or the emergence of other similar diseases in the Philippines or in other countries in Southeast Asia;
- Natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events; political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- Other regulatory, social, political or economic developments in or affecting the Philippines.

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

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

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

CONSIDERATIONS RELATING TO THE CDs

Limited right to accelerate

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

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

PDIC Insurance Coverage of the CDs

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

(a) Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (₱500,000.00) per depositor.

(b) PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.

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

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

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

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

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

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

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

Liquidity of the CDs

The Issuer intends to list the CDs for trading in PDEx on the Issue Date. No assurance can be given that an active trading market for the CDs will develop. Even if such market were to develop, the CDs could trade at prices that may be higher or lower than the price at which the CDs are issued depending on many factors, among them:

- Prevailing interest rates
- The Bank's results of operations and financial condition
- Political development in the Philippines
- Market for similar securities, and
- Financial condition and stability of the banking sector.

Upon listing of the CDs with PDEx, investors shall course their secondary market trades through the PDEx Trading Participants, as defined in the PDEx Rules, for execution in the Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment ("DvP") basis in accordance with PDEx Settlement Rules and Guidelines. These Settlement Rules and Guidelines include guidelines on minimum trading lots and record dates. The secondary trading of CDs in PDEx may be subject to such fees and charges of PDEx, the PDEx trading participants, and other providers necessary for the completion of such trades. The PDEx rules and conventions are available in the PDEx website (www.pds.com.ph). An investor Frequently Asked Questions ("FAQ") discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

As with other fixed income securities, the CDs trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Bank's operations, and the overall market for debt securities, among others. It is possible that a selling CD Holder would receive sales proceeds lower than his initial investment should a CD Holder decide to sell his CDs prior to maturity.

Subject to the “Events of Default” in the Terms and Conditions, the CDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. However, the Bank may, subject to the General Banking Law of 2000, Subsection X233.9 of the Manual of Regulations for Banks and other related BSP circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

Transfers subject to rules and transaction related fees

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

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

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

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

Taxation of the CDs

If, because of new or changes in the interpretations or conventions regarding current taxes, such that any payments of principal and/or interest under the CDs shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the “Taxes”), then such Taxes shall be for the account of the Holder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of the Holder concerned; provided, however, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Issuer through the Registrar and Paying Agent (see “Philippine Taxation” section for a discussion on the taxation of the CDs).

As issuer of the CDs, the withholding of final tax on the interest due on the CDs is the responsibility of the Issuer pursuant to Section 57 of the National Internal Revenue Code, Section 2.57 of Revenue Regulations No. 2-98, BIR Revenue Regulations No. 14-2012, Revenue Memorandum Circular No. 81-2012, Revenue Memorandum Circular 07-15, and other pertinent BIR issuances. The Bank shall be required to abide by the terms of the BIR accreditation of the PDS Group Corporate Action Auto-Claim (CAAC) System to the extent of its applicability and compliance with BIR accreditation conditions, and to the extent that it affects information processed by the CAAC system in relation to the Bank’s listed issues.

Price risk

The price of the CDs in the secondary market is subject to market fluctuations which may result in investments in the CDs being reduced in value. During adverse market conditions, a CD Holder may not be able to liquidate all or part of the CDs as and when required by it.

PURPOSE OF ISSUANCE

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

TERMS AND CONDITIONS OF THE CDs

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

Bank of the Philippine Islands (the "**Issuer**") shall pay the holders of its Long-Term Negotiable Certificates of Time Deposit the principal and interest due thereon under the terms and conditions set out in these Terms and Conditions. Unless otherwise specifically defined herein or the context otherwise requires, capitalized terms shall have the meanings given to them in **Schedule 1** to the Registry and Paying Agency Agreement executed in connection with the offering of the CDs (the "**Registry and Paying Agency Agreement**") executed between the Issuer and the Philippine Depository & Trust Corp. as Registrar and Paying Agent (the "**Registrar**" or "**Paying Agent**", which expression shall, wherever the context permits, include all other persons or companies for the time being acting as registrar and paying agent under the Registry and Paying Agency Agreement).

The issue of up to Thirty Billion Pesos (₱30,000,000,000) worth of Long-Term Negotiable Certificates of Time Deposit (the "**CDs**") in one or more tranches over the course of one year was authorized by resolutions adopted by the board of directors of Bank of the Philippine Islands (the "**Issuer**") on August 16, 2017 and by Resolution No. 1748 of the Monetary Board of the *Bangko Sentral ng Pilipinas* (the "**BSP Approval**").

The CDs shall be issued in one or more tranches (each a "**Tranche**"). The initial Tranche of the CDs with an aggregate principal amount of up to Twelve Billion Two Hundred Forty Million Eight Hundred Thousand Pesos (₱12,240,800,000) shall be issued on November 24, 2017 or such other date as may be agreed by the Issuer and ING Bank, N.V., Manila Branch (an "**Issue Date**"), acting in its capacity as the sole arranger of the issuance (the "**Arranger**").

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

The minimum investment in the CDs will be ₱100,000 and increments of ₱50,000 thereafter.

The issuance of the CDs shall be made pursuant to and under the terms and conditions of the Registry and Paying Agency Agreement and the Placement Agreement dated as of October 26, 2017 (the "**Placement Agreement**") among the Issuer, the Arranger and the Selling Agents (collectively, the "**CD Agreements**").

These Terms and Conditions may be qualified by, and are subject to, the detailed provisions of the CD Agreements and the BSP Rules. Copies of the CD Agreements, these Terms and Conditions and the Offering Circular and Tranche Certificate for each Tranche are available for inspection during regular business hours at the offices of the Issuer at 6768 Ayala Avenue, Makati City, 1226 Philippines.

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

1. Eligible Holders and Minimum Purchase

(a) *Eligible Holders*

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

As used herein, a "Prohibited Holder" means any of the following: (i) the Issuer, its subsidiaries and affiliates, and the wholly- or majority-owned or -controlled entities of such subsidiaries and affiliates, (ii) a non-resident alien not engaged in trade or business in the Philippines, and (iii) a non-resident foreign corporation. For purposes of this definition: (1) a "subsidiary" of the Issuer is a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its subsidiaries or affiliates and (2) an "affiliate" of the Issuer is an entity at least twenty percent (20%) but not more than fifty percent (50%) of the outstanding voting stock of which is owned by the Issuer.

(b) *Documentary Requirements*

In addition to a duly executed Application to Purchase, each Eligible Holder shall submit the following documents to the Selling Agents:

(i) Documents to be provided by individuals:

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

(2) two fully-executed specimen signature cards in the form attached to the Application to Purchase; and

(3) in the case of foreign individual applicants, Alien Certificate of Registration duly issued by the Bureau of Immigration and consularized proof of tax domicile issued by the tax authority of the applicant.

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

(1) copies, certified by the Securities and Exchange Commission (or equivalent regulatory body) or corporate secretary of the applicant, of the certificate of incorporation, articles of incorporation and by-laws or equivalent charter or constitutive documents of the applicant, as amended to date;

(2) copies, certified by the corporate secretary or other appropriate officer of the applicant, of the resolutions adopted by the applicant's board of directors or equivalent body, authorizing the applicant to purchase the CDs, and certifying names and specimen signatures of the applicant's duly authorized signatories for that purpose; and

(3) two fully executed specimen signature cards of authorized signatories in the form attached to the Application to Purchase.

(iii) Documents to be provided by Tax-Exempt Holders

(1) valid original or certified true copy of the tax exemption certificate, letter, ruling or opinion issued by the BIR confirming the Holder's exemption from taxation of interest income from fixed income securities;

(2) indemnity undertaking executed by the Holder in the form attached as **Schedule 4** to the Registry and Paying Agency Agreement, upon the terms of which the Holder claiming the tax-exemption shall instruct the Issuer and the Registrar and Paying Agent not to withhold any taxes from interest payments due to such holder, and shall undertake to indemnify the Issuer and the Registrar and Paying Agent for any tax or other charges that may later on be assessed against the Issuer by the BIR on account of the non-withholding of taxes on the CDs held by the Holder;

(3) For corporations/banks/trust departments or units of banks holding individual trust funds, which are revocable and directional, or directional investment management accounts on behalf of qualified individual investors, (i) a Client Instruction Letter (in the form attached as **Schedule 18** to the Registry and Paying Agency Agreement), and (ii) a duly notarized declaration (in the form attached as **Schedule 4** to the Registry and Paying Agency Agreement) warranting its tax-exempt status and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax

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

2. Form and Denomination; Listing

(a) The CDs will be issued in scripless form and will be maintained in electronic form with the Registrar, subject to the payment by the Holder of applicable fees to the Registrar, and in compliance with the provisions of Republic Act No. 8792, otherwise known as the Electronic Commerce Act, particularly on the existence of assurances on the integrity, reliability, and authenticity of the CDs in electronic form. A Registry Confirmation will, however, be issued by the Registrar in favor of the Holders in accordance with the BSP Rules and shall be subject to the relevant fees of PDEx and PDTC.

(b) Each Tranche of the CDs will be represented by a Tranche Certificate to be issued in an amount equivalent to the aggregate principal amount of such Tranche. Not later than 11:00 a.m. of the Issue Date, the Issuer shall deliver the duly executed Tranche Certificate to the Registrar to be authenticated and retained by the latter in custody

(c) The minimum investment in the CDs will be ₱100,000 and increments of ₱50,000 thereafter.

(d) In accordance with BSP Rules, the Issuer shall list the CDs for trading through the facilities of the Exchange. Secondary market trading in PDEx shall follow the applicable PDEx rules, conventions, and guidelines governing trading and settlement between Holders of different tax status.

3. Payment

Applications to Purchase must be accompanied by payment for the CDs applied for. Payment may be in the form of deposits of cash, manager's checks payable to "**BPI LTNCD – 2023"**, or debit instructions, and must cover the entire purchase price.

4. Interest

(a) Each Tranche of the CDs shall bear interest on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be), at the applicable Interest Rates.

(b) Interest in respect of the CDs will be calculated by the Registrar on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period (each such day, an "**Interest Payment Date**").

(c) Interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each month and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

(d) Interest shall be paid to the Holders recorded in the Registry as of the Record Date.

5. Redemption at Maturity

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

6. Early Redemption Option

(a) Subject to the BSP Rules, for each Tranche, the Issuer shall have the option (the "**Early Redemption Option**"), but not the obligation, to redeem all (but not less than all) of the CDs comprising such Tranche on any Interest Payment Date (such date, the "**Early Redemption Date**") at an amount equal to the aggregate issue price thereof, plus accrued and unpaid interest thereon as of the Early Redemption Date (the "**Early Redemption Amount**").

(b) In exercising the Early Redemption Option, the Issuer shall give not less than 30 but not more than 60 days' prior notice (the "**Early Redemption Notice**") to the Holders, the Exchange, the

Registrar and the appropriate supervision and examination department of the BSP. The Issuer shall also cause the publication of such notice at least once a week for two consecutive weeks in at least two newspapers of general circulation in the Philippines. Such notice shall be irrevocable and shall be binding on the Issuer.

(c) After the issuance of the Early Redemption Notice, the Issuer shall be obliged to repay all of the CDs to be redeemed (the "**Early Redemption CDs**") at the Early Redemption Amount on the Early Redemption Date and, upon confirmation by the Paying Agent that the Early Redemption Amount has been paid, the Registrar shall transfer all of the interests of the Holders in the Early Redemption CDs to the Issuer. All Early Redemption CDs shall then be deemed fully redeemed and cancelled. If, as a consequence of the exercise of the Early Redemption Option, interest income already earned under the Early Redemption CDs shall be subjected to incremental taxes, such taxes shall be for the account of the Issuer.

7. No Pre-termination

(a) Except as otherwise permitted under Clause 16 below, no Holder shall have the right to require the Issuer to redeem and repay any or all of the CDs before the Maturity Date.

(b) The CDs cannot be terminated by the Holders before their respective Maturity Dates. However, holders may transfer or assign their CDs to another Holder who is not a Prohibited Holder. Negotiations or transfers of CDs from one Holder to another do not constitute pre-termination, but will be subject to: (i) the pertinent provisions of the National Internal Revenue Code, as amended; and (ii) applicable BSP Rules.

(c) The Issuer may exercise the Early Redemption Option and redeem the CDs prior to the Maturity Date, subject to the conditions set out in Clause 6.

8. Manner of Payment

(a) Any payment of principal or interest under the CDs shall be made through the Paying Agent based on the Registry Book.

(b) On each Payment Date, the Issuer shall deposit into the Payment Account the amounts then payable on the CDs

(c) In their respective Applications to Purchase, Holders must specify the Cash Settlement Accounts to which the Paying Agent shall remit payments of principal and interest on the CDs. If the Registrar is unable to credit or is prevented from causing the crediting of the account of any Holder due to a reason attributable to such Holder (such as but not limited to a situation where the details of the payment option information indicated in the Sales Report are incomplete or erroneous), the Registrar shall, within five Banking Days upon the Registrar and Paying Agent's receipt of advice from the relevant Cash Settlement Bank on the relevant Payment Date, through email or such other manner practical and convenient for the Registrar, inform the affected Holder (through such Holder's Selling Agent or the relevant Trading Participant, as applicable) of such failure of payment. Thereafter, such Holder (through its Selling Agent or the relevant Trading Participant, as applicable) must correct or update the details of its mode of receiving payments with the Registrar.

(d) None of the Issuer, Registrar and Paying Agent or any of the Selling Agents or Trading Participants shall be liable to any Holder for any failure or delay in effecting any payment due under the CDs, where such failure or delay in payment arises from or in connection with any failure or delay by such Holder in correcting or updating the details of its mode of receiving payments as contemplated by Clause 8(c).

(e) No amounts due to but not claimed by a Holder on a Payment Date shall bear any interest.

9. Taxation

(a) If any payments of principal and/or interest under the CDs shall be subject to deductions or withholding for or on account of any taxes, duties, assessments, or governmental charges of whatever nature (including any additional or new taxes, duties, assessments, or governmental charges arising from changes in tax laws and regulations or from changes in the interpretation thereof) that may be levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to documentary stamp, income, value-added or similar taxes, including interest, surcharges, and penalties thereon (the "**Taxes**"), then all such Taxes shall be for the account of the Holder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of such Holder; *provided*, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or other duties, assessments or government charges, subject to the submission by the relevant Holder claiming the exemption of evidence of such exemption reasonably acceptable to the Issuer and relevant Selling Agent; and *provided, further*, that documentary stamp tax for the primary issue of the CDs, if any, shall be for the Issuer's account.

(b) The Issuer shall list the CDs on the Exchange. The Holder agrees to comply with any conditions and provide information and documents that may be required by the BIR in relation to and as a consequence of the listing of the CDs.

10. Status and Ranking: Insurance

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

(b) The CDs are insured by the Philippine Deposit Insurance Corporation up to a maximum amount of ₱500,000, subject to applicable law, rules and regulations, as the same may be amended from time to time.

11. Title and Transfer

(a) *Registration*

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

(b) *Transfer*

(i) All secondary trading of the CDs arising from Trade-Related Transactions and Non-Trade-Related Transactions shall be coursed through or effected using the trading facilities of the Exchange, subject to compliance with the applicable rules of such Exchange and the payment of the Holder of applicable fees to the Exchange and the Registrar and Paying Agent. All transfers of CDs shall only be effective upon the receipt by the Registrar of a duly accomplished Trade-Related Transfer Form or Non-Trade Related Transfer Form (as applicable) in the forms attached to the Registry and Paying Agency Agreement from the relevant Trading Participant and other required documentation and the registration and recording by the Registrar of such assignment or transfer in the Registry Book; *provided*, that no such registration and recording shall be allowed during the Closed Period.

(ii) Where a transfer or assignment of the CDs will result in a change in the tax treatment of the interest income derived from the CDs (such as but not limited to transfers between a taxable and non-taxable person), and is deemed a pre-termination solely for withholding tax purposes, the transferor Holder shall be liable for any and all taxes that may be due on interest income earned on the CDs. The amount of such taxes shall be calculated by the Exchange based on the length of time the transferor Holder shall have held such CDs, and an amount equal to such taxes will be deducted from the purchase price due to the transferor Holder. Thereafter, the interest income of a transferee CD Holder who is an individual shall not be treated as income from long-term deposit or investment certificates, unless the purchased CDs have a remaining term to maturity of at least five years. For purposes of this Clause 11(b)(ii), a transfer or assignment will be deemed to result in a change in the tax treatment of interest income derived from the CDs if such transfer or assignment: (1) is made by a Holder who is a citizen, resident individual, non-resident individual engaged in trade or business in the Philippines, or a trust which complies with the conditions for exemption as specified in Revenue Regulations No. 14-12 (or the tax regulations applicable at the time of determination); and (2) under the BSP Rules, is not considered a pre-termination of the CDs; and (3) under relevant tax laws or revenue regulations then prevailing, will result in the interest income on the CDs being subject to the graduated tax rates imposed on long-term deposit or investment certificates on the basis of the holding period of the investment instrument.

(iii) No partial transfers of title, interest and rights of the Holder in or to any CDs shall be allowed unless as a result thereof: (1) the transferor shall either retain CDs with an aggregate principal amount of at least ₱100,000 in its Registry Account (or cease to be a registered holder of the CDs altogether); and (2) the transferee shall have CDs with an aggregate principal amount of at least ₱100,000 in its Registry Account.

(iv) Any and all taxes, as well as settlement fees and other charges (other than registration fees which shall be paid by the Issuer) that may be imposed by the Exchange or relevant Trading Participant (as applicable) and the Registrar and Paying Agent in respect of any transfer or change of beneficial title to the CDs, including the settlement of documentary stamp taxes, if any, shall be for the account of the transferring Holder, unless such cost is otherwise assumed by the transferee in writing under the terms of the relevant transfer agreement executed between the transferring Holder and its transferee.

(v) The following documents shall be submitted to the Registrar through the relevant Trading Participant in order to effect the transfer of the CDs:

(1) the Purchase Advice provided to the transferee;

(2) the Registry Confirmations of both the transferor and the transferee (if any);

(3) the relevant Trade-Related Transfer Form or Non-Trade-Related Transfer Form, as the case may be, duly accomplished by the transferor and endorsed by the Trading Participant, substantially in the forms set out in **Schedules 9** and **10** of the Registry and Paying Agency Agreement, respectively;

(4) the Written Consent of the transferee, substantially in the form set out in **Schedule 11** of the Registry and Paying Agency Agreement;

(5) the Investor Registration Form, substantially in the form set out in **Schedule 12** of the Registry and Paying Agency Agreement;

(6) if either the transferor or the transferee is a corporation or other juridical entity, a notarized certificate of the corporate secretary or other authorized officer of such party: (a) attesting to its authority to transfer (or acquire, as the case may be) its interests in the CDs (whether by assignment or donation), and (b) certifying the names, titles, signing procedures and specimen signatures of its authorized signatories for such transfer; and

(7) from the transferee, the documents listed in sub-clauses (i), (ii) or (iii) of Clause 1(b) of these Terms and Conditions, as applicable.

(vi) In case of Non-Trade-Related Transactions, the following documents shall also be submitted to the Registrar through the relevant Trading Participant in order to effect the transfer of the CDs:

(1) in the case of succession, a court order of partition or deed of extrajudicial settlement, together with the proper documentation evidencing the payment of applicable taxes and a certificate from the BIR authorizing the transfer of the CDs;

(2) in case of donations, a valid deed of donation presented by the donor and proof of acceptance of the donation; _provided_, that if the donee is a minor, the acceptance of the donation of the CDs should be made by the

transferee's parents or legal guardian on his or her behalf, in which case documents showing the relationship between the transferee and his or her parents or guardians must likewise be submitted, together with documents to evidence the payment of applicable taxes and a certificate from the BIR authorizing the transfer of the CDs;

(3) in the case of requests for recording or annotation of security interests or liens on the CDs, a proper contract of pledge or escrow agreement presented by the pledgor or the beneficiary of the escrow agreement, respectively;

(4) such other documents that may be required by the Registrar and Paying Agent for transfers arising from "free-of-payment" transactions; *provided*, that such transfer is not in violation of any law or regulation or made in circumvention thereof; *provided, further*, that the burden of proving the validity of a "free of payment" transaction rests with the transferor of the CDs; and

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

(c) *Determination of Qualifications*

(i) Each Selling Agent (in the case of initial issuance of the CDs) and the relevant Trading Participant (in the case of secondary trading of the CDs) shall verify the identity and other relevant details of each prospective investor and ascertain that the proposed holder or transferee of a CD is not a Prohibited Holder. The Registrar shall also monitor compliance with the prohibition against Prohibited Holders owning any CDs, as required by the BSP Rules.

(ii) Each Trading Participant shall verify the respective aggregate amounts of the CDs held by the transferor and the transferee to determine compliance with Clause 11(b)(iii) through the Registry Confirmations to be provided by each of the transferor and the transferee.

(iii) Prospective investors in CDs shall immediately submit any and all information reasonably required by the Selling Agents or Trading Participants (as applicable) and Registrar in order to determine that such prospective investor is not a Prohibited Holder.

12. Representations and Warranties

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

(a) No order preventing or suspending the use of any Offering Circular has been issued by the BSP. Each Offering Circular: (i) is compliant and will remain compliant in all material respects with relevant BSP Rules; (ii) contains all material information and particulars required to be provided to potential investors in order to make an informed assessment of the financial position and prospects of the Issuer in its entirety and the rights attaching to the CDs; and (iii) does not contain any untrue statement of a material fact nor omit to state a material fact required to be stated or necessary to make the statements not misleading under the circumstances. All reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

(b) No order suspending the effectiveness of the BSP Approval has been issued, and no proceeding for that purpose has been instituted or, to the best knowledge of the Issuer, threatened by the BSP. The application for authority and additional requirements set forth in the BSP Rules, at the time they were rendered effective: (i) complied, and as of the effective date of any of their supplements, amendments or modifications, will comply, in all material respects with the BSP Rules; and (ii) do not and will not, as of the effective date of any of their amendments, supplements, or modifications, contain any untrue statement of a material fact nor omit to state any material fact required to be stated or necessary to make the statements not misleading.

(c) The statements, forecasts, estimates and expressions of opinion contained in each Offering Circular including but not limited to the profits, prospects, dividends, indebtedness, assets, liabilities, cash flow and working capital of the Issuer have been made after due and proper consideration, and represent reasonable and fair expectations honestly held based on facts known to the Issuer.

(d) All information supplied or provided by the Issuer to the Arranger for the due diligence review and other purposes is true, correct, complete and binding on the Issuer, and may be fully relied upon by the Arranger without any obligation or liability to ascertain their truth, validity, enforceability, legality, or binding effect on the Issuer. No material information has been withheld or otherwise not made available by the Issuer to the Arranger.

(e) Since the respective dates as of which information is given in each Offering Circular, there has not been any material change, or any development involving a prospective material change, in or affecting the general affairs, business, prospects, management, financial position, stockholders' equity, or results of operations of the Issuer otherwise than as disclosed in such Offering Circular. Except as disclosed in the relevant Offering Circular, the Issuer has not, since the dates indicated, entered into any material transaction or agreement (whether or not in the ordinary course of business) which would have a material adverse effect in its financial position, stockholders' equity, or operations.

(f) The Issuer and each of its subsidiaries and affiliates is a corporation duly organized, validly existing, and in good standing under and by virtue of the laws of its place of incorporation, has its principal office at the address indicated in the Offering Circulars, is registered or qualified to do business in every jurisdiction where registration or qualification is necessary, and has the corporate power and authority to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business.

(g) All corporate authorizations, approvals, and other acts legally necessary for the execution and delivery by the Issuer of the CD Agreements, the offer and issuance by the Issuer of the CDs, the circulation by the Issuer of the preliminary and final Offering Circulars for each Tranche of the CDs and the Issuer's compliance with its obligations under the CD Agreements and the CDs have been obtained or effected and are in full force and effect.

(h) All government authorizations, approvals, rulings, registrations, and other acts legally necessary for the execution and delivery by the Issuer of the CD Agreements, the offer, issuance, and payment by the Issuer of the CDs, and the Issuer's compliance with its obligations under the CD Agreements and the CDs, have been obtained and are in full force and effect or will be obtained at the relevant time when such government authorizations, approvals, rulings and registrations are required to be obtained.

(i) All conditions imposed or required under the BSP Rules and other applicable laws and regulations in respect of the execution and delivery of the CD Agreements and the offer, issuance, and payment of the CDs have been complied with or will be complied with by the Issuer as of the date and/or time that they are required to be complied with.

(j) None of the information, data, or submissions provided or made by the Issuer to any government agency, or to the Arranger, Selling Agents, Registrar or Holders in connection with the CDs violates any applicable statute, rule, or regulation. Such information, data, and submissions are true, complete, and accurate in all material respects. There is no fact, matter or circumstance which has not been disclosed to the Arranger, Selling Agents, Registrar or Holders which renders any such information, data or submissions untrue, inaccurate or misleading in any material respect, or which might reasonably affect the willingness of such parties to proceed with the transactions contemplated by the CDs and these Terms and Conditions.

(k) The obligations of the Issuer under the CD Agreements and (upon their issuance) the CDs constitute the Issuer's legal, valid, binding, direct, and unconditional obligations, enforceable in accordance with their terms, and the compliance by the Issuer with its obligations under the CD Agreements and the CDs will not conflict with, nor constitute a breach or default of, the articles of incorporation, by-laws, or any resolution of the board of directors of the Issuer, or any rights of the stockholders of the Issuer, or any contract or other instrument by which the Issuer or its properties is bound, or any law of the Republic of the Philippines, or any regulation, or judgment or order of any office, agency, or instrumentality applicable to the Issuer.

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

(m) Except as disclosed in the Offering Circular, there are no legal, administrative, or arbitration actions, suits, or proceedings pending or threatened against or affecting the Issuer or its subsidiaries or affiliates which, if adversely determined, would have a material adverse effect on the business operations, properties, assets, or financial or other conditions of the Issuer, or which would enjoin or otherwise adversely affect the execution, delivery or performance of the CD Agreements or the offer, issuance or performance of the CDs. To the best of the Issuer's knowledge, no such proceedings are threatened or contemplated by government authorities or threatened by others.

(n) The audited financial statements of the Issuer as of 31 December 2016, 2015 and 2014 are complete and correct in all material respects. The audited financial statements of the Issuer as of 31 December 2016, 2015 and 2014 have been prepared in accordance with Philippine Financial Reporting Standards ("**PFRS**") applied on a consistent basis and fairly represent the

Issuer's financial condition and results of operations as of the dates indicated. Since 31 December 2016, there has been no material change in the financial condition or results of operations of the Issuer sufficient to impair its ability to perform its obligations under the CDs according to their terms.

(o) Except as may be disclosed in the Offering Circular and its audited financial statements as of and for the year ended 31 December 2016 the Issuer has, as of the date hereof, no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or to become due, and whether incurred in respect of or measured by any income for any period prior to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under the CDs.

(p) Since the issuance of the BSP Approval, there has been no change in the financial condition, assets, and liabilities of the Issuer, other than changes that do not materially and adversely affect the Issuer's ability to discharge its obligations under the CDs.

(q) No event has occurred and is continuing which constitutes a default by the Issuer under or in respect of any agreement binding upon the Issuer or its properties, and no event has occurred which, with the giving of notice, lapse of time, or other condition, would constitute a default by the Issuer under or in respect of such agreement, which default shall materially and adversely affect the Issuer's ability to comply with the terms of the CDs and pay the principal and interest that may be due on the CDs.

(r) The Issuer has good and valid title to all its properties, free and clear of liens, encumbrances, restrictions, pledges, mortgages, security interest, or charges, except for the following: (i) any liens, encumbrances, restrictions, pledges or mortgages over its properties existing prior to the date of and disclosed in the Offering Circular or in its audited financial statements as of and for the period ended 31 December 2016; (ii) any lien over those properties which are acquired by the Issuer through any legal action or proceedings or which are conveyed to the Issuer via *dacion en pago* or other similar arrangement in the course of the ordinary business of the Issuer; (iii) liens arising in the ordinary course of its business, or imposed or arising solely by operation of law (other than any statutory preference or priority under Article 2244(14) of the Civil Code of the Philippines), such as carrier's, warehousemen's and mechanic's liens and other similar liens arising in the ordinary course of business; (iv) liens for taxes, assessments or governmental charges on properties or assets of the Issuer if the same shall not at the time be delinquent or thereafter can be paid without penalty or which in any case or in the aggregate, will materially and adversely affect the Issuer's ability to discharge its obligations under the CDs, (v) liens arising from workmen's compensation laws, pensions and social security legislations; (vi) any lien which secures foreign currency and interest rate swap and derivative transactions undertaken by the Issuer in the ordinary course of its business; (vii) any lien with respect to any netting or set-off arrangement entered into by the Issuer in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances; (viii) purchase-money liens on any property acquired by the Issuer; (ix) any lien arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Issuer; (x) any extension, renewal or replenishment in whole or in part of the foregoing liens; and (xi) liens contemplated by the Registry and Paying Agency Agreement.

(s) The Issuer and each of its subsidiaries and affiliates is conducting its business and operations in compliance with applicable laws and regulations, has filed true, complete, and timely tax returns, and has paid all taxes due in respect of the ownership of its properties and assets or the conduct of its operations, except to the extent that the payment of such taxes is being contested in good faith and by appropriate proceedings.

(t) The Issuer and each of its subsidiaries and affiliates is compliant with all applicable Philippine laws, statutes, regulations, and circulars, including without limitation the circulars, rules, regulations, and orders issued by the BSP.

(u) The Issuer has in good faith complied with, corrected, and successfully and effectively implemented, to the satisfaction of the BSP, all final findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Issuer.

(v) The Issuer and each of its subsidiaries and affiliates has obtained all the necessary authorizations, approvals, licenses, permits or privileges required from all governmental and regulatory bodies for the conduct of its business and operations as well as those of its subsidiaries and affiliates as currently conducted, and shall have free and continued use thereof, where non-compliance therewith would affect the Issuer's ability to discharge its obligations.

(w) The Issuer and each of its subsidiaries and affiliates maintains insurance with responsible and reputable insurance companies in such amounts, covering such risks as are prudent and appropriate and as are usually carried by companies engaged in similar business and owning similar properties in the same geographical areas as those in which the Issuer operates. There are no claims pending or threatened against the Issuer or any of its subsidiaries and affiliates by any employee or third party, in respect of any accident or injury not fully covered by insurance.

(x) The Issuer and its subsidiaries and affiliates have conducted and will continue to conduct their businesses in compliance with all applicable statutes, laws, rules, regulations, judgments, orders or decrees relating to anti-bribery or other corrupt practices and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, compliance therewith, and will not use the proceeds of the offering, directly or indirectly, in violation of applicable anti-bribery or anti-corruption laws. There are no pending or (to the best knowledge of the Issuer and its subsidiaries and affiliates after due and careful inquiry) threatened actions, suits or proceedings by or before any court or governmental agency, authority or body or any arbitrator alleging such corrupt practices against any of the Issuer and its subsidiaries and affiliates.

(y) The operations of the Issuer and its subsidiaries and affiliates are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of all applicable laws, and in compliance with all applicable anti-money laundering and anti-terrorism financing statutes, the rules and regulations thereunder (collectively, the "**Anti-Money Laundering and Anti-Terrorism Financing Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving any of the Issuer or its subsidiaries or affiliates with respect to the Anti-Money Laundering and Anti-Terrorism Financing Laws is pending or, to the best knowledge of the Issuer and its subsidiaries and affiliates after due and careful inquiry, threatened. The proceeds hereof shall not be used directly or indirectly in violation of the Anti-Money Laundering and Anti-Terrorism Financing Laws.

(z) The Issuer and each of its subsidiaries maintains systems of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the Philippines and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) the Issuer and each of its subsidiaries has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Issuer's consolidated financial statements in accordance with generally accepted accounting principles of the Philippines; and the Issuer's current management information and accounting control system has been in operation for at least 12 months during which none of the Issuer nor any of its subsidiaries has experienced any material difficulties with regard to (i) through (v) above.

(aa) The Issuer and its subsidiaries have no outstanding guarantees or contingent payment obligations in respect of indebtedness of third parties except those issued in the ordinary course of business or as described in the Offering Circular for this Tranche of the CDs; the Issuer and its subsidiaries are in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circulars.

(bb) The Offering Circular for this Tranche of the CDs accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, which the Issuer believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Issuer nor any of its subsidiaries has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Issuer or any other subsidiary, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Issuer or its subsidiaries or the availability thereof or the requirements of the Issuer or its subsidiaries for capital resources.

(cc) All information provided by the Issuer to its external auditors required for the purposes of their comfort letters in connection with the offering and sale of this Tranche of the CDs has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect.

(dd) Except as otherwise disclosed in the Offering Circular for this Tranche of the CDs, the Issuer has, as of the Issue Date, no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or, to the best of Issuer's knowledge, to become due, and whether incurred in respect of or measured by any income for any period to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under this Tranche of the CDs.

(ee) Except as specifically described in the Offering Circular for this Tranche of the CDs, the Issuer and its subsidiaries legally and validly own or possess, all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively,) "**Intellectual Property**") necessary to carry on the business now operated by them, and they have not received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect its interests therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an material adverse effect.

(ff) Each of the Issuer and its subsidiaries is Solvent. As used in this paragraph, the term "**Solvent**" means, with respect to a particular date, that on such date (i) the present fair market value (or present fair saleable value) of its assets is not less than the total amount required to pay its liabilities on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) it is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) it is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) it is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which it is engaged; (v) it will be able to meet its obligations under all its outstanding indebtedness as it falls due; and (vi) it is not a defendant in any action that would result in a judgment that it is or would become unable to satisfy.

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

13. Covenants

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

(a) pay and discharge all taxes, assessments, and government charges or levies imposed upon it or upon its income or profits or upon any properties belonging to it prior to the date on which penalties are assessed thereto; pay and discharge when due all lawful claims which, if unpaid, might become a lien or charge upon any of the properties of the Issuer; and take such steps as may be necessary in order to prevent its properties or any part thereof from being subjected to the possibilities of loss, forfeiture, or sale; *provided*, that the Issuer shall not be required to pay any such tax, assessment, charge, levy, or claim which is being contested in good faith and by proper proceedings or as could not reasonably be expected to have a material adverse effect on the condition, business, or properties of the Issuer. The Registrar shall be notified by the Issuer within 30 days from the date of the receipt of written notice of the resolution of such proceedings;

(b) preserve and maintain its corporate existence or, in the case of a merger, consolidation, reorganization, reconstruction or amalgamation, ensure that the surviving corporation or the corporation formed thereby effectively assumes without qualification or condition, the entire obligations of the Issuer under the CDs and for such corporation to preserve and maintain its corporate existence;

(c) maintain adequate financial records and prepare all financial statements in accordance with PFRS, consistently applied and in compliance with the regulations of the government body having jurisdiction over it;

(d) comply with all the requirements, terms, covenants, conditions, orders, writs, judgments, indentures, mortgages, deeds of trust, agreements, and other instruments, arrangements, obligations, and duties to which it, its business or its assets may be subject, or by which it, its business, or its assets are legally bound where non-compliance would have a material adverse effect on the business, assets, condition, or operations of the Issuer, or would materially and adversely affect the Issuer's ability to duly perform and observe its obligations and duties under the CDs;

(e) satisfactorily comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations; and satisfactorily take all corrective measures that may be required under BSP audit reports on its operations;

(f) promptly and satisfactorily pay all indebtedness and other liabilities and perform all contractual obligations pursuant to all agreements to which it is a party to or by which it or any of its properties may be bound, except those being contested in good faith and by proper proceedings or as could not reasonably be regarded to have a material adverse effect on its business, assets, condition, or operations;

(g) pay all amounts due under the CDs at the times and in the manner specified herein, and perform all its obligations, undertakings, and covenants under the CDs;

(h) exert its best efforts to obtain at its sole expense the withdrawal of any order delaying, suspending or otherwise materially and adversely affecting the transactions with respect to the CDs at the earliest time possible;

(i) ensure that any documents related to the CDs will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

(j) make available to the Holders financial and other information regarding the Issuer by filing with the Securities and Exchange Commission ("**SEC**"), the Philippine Dealing & Exchange Corp. ("**PDEx**") and/or the Philippine Stock Exchange ("**PSE**") at the time required or within any allowed extension, the reports required by the SEC, PDEX and/or PSE, as the case may be, from listed companies in particular and from corporations in general;

(k) maintain the services of its current external auditor and where the current external auditor of the Issuer shall cease to be the external auditor of the Issuer for any reason, the Issuer shall appoint another reputable, responsible and internationally accredited external auditor;

(l) not permit any creditor with indebtedness which shall be or purport to be unsecured and unsubordinated obligations of the Issuer to receive any priority or preference arising under Article 2244(14)(a) of the Civil Code of the Philippines over the claims of the Holders hereunder, which claims shall at all times rank *pari passu* in all respects with all other unsecured unsubordinated obligations of the Issuer; *provided*, that the term "lien" as used in this paragraph shall not include liens, pledges, mortgages, or encumbrances in existence on the date hereof;

(m) not engage in any business except as may be allowed or permitted or authorized by its articles of incorporation;

(n) except with the consent of the Majority Holders, or if the Issuer is the surviving entity and provided that such event will have no material adverse effect on the financial condition of the Issuer, not effect any merger, consolidation, or other material change in its ownership, or character of business;

(o) not sell, transfer, convey, lend, or otherwise dispose of all or substantially all of its assets except in the ordinary course of business;

(p) except as may be allowed under existing Issuer policies and practices pursuant to benefits, compensation, reimbursements, and allowances and BSP Rules and regulations, not extend any loan or advances to its directors and officers;

(q) not assign, transfer, or otherwise convey or encumber any right to receive any of its income or revenues unless in its ordinary course of business;

(r) not declare or pay any dividends (other than stock dividends) during an Event of Default or if declaration or payment of such dividends would result to an Event of Default;

(s) not voluntarily suspend all or substantially all of its business operations;

(t) not enter into any management contracts, profit-sharing, or any similar contracts or arrangements whereby its business or operations are managed by, or its income or profits are, or might be shared with, another person, firm or company, which management contracts, profit-sharing or any similar contracts or arrangements will materially and adversely affect the Issuer's ability to perform its material obligations under the CDs;

(u) not amend its articles of incorporation or by-laws if such amendments have the effect of changing the general character of its business from that being carried on at the date hereof;

(v) not, and shall not permit or authorize any other person to, directly or indirectly, use, lend, make payments of, contribute or otherwise make available, all or any part of the proceeds of the CDs or other transaction(s) contemplated by these Terms and Conditions and the CD Agreements to fund any trade, business or other activities: (i) involving or for the benefit of any Restricted Party, or (ii) in any other manner that would reasonably be expected to result in the Issuer being in breach of any Sanctions (if and to the extent applicable to it) or becoming a Restricted Party; and

(w) as long as any obligations under the CDs remain outstanding, not create, issue, assume, guarantee, or otherwise incur any bond, note, debenture, or similar security which shall be or purport to be unsecured and unsubordinated obligations of the Issuer, unless such obligations rank *pari passu* with, or junior to, the Issuer's obligations under the CDs in any proceedings in respect of the Issuer for insolvency, winding up, liquidation, receivership, or other similar proceedings.

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

14. Events of Default

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

(a) *Non-payment*. The Issuer defaults in the repayment of any principal in respect of the CDs on the due date for payment thereof or default is made in the payment of any amount of interest in respect of the CDs within 10 days of the due date of payment thereof.

(b) *Insolvency Default*. The Issuer: (i) is (or could be deemed by law or a court or the BSP to be) insolvent or bankrupt or unable to pay its debts; (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due); or (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts. In addition, if a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, such agreement or declaration shall also constitute an Event of Default under this Clause 14(b).

(c) *Cross-default*. The Issuer: (i) defaults in the repayment of any amount of principal and premium (if any) or interest, in respect of any contract (other than the CDs) executed by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default, or with the giving of notice or the passage of time would constitute an event of default, under said contract; or (ii) violates any other term or condition of a contract, law, or regulation, which is irremediable or, if remediable, (x) is not remedied by the Issuer within 30 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*) or is otherwise not contested by the Issuer, and (y) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity.

(d) *Winding-Up Proceedings*. The Issuer takes any corporate action or other steps are taken or legal proceedings are started for its winding up, bankruptcy, dissolution or reorganization (except in any such case for the purposes of a merger, consolidation, reorganization, reconstruction or amalgamation upon which the continuing corporation or the corporation formed thereby effectively assumes the entire obligations of the Issuer under the CDs or for the appointment of a receiver, administrator, administrative receiver, Registrar or similar officer of it or of any or all of its revenues and assets).

(e) *Illegality*. Any act or condition or thing required to be done, fulfilled, or performed at any time in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform the obligations expressed to be assumed by it under the CDs, or (ii) to ensure that the obligations expressed to be assumed by the Issuer hereunder are legal, valid and binding, is not done, fulfilled or performed at such time.

(f) *Representation/Warranty Default*. Any representation and warranty of the Issuer or any certificate or opinion submitted by the Issuer in connection with the issuance of the CDs is untrue, incorrect, or misleading in any material respect and the same is irremediable or, if remediable, is not remedied by the Issuer within 30 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*).

(g) *Covenant Default*. The Issuer fails to perform or violates its covenants under the CDs, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of 30 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*).

(h) *License Default*. Any governmental consent, license, approval, authorization, declaration, filing, or registration which is granted or required in connection with the CDs expires or is terminated, revoked, or modified and the result thereof is to make the Issuer unable to discharge its obligations hereunder or thereunder, if the same is remediable and is not remedied by the Issuer within 30 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*).

(i) *Expropriation Default*. The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Issuer, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Issuer or any substantial portion of its properties or assets and the same is not discharged or dismissed within a period of 60 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*).

(j) *Judgment Default*. Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within 30 days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement and such final judgment, decree or award shall have a material adverse effect on the Issuer’s ability to perform its obligations under the CDs.

(k) *Writ and Similar Process Default*. Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Issuer's assets, singly or in the aggregate, and such writ, warrant, or similar process shall not be released, vacated, or fully bonded within 30 days after its issue or levy.

(l) *Closure Default*. The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of 30 days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or force majeure; *provided*, that in any such event, there is no material adverse effect on the business operations or financial condition of the Issuer.

15. Notice of Default

(a) The Registrar shall, no later than the Banking Day immediately following its receipt through personal delivery from a Holder of written notice of the occurrence of any Acceleration Event (in the form prescribed as **Schedule 16** to the Registry and Paying Agency Agreement) or Event of Default (in the form prescribed as **Schedule 17** to the Registry and Paying Agency Agreement), send a copy of such notice to the Issuer, also through personal delivery; *provided*, that the relevant Selling Agent or Trading Participant shall have verified in writing that based on its own records, the person executing the notice is a Holder or its authorized representative. Upon the delivery of such notice to the Issuer by the Registrar, Clause 15(b) shall apply.

(b) The Issuer covenants that upon:

(i) its receipt from the Registrar of the notice referred to in Clause 15(a); or

(ii) its receipt from any Holder of notice of the occurrence of any Acceleration Event or Event of Default; or

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

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

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

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

(d) The Registrar shall advise the Issuer in writing if the Holders sending notice of the occurrence of an Acceleration Event or other Event of Default under Clause 15(a) constitute the Majority Holders. The Issuer shall likewise confirm whether or not it agrees with the determination that the Holders calling the meeting constitute the Majority Holders. The Registrar agrees that if (and only if) instructed to do so by the Issuer, the Registrar shall cause the publication in a newspaper of general circulation once a week for two consecutive weeks (at the expense of the Issuer) of a notice to the Holders that an important notice regarding the CDs is available for pick up by the Holders or their authorized representatives at the principal office of the Registrar during reasonable hours on Banking Days upon presentation of sufficient and acceptable identification. To the extent commercially allowable, the first publication shall be done no later than three Banking Days from the date the Registrar receives the instructions to publish from the Issuer. For the avoidance of doubt, the Registrar shall not accumulate notices from individual holders until the threshold for Majority Holders is reached for purposes of notifying other holders on an occurrence of an Acceleration Event or other Event of Default.

(e) The Issuer agrees to indemnify PDTC, and to hold PDTC free and harmless against all charges, costs, damages, losses, claims, liabilities, expenses, fees and disbursements, that PDTC may suffer or incur, whether direct or indirect, for or in respect of any action taken or omitted to be taken or anything suffered by it in full reliance upon any notice, direction, consent, certificate, affidavit, statement or other document, or any telephone or other oral communication, relating to its duties set out in this Clause 15 reasonably believed by it to be genuine and correct and to have been delivered, signed, sent, sworn or made by or on behalf of the Issuer.

16. Consequences of Default

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

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

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

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

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

(b) In case any amount payable by the Issuer under the CDs, whether for principal, interest, or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest, and other amounts, pay interest on the defaulted amount(s) at the rate of twelve percent (12%) per annum, net of applicable withholding taxes (the "**Default Interest**") from the time the amount falls due until it is fully paid.

17. Payment in the Event of Default

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

18. Application of Payments

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

(a) *first*: to the pro-rata payment of the costs, expenses, fees and other charges of collection, including reasonable compensation to the Registrar and Paying Agent, PDEx, Arranger, Selling Agents, and their respective agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursement made by them without gross negligence or bad faith;

(b) *second*: to the payment of all outstanding interest (including any Default Interest and incremental tax thereon), in the order of maturity of such interest;

(c) *third*: to the payment of the whole amount then due and unpaid on the CDs for principal; and

(d) *fourth*: the remainder, if any, shall be paid to the Issuer, its successors or assigns, or to whosoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

19. Remedies

(a) All remedies conferred by the CD Agreements and these Terms and Conditions upon the Holders shall be cumulative and not exclusive and shall not be so construed as to deprive the Holders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce the CD Agreements, subject to the provisions of Clause 20 below.

(b) No delay or omission by the Holders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the CD Agreements to the Holders may be exercised from time to time and as often as may be necessary or expedient.

20. Ability to File Suit

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

Registry and Paying Agency Agreement and these Terms and Conditions, except in the manner herein provided and for the equal, ratable and common benefit of all the Holders.

21. Waiver of Default by the Holders

(a) The Majority Holders may, on behalf of the Holders, waive any past default, except the Events of Default referred to in Clauses 14(a) (*Non-payment*), 14(b) (*Insolvency*), 14(c) (*Cross-Default*), 14(d) (*Winding-up Proceedings*), 14(h) (*License Default*), 14(i) (*Expropriation Default*), or 14(l) (*Closure Default*), and their respective consequences.

(b) In case of any such waiver, the Issuer and the Holders shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Holders shall be conclusive and binding upon all Holders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the CDs.

22. Notices

(a) *To the Registrar and the Issuer*

Except for a notice of the occurrence of an Acceleration Event, an Event of Default or a Notice of Meeting which must be personally delivered to the Registrar and Paying Agent, all documents required to be submitted to the Registrar or the Issuer pursuant to the Registry and Paying Agency Agreement and these Terms and Conditions and all correspondence, addressed to such parties shall be delivered to the following addresses:

To the Registrar:

Philippine Depository and Trust Corporation
37th Floor Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City, Metro Manila, Philippines

Attention:	Josephine Dela Cruz
	Director
Telephone no.:	(632) 884-4425
Fax no.:	(632) 757-6025
E-mail:	baby_delacruz@pds.com.ph
Attention:	Patricia Camille Garcia
	Registry Officer
Telephone no.:	(632) 884-4413
Fax no.:	(632) 884-5097
E-mail:	peachy.garcia@pds.com.ph

To the Issuer:

Bank of the Philippine Islands
6768 Ayala Avenue
Makati City 1226
Philippines

Attention:	Maria Consuelo A. Lukban
	Vice President
Tel. No.:	(632) 845 5944
Fax No.:	(632) 816-9109
E-mail:	investorrelations@bpi.com.ph

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

Any requests for documentation or certification and other similar matters available within the records of the Registrar must be communicated by the Holders to the Registrar in writing and shall be subject to review, acceptance, and approval by the Registrar. Upon such acceptance and approval, the Holder shall pay to the Registrar the amount as per the Registrar's pay schedule plus the costs of legal review, courier and the like. The fees may be adjusted from time to time, at the discretion of the Registrar.

(b) *To the Holders*

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

(c) *Binding and Conclusive Nature*

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

23. Meetings of the Holders

A meeting of the Holders may be called at any time and from time to time for the purpose of taking any action authorized to be taken by or on behalf of the Holders of any specified aggregate principal amount of CDs under any other provisions of the Registry and Paying Agency Agreement or under the law and such other matters related to the rights and interests of the Holders under the CDs.

(a) *Notice of Meetings*

(i) Meetings of the Holders may be called by: (1) the Issuer, or (2) the Majority Holders (reckoned on the basis of the Registry Book as of the date on which notice to the Registrar is given), by giving written instructions to issue a notice of such meeting to the Registrar, which instructions must include the proposed time, place and (in reasonable detail) purpose of the meeting.

(ii) The Registrar shall no later than the Banking Day immediately following its receipt of notice from the Majority Holders of a request for a meeting, send a copy of such notice to the Issuer by personal delivery together with information on the total amount of the CDs required to reach the threshold for Majority Holders and, whether or not based on its calculations, the request for the meeting was signed by the Majority Holders. The Issuer shall promptly and in no event later than five Banking Days from its receipt of such notice from the Registrar, deliver written notice to the Registrar and Paying Agent confirming whether or not it agrees with the determination that the Holders calling the meeting constitute the Majority Holders.

(iii) If the Issuer is the party calling the meeting or has confirmed that its agrees with the determination that the Holders calling the meeting constitute the Majority Holders, the Registrar shall, within 20 days of its receipt of such instructions or confirmation, cause the publication of the notice received from the Issuer or the Majority Holders (as applicable) of such meeting to the Holders (with a copy to the Issuer, if the Issuer is not the party calling for such meeting) in accordance with Clause 22(b) above, which notice shall state the time and place of the meeting and the purpose of such meeting in reasonable detail. The date of the meeting shall not be more than 45 days nor less than 15 days from the date such notice is issued. All reasonable costs and expenses incurred by the Registrar for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within 10 days from receipt of the duly supported billing statement.

(iv) If the Majority Holders are the party calling the meeting, the Registrar shall, no later than the Banking Day immediately following the lapse of five Banking Days from the date on which the Registrar sent copy of such notice of meeting to the Issuer, forward a copy of such written notice of meeting to the BSP Supervision and Examination Sector. The parties hereby acknowledge and agree that the Registrar shall be required to forward to the BSP Supervision and Examination Sector any notice of meeting it may receive from the Majority Holders under Clause 23(a)(i), regardless of whether the Issuer responds as contemplated by Clause 23(a)(ii) and notwithstanding any instructions to the contrary by the Issuer. For the avoidance of doubt, the Registrar shall not accumulate notices from individual holders until the threshold for Majority Holders is reached for purposes of notifying other holders on the Notice of Meeting.

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

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

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

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

(c) *Quorum*

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

(d) *Procedure for Meetings*

(i) The Issuer or the Holders calling the meeting, as the case may be, shall, in like manner, move for the election of the chairman and secretary of the meeting.

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

(e) *Voting Rights*

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

(f) *Voting Requirement*

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

(g) *Regulations*

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

24. Evidence Supporting the Action of the Holders

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

25. Governing Law

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

26. Dispute Resolution

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

27. Waiver of Preference

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

CAPITALIZATION

The following table sets out the consolidated capitalization and indebtedness of the Bank as at 30 June 2017, and as adjusted to give effect to the issuance of the CDs.

This table should be read in conjunction with the Bank's unaudited interim condensed consolidated financial statements as of 30 June 2017 included elsewhere in this Offering Circular.

(₱ millions)	**As at 30 June 2017**	
	Actual	**As Adjusted**
Liabilities		
Deposit liabilities1	1,432,464	1,432,464
New long term negotiable certificates of time deposit due 2023	-	12,241
Derivative Financial Liabilities	2,927	2,927
Bills payable	42,509	42,509
Due to Bangko Sentral ng Pilipinas and Other Banks	522	522
Manager's Checks and Demand Drafts Outstanding	7,063	7,063
Accrued taxes, interest and other expenses	7,289	7,289
Liabilities Attributable to Insurance Operations	13,389	13,389
Deferred Credits and Other liabilities	33,613	33,613
Total liabilities	**1,539,776**	**1,552,017**
Capital Funds Attributable to the Equity Holders of BPI		
Share Capital	39,323	39,323
Share Premium	29,683	29,683
Reserves	2,735	2,735
Surplus	106,748	106,748
Accumulated Other Comprehensive Income / (Loss)	(5,007)	(5,007)
	173,482	173,482
NON-CONTROLLING INTERESTS	2,730	2,730
Total Capital Funds	**176,212**	**176,212**
Total Liabilities and Capital Funds	**1,715,988**	**1,728,229**

1 Demand, Savings, Time Deposits

DESCRIPTION OF THE BANK

OVERVIEW

As of 31 December 2014, 2015 and 2016 and 30 June 2017, BPI had a network of 825, 823, 834 and 844 branches (which include full service branches and ECBs) respectively, which is among the largest branch networks among Philippine banks. Of the Group's 844 branches as of 30 June 2017, 841 branches are in the country, of which, 673 are BPI branches, 155 are BPI Family Savings Bank branches, and 13 are BPI Direct BanKO. In terms of geographic distribution, 457 are located in Metro Manila, 234 in Luzon, 94 in the Visayas and 56 in Mindanao.. The Bank also provides 24-hour banking services through its call center and network of 3,079 ATMs and CDMs as of 30 June 2017, the second largest network owned by a single bank in the Philippines, which are located in both branches and off-site locations, such as shopping malls and high density office buildings. The Bank's overseas network includes three banking locations in Hong Kong and the United Kingdom. The Bank also has two representative offices in Tokyo and Dubai, four remittance centers and maintains correspondent relationships with several banks and financial institutions worldwide.

Over the past three years, the bank has enjoyed recognition from various award giving bodies. In 2017, alone, the Bank has been recognized for the following:

Award Giving Body	Award
Finance Asia Country Awards	Best Debt Capital Markets House in the Philippines
The Asset Triple A Asia Infrastructure Awards 2017	Renewable Energy Deal of the Year (Asia) Most Innovative Deal (Asia) Project Finance House of the Year (Philippines) Project Finance Deal of the Year (Philippines) Most Innovative Deal (Philippines) Renewable Energy Deal of the Year- Highly commended for its role in the syndication process of the Angat Hydropower Corporation facility Power Deal of the Year – Highly commended for the Redondo Peninsula Energy Project
The Asset Asia Local Currency Bond Benchmark Review	Emilio S. Neri, Jr. – One of the Top Sell-Side Individuals in Research for 2017
The Asian Banker 2017 Transaction Banking Awards	Best FX Bank in the Philippines
Asiamoney FX Poll	Best Domestic Provider for Foreign Exchange (FX) Products and Services
International Finance Magazine Awards	Best Asset Manager in the Philippines
Alpha Southeast Asia	Best Asset and Fund Manager in the Philippines
The Asset Triple A Asset Servicing, Fund Management and Investor Awards	Asset Management Company of the Year

The Bank's consolidated common equity tier 1 ("CET1") capital adequacy ratio stood at 12.8% while total capital adequacy ratio ("CAR") stood at 13.7 %, as of 30 June 2017, both above the minimum regulatory requirements set by the BSP under Basel III. As of 30 June 2017, BPI had a market capitalization on the Philippine Stock Exchange ("PSE") of ₱409.7 billion. The Bank's significant base of reputable shareholders includes Ayala Corporation, one of the Philippines' oldest and largest conglomerates and the Roman Catholic Archbishop of Manila.

HISTORY

BPI was established in 1851 in the Philippines (then a Spanish colony) as Banco Español Filipino de Isabel II, by decree of the Governor General of the Philippines. The Bank was the first bank to be formed in the Philippines and fulfilled many functions of a central bank, by providing credit to the treasury and issuing currency under its own name. Following the Spanish-American War of 1898, the Bank reorganized pursuant to the National Bank Act of the United States, officially adopting its current name on January 1912. As part of this reorganization, the Government essentially privatized the Bank, renouncing its rights to appoint the Bank's management or receive credit lines, but preserved the Bank's authority to issue the Philippine currency.

The Bank's founding shareholders were mainly various charities and endowments associated with the Catholic Church, and its directors consisted of government officials and prominent businesspersons, including Antonio de Ayala, a partner of a predecessor firm to today's Ayala Corporation ("Ayala"). In 1969, Ayala Corporation became the Bank's largest shareholder. In 1974, People's Bank and Trust Company, a bank in which Ayala Corporation also had a significant interest, merged with the Bank. As part of the merger, Morgan Guaranty Trust Company of New York acquired a 20% stake in the Bank, which was sold to DBS Group Holdings Limited of Singapore ("DBS") in 1999. In November 2013, the Government of Singapore Investment Corp. ("GIC"), together with Ayala, announced its intent to acquire DBS's remaining interest in the Bank.

BPI was for many years the only domestic commercial bank in the Philippines. Originally, its business was largely focused on deposit taking and extending credit to exporters and local traders of raw materials and commodities, such as sugar, tobacco, coffee, and indigo, as well as funding public infrastructure projects. Its business developed throughout the late 1800's as the economy and the prominence of the Philippines as an exporter developed. BPI adopted its current name in 1908 and its business continued to develop throughout the rest of the century. For several years, BPI fulfilled many of the functions of a central bank by providing credit to the treasury and by issuing currency. Throughout its early existence, BPI was instrumental in maintaining the stability of the Philippine banking system through a variety of developments and crises, such as recessions, political and monetary instability, wars, and changes in sovereignty – from Spanish to United States rule in 1898, following the Spanish-American War, to the Japanese occupation from 1941 to 1945 and finally independence in 1946.

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

MERGERS, ACQUISITIONS & OTHER BUSINESS MILESTONES

Since the late 1990s, BPI consummated a number of bank and non-bank mergers to strengthen its foothold in the financial services industry.

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

In 2000, it also formalized its acquisition of three major insurance companies in the life, non-life and reinsurance fields, making this the first bancassurance platform in the Philippines, a move that further broadened its basket of financial products. In January 2004, Universal Reinsurance Corp., the bank's reinsurance subsidiary, merged with Malayan Reinsurance Corp. The merged entity was known as the Universal Malayan Reinsurance Corp., a 50/50 joint venture between BPI and the Yuchengco Group of Companies. The merged company has the capacity to go for a larger foothold in the Philippine reinsurance industry.

On 1 September 2005, BPI acquired 7,528,155 common shares or 92% of the total outstanding shares of Prudential Bank. In addition, BPI issued 9.99 million of its common shares to the 8% Prudential Bank minority shareholders. On 29 December 2005, Prudential Bank was merged into BPI. The merger added 187 branches to the Bank and increased the share of the middle market segment to the total loan portfolio.

In March 2006, Universal Malayan Reinsurance Corp. merged with National Reinsurance Corporation, with the latter as the surviving entity. This merger will provide greater underwriting capacity and strengthen competitive position in the regional reinsurance industry. In October 2006, BPI/MS Insurance Corporation, the bank's non-life insurance company, acquired the insurance portfolio in the Philippines of Aviva General Insurance Pte, Ltd. of Singapore, a wholly owned subsidiary of Mitsui Sumitomo. The addition of the Aviva's balanced portfolio strengthened and improved BPI/MS' healthy mix of retail and corporate accounts.

In 2007, the Bank opened Bank of the Philippine Islands (Europe) Plc in London to primarily service the banking needs of the Filipino community and related parties and entities. This bank is intended to be BPI's gateway to all countries in the European Union and the rest of Europe.

In 2009, BPI entered with a joint venture with Philam Life to strengthen its life insurance business. BPI has a 47.67% in BPI Philam Life Assurance, Inc. or BPLAC.

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

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

On August 2015, BPI completed another strategic partnership with Global Payments, an Atlanta-based, NYSE-listed provider of international payment services. By combining its merchant acquiring network with that of GPN, BPI stands to provide enhanced services to its card customers, as well as to its merchant clients. The partnership with GPN remained 49% owned by BPI.

Last August 2016, BPI acquired a 10% minority stake in Rizal Bank Inc. (RBI), a member institution of Center for Agriculture and Rural Development Mutually Reinforcing Institutions (CARD MRI), a group of social development organizations that specialize in microfinance.

Effective 20 September 2016, BPI has taken full control over BanKO, Inc. after acquiring the 20% and 40% stake of Ayala Corporation and Globe Telecom, respectively. On 29 December 2016, the Securities and Exchange Commission approved change of the corporate name to BPI Direct BanKo, Inc., A Savings Bank, after BPI Direct absorbed the entire assets and liabilities of BPI Globe BanKo, Inc. BPI Direct BanKo is the Bank's microfinance arm, tasked to serve the self-employed micro entrepreneurs (SEMEs) segment.

Also on 29 December 2016, BPI has successfully spun off its BPI Asset Management and Trust Group (BPI AMTG) to a newly-established Stand-Alone Trust Corporation (SATC) named BPI Asset Management and Trust Corp. (BPI AMTC). BPI AMTC officially commenced its operations on 01 February 2017.

COMPETITIVE STRENGTHS

Over the course of its long corporate history, BPI believes that it has established a preeminent brand that embodies financial strength and prudence and that it has developed a diversified financial services franchise for institutional, corporate and retail clients. Through generations of best-in-class management, the Bank has instilled a culture of excellence across its organization with a core focus on providing differentiated services to its clients as well as being vigilant risk managers. The Bank considers the following to be its principal competitive strengths:

Solid reputation resulting in strong brand equity

With over 166 years of history, BPI has developed one of the country's most trusted and widely-recognized brands in financial services. The Bank has in the past experienced gains in its market share in times of volatility, benefitting from what it believes to be a flight-to-quality based on the Bank's strong brand equity, deep history and strong track record of profitability. BPI also maintains a leadership position in the Philippine banking industry with market share on total loans, total deposits, and trust assets under management of 14.4%, 13.0% and 19.0%, respectively as of 30 June 2017, according to data published by the BSP-mandated disclosures of Philippine universal banks. The Bank believes it enjoys favorable recognition among a broad base of retail and corporate customers across the Philippines.

Extensive channels and substantial deposit customer base

The Bank reaches a broad span of the Philippine socio-economic community. As of 30 June 2017, the bank had a network of 828 domestic branches, including 28 Express Banking Centers ("EBCs"). The Bank's microfinance arm, BPI Direct BanKo, Inc., a Savings Bank had 13 branches. Overseas, the Bank has two banking subsidiaries: BPI International Finance Limited in Hong Kong and Bank of the Philippine Islands (Europe) Plc in London. The Bank operates a 24/7 call center, staffed by a 300-strong complement of full time employees, which is reinforced by a team of telemarketers. The Bank has direct control of its call center and telemarketing staff to ensure client confidentiality and high customer service standards.

As of 30 June 2017, the bank's ATM network, branded ExpressTeller, had a total of 3,079 ATMs and CDMs, which the Bank believes is the largest in the Philippines. The Bank founded ExpressNet, the country's first ATM consortium and is a member of BancNet, currently the country's largest ATM consortium, with a total of over 14,000 ATMs in the country. The bank has pioneered the automation of customer services in its branch network while the bank's online banking facility is among the country's most highly accessed internet-based services for electronic access to the banking services.

Low cost deposit base

The Bank's brand equity, longevity, extensive branch network, especially in Metro Manila, alternative distribution channels, and its leadership in the remittance business reinforce its ability not only to tap into the growing pools of liquidity across its various customer segments, but also to retain access to liquidity in times of volatility or crisis. The Bank's extensive network of branches, ATMs, and CDMs complemented by its alternative internet and mobile channels, supports convenient, low-cost, automated and fast-response transaction capabilities that enhance customer experience, loyalty, and serve as a disincentive to move to other banks. These tools with minimal transaction costs within the Bank's own network, as well as comprehensive functionality in electronic payments and cash management services for corporate clients, help to generate significant pools of float deposits from both retail and corporate customers. As of 30 June 2017, current account and savings account ("CASA") deposits, which unlike time deposits offer lower interest rates, accounted for 73.3% of the Bank's total deposit base. This has grown steadily from 69.4% as of year-end 2014. The Bank represented 14.1%, 14.1%, 14.0% and 13.4% total industry CASA as of 31 December 2014, 2015, and 2016 and 30 June 2017, respectively.

Strong retail lending franchise through multiple channels and product innovation

The Bank has a history of innovation and fast-to-market introduction of retail lending products, including small business loans, home loans, auto loans, credit card payment and lending services, personal loans, life and non-life insurance, and investment funds. To complement this, the bank employs a nationwide team of product specialists, responsible for focusing and prioritizing sales efforts through the Bank's various channels. In addition, the Bank deploys its product specialists to assist in the origination of retail lending transactions from non-Bank sources, such as real estate brokers, real estate developers, auto dealerships, and credit card marketers. As of 30 June 2017, BPI enjoyed 19.4%, 12.3%, and 19.5% market shares in housing loans, auto loans and credit card receivables, respectively. For retail lending, a key strength is the Bank's extensive customer database, which allows for the development of credit scoring models that allow for prudent risk taking, as well as product process innovation that allows for both customized products and reduced application-to-approval turnaround times, which is critical to capturing business. The Bank is also a card issuing bank for Mastercard and Visa, and offers comprehensive card banking products, including credit, debit, prepaid, and contactless cards.

Prudent risk management and responsible cost discipline

The Bank continues to apply a disciplined and prudent approach to risk management, not only to conform to increasingly stringent regulatory standards, but also to protect against market, credit, operational and reputational risks. The Bank's risk management strategy remains focused at all times on preserving its track record for stability. The Bank's Risk Management Office reports directly to the Risk Management Committee, a six member Board committee which includes its President and CEO, and is headed by an Independent Director. In addition, the Bank maintains prudent and conservative lending practices which have resulted in a diversified loan portfolio of which 53.6% was secured as of 30 June 2017. As a result, as compared to many of its peers, the Bank has been able to achieve lower levels of NPLs which are past due by 90 days or more, with NPL ratio at 1.48% as of 30 June 2017.

Furthermore, despite the various economic and political cycles of the Philippines, the Bank has managed to achieve a strong presence in the market and consistently reach its profitability targets. The Bank believes that its diversified and stringent credit and risk management standards, as well as its strong cost discipline, allow it to consistently withstand market adversity. For the years ended 31 December 2014, 2015, and 2016 and the six months ended 30 June 2017, the Bank has posted cost-to-income ratios of 53.7%, 53.7%, 52.5% and 51.6%, respectively, and returns to equity of 13.8%, 12.3%, 13.8% and 13.7%, respectively.

Highly experienced management team with a proven track record

The Bank has a long history of highly qualified and experienced management teams with sound and proven succession plans in place. The members of the current senior management team have substantial backgrounds in both international and Philippine retail, commercial, and investment banking. The Group Heads that report directly to the President & CEO and members of the Management Committee have held senior positions in the Bank following extensive years of service with the Bank or demonstrated leadership with other leading Philippine and international financial institutions. Members of the Bank's senior management have track records of delivering on business plans and achieving results in the financial services industry, while prudently assessing risk in an increasingly complex and regulated banking environment. The Bank believes it is able to consistently attract talented personnel, and is often seen as a partner of choice in strategic transactions.

STRATEGY

The Bank's mission is to reinforce its position as the preferred provider of financial services in the Philippines. The Bank intends to capitalize on the Philippines' economic growth by further investing in its already significant institutional, corporate and retail banking franchises. The Bank believes this will position it to tap the growing market of middle class Filipinos, heightened activity of government and private enterprises, as we as more substantial capital flows from offshore investors and multinational and regional corporations.

The Bank will leverage its trusted brand name, enhance its relevance to clients, and ensure customer satisfaction through superior execution. The Bank will also continue to explore and capitalize on potential inorganic growth opportunities.

The Bank will continue to pursue its best-in-class profitability metrics, consistent and sustainable growth, and increasing shareholder value. The standard against which the Bank measures itself is not only that of its Philippine peers, but also among other leading banks in the ASEAN region. The following are key elements of the Bank's strategy:

Organize around clients for growth

The Bank's executive team has been organized along 6 major Groups, each directly reporting to the President and Chief Executive Officer: Retail Clients, Corporate Clients, Financial Products and Services, Global Markets, Enterprise Services, and Strategy and Development.

Retail Clients and Corporate Clients are responsible for client-facing and revenue-generating businesses of the Bank; Financial Products and Services is responsible for building and managing the Bank's capabilities across asset, liability, payment, bancassurance, and asset management products. Global Markets is responsible for the Treasury function which includes liquidity management, foreign exchange and fixed income trading and position taking, and balance sheet management; Enterprise Services is responsible for the human resources, technology, and operational infrastructure of the Bank. Strategy and Development is responsible for defining and communicating the Bank's strategy, managing the allocation of resources, and ensuring alignment of goals across the organization.

Enhance deposit franchise

The Bank's deposit products act as the key entry point into its overall customer experience. The Bank intends to penetrate the growing market of middle class customers as well as take advantage of the robust economic activity not only in Metro Manila but also in key provincial cities where economic activity has grown. The Bank intends to grow the amount of funds it intermediates for its customers, coming from deposits, investments in retail funds, insurance products, bonds, securities and other capital market instruments.

The core of the Bank's consumer banking franchise is its 841 nationwide branch network. This network is supported by a cadre of Branch Managers and Relationship Managers that provide excellent service to individual and corporate clients. The Bank will continue to invest in enhancing its electronic and mobile banking channels, providing a broad range of payment facilities to ensure client convenience for all important banking transactions.

Integrate corporate banking and investment banking solutions

The Bank has successfully and will continue to integrate its investment banking offerings delivered under the BPI Capital brand, as part of the corporate banking solutions. This aims to improve the profitability of the traditional lending business, generate additional fee income and provide clients with solutions that go beyond credit and cash management facilities. The Bank also aims to improve the efficiency and throughput of its balance sheet, by enhancing its ability to distribute equity and credit risk originated by its Corporate and Investment Banking Teams.

Leverage treasury and fixed income capabilities

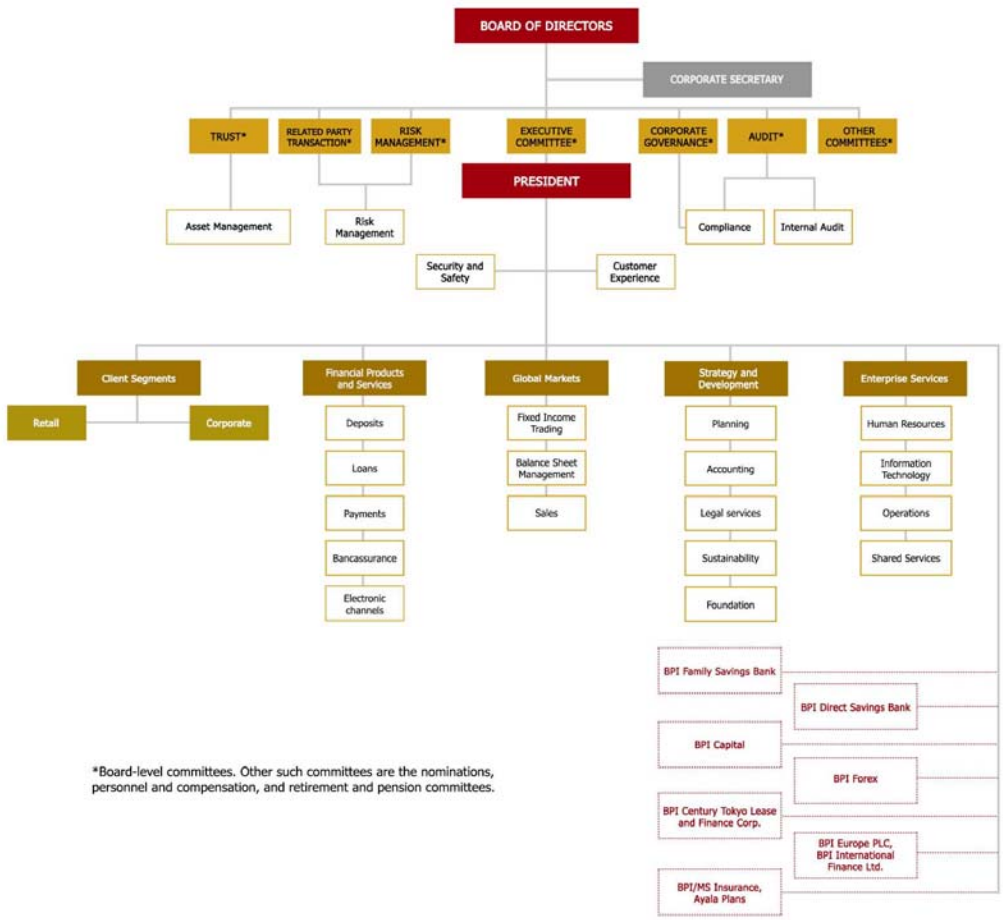
The Bank's Global Markets Group intends to use its extensive treasury, fixed-income and trading experience to capture profitable opportunities in investing its excess liquidity and market-making for its institutional clients. The Bank intends to take on market risks under a disciplined, value-at-risk oriented regime and without material reliance on complex, illiquid instruments. The Bank's treasury operation has significant trading and market-making expertise as well as institutional client access across the Philippine government securities, corporate credit and foreign exchange markets.

Focus on operational efficiency, risk management and compliance

The Bank will continue to focus on the continuous delivery of the service standards of its physical, information technology and human infrastructure in order to deliver best-in-class service, increased employee productivity, cost competitiveness and ultimately profitability. The Bank will continually focus its investments in technology, cybersecurity, communications systems, software applications, and management information systems such that they are aligned with the acquisition, development and organization of the Bank's human resources, business processes and operational and financial performance objectives. The Bank also seeks to optimize its management of credit, market and operational risks while ensuring strict regulatory compliance.

ORGANIZATIONAL STRUCTURE

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



BUSINESS OF THE BANK

Principal Products & Services

The Bank has two major categories for products & services. The first category covers its deposit taking and lending / investment activities. Revenue from this category is collectively termed as net interest income. The second category covers services ancillary to the Banks' financial intermediation business and from which it derives commissions, service charges & other fees. These include investment banking & corporate finance fees, asset management & trust fees, foreign exchange, securities distribution fees, securities trading gains, credit card membership fees, rental on bank assets, income from insurance subsidiaries and service charges/commissions earned on international trade transactions, drafts, fund transfers, various deposit related services. Commissions, service charges, and other fees, when combined with trading gains and losses arising from the Bank's fixed income and foreign exchange operations, constitute non-interest income. As of end-2016 net interest income accounted for 61% of net revenues while other income accounted for the remaining 39% of net revenues. As of the first half of 2017, net interest income accounted for 67% of net revenues while other income accounted for the remaining 33% of net revenues.

Main Business Segments

BPI is organized around client teams. Following is a description of each of the Bank's business groups. Members of each business group work together to provide each segment of the Bank's retail and institutional customer base with a focused suite of services.

Retail Clients Segment

The Retail Clients Segment is responsible for managing the Bank's clients who have financial needs on an individual basis. This segment is also responsible for managing the Bank's physical branch network. It divides the Bank's individual customer base according to the amount of funds deposited and invested with the Bank, as well as in terms of significance of need for financial solutions. The segmentation includes Private Banking customers at the highest end, and extends to Personal and microfinance customers at the lowest. Its Preferred Banking (or mass affluent) Segment, meanwhile, helps high value clients achieve their financial goals through personal financial advice, access to appropriate products and solutions, and privileged services. The Bank also has a dedicated team focusing on the Overseas Filipino Segment. The Bank's Retail Segment is also responsible for optimizing both its deposit origination franchise as well as the distribution of products developed by the Bank's Retail Lending, Bancassurance, and other product teams.

Corporate Clients Segment

Through its Corporate Clients Segment, the Bank manages a broad range of institutional clients, which include multinational corporations, large domestic conglomerates, medium domestic companies, and SMEs. As with the Retail Clients Segment, the Corporate Clients Segment is responsible for deposit origination from institutional clients, as well as the distribution of lending products developed by the Bank's Corporate Lending and asset finance teams. The Bank also integrates cash management, electronic payments, trade finance, corporate finance and other solutions for corporate clients.

Financial Products & Services Segment

Financial Products & Services Segment is responsible for managing all deposit, credit, payment, insurance, asset management, and capital market products. A smaller range of these services, focused on foreign exchange and government securities distribution, is the purview of the Global Markets Segments.

The primary focus of all segments in the products and services area is to deliver timely and quality service to differentiate the customer experience at BPI. Their focus is on cost and process control, innovation, and excellent after-sales engagements with clients that have used BPI's services. The following products have been consolidated under the Financial Products & Services Segment:

Deposit Products

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

Electronic Channels

The Electronic Channels Group spearheads the Bank's initiatives on digitization and omni-channel service offerings. It consists of Digital & Self Service Channels. Under the digital channels portfolio are the Bank's Internet & Mobile platforms which aim to provide convenient 24/7 facilities for payments, fund transfers, inquiries and wealth management. Self Service Banking, on the other hand, offers a network of Automated Teller Machines (ATM) & Cash Accept Machines (CAM) that are over 3,000 strong, as well as Phone Banking services, that provide the Bank's customers with various 24/7 services. The Group's initiatives aim to improve customer experience by raising the level of convenience and by providing differentiated services.

Cards and Payments

The Bank offers card-based products and solutions that allow cardholders to enjoy cashless shopping with their debit card, credit card, prepaid card and contactless card. Ease of transaction, flexibility and convenience is provided for client's day-to-day transactions via point of sale terminals in various locations nationwide.

BPI Credit Cards also offers Special Instalment Plans and Real 0% offers. To maintain and reward its customers, the bank holds exclusive events, launches targeted promotional campaigns, and maintain a compelling loyalty program. Last year, BPI took steps to innovate its card business, as it introduced new contactless payment-enabled Credit Cards for all card variants.

The BPI Debit Card allows depositors easy access to their funds via ATMs locally and abroad (via Cirrus terminals), electronic channels, and point-of-sale terminals, moving towards digitizing payments and spending. Initiatives on education towards Debit card use at point-of-sale, coupled with rebates on spending, are BPI's contributions to the regulator's goal of building towards a cash-light society.

BPI also offers Prepaid Payment products that anyone can avail, making Prepaid Cards an ideal medium for financial inclusion. To enhance its offerings, and entice younger users to the Bank, Prepaid Cards launched the Beep variant of the Amore Prepaid card, allowing for faster transactions at both quick service establishments and the rails.

Remittance

The Bank operates a specialized network of remittance centers as well as tie-up arrangements with partners offering extensive branch networks (such as Wells Fargo in the U.S.) primarily for serving remittances to Overseas Filipinos (OFs) who are working or living abroad. The remittance function involves purchasing foreign exchange for the remittance transactions and delivering remittance payments through the Bank's branch network and courier services. Remittances are also being distributed in the Philippines not only through the Bank's domestic branches and ATM network, but also through its local remittance payout partners, such as pawnshops, extending its remittance service beyond banking hours.

The Bank also conducts BPInoy Learning Series that provides financial counselling in areas such as savings planning and management, investment alternatives and entrepreneurial start-ups. The Bank has actively sought to supplement its remittance business through cross-selling additional products that may be of value to OFs. To accomplish this, the Bank reaches out to OFs before they depart the country to go through the suite of Bank services and ascertain what products or services might be attractive to the OFs and their families.

Retail Lending Products

The Bank's retail lending products include loans for home mortgages, automobiles, personal loans and small businesses, and which are booked with BPI Family Savings Bank (BPI Family"), the Bank's thrift banking subsidiary. BPI Family is the largest thrift bank in the Philippines by assets.

Corporate Lending Products

The Bank provides revolving credit, term credit, and trade finance products. Currently, the majority of the Bank's corporate lending consists of short- to medium-term loans, typically with an interest rate fixing pegged to a spread over a Philippine government rate benchmark. The Bank offers both peso- and foreign currency (primarily U.S. dollar)-denominated loans.

The Bank also offers cash management and other transaction services to its corporate clients.

Corporate Finance & Investment Banking

BPI Capital Corporation ("BPI Capital") was incorporated in the Philippines as a wholly-owned subsidiary of the Bank on February 5, 1977. As the leading transaction advisor, credit sponsor, and financing originator, BPI Capital is a trusted financial partner to the most respected names for their important financial transactions.

BPI Capital is a multifaceted investment bank that provides full-service corporate finance and capital markets advisory services. Its client-focused solutions include debt and equity underwriting, financial advisory, mergers and acquisitions, advisory, project financing, securities distribution, securities trading, merchant banking, and loan syndication. BPI Capital consists of 60 professionals with significant loan and international experience in finance, banking, and other related industries. The team brings a wealth of knowledge, extensive corporate finance experience, a sharp understanding of the markets, and prudent corporate governance practices, allowing it to assume the most meticulous and demanding investment banking assignments.

Through solid collaboration with the Bank, BPI Capital is able to harness the placement power of BPI's institutional, corporate, high net worth, and retail customers. With over 800 branches nationwide, BPI has one of the largest networks across the country and boasts of several extended offices and remittance centers around the world. BPI Capital continues to significantly contribute value to its clients by tailoring and executing financial solutions especially as their needs become increasingly complex.

Asset Management & Trust

BPI Asset Management and Trust Group was granted by the BSP a license to operate as a standalone Trust Corporation. It began operations on February 1, 2017 as BPI Asset Management and Trust Corporation (BPI AMTC), a wholly owned subsidiary of BPI.

BPI's trust business is one of the largest in the Philippine investment management community. The group has a long track record of managing assets of both institutional and individual investors through innovative investment products and solutions. It also distributes the products of BPI-accredited global investment funds to its clients. With both equity and fixed income-oriented fund products, a comprehensive array of institutional fund management solutions and the ability to deal in different currencies such as Philippine Peso, USD, or Euro, the group's product suite is considered to be among the most complete in the industry.

Bancassurance

The Bank offers new and innovative insurance products through its insurance affiliates.

BPI-Philam Life Assurance Corporation (BPLAC) is the Bank's life insurance joint venture with Philippine American Life and General Insurance Company, a part of the AIA group. BPLAC is the fastest growing life insurance company in terms of annualized new premiums. It offers life and investment-linked insurance products sold through Bancassurance Sales Executives situated in the branches.

BPI/MS Insurance Corporation (BPI M/S) is the Bank's non-life insurance joint venture with Mitsui Sumitomo Insurance Group (MSIG). A majority of BPI/MS originated insurance contracts are re-insured under a treaty with MSIG. BPI/MS provides general insurance coverage. In addition to retail insurance, the Bank believes that there are strong growth opportunities for corporate bancassurance in the non-life segment.

Global Markets Segment

The Bank's Global Markets Group manages the liquidity position of the Bank, trades fixed income securities, and provides the global financial services to its clients, largely in relation to foreign exchange. The group generates profit opportunities for the Bank by managing its liquidity gaps and generating an appropriate interest differential in respect of such gaps. Furthermore, the group makes markets in fixed income securities and, to a certain extent, takes positioning risks in sovereign and international credits to exploit market-related opportunities. Fixed income positions in the group are by and large investment grade. In terms of service to clients, the group also strives to maintain the Bank's stature as the foremost domestic provider of foreign exchange services in the country.

Enterprise Services Group

The Enterprise Services Group is responsible for managing the human, facilities, information systems, and operational resources of the Bank. One of the key objectives of Enterprise Services are the development of talent acquisition, talent development, performance measurement, and compensation systems that perpetuate the Bank's desired culture of cohesion and performance. Enterprise Services is also responsible for optimizing the Bank's use of space, supply chain, and operational processes, to ensure maximum efficiency, operational governance and control, as well as low cost. The Bank believes that a key enabler of its client and product capabilities is data management and technology, and as such Enterprise Services is at the forefront of ensuring BPI's transformation and leadership as a digital bank.

Functional departments that are incorporated into the Enterprise Services Group include Human Resources (HR), Facilities Services Group (FSG), Information Technology (IT) and Centralized Operations (COG).

Strategy & Development Segment

The Strategy & Development Office is primarily responsible for the active management of the Bank's capital position, reporting the financial performance of the Bank, crafting the bank's short and medium term plans and communicating these to its stakeholders.

Unibank Centralized Accounting Division (UCAD) is responsible for ensuring the accurate, fair and timely preparation of all financial statements and other general ledger-based management and regulatory reports of all unibank entities. It also ensures that these reports are in accordance with existing accounting and regulatory standards.

Strategic and Corporate Planning Division handles financial planning, annual budget planning process and capital management activities. It is also responsible for communicating the Bank's financial performance, business initiatives and strategies to local and foreign investors, rating agencies and other stakeholders through its Investor Relations Office. This unit also handles enterprise-wide special projects, and identifies and evaluates new ventures, prospective acquisitions or divestments.

As part of the capital management function, the Property Sales and Leasing Division handles the disposal of foreclosed properties of the BPI Group. This is to free up capital and minimize the holding cost of these acquired assets.

Legal Affairs and Dispute Resolution (LeADR) Division serves as the primary general legal service provider of the BPI Group. It ensures that the rights of the BPI Group are protected and upheld in all its transactions through (a) competent and prompt review of all the contracts and documents that the BPI Group enters into; (b) prompt, efficient, timely and accessible legal advisories both on the Groups' full compliance with its tax and/ or regulatory obligations in its daily and regular operations; (c) "above-industry standards" legal risk management programs, procedures and practices that include effective legal risk evaluation of all the Group's actions before, during and after implementation; (d) effective prosecution of cases, filed in behalf and against the BPI Group, through reliable and duly respectable legal representation for the claims, defenses and allegations of the Bank before any court or body in any kind of proceedings including alternative modes and venues of resolution of disputes and (e) highly competent legal advisories on critical management and board decisions on whatever matter that have legal implications, with the end goal of having legally empowered Group, directors, officers and personnel.

Risk Management Office

The Risk Management Office (RMO) is responsible for recommending risk management policies and methodologies, promoting enterprise-wide risk appreciation and education, proposing risk appetite indicators, and monitoring and reviewing capital adequacy levels, all of which is subject to the Risk Management Committee (RMC) approval. It is also the 2nd line of defense in the Bank's established governance structure. The RMO is primarily responsible for the integration, monitoring, and overall management of the total risk to the Bank and ensuring that all relevant financial and non-financial risks are identified, measured, managed, and monitored within the Bank's risk appetite and approved limits.

The Chief Risk Officer heads the RMO and shall be independent from executive functions and business line responsibilities, operations, and revenue-generating functions as he is ultimately responsible in the formulation of risk management processes in alignment with the overall strategy of the Bank, ensuring that risks are prudently and rationally undertaken, as well as commensurate and disciplined to maximize returns on capital. This is carried out by a dedicated team of skilled risk managers and senior officers who have extensive operational experience. The Bank's risk managers regularly monitor key risk indicators and report exposures against carefully-established credit, market, and operational and IT risk metrics and limits approved by the RMC.

Distribution Network

BPI had 821 branches across the country, including 35 kiosk branches, as of end 2016. As of 30 June 2017, BPI had 828 local branches, 28 of which were kiosk branches. Kiosks are branches much smaller than traditional full-service branches, but are fully equipped with terminals allowing direct electronic access to product information and customers' accounts, as well as processing of self-service transactions. Kiosks serve as sales outlets in high foot traffic areas such as supermarkets, shopping malls, transit stations, and large commercial establishments. Additionally, there are 13 BPI

Direct BanKo branches set up in strategic locations in the country. BPI Direct BanKo, originally set-up as a joint venture with Ayala Corp. and Globe Telecom, is the country's first mobile-based savings bank whose goal is to extend microfinance services to the lower end of the market, thereby promoting financial inclusion.

Overseas, BPI has one (1) Hong Kong office (BPI IFL) and two (2) BPI Europe offices (head office and branch) in London. BPI maintains a specialized network of overseas offices to service Filipinos working abroad. To date, BPI has 4 Remittance Centers located in Hong Kong and 2 representative offices located in UAE and Japan. BPI also maintains remittance tie-up arrangements with various foreign entities in several countries to widen its network in serving the needs of Filipinos overseas.

On the lending side, BPI maintains 10 Business Centers across the country to process loan applications, loan releases, and international trade transactions, and provide after-sales servicing to both corporate and retail loan accounts.

BPI's ATM network has grown to a total of 3,061 terminals as of 2016 of which 2,297 are ATMs and 764 are Cash Deposit Machines. This complements the branch network by providing cash-related banking services to customers at any place and time of the day. In addition, the interconnection with Bancnet in 2016 gives BPI cardholders access to over 19,900 ATMs across the country. BPI's ATM network is likewise interconnected with Mastercard, China Union Pay (CUP), Discover/Diners, JCB, and Visa. BPI pushed the drive to provide more secured cash withdrawals for its depositors through the implementation of the ATM Withdrawal notification feature. Through this feature, BPI cardholders can now opt to receive notifications via email or SMS after withdrawing beyond a set amount.

BPI Phone Banking continues to service customer inquiries and transactions through its self-service facility. With 89-100, clients can inquire about their account balances and latest transactions, transfer funds to other BPI accounts in real time, pay for their various bills (e.g., credit cards, utilities, condominium dues, insurance premiums) and reload prepaid phones. Customer concerns and queries received via phone banking as well as through SMS, e-mail, social media, and more recently through Viber, a mobile application, are all ably addressed by the bank's 24-hour Contact Center.

BPI Online Banking through www.bpiexpressonline.com gives clients complete control over their accounts in the comforts of their home or office, through the use of a web browser. Regarded as the most robust electronic channel of the bank, the platform offers clients a variety of transactions such as viewing their accounts' balance and transaction history, paying over 400 bill merchants, and managing investment funds. Through BPI Online Banking, access to basic banking services such as ordering of checkbooks for branch pick up and setting an appointment at any BPI branch through BPI Express Assist (BEA) can be done online.

BPI Mobile Banking allows clients to access their accounts anytime, anywhere - whether they have a smartphone or a feature phone. With this fast growing channel of choice, clients can check their account balances and perform key financial transactions such as bills payment, prepaid phone reloading, and fund transfers - even to unenrolled BPI accounts - a feature exclusive to mobile banking. In 2016, the quick portfolio feature was introduced in the app, giving mobile app users easy access to check their account balances via fingerprint or by simply keying in a pattern or PIN. BPI's mobile banking app is available on Android and iOS devices.

SUBSIDIARIES AND RELATED COMPANIES

Universal banks in the Philippines, such as the Bank, may invest in the equity of banking-related companies or "allied undertakings". Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card operations and financial institutions catering to small and medium-scale businesses.

A publicly-listed universal or commercial bank in the Philippines may own 100% of the voting stock of only one other universal or commercial bank. Such universal or commercial bank may only have ownership in additional commercial banks as a minority shareholder. A universal bank may also own up to 100% of the equity of thrift banks and rural banks, and generally up to 100% of other financial and non-financial allied undertakings. Prior Monetary Board approval is required for investments in allied and non-allied undertakings.

The total investments in equities of allied and non-allied enterprises shall not exceed 50% of the net worth of the Bank, subject to the further requirement that the equity investment in one enterprise, shall not exceed 25% of the net worth of the Bank. The Bank's principal subsidiaries, its percentage of ownership, and investments in allied undertakings are as follows:

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

2. BPI Capital Corporation ("BPI Capital"), a wholly-owned subsidiary, is an investment house focused on corporate finance and the underwriting, distribution, and trading of debt and equity securities. It began operations as an investment house in December 1994. It wholly owns BPI Securities Corporation, a stockbrokerage company;

3. BPI Direct BanKo, Inc., A Savings Bank ("BanKo") serves microfinance customers through branch, electronic, and partnership channels. Founded in February 2000, BPI Globe BanKO 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, Hong Kong ("BPI IFL"), a wholly-owned subsidiary, 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 Europe Plc ("BPI Europe"), a wholly-owned subsidiary, was granted a UK banking license by the Financial Services Authority on 26 April 2007. It was officially opened to the public on October 1, 2007. BPI Europe is licensed to offer financial services in European Economic Area member states;

6. BPI Century Tokyo Lease & Finance Corp. ("BPI CTL"), 51%-owned by BPI, is a non-bank financial institution that provides financing services pursuant to the Financing Company Act. BPI CTL is also owned 49% by Century Tokyo Leasing Corp., who purchased its current holdings in 2014. BPI CTL wholly owns BPI Century Tokyo Rental Corp., which offers operating leases;

7. BPI/MS Insurance Corp. ("BPI MS"), 50.85% owned by BPI, is a non-life insurance company owned 49% by Mitsui Sumitomo Insurance Co., 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;

8. BPI Asset Management and Trust Corporation (BPI AMTC) is a newly-established Stand Alone Trust Corporation (SATC) after its Certificate of Authority to Operate was issued by the Bangko Sentral ng Pilipinas on December 29, 2016. BPI AMTC started operations on

February 1, 2017; and

9. BPI Securities Corporation provides online trading facility as well as broker-assisted advisory, securities custodianship and warehousing services.

ASSETS AND LIABILITIES

Funding

The Bank's funding is primarily provided by time, savings, and demand deposits. The Bank also sources part of its funding requirements from the interbank market and occasionally from the BSP rediscount window, which generally results in lower overall funding cost.

Sources of Funding

The Bank's principal source of deposits is private individuals. As of 30 June 2017, these accounted for 72% of total deposit liabilities.

The Bank has been successful in attracting and retaining its low cost deposit base. While the cost of deposits has largely been driven by interest rate movements, the average cost of deposits is also bolstered by the continued rise in the share of CASA to total deposits. The Bank will continue to grow its CASA through the launching of differentiated CASA products geared towards the retail, middle market, and corporate customers. The maturities of the Bank's funding portfolio enable it to achieve funding stability and liquidity while achieving its desired profile of loan and deposit maturities. The Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a base of core liquidity.

The following table sets out an analysis of the Bank's principal sources of funding for the periods indicated:

(₱ millions, except percentages)	**As of 31 December**						**As of 30 June**	
	2014		**2015**		**2016**		**2017**	
	Volume	Ave Cost of Funding[1]	Volume	Ave Cost of Funding[1]	Volume	Ave Cost of Funding[1]	Volume	Ave Cost of Funding[1]
Deposits by type:								
Demand	199,690	0.2%	214,597	0.3%	231,525	0.3%	238,295	0.2%
Savings	616,448	0.7%	707,783	0.7%	820,181	0.7%	812,183	0.7%
Time	360,075	1.5%	353,319	1.8%	379,594	1.9%	381,986	2.0%
Total	**1,176,213**	**0.9%**	**1,275,699**	**0.9%**	**1,431,300**	1.0%	**1,432,464**	**0.9%**
Deposits by currency:								
Peso	1,015,816	0.9%	1,071,296	1.0%	1, 215,484	1.0%	1,208,213	1.0%
Foreign	160,397	0.4%	204,403	0.7%	215,816	0.7%	224,251	0.7%
Total	**1,176,213**	**0.9%**	**1,275,699**	**0.9%**	**1,431,300**	**1.0%**	**1,432,464**	**0.9%**
Deposits by classification:								
Low Cost	816,138		922,380		1,051,706		1,050,478	
Term	360,075		353,319		379,595		381,986	
Total	**1,176,213**		**1,275,699**		**1,431,300**		**1,432,464**	
Bills Payable:								
Peso	6,916		7,052		9,150		8,715	
Foreign	26,077		13,889		52,823		33,794	

(₱ millions, except percentages)	As of 31 December						As of 30 June	
	2014		2015		2016		2017	
	Volume	Ave Cost of Funding[1]	Volume	Ave Cost of Funding[1]	Volume	Ave Cost of Funding[1]	Volume	Ave Cost of Funding[1]
Total	**32,993**	1.2%	**20,941**	1.6%	**61,973**	1.6%	**42,509**	**2.2%**
Acceptances Payable								
Peso	27		1,395		40		**37**	
Foreign	920		1,099		1,411		**2,134**	
Total	**947**		**2,494**		**1,451**		**2,171**	

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

As of 30 June 2017, 73.3% of the Bank's outstanding deposits were demand and savings deposits, which can be withdrawn on demand without any prior notice from the customer. The following table sets out an analysis of the maturities of the deposit base of the Bank:

(₱ millions)	As at 31 December 2014	2015	2016	As of 30 June 2017
Demand	199,690	214,597	231,525	238,295
Savings	616,448	707,783	820,181	812,183
Time	360,075	353,319	379,594	381,986
Up to 1 year	264,423	251,225	272,121	263,240
> 1 year to 5 years	95,652	102,094	107,473	118,746
Total	1,176,213	1,275,699	1,431,300	1,432,464

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

Liquidity

Currently, Peso deposits and deposit substitutes of universal and commercial banks are subject to a 20% reserve requirement. Required reserves shall be kept in the form of deposits placed in the Bank's demand deposit account (DDA) with the BSP. On the FCDU side, the Bank is required to maintain at least 100% FCDU asset cover and at least 30% of deposit liabilities in liquid assets (liquid asset cover). BPI has complied with the required reserves and asset covers, as applicable, for both the Peso and FCDU books.

As at 31 December 2016 the Bank's liquid assets amounted to ₱829,357 million, equal to 48.1% of the Bank's total assets. As at 30 June 2017, liquid assets totalled ₱728,451 million, representing 42.5% of the total assets as of that date. The Bank's liquid assets consisted largely of non-risk government securities and cash/other liquid accounts to cover primary reserves requirement for deposits as well as to maintain a significant level of secondary reserves to fund any potential increase in loan demand.

The following table sets forth information with respect to the Bank's liquidity position as at the dates indicated:

	As of 31 December			As of 30 June
(₱ millions, except percentages)	**2014**	**2015**	**2016**	**2017**
Liquid Assets[1]	**967,768**	**734,320**	**829,357**	**728,451**
Cash and Other Cash Items	38,427	35,681	35,692	29,401
Due from BSP	211,946	214,960	239,514	258,841
Due from Other Banks	22,227	22,238	23,037	9,078
Interbank Loans Receivable and Securities Purchased Under Agreements to Resell	743	8,566	12,381	7,517
Financial Assets at Fair Value Through P/L				
Derivative Financial Assets	12,607	3,791	1,574	2,738
Trading Securities	15,862	8,084	14,603	14,318
Available-for-Sale Securities	5,295	24,039	13,507	3,406
Held-to-Maturity Securities	8,625	23,305	30,722	16,759
Loan and Advances, net	649,056	390,363	454,072	381,938
Other Financial Assets	2,980	3,293	4,255	4,455
Total Assets	**1,450,197**	**1,516,356**	**1,725,696**	**1,715,988**
Total Deposits	**1,176,213**	**1,275,699**	**1,431,300**	**1,432,464**
Net Loans[2]	**800,170**	**872,861**	**1,040,720**	**1,056,912**
Financial Ratios				
Liquid Assets to Total Assets	66.7%	48.4%	48.1%	42.5%
Liquid Assets to Total Deposits	82.3%	57.6%	57.9%	50.9%
Net Loans to Total Deposits	68.0%	68.4%	72.7%	73.8%

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

Liquidity management

Liquidity risk on funding mainly come from the mismatches of asset, liability, and exchange contract maturities. The Bank manages liquidity risk by setting a minimum cumulative liquidity gap (MCLG – smallest net cumulative cash inflow or the largest net cumulative cash outflow), conducting internal and regulatory stress tests, and testing an established contingency funding plan. The Bank's market and liquidity risk exposures are generally well within the Board-approved VaR, stop loss, and other risk limits at the BPI Parent and consolidated Group levels.

The Bank's Asset and Liability Committee ("ALCO") is directly responsible for liquidity risk exposures. ALCO regularly monitors the Bank's positions and sets the appropriate fund transfer prices to effectively manage movement of funds across business activities.

Securities Portfolio

The Bank classifies its securities in the following categories: financial assets at FVPL, HTM investments and AFS investments. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Securities are classified as AFS investments when purchased and held indefinitely, but which the Bank expects to sell in response to liquidity requirements or changes in market conditions. Financial assets at FVPL include debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity.

As of 30 June 2017, the Bank's investments (net of derivatives) comprised 16.8% of its total assets. The table below shows the balances of the BPI Group's securities as of the dates indicated:

	As of December 31,						As of June 30,	
	2014		2015		2016		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(₱ millions)							
Financial Assets at FVPL	15,862	15,862	8,084	8,084	14,603	14,603	14,318	14,318
AFS Investments[(1)]	51,309	51,309	42,287	42,287	24,301	24,301	14,483	14,483
HTM Investments	209,409	220,292	244,809	248,866	268,483	261,742	260,158	255,180
Total	276,580	287,463	295,180	299,237	307,387	300,646	288,959	283,981

Note:

(1) Net of allowances for impairment losses

Loan Portfolio

As of 30 June 2017, the Bank's total consolidated loan portfolio amounted to ₱1.1 trillion, representing 62.8% of total assets as of that date. The Bank maintained a well-diversified loan portfolio broken down into large corporate loans at 73.1% of total loan portfolio, SME loans at 7.2% of total loan portfolio and consumer loans at 19.7% of total loan portfolio.

The following table sets out, for the periods indicated, the distribution of the total loan portfolio held by the Bank among principal lending units:

	As of 31 December			As of 30 June
(₱ millions)	**2014**	**2015**	**2016**	**2017**
Corporate Entities				
Large Corporate Customers	553,493	607,083	760,558	787,624
Small and Medium Enterprise	94,059	94,659	83,516	77,167
Retail Customers				
Credit Cards	31,010	35,879	39,995	42,842
Real Estate Mortgages	85,602	99,519	116,079	111,861
Auto Loans	38,296	45,911	53,485	53,079
Others	10,912	5,473	4,545	4,273
Total	**813,372**	**888,524**	**1,058,178**	**1,076,846**

Industry concentration

Historically, the consumer, manufacturing, real estate, wholesale and retail trade, and agriculture and forestry have represented the largest sectors of the Bank's loan portfolio, representing 9.2%, 14.8%, 23.2%, 11.8%, and 3.5%, respectively, of the Bank's loan portfolio as at 30 June 2017.

Under guidelines established by the BSP, loan concentration is considered to exist when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. BSP regulations require banks to allocate 25% of their loanable funds for agricultural credit in general, of which at least 10% is supposed to be made available for agrarian reform credit. Alternatively, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. As with most banks in the Philippines, the Bank is not in strict compliance with this standard.

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

	As of 31 December						As of 30 June	
(₱ millions, except	**2014**		**2015**		**2016**		**2017**	
percentages)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Consumer	72,366	8.9%	85,620	9.7%	95,751	9,1%	98,548	9.2%
Manufacturing (various)	170,367	21.0%	167,840	18.9%	167,015	15.8%	158,468	14.8%
Real estate, renting and other related activities	185,933	22.9%	199,450	22.5%	247,038	23.4%	248,827	23.2%
Wholesale and retail	107,292	13.2%	112,775	12.7%	117,123	11.1%	126,598	11.8%
Agriculture, fishing and forestry	17,508	2.2%	16,491	1.9%	42,922	4.1%	37,847	3.5%
Electricity, gas and water	47,890	5.9%	63,844	7.2%	98,556	9.3%	116,292	10.8%
Transport, storage and communication	35,947	4.4%	50,100	5.7%	59,691	5.7%	63,489	5.9%
Construction	16,643	2.1%	19,635	2.2%	22,793	2.2%	19,456	1.8%
Financial intermediaries	97,554	12.0%	108,036	12.2%	100,382	9.5%	104,166	9.7%
Others	59,623	7.4%	62,154	7.0%	103,650	9.8%	99,839	9.3%
Total	**811,123**	**100.0**	**885,945**	**100.0**	**1,054,921**	**100.0**	**1,073,430**	**100.0**

Maturity

As of 30 June 2017, approximately 37.8% of the Bank's loan portfolio had a maturity of less than one year. The following table sets forth an analysis of the Bank's loans by maturity:

	As of 31 December						As of 30 June	
(₱ millions, except	**2014**		**2015**		**2016**		**2017**	
percentages)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Within one year[1]	418,297	51.6%	384,195	43.4%	467,349	44.3%	405,610	37.8%
More than one year	201,239	24.8%	254,430	28.7%	283,068	26.8%	320,785	29.9%
More than five years	191,587	23.6%	247,320	27.9%	304,504	28.9%	347,035	32.3%
Total	**811,123**	**100.0%**	**885,945**	**100.0%**	**1,054,921**	**100.0%**	**1,073,430**	**100.0%**

1 Includes past due accounts

Currency Denomination

As at 30 June 2017, 86.5% of the Bank's loan portfolio was denominated in Pesos while 13.5% was denominated in foreign currency, a substantial portion of which was comprised of U.S. dollars.

The following table shows an analysis of the Bank's loans by currency:

	As of 31 December						As of 30 June	
(₱ millions, except	**2014**		**2015**		**2016**		**2017**	
percentages)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Philippine Peso	712,978	87.9%	794,275	89.7%	931,873	88.3%	928,403	86.5%
Foreign Currency:	98,145	12.1%	91,670	10.3%	123,048	11.7%	145,027	13.5%
U.S. Dollars	97,406	12.0%	90,988	10.2%	120,688	11.5%	142,081	13.2%
Others	739	0.1%	682	0.1%	2,360	0.2%	2,946	0.3%
Total	**811,123**	**100.0**	**885,945**	**100.0%**	**1,054,921**	**100.0**	**1,073,430**	100.0%

Interest Rates

As of 30 June 2017, 28.7% of the Bank's total loan portfolio was on a floating rate basis. The Bank sets interest rates for Peso-denominated loans based on market rates for Philippine Government Securities and for U.S. dollar-denominated loans based on U.S. dollar LIBOR. The floating rate loans are repriced for interest periods of typically 30 to 90 days.

The following table sets forth the total amount of the Bank's loans that have fixed interest rates and variable or adjustable interest rates, on a consolidated basis as at the dates indicated:

	As of 31 December						As of 30 June	
(₱ millions, except	2014		2015		2016		2017	
percentages)	Amount	%	Amount	%	Amount	%	Amount	%
Fixed Rate	727,632	89.7%	788,059	89.0%	878,861	83.3%	765,786	71.3%
Variable Rates	83,491	10.3%	97,886	11.0%	176,060	16.7%	307,644	28.7%
Total Loans	**811,123**	**100.0%**	**885,945**	**100.0%**	**1,054,921**	**100.0%**	**1,073,430**	**100.0%**

Sizes and concentration of loans

The BSP currently imposes a limit to a bank's financial exposure to a single person or group, to not more than 25% of the bank's unimpaired capital and surplus. As of 30 June 2017, the Bank is in compliance with this borrower's limit with all of its loans.

The Bank monitors its financial exposure to its customers in order to ensure that concentration risk is prudently managed. As of 30 June 2017, the Bank's ten largest corporate borrowers accounted for approximately 10.3% of the Bank's total outstanding loan portfolio. As of 30 June 2017, the Bank's ten largest borrower groups in the aggregate accounted for approximately 21.6% of its outstanding loan portfolio. There are no NPLs in the top ten loan accounts.

Secured and Unsecured Loans

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

	As of 31 December						As of 30 June	
(₱ millions, except	2014		2015		2016		2017	
percentages)	Amount	%	Amount	%	Amount	%	Amount	%
SECURED	473,529	58.4%	548,053	61.9%	636,886	60.4%	576,571	53.7%
Real estate mortgage	187,605	23.1%	232,433	26.2%	241,363	22.9%	200,839	18.7%
Chattel mortgage	40,146	4.9%	54,230	6.1%	61,484	5.8%	55,739	5.2%
Others	245,7,78	30.3%	261,390	29.5%	334,039	31.7%	319,993	29.8%
UNSECURED	337,594	41.6%	337,892	38.1%	418,035	39.6%	496,859	46.3%
Total	**811,123**	**100.0%**	**885,945**	**100.0%**	**1,054,921**	**100.0%**	**1,073,430**	**100.0%**

As of 30 June 2017, 46.3% of the Bank's total loans are unsecured.

DOSRI

BPI extends loans to its Directors, Officers, Stockholders and their Related Interests or DOSRI in the normal course of business and on equal terms with those offered to unrelated third parties. The BSP imposes an aggregate ceiling of 15% of the bank's loan portfolio for these types of loans or 100% of net worth, whichever is lower with the unsecured portion limited to thirty percent (30%) of the respective outstanding loans, other credit accommodations and guarantees of each of the bank's DOSRI. As at 30 June 2017, DOSRI loans amounted to 0.6% of loans and advances.

Loan Classification and Loan Loss Provisioning

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

The BPI Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. The BPI Group has internal credit risk rating systems, designed for corporate, small and medium-sized enterprises (SMEs), and retail accounts, that measure the borrower's credit risk based on quantitative and qualitative factors. The ratings of individual exposures may subsequently migrate between classes as the assessment of their probabilities of default changes. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. The BPI Group regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary. The BPI Group's internal ratings are mapped to the following standard BSP classifications:

- Unclassified - these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

- Loans especially mentioned - these are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the BPI Group.

- Substandard - these are loans which appear to involve a substantial degree of risk to the BPI Group because of unfavorable record or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral.

- Doubtful - these are loans which have the weaknesses similar to those of the substandard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable.

- Loss - these are loans which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

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

(₱ millions, except percentages)	As of 31 December 2014		2015		2016		As of 30 June 2017	
	Amount	%	Amount	%	Amount	%	Amount	%
CLASSIFIED	15,203	1.87%	16,807	1.88%	17,959	1.69%	19,089	1.78%
Especially mentioned	2,134	0.26%	1,821	0.20%	2,533	0.24%	3,623	0.34%
Substandard secured and unsecured	5,205	0.64%	6,161	0.69%	5,508	0.52%	4,661	0.43%
Doubtful	3,641	0.45%	4,814	0.54%	6,179	0.58%	6,439	0.60%
Loss	4,223	0.52%	4,011	0.45%	3,739	0.35%	4,366	0.41%
UNCLASSIFIED	798,612	98.13%	872,601	98.12%	1,041,426	98.31%	1,058,511	98.22%
Total	813,815	100.00%	889,408	100.00%	1,059,385	100.00%	1,077,600	100.00%

Non-Performing Loans

The table below sets forth details of the NPLs, non-accruing loans, ROPA, NPAs (as described below), restructured loans and write-offs for loan losses as of the three years ended 31 December 2014, 2015 and 2016 and period ended 30 June 2017:

(₱ millions, except percentages)	As of 31 December 2014	2015	2016	As of 30 June 2017
Total Loans (gross)	813,372	888,524	1,058,178	1,076,922
Non-performing loans (NPLs), gross	12,640	14,727	15,792	16,244
Non-performing loans (NPLs), net	4,062	5,359	5,722	5,494
ROPA, Gross	9,683	8,791	7,629	7,592
ROPA, Net	5,018	4,385	3,667	3,615
Total assets	1,450,197	1,516,356	1,725,696	1,715,988
Non-performing assets (NPAs)	22,223	23,518	23,421	23,836
NPAs to total assets	1.5%	1.6%	1.4%	1.4%
Allowance for impairment and credit losses (total)	18,083	20,432	22,197	24,025
Allowance for credit losses (loans)	13,418	16,026	18,235	20,048
Allowance for impairment losses (ROPA)	4,665	4,406	3,962	3,977
Allowance for credit losses (loans) to total non-performing loans, gross	106.2%	108.8%	115.5%	123.4%
Allowance for impairment and credit losses (total) to total non-performing assets	81.4%	86.9%	94.8%	100.8%
Total restructured loans	118	37	29	29
Restructured loans to total loans (gross)	0.01%	0.00%	0.00%	0.00%
Loans - written off[6]	1,629	1,008	2,208	332

Sectoral analysis of non-performing loans

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

(₱ millions, except percentages)	As of 31 December 2014		2015		2016		As of 30 June 2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Consumer	3,465	27.4%	4,437	30.1%	4,692	29.7%	5,289	32.6%
Manufacturing (various)	1,503	11.9%	1,419	9.6%	1,169	7.4%	963	5.9%
Real estate, renting and other related activities	3,438	27.2%	3,888	26.4%	3,916	24.8%	3,966	24.4%
Wholesale and retail	1,728	13.7%	1,955	13.3%	1,709	10.8%	1,699	10.5%
Agriculture, fishing and forestry	349	2.8%	776	5.3%	791	5.0%	882	5.4%
Electricity, gas and water	45	0.4%	45	0.3%	45	0.3%	45	0.3%
Transport, storage and communication	90	0.7%	82	0.6%	258	1.6%	300	1.8%
Construction	197	1.6%	205	1.4%	491	3.1%	516	3.2%
Financial intermediaries	429	3.4%	385	2.6%	448	2.8%	398	2.5%
Others	1,396	11.0%	1,535	10.4%	2,273	14.4%	2,186	13.5%
Total	**12,640**	**100.0**	**14,727**	**100.0**	**15,792**	**100.0**	**16,244**	**100.0**

Credit Approval Levels

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

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

	Credit Limit	
Approving Authority	**Secured**	**Unsecured**
Sub-credit Committee	₱800.0 million	₱180.0 million
Credit Committee	₱2,000.0 million	₱800.0 million
Executive Committee	₱6.5 billion	₱6.5 billion
Board of Directors	In excess of ₱6.5 billion/DOSRI	In excess of ₱6.5 billion/DOSRI

Special Accounts Management

The Bank has a Special Accounts Management Division ("SAMD") that manages and administers problem loan accounts. The relationship officers from the Corporate Banking Group identify and transfer accounts that, in their assessment, exhibit early warning signals of a deteriorating credit or have been classified as substandard or worse.

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

In cases where the remedial action implemented provides for payment via dacion en pago or other actions such as foreclosure, management of the resulting investment property is handled by the Bank's Property Sale and Leasing Division ("PSLD"). The Legal Affairs and Dispute Resolution Division provides PSLD with any legal assistance that may be required for investment property management. SAMD also provides case-to-case assistance to the PSLD in cases where investment property management may require account management approaches and solutions.

Legal Proceedings

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

BPI is a defendant in legal actions arising from normal business activities. The Bank believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

SHAREHOLDERS, DIRECTORS, AND MANAGEMENT

SHAREHOLDERS

The following table shows the principal shareholders of the Bank and the corresponding number of shares held as at 30 June 2017:

Name of Shareholder	Number of Shares	% of Total Shares
PCD Nominee Corp	1,412,688,667	35.8607%
Ayala Corporation	858,599,200	21.8082%
Liontide Holdings, Inc.	792,003,368	20.1048%
AC International Finance Limited	341,845,066	8.6828%
Roman Catholic Archbishop of Manila	327,904,251	8.3287%

BOARD OF DIRECTORS

The Board of Directors is primarily responsible for creating and enhancing the long term shareholder value of BPI and ensuring that this objective is achieved in all its business activities. The following is the list of the members of the Board of the Bank:

1. **JAIME AUGUSTO ZÓBEL DE AYALA**, Filipino, 58 years old, has been a member of the Board of Directors of BPI since March 1990 and Chairman since March 2004. He also served as Vice-Chairman from 1995 to March 2004. Mr. Zóbel de Ayala is currently Chairman of the Bank's Executive Committee and member of the Nomination Committee. He is also the Chairman of the Board of Directors of BPI Family Savings Bank, Inc., and BPI Capital Corporation.

Mr. Zóbel de Ayala is the Chairman and Chief Executive Officer of Ayala Corporation. He is also Chairman of Globe Telecom, Inc. and Integrated Micro-Electronics, Inc., and Vice-Chairman of Ayala Land, Inc. and Manila Water Company, Inc. He is also a member of various international and local business and socio-civic organizations, including the JP Morgan International Council and Mitsubishi Corporation International Advisory Committee. He is also Chairman of Harvard Business School's Asia-Pacific Advisory Board; a member of the Harvard Global Advisory Council, former Chairman of the Asia Business Council, the Ramon Magsaysay Foundation, and the World Wildlife Fund Philippine Advisory Council and a member of the Board of Trustees of Endeavor Philippines. He was also the Philippine Representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council from 2010-2015.

He graduated with B.A. in Economics (with honors) at Harvard University in 1981 and completed his MBA at Harvard Business School in 1987.

2. **FERNANDO ZÓBEL DE AYALA**, Filipino, 57 years old, has been a member of the Board of Directors 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 and Trust Committees. He is also the Chairman of the Board of Trustees of BPI Foundation, Inc.

Mr. Zóbel de Ayala is the President and Chief Operating Officer of Ayala Corporation. He is Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; Director of Globe Telecom, Inc. and Integrated Micro-Electronics, Inc. He is Chairman of AC International Finance Ltd., AC Energy Holdings ,Inc. and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc.; Director of LiveIt Investments Ltd., Ayala International Holdings Limited, Honda Cars Philippines, Inc., Isuzu Philippines Corporation., Pilipinas Shell Petroleum Corp., and Manila Peninsula. Mr. Zóbel de Ayala is also a member of INSEAD's East Asia Council and the World Presidents' Organization. He is a board member of Habitat for Humanity International and chairs the steering committee of its Asia Pacific Capital Campaign. He also serves on the board of the Asia Society and is a member of the Asia Philantrophy Circle. He is a board member of the Philippine National Museum, Caritas Manila, Pilipinas Shell Corporation; and Pilipinas Shell Foundation.

He holds a liberal arts degree from Harvard College and a CIM from INSEAD, France.

3. **CEZAR P. CONSING**, Filipino, 57 years old, became President and Chief Executive Officer of BPI in 2013. Mr. Consing has been a member of BPI's Board of Directors since 2010. He also served as Director of BPI between 1995 and 2000, and between 2004 and 2007. In the period between 1995 and 2000, Mr. Consing represented J.P. Morgan & Co., then the second largest shareholder of BPI, on the Bank's Board. Currently, Mr. Consing serves as Chairman of the Bank's Credit Committee and is a member of the Executive, Retirement & Pension, Risk Management, and Trust Committees. Mr. Consing also serves as Chairman of BPI/MS Insurance Corporation, BPI Direct BanKO, Inc., A Savings Bank, BPI Europe PLC, BPI Century Tokyo & Lease Finance Corporation, and BPI Century Tokyo Rental Corporation, and as Vice-Chairman of BPI Capital Corporation and BPI Foundation, Inc. He also serves as a member of the Board of Directors of BPI Family Savings Bank, Inc. and BPI-Philam Life Assurance Corporation. Mr. Consing is a Board Partner of The Rohatyn Group (TRG) Management Principals LP. He is also a Member of the Board of Directors of National Reinsurance Corporation of the Philippines, LGU Guarantee Corporation, Sqreem Technologies Private Ltd., and Endeavor Philippines. He has served as an Independent Director of Jollibee Foods Corporation since June 2010 and a Board Director and Non-Executive Chairman of Filgifts.com. Between 2006 and 2013, Mr. Consing also served as an Independent Director of Malaysia-based CIMB Group Holdings Bhd and CIMB Group Sdn Bhd, together one of the largest universal banking institutions in Southeast Asia. Between 2005 and 2013, Mr. Consing also served as an Independent Director of First Gen Corp.

Mr. Consing joined BPI as a full-time employee in 1980, and worked in its Corporate Planning and Corporate Banking departments. In 1985, he was seconded to J.P. Morgan & Co., and subsequently became a J.P. Morgan & Co. employee. Over a 19 year career with J.P. Morgan in Hong Kong and Singapore, Mr. Consing focused on loan origination and syndication, capital markets and mergers and acquisitions. He was responsible for all of J.P. Morgan's banking business in the Philippines, then in Southeast Asia and ultimately, the Asia Pacific region. From 1999 to 2004, he was President of J.P. Morgan Securities (Asia Pacific) Ltd. Prior to re-joining BPI, Mr. Consing was a Partner at TRG Management Principals LP, a New York-based asset management firm specializing in Emerging Markets. He headed TRG's Hong Kong office. Between 2007 and 2012, TRG owned a 40% stake in Premiere Development Bank, where Mr. Consing served as Chairman of its Executive Committee. Mr. Consing received an A.B. Economics degree (Accelerated Program), magna cum laude, from De La Salle University in 1979. In 1980, he obtained an M.A. in Applied Economics from the University of Michigan, Ann Arbor.

4. **GERARDO C. ABLAZA, JR.**, Filipino, 63 years old, is nominated for election as a Director for the term 2017 to 2018. Mr. Ablaza is a Senior Managing Director of Ayala Corporation and a Member of the Ayala Group Management Committee since 1998. He is the President and CEO of Manila Water Company, Inc., a position he has held since June 2010. He is also a member of the Board of Directors of Ho Chi Minh City Infrastructure Investment Joint Stock Company, a listed company on the Ho Chi Minh Stock Exchange. His other significant positions are: Director of Manila Water Philippine Ventures, Inc., Boracay Island Water Company, Inc., Clark Water Corporation, Manila Water Total Solutions Corporation, Manila Water Asia Pacific Pte. Ltd., Manila Water South Asia Holdings Pte.

Ltd., Kenh Dong Water Holdings Pte. Ltd., and Thu Duc Water Holdings Pte. Ltd., Azalea International Ventures Partners Ltd., Asiacom Philippines, Inc., LiveIt Investment Ltd., AC Energy Holdings, Inc., AC Infrastructure Holdings Corporation, Purefoods International Ltd., ACST Business Holdings, Inc., and Ayala Retirement Fund Holdings, Inc. He is also the Chairman of the Board of Trustees of the Manila Water Foundation, Inc. and member of the Board of Trustees of Ayala Foundation, Inc.

In 1997, Mr. Ablaza was the Chief Operating Officer of Globe Telecom, Inc. and became President and CEO from 1998 to April 2009. He was also the Chaiman of the Board of Directors of Innove Communications, Inc, a wholly owned subsidiary of Globe Telecom Inc. from October 2003 to April 2009. Before joining the Ayala Group, Mr. Ablaza was Vice-President and Country Business Manager for Philippines and Guam of Citibank, N.A. for its Global Consumer Banking Business (1994-1997), Vice-President for Consumer Banking of Citibank, N.A. Singapore (1994-1995). In 2004, Mr. Ablaza was recognized by CNBC as the Asia Business Leader of the Year, making him the first Filipino CEO to win the award. In the same year, he was awarded by Telecom Asia as the Best Asian Telecom CEO. In 2013, he was recognized for his consistent leadership and innovation across the banking, investment, telecommunications and utility services industries through the Citi Distinguished Alumni Award for Leadership and Ingenuity.

Mr. Ablaza graduated summa cum laude from De La Salle University in 1974 with a degree in Liberal Arts, major in Mathematics (Honors Program). As one of the most accomplished graduates of his alma mater, he sits as a member of the Board of Trustees in various De La Salle schools in the country.

5. **ROMEO L. BERNARDO***, Filipino, 62 years old, has served as a member of the Board of Directors of BPI since February 1998. He became an Independent Director in August 2002 up to present. He is the Chairman of the Bank's Nomination Committee and a member of the Corporate Governance, Personnel & Compensation, Related Party Transaction, Risk Management, and Trust Committees. He also serves as Independent Director of BPI Capital Corporation, BPI/MS Insurance Corporation, and BPI-Philam Life Assurance Corporation.

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 also serves as an Independent Director of the following listed companies: Aboitiz Power Corporation; Globe Telecom, Inc.; National Reinsurance Corporation of the Philippines; and RFM Corporation. He is also Chairman of the Board of Directors (Independent) of Ayala Life Fixed-Income Fund; the Peso, Dollar, Euro, Growth, Money Market Bond Funds. He also serves as Vice Chairman of The Foundation for Economic Freedom and is a Board Director of Management Association of the Philippines and Finex Foundation.

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. in Development Economics at Williams College, Williamstown, Massachusetts, graduating as valedictorian in 1977.

6. **IGNACIO R. BUNYE***, Filipino, 71 years old, was elected as Independent Director of BPI in April 2016. 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 for the Bank's Treasury and

Corporate Finance departments from 1983 before he began his government service in the City of Muntinlupa (then a municipality) as officer-in-charge and mayor between 1986 and 1998.

During his twelve-year stewardship in Muntinlupa, Mr. Bunye founded the Muntinlupa Polytechnic College (now Pamantasan ng Lungsod ng Muntinlupa) and laid the foundation for the establishment of the Ospital ng Muntinlupa. 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 and Sun Star.

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.

7. **OCTAVIO V. ESPIRITU***, Filipino, 73 years old, has been a member of Board of Directors of BPI since April 2000. 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 is currently the Chairman of the Bank's Risk Management and Related Party Transaction Committees as well as a member of the Audit Committee.

Mr. Espiritu is a Chairman of GANESP Ventures, Inc. and MAROV Holding Co., Inc. as well as a member of the Board of Directors of International Container Terminal Services, Inc., Philippine Dealing System Holdings Corporation and Subsidiaries; Philippine Stratbase Consultancy, Inc., Pueblo de Oro Golf & Country Club, and The Country Club, Inc.

Mr. Espiritu 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, 68 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, Trust Committee, Related Party Transaction Committee and Retirement/Pension Committee. She is also a member of the Board of Directors BPI Capital Corporation and BPI Family Savings Bank, Inc.

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 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. **DELFIN C. GONZALEZ, JR.**, Filipino, 67 years old, was elected as a Director of BPI in April 2016. Mr. Gonzalez was the Chief Finance Officer of Ayala Corporation from 2010 to 2015, and previously served in the same capacity at Globe Telecom Inc. from 2000 to 2010, and San Miguel Corporation from 1975 to 1999.

Mr. Gonzalez is an independent financial consultant and the Chairman and President of D.C. Gonzalez Inc. He is also a member of the Board of Trustees of De La Salle Santiago Zobel School.

He graduated with a Bachelor of Science degree in Chemical Engineering from De La Salle College in 1971, and obtained his Master's degree in Business Administration from the Harvard Business School in 1975.

10. **XAVIER P. LOINAZ***, Filipino, 73 years old, has served as an Independent Director of BPI since March 2009. Mr. Loinaz has been a member of the Board of Directors of the Bank since 1982. He previously held the position of President and Chief Executive Officer of the Bank for 22 years from 1982 to 2004. He was also President of the Bankers Association of the Philippines for two terms from 1989 to 1991. Mr. Loinaz 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., BPI/MS Insurance Corporation, and Ayala Corporation.

Mr. Loinaz is a member of the Board of Directors/Trustees of DAOI Condominium Corporation and E. Zobel Foundation; Chairman of the Board of Alay Kapwa Kilusan Pangkalusugan; Chairman and President of XPL Manitou Properties, Inc.; and Vice-Chairman of XPL MTJL Properties Inc. Mr. Loinaz 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, 65 years old, has been a member of the Board of Directors of BPI since 2004. Mr. Montinola also served as President and Chief Executive Officer of BPI for eight years from 2005 to 2013, and BPI Family Savings Bank, Inc. for twelve years from 1992 to 2004. He is a member of the Bank's Executive, Audit, Risk Management and Personnel & Compensation 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-Philam Life Assurance Corporation.

He is also the Chairman of Far Eastern University and an Independent Director of Roxas and Company, both listed companies. Among others, he is the Chairman of East Asia Educational Foundation, the Nicanor Reyes Memorial Foundation Inc., Roosevelt Colleges, Inc., East Asia Computer Center Inc., Amon Trading Corporation, and the Kabang Kalikasan ng Pilipinas Foundation, Inc. He is also a member of the Board of Trustees of BPI Foundation Inc. and Philippine Business for Education Inc. where he sits as Vice-Chairman.

Significant awards received by Mr. Montinola include Management Man of the Year 2012 (Management Association of the Philippines), Asian Banker Leadership Award (twice), and Legion d'Honneur (Chevalier) from the French Government. He obtained his Bachelor of Science in Management Engineering degree at the Ateneo de Manila University in 1973 and his MBA from the Harvard Business School in 1977.

12. **MERCEDITA S. NOLLEDO**, Filipino, 76 years old, has been a member of the Board of Directors of BPI since 1991. She is the Chairman of the Bank's Retirement & Pension and Trust Committees and a member of the Bank's Executive and Corporate Governance Committees. 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. and BPI Capital Corporation.

Ms. Nolledo serves as Director of the following companies: Ayala Land Commercial REIT, Inc., Michigan Holdings, Inc., Anvaya Cove Beach and Nature Club, Inc., Ayala Automotive Holdings Corporation, Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Prime Initiatives, Inc., and Xurpas, Inc. She is also 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 used to be a member of the Board of Directors of Ayala Corporation from 2004 until September 2010. She became a Director of D&L Industries, Inc. starting in 2016.

Ms. Nolledo graduated with the degree of Bachelor of Science in Business Administration major in Accounting 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 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, 56 years old, has been an Independent Director of BPI since April 2012. He is a member of the Executive Committee and the Vice-Chairman of the Trust Committee. He also serves as an Independent Director of BPI Capital Corporation and BPI Family 38 Savings Bank, Inc. Mr. Periquet has recently been elected as an Independent Director and Chairman of the newly formed BPI Asset Management & Trust Corporation.

Mr. Periquet is the Chairman of the Campden Hill Group, Inc. and Pacific Main Holdings. He is also an Independent Director of ABS-CBN Corporation, Ayala Corporation, DMCI Holdings, Inc., Max's Group of Companies, Philippine Seven Corporation, and Albizia ASEAN Tenggara Fund. He is member of the Board of Trustees of Lyceum University of the Philippines and sits on the Global Advisory Council of the University of Virginia's Darden School of Business.

Mr. Periquet graduated with an A.B. Economics degree at the Ateneo de Manila University in 1982. He then earned a Master of Science degree in Economics at Oxford University in 1988 and an MBA from the University of Virginia in 1990.

14. **ASTRID S. TUMINEZ***, Filipino with U.S. citizenship, 52 years old, joined BPI as an Independent Director on December 2013. She is a member of BPI's Risk Management, Corporate Governance, and IT Steering Committees. Dr. Tuminez joined Microsoft in 2012 as the Regional Director for Corporate, External and Legal Affairs (Southeast Asia). Her team supports 15 markets and drives government affairs, policy and regulatory engagements, academic and non-profit relations, and other activities to enhance understanding and use of technology for the public good. She is also the former Vice-Dean (Research) and Assistant Dean (Executive Education) of the Lee Kuan Yew School of Public Policy, National University of Singapore.

Previous positions include the following: Senior Consultant to the US Institute of Peace, Director of Research at AIG Global Investment, and Program Officer at Carnegie Corporation of New York. She sits on the Board of Singapore American School, ASKI Global, an NGO that promotes financial literacy and entrepreneurship among migrant workers in Singapore, and is an international advisor to the Global Economic Symposium.

Ms. Tuminez has been a US Institute of Peace Scholar, a Freeman Fellow of the Salzburg Global Seminar, a fellow at the Harvard Kennedy School, a Distinguished Alumna of Brigham Young University, a fellowship recipient of the Social Science Research Council and the MacArthur Foundation. She has authored several books and numerous articles, essays, opinion editorials on a wide range of subjects.

Her educational background includes a BA with a double major in Russian Literature and International Relations from Brigham Young University (1986), a Masters in Soviet Studies from Harvard University (1988), and a Ph.D. in Political Science from the Massachusetts Institute of Technology (1996). She received the Filipina Women Network's "100 Most Influential" Filipinas recognition in 2013.

15. **DOLORES B. YUVIENCO***, 69 years old, Filipino, was elected as Director of BPI on April 2014 and as Independent Director in April 2016. She is a member of the Audit Committee and Chair of the Corporate Governance Committee of BPI.

Ms. Yuvienco worked for 41 years with Bangko Sentral ng Pilipinas (formerly known as Central Bank of the Philippines) under various capacities until her compulsory retirement in March 2013. She held the post of Assistant Governor in the Supervision and Examination Sector when she retired. Her exposure at the BSP was largely in bank supervision where her responsibilities ranged from the crafting of policies/regulations on banking supervision to on-site examination and off-site monitoring of BSP-supervised entities.

As a ranking official in the BSP, she had opportunities to meet and share ideas with her counterparts in other central banks in the region. Owing to her experience, she was tapped as a resource speaker in various training programs of the Southeast Asian Center for Banking in Kuala Lumpur.

Ms. Yuvienco graduated from St. Theresa's College, Quezon City in 1967, with a degree of Bachelor of Science in Commerce, major in Accounting. She took up post graduate studies at the University of the Philippines Diliman. She is a Certified Public Accountant and a Career Executive Service Professional.

**Independent Director as defined in Sec. 38 of the Securities Regulation Code and BSP Circular Nos. 296 and 749.*

MANAGEMENT

The responsibility of managing BPI and implementing all major business strategies rests on the President and Chief Executive Officer who is in turn supported by his Senior Management Team. The following is a list of the Bank's key officers:

The Executive Officers

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

[Please see above.]

*Member of the Board of Directors of BPI

2. **JOSEPH ALBERT L. GOTUACO**
Executive Vice-President & Chief Financial Officer

Filipino, 52 years old, Mr. Gotuaco is head of the Retail Client Segment Group BPI. He serves as a member of its Management, and BPI Philam Life and Assurance Corporation Board. He also serves on the Board of BPI International Finance Ltd., a Hong Kong-based banking subsidiary.

Mr. Gotuaco began his banking career in New York City in 1986, as a trader and risk manager for various fixed income products at Chemical Bank, a predecessor firm of J.P. Morgan. In 1994, he was based in Hong Kong for J.P. Morgan, then a major shareholder of BPI. He was responsible for servicing corporate and sovereign clients in the Philippines and in Southeast Asia. In 2002, Mr. Gotuaco joined Credit Suisse in its Fixed Income Division; in 2005, he joined Merrill Lynch as Managing Director in its Fixed Income, Currencies & Commodities ("FICC") Division and served on the firm's Asia-Pacific Operating Committee. At both Credit Suisse and Merrill Lynch, he was responsible for developing and marketing fixed income solutions for sovereign and corporate clients across non-Japan Asia. Prior to joining BPI, Mr. Gotuaco worked in a Singapore-based investment vehicle of the Brunei government, where he helped manage a manufacturer of general aviation aircraft (Piper Aircraft), and founded a captive finance company (Piper Capital).

Mr. Gotuaco obtained his B.S. Economics in Finance and Marketing, summa cum laude, from the Wharton School, University of Pennsylvania, in 1986. He obtained his MBA from Harvard Business School in 1994. Mr. Gotuaco also serves as a non-executive board member of AirFleet Capital, Inc., a U.S.-based originator of loans for general aviation aircraft.

3. **RAMON L. JOCSON**
Executive Vice-President

Filipino, 57 years old, Mr. Jocson is head of Enterprise Services Group which serves as BPI's infrastructure backbone covering Human Resources, Centralized Operations, Information Systems and General/Administration Services. He chairs the Bank's IT Steering Committee and is member of the Bank's Management Committee.

Mr. Jocson began his career as a Systems Analyst with IBM in Manila in 1982, subsequently working through different positions including Information Systems Manager, Systems Engineering Manager and Manager of Quality. In 1995, he was based 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 was appointed 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, Mr. Jocson was appointed as 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 & Eastern Europe, Latin America and Middle East/Africa. In 2010, he was appointed as VP & GM of Integrated Technology Services for Asia Pacific. In 2013, he was appointed as VP & GM of IBM Global Services for Central and Eastern Europe based out of Prague, Czech Republic. In this capacity, he had responsibility for IBM's services portfolio in Russia/CIS, Turkey, Poland & Baltics, Central Europe and South East Europe. From January 2015 until he joined BPI in September 2015, he was based in Singapore, as IBM Asia Pacific VP & GM for Strategic Outsourcing which counts major regional banks, telcos and airlines as amongst its major clients.

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

4. **DENNIS GABRIEL M. MONTECILLO**
Executive Vice-President

Filipino, 60 years old, Mr. Montecillo is head of the Corporate Client Segment Group of BPI. He was a former President of BPI Capital Corporation, the Bank's investment banking subsidiary. He has 21 years of international investment banking experience, having worked in New York and Hong Kong at Bankers Trust, Credit Suisse and Morgan Stanley. At Banker's Trust (now owned by Deutsche Bank), he worked in various capacities in the Real Estate Finance Group and the Global Markets Group, including corporate lending, restructuring, private placements, derivatives, and portfolio analysis and acquisition of real estate assets.

During his time at Credit Suisse and Morgan Stanley in Hong Kong, he was part of and managed business development and transaction teams in corporate, real estate and leveraged finance, derivatives, private equity, mergers & acquisitions, and equity and debt capital markets. He primarily served as country manager for the Philippines and was the senior coverage officer for the top corporations and financial institutions in the country. Additionally, in 2000, he established, built up and managed the Financial Sponsors Group at Morgan Stanley to cover the Asian officers of its global private equity, hedge fund and venture capital clients.

More recently, Mr. Montecillo served as partner and Chief Executive Officer of Diamond Dragon Advisors (Hong Kong) Limited, Asia's first privately-owned private equity fund placement agent, and before that, was Chief Executive Officer of Fidelis Holdings Limited, the Hong Kong-based regional real estate investment vehicle of the Ayala Group of Companies. Mr. Montecillo earned Master of Business Administration and Master of Arts degrees from Stanford University and bachelor's degrees in Management of Financial Institutions and Behavioral Sciences, magna cum laude from De La Salle University.

5. **ANTONIO V. PANER**
Executive Vice-President & Treasurer

Filipino, 58 years old, Mr. Paner serves as Treasurer and head of the Bank's Global Markets Group. As such, he is responsible for managing the Bank's interest rate and liquidity gaps, as well as its fixed income and currency market-making, trading, and distribution capabilities – in the Philippines and internationally. Mr. Paner is Chairman of the Bank's Asset & Liability Committee and is member of the Management Committee and Asset Management Investment Council. Mr. Paner is Chairman of BPI Forex Corporation, and also serves on the boards of BPI Europe Plc, BPI International Finance Ltd. and BPI Direct BanKo.

Mr. Paner joined BPI in 1985, when the Bank acquired Family Savings Bank and performed various Treasury and Trust positions until 1989. Between 1989 and 1996, he worked at Citytrust, then the consumer banking arm of Citibank in the Philippines, which BPI acquired in 1996. At BPI, he has been responsible for various fixed income-related businesses of the bank, including Risk Taking, Local Currency Portfolio Management, and Money Management. Mr. Paner served as President of the Money Market Association of the Philippines (MART) in 1998 and remains an active member of the Bankers Association of the Philippines' (BAP) Open Market Committee. He is also a member of the Money Markets Association of the Philippines, Makati Business Club, Management Association of the Philippines, British Chamber of Commerce, and the Philippine British Business Council.

Mr. Paner 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.

6. **SIMON R. PATERNO**
Executive Vice-President

Filipino, 58 years old, Mr. Paterno serves as head of Financial Products & Services. As such, he is responsible for building and managing BPI's service capabilities across all asset, liability, payments, and bancassurance platforms. He also serves on the Bank's Management, Asset & Liability, Credit Committees, as well as on the Board of BPI Century Tokyo Lease and Finance Corporation, BPI Century Tokyo Rental Corporation, and BPI/MS Insurance Corporation.

Prior to joining BPI, Mr. Paterno represented CIMB in its search for a Philippine bank investment, having joined the group in late 2012 as CEO-designate of Bank of Commerce, which was targeted for acquisition by CIMB. Between 2004 and 2012, he was Managing Director and Country Manager of Credit Suisse, where he also founded and served as Chairman of Credit Suisse Securities Philippines, Inc., the firm's securities broker/dealer subsidiary. Between 2002 and 2004, Mr. Paterno was President & 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.

EMPLOYEES

BPI currently has 15,621 employees, as of 30 June 2017, with 5,248 employees as part of its management. BPI has 24 unions, a product of the many merger and acquisitions the Bank has had in its history. However, BPI has not been involved in any material disputes or employee related lawsuits that may adversely affect the Bank and its operations.

PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the CDs. It is based on the laws, regulations, and administrative rulings in force as of the date of this Offering Circular and is subject to any changes in law or regulation occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own, or dispose of the CDs. Prospective purchasers should consult their tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding, and disposing of the CDs.

Taxation of Interest Income

Under the National Internal Revenue Code of the Philippines, as amended (the "Tax Code"), interest income earned by individual citizens (resident or non-resident), resident aliens, and nonresident aliens engaged in trade or business in the Philippines as holders of the CDs will generally be subject to a 20% final withholding tax. However, the CDs may qualify as long-term deposits or investments, in which case, interest income derived by said individuals may be exempt from the 20% final withholding tax, provided the investment is not pre-terminated before the 5th year. Transfers or assignments of the CDs are considered pre-termination for tax purposes. Additionally, for interest income derived by these individuals from the CDs held by common or individual trust funds or investment management accounts to be exempt from income tax: (a) the CDs should be registered in the name of the individual and not under the name of the bank or the trust department/unit administering the common or individual trust funds or investment management accounts; (b) the investment of the individual investor in the common or individual trust fund or investment management account must be held/managed by a duly licensed bank for at least five years without interruption; and (b) the common or individual trust account or investment management account must hold on to such CDs in continuous and uninterrupted period for at least five years.

Should the holder pre-terminate the CD before the 5th year, or (in the case of CDs held by a common or individual trust fund or investment management account, the other requirements mentioned above are not met) a final tax shall be imposed on the pre-terminating holder / seller's entire income and shall be deducted and withheld by the Bank from the proceeds of the CDs based on the pre-terminating holder's holding period:

Four years to less than five years – 5%
Three years to less than four years – 12%
Less than three years – 20%

Interest income received by domestic and resident foreign corporations as holders of the CDs are generally subject to a final withholding tax of 20% unless tax exemptions apply as supported by appropriate documentation.

Documentary Stamp Taxes

The issuance of the CDs will be subject to documentary stamp taxes at the rate of P1.00 for every P200.00 of the issue value of the CDs. The Bank is liable for the payment of the documentary stamp tax on the original issuance of the CDs. No documentary stamp tax is imposed on the secondary transfer of the CDs.

Taxation on Gains upon the Sale or Other Disposition of the CDs

A holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of a CD in an amount equal to the difference between the amount realized from such disposition and the value of such holder's interest in the CD. Under the Tax Code, any gain realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures, or other certificates of indebtedness) is exempt from income tax. Since the CDs have maturity of more than five years from the date of issuance, any gains realized by a holder from the sale of the CDs will be exempt from Philippine income tax.

Value-Added Tax and Gross Receipts Tax

The gross income from the sale or transfer of the CDs in the Philippines by dealers in securities is subject to VAT at the rate of 12.0%. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax as the following rates:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less — 5%
Maturity period is more than 5 years — 1%

(b) On dividends and equity shares and net income of subsidiaries — 0%

(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7%

(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7%

Other non-bank financial intermediaries are subject to gross receipts tax at the following rates:

(a) On interest, commissions, discounts and all other items treated as gross income under the Tax Code — 5%

(b) On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less — 5%
Maturity period is more than 5 years — 1%.

Estate and Donor's Tax

The transfer of the CDs as part of the estate of a deceased individual to his heirs, whether or not such individual was resident in the Philippines at the time of his death, will be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20% depending on the value of the net estate. A holder of such CDs will be subject to donor's tax upon the donation of the CDs to strangers at a flat rate of 30.0% of the net gifts. A stranger is defined as any person who is not a brother, sister (whether by whole-or half-blood), spouse, ancestor and lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship to the Holder. A donation to a non-stranger will be subject to a donor's tax at progressive rates ranging from 2% to 15% based on net gifts made during the calendar year in excess of ₱100,000. The estate tax as well as the donor's tax in respect of the CDs shall not be collected (i) if the deceased at the time of death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

PHILIPPINE BANKING INDUSTRY

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks and cooperative banks.

As of 23 October 2017, 43 universal and commercial banks operated in the Philippines. These banks comprised three domestic Government-owned banks, 17 private domestic banks and 23 banks that are either branches or subsidiaries of foreign banks, all of which compete with the Bank in at least certain of its targeted sectors and products.

Commercial banks have all the general powers incident to corporations and all powers that may be necessary to carry on the business of commercial banking, such as the power to accept drafts and to issue letters of credit, to discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, accept or create demand deposits, receive deposits and deposit substitutes, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, invest in the equity of business not related to banking and own up to 100.0% of the equity in a thrift bank, a rural bank or financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in secured or unsecured loans, or in financing for home building and home development, in readily marketable debt securities, in commercial paper and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, housing and other financial and allied services for its chosen market and constituencies, especially for small and medium-sized enterprises and individuals. As of 08 September 2017, there were 57 thrift banks in the Philippines.

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As of 08 September 2017, based on BSP data, there were 495 rural banks in the Philippines.

Specialized Government banks are organized to serve a particular purpose. The existing specialized banks are DBP, Land Bank, and Al-Amanah Islamic Investment Bank of the Philippines (“AAIIB”). DBP was organized primarily to provide banking services catering to the medium and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small- and medium-sized enterprises. Land Bank primarily provides financial support in all phases of the Philippines’ agrarian reform program. In addition to their special functions, DBP and Land Bank are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio- economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends - the liberalization of the industry, and mergers and consolidation.

The entry of foreign banks in the industry was liberalized in 1994, enabling foreign banks to invest in up to 60.0% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. The General Banking Law further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100.0% of the voting stock of one domestic bank within seven years from the effectivity of said law on 13 June 2000 or until 13 June 2007. Within the same period, the Monetary Board may authorize a foreign bank, which had availed of the privilege of acquiring up to 60.0% of the voting stock of a domestic bank prior to 13 June 2000 to further acquire voting shares of such bank to the extent necessary for it to own 100.0% of the voting stock thereof.

On 15 July 2014, President Benigno S. Aquino III signed into law Republic Act No. 10641 or "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721." Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing bank; (b) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin.

Under RA 10641, in the exercise of the authority to approve entry applications, the Monetary Board shall adopt such measures as may be necessary to ensure that control of at least sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos. A foreign bank branch authorized to do banking business in the Philippines under RA 10641 may open up to five (5) sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of or all of the outstanding shares of stock in a bank. On 21 December 2016, BSP issued Memorandum No. M-2016-023 listing the possible regulatory incentives that may be requested by merging/consolidating banks and Quasi-Banks ("QBs"). The granting of regulatory incentives for consolidating banks and QBs is in support of the BSP's goal of strengthening the financial capabilities and enhancing overall competitiveness of banks and QBs. Under the Philippine Competition Act, parties to a transaction must notify the Philippine Competition Commission ("PCC"), if (i) a threshold value of PHP one billion with respect to aggregate Philippine annual gross revenue or Philippine assets and value of the transaction is met and (ii) there is an acquisition of shares with a voting power of at least 35% in the acquired corporation (50% if the acquiring corporation already owns more than 35% of the shares in the acquired corporation). The parties must then wait for the PCC to act or not take action within a prescribed period.

Competition

The Bank faces competition from both domestic and foreign banks, in part as a result of the liberalization of the banking industry by the National Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets.

As of 30 June 2017, based on banks' SEC 17-Q reports to the Philippine Stock Exchange, the Bank ranks third in terms of total assets among the five leading private domestic commercial banks in the Philippines. The following table sets out a comparison, based on public disclosures, of the five leading private domestic Philippine banks as of 30 June 2017. The Bank's data is presented on consolidated basis.

(₱ Billions)	**As of 30 June 2017**			
Consolidated	**Total Assets**	**Total Capital**	**Total Loans & Receivables**	**Total Deposits**
BDO Unibank, Inc.	2,470.7	289.2	1,657.5	1,979.7
Metropolitan Bank and Trust Co.	1,964.5	216.4	1,118.3	1,459.8
Bank of the Philippine Islands	1,715.9	173.5	1,056.9	1,432.5
Philippine National Bank	823.9	113.9	455.1	624.7
Security Bank Corp	774.7	101.0	340.2	379.7

**Source: SEC17-Q Disclosures with the Philippine Stock Exchange*

BANKING REGULATION AND SUPERVISION

Banking Regulation and Supervision

The New Central Bank Act of 1993 (Republic Act No. 7653) and the General Banking Law of 2000 (Republic Act No. 8791) vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, cooperative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board. Subsidiaries and affiliates of banks may likewise be subjected to examination by the BSP.

The BSP's Manual of Regulations for Banks is the principal source of rules and regulations that must be complied with by banks in the Philippines. The Manual of Regulations for Banks contains regulations applicable to universal banks, commercial banks, thrift banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant financial intermediary. Supplementing the Manual of Regulations for Banks are rules and regulations disseminated through various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The Manual of Regulations for Banks and other BSP rules and regulations issued through circulars and memoranda are principally implemented by the Supervision and Examination Sector (the "SES") of the BSP. The SES is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions).

Permitted Activities

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100.0% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorized by the General Banking Law and the Manual of Regulations for Banks, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business. Subject to existing regulations, financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings, or both.

Financial allied undertakings include leasing companies, banks, investment houses, financial companies, credit card companies, and financial institutions catering to small-and medium scale industries, including venture capital companies, companies engaged in stock brokerage, securities dealership and brokerage and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank.

Regulations

The MORB and various BSP regulations impose the following restrictions on universal, commercial and thrift banks:

Minimum capitalization

Under the Manual of Regulations for Banks, universal banks, such as the Bank, are required to have capital accounts of at least ₱3 billion (for Head Office only); ₱6 billion (for up to 10 branches); ₱15 billion (for 11 to 100 branches); and ₱20 billion (for more than 100 branches). Commercial banks are required to have capital accounts of at least ₱2 billion (for Head Office only); ₱4 billion (for up to 10 branches); ₱10 billion (for 11 to 100 branches); and ₱15 billion (for more than 100 branches). Thrift banks with a Head Office in the National Capital Region (NCR) are required to have capital accounts of at least ₱500 million (for Head Office only); ₱750 million (for up to 10 branches); ₱1 billion (for 11 to 50 branches); and ₱2 billion (for more than 50 branches). Thrift Banks with Head Office in all other areas outside NCR are required to have capital accounts of at least ₱200 million (for Head Office only); ₱300 million (for up to 10 branches); ₱400 million (for 11 to 50 branches); and ₱800 million (for more than 50 branches).

Capital Adequacy Requirements

In July 2001, the Philippines adopted the capital adequacy framework of the Basel Committee on Banking Supervision. The Manual of Regulations for Banks provides that the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, must not be less than 10.0%. The ratio is required to be maintained daily on both a solo basis (head office plus branches) and a consolidated basis (Parent Company plus subsidiary financial allied undertakings, but excluding insurance companies). The qualifying capital refers to the sum of Tier 1 or core capital and Tier 2 or supplementary capital of the bank, less deductions of the value of certain assets. The risk-weighted assets, on the other hand, are determined by assigning risk weights to amounts of on-balance sheet assets and to credit equivalent amounts of off-balance sheet items (inclusive of derivative contracts), subject to the deduction of the following items: (a) general loan loss provision (in excess of the amount permitted to be included in upper Tier 2 capital) and (b) unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board of the BSP. Any asset deducted in computing for the qualifying capital must not be included in the risk-weighted assets in computing the denominator of the ratio. The risk-weighted amount shall be the product of the book value of assets multiplied by the risk weight associated with that asset. The following assets are classified as zero risk weight: (a) cash on hand; (b) claims on, or portions of claims guaranteed by or collateralized by, securities issued by (i) the Government or the BSP, or (ii) central governments and central banks of foreign countries with the highest credit quality; (c) claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks; (d) loans to the extent covered by hold-outs on, or assignment of, deposits/deposit substitutes maintained with the lending bank; (e) loans or acceptances under LCs to the extent covered by margin deposits; (f) portions of special time deposit loans covered by Industrial Guarantee and Loan Fund guarantees; (g) real estate mortgage loans to the extent guaranteed by the Home Guaranty Corporation; (h) loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines; (i) loans to exporters to the extent guaranteed by the Guarantee Fund for Small and Medium Enterprises; (j) foreign currency notes and coins on hand acceptable as international reserves; and (k) gold bullion held either in its own vaults, or in another's vault on an allocated basis, to the extent offset by gold bullion activities.

In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III starting 1 January 2014. On 15 January 2013, the BSP issued Circular No. 781, which prescribes the new capital adequacy standards in accordance with Basel III, effective 1 January 2014. The Basel III capital standards set by the BSP are as follows: the CET1 ratio at a regulatory minimum of 6.0% of risk-weighted assets and the Total Tier 1 ratio at a minimum of 7.5%. Both ratios are more stringent and higher than the minimum international norms of 4.5% and 6%, respectively. The total Capital Adequacy Requirement remains at 10%, which is higher than the international regulatory minimum of 8%. A capital conservation buffer of 2.5% above the regulatory minimum levels will also be implemented.

On January 2013, the BSP issued Circular No. 781 entitled the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect last January 2014. Notable amendments include the following:

Keeping minimum CAR at 10%, subject to following minimum capital ratios:

- Common Equity Tier 1 ("CET1") ratio of 6.0%;
- Tier 1 ratio of 7.50%; and
- Capital conservation buffer of 2.50%.
- Adopting a new categorization of capital.
- As applicable, allowing the BSP to adopt regulatory deductions in Basel III.
- Removing existing limits on eligible Tier 1 and Total Tier 2 capital.
- By 1 January 2014, rendering ineligible existing capital instruments as of 31 December 2010 that do not meet eligibility criteria for capital instruments under the revised capital framework.
- By 1 January 2016, rendering ineligible regulatory capital instruments issued under BSP Circular No. 709 and BSP Circular No. 716 before the revised capital framework became effective.
- By subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On 14 February 2014, the BSP issued Circular No. 826 which provides for amendments to the risk disclosure requirements on loss absorbency features of capital instruments. The said circular requires the following from banks or quasi-banks when marketing, selling and/or distributing Additional Tier 1 and Tier 2 instruments eligible as capital under Basel III framework in the Philippines:

- The banks/quasi-banks must subject investors to a client suitability test to determine their understanding of the specific risks related to these investments and their ability to absorb risks arising from these instruments;

- The banks/quasi-banks must provide appropriate Risk Disclosure Statement for the issuance of Additional Tier 1 and Tier 2 capital instruments;

- The banks/quasi-banks must secure a written certification from each investor stating that:

    - The investor has been provided a Risk Disclosure Statement which, among others, explains the concept of loss absorbency for Additional Tier 1 and Tier 2 capital instruments as well as the resulting processes should the case triggers be breached;

    - The investor has read and understood the terms and conditions of the issuance;

    - The investor is aware of the risks associated with the capital instruments; and

    - Said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount;

- The banks/quasi-banks must make available to the BSP, as may be required, the:

    - Risk Disclosure Statement;

    - Certificate from the investor; and

    - Client Suitability Test of the Investor.

For offshore issuances of Additional Tier 1 and Tier 2 capital instruments, the risk disclosure requirements will be governed by the rules and regulations of the country where these instruments are issued. The subsequent sale and/or distribution of Additional Tier 1 and Tier 2 capital instruments in the Philippines, originally issued overseas, shall comply with all the risk disclosure requirements for issuance in the Philippines.

BSP Circular No. 856 series of 2014 provided the implementing guidelines on the framework for dealing with Domestic Systematically Important Banks ("DSIBs") in accordance with reform packages proposed by the Basel Committee on Banking Supervision. Meanwhile, BSP Circular No. 904 (2016) provides the guidelines on recovery plan that is required to be submitted by DSIBs, which forms an integral part of the ICAAP process document required to be submitted every 31 March of each year.

Moreover, the BSP adopted the Basel III leverage ratio framework under BSP Circular No. 881 (2015). The leverage ratio of universal and commercial banks as well as their subsidiary banks and quasi-banks, computed as the level of a bank's Tier 1 capital against its total on-book and off-book exposures, must not be less than 5%. During the monitoring period up to end-2017, sanctions will not be imposed on covered institutions falling below the 5% minimum but covered institutions are required to submit periodic reports.

Banks also face new liquidity requirements under Basel III's new liquidity framework, namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30 day-liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90 percent which will then be increased to 100 percent beginning 1 January 2019. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. The BSP adopted Basel III's LCR under BSP Circular No. 905 (2016), which initially covers universal and commercial banks, prescribes: (i) that under a normal situation, the value of the liquidity ratio shall be no lower than 100% on a daily basis and (ii) an observation period from 1 July 2016 to the end of 2017, during which period the banks are required to submit quarterly reports to the BSP.

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

Under Subsection X253.1 of the Manual of Regulations for Banks, commercial banks (including the Bank) are required to maintain regular reserves of 20.0% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad, 4.0% against long-term negotiable certificate of time deposits issued under BSP Circular No. 304 (2001), 7.0% against long-term negotiable certificate of time deposits issued under BSP Circular No. 824 (2014), 4.0% against deposit substitutes evidenced by repo agreements, and 6.0% against bonds.

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 20.0% of the net worth of such bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board of the BSP from time to time. Currently, the applicable ceiling is 25.0%. A circular issued by the BSP in May 2009 amended the ceiling on loans to subsidiaries and affiliates. This allowed a bank's subsidiaries and affiliates, engaged in energy and power generation, to a separate individual limit of 25.0% of bank's net worth while the unsecured amount to not exceed 12.5% of the said net worth.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower, which includes outstanding loans and other credit accommodations, deferred LCs less margin deposits, and guarantees. Except as specifically provided in the Manual of Regulations for Banks, total credit commitment is determined on a credit risk-weighted basis in accordance with existing regulations.

Other credit accommodations refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments. Among the items excluded from determining the loan limit are: (a) loans and other credit accommodations secured by obligations of the BSP or of the Government, (b) loans and other credit accommodations fully guaranteed by the Government as to payment of principal and interest, (c) loans and other credit accommodations secured by U.S. treasury securities and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies, (d) loans and other credit accommodations to the extent covered by hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines, (e) loans, credit accommodations and acceptances under LCs to the extent covered by margin deposits and (f) other loans or credit accommodations which the Monetary Board of the BSP may from time to time specify as non-risk items.

The BSP also issued amendments to the Regulations on Single Borrower's Limit. The amendment allowed for increases (on top of the 20.0% as already mentioned) on the amount of loans, credit accommodations and guarantees that a bank may issue out to a borrower. The following are the allowed increases given certain conditions: (a) an additional 10.0% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be full covered by insurance, (b) an additional 25.0% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under the Philippine Government's Public-Private Partnership (PPP) Program; that these additional liabilities should not exceed 25.0% and will be allowed for a period 6 years from 28 December 2010, (c) an additional 15.0% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation until 3 March 2014.

Trust Regulation

The Manual of Regulations for Banks contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the Manual of Regulations for Banks. The Bank may, under its Articles of Incorporation, accept and manage trust funds and properties and carry on the business of a trust corporation.

Foreign Currency Deposit System

A FCDU is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorized to operate an expanded FCDU and thrift banks with a net worth or combined capital accounts of at least ₱325 million if their head offices are located in Metro Manila, and ₱52 million if their head offices are located outside Metro Manila, may be authorized to operate an FCDU. In general, FCDUs of such banks may, in any acceptable foreign currency (a) accept deposits and trust accounts from residents and non-residents; (b) deposit with foreign banks abroad, offshore banking units ("OBUs") and other FCDUs; (c) invest in short-term, readily marketable foreign currency-denominated debt instruments; (d) grant foreign currency loans as may be allowed by the BSP; (e) borrow, on short-term maturity, from other FCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings; and (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs. In addition to the foregoing, commercial banks and universal banks authorized to operate under the expanded FCDU system may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading; (b) on request/instruction from its foreign correspondent banks and provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU: (i) issue LCs for a non-resident importer in favor of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the letter of credit and (iii) make payment to the order of the non-resident exporter; and (iv) engage in securities lending activities subject to certain conditions. FCDUs are required to maintain a 100.0% cover for their foreign currency liabilities, except for US$ denominated repurchase agreements with the BSP. FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign exchange cover.

Lending Policies: Secured and Unsecured Lending

Banks are generally required to ascertain the purpose of a proposed loan. Under existing regulations, commercial and universal banks are generally prohibited from extending loans and other credit accommodations against real estate in an amount exceeding 60.0% of the appraised value of the real estate security, plus 60.0% of the appraisal value of the insured improvements, except for residential loans in an amount not exceeding ₱3.5 million; and housing loans extended by or guaranteed under the Government's "National Shelter Program", both of which shall be allowed a maximum value of 70.0% of the appraisal value of the insured improvements. Similarly, loans and other credit accommodations on security of chattels and intangible properties shall not exceed 75.0% of the appraisal value of the security. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any lending should be only for a time period essential for completion of the operations to be financed.

The Manual of Regulations for Banks states that total real estate loans are not to exceed 20.0% of a commercial and universal bank's total loan portfolio, net of interbank loans. Excluded from this, however, are loans granted to individual households to finance the associated land acquisition, construction, and/or improvement, loans extended to land developers of socialized and low-cost residential properties, loans to the extent guaranteed by Home Guarantee Corporation, and loans to the extent collateralized by non- risk assets under existing regulations.

Under BSP Circular No. 855 (2014) on the Guidelines on Sound Credit Risk Management Practices, the BSP will evaluate the bank's credit risk management not only at the level of the individual legal entities but also across the subsidiaries within the consolidated banking organization. The board of directors is responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of a bank. Meanwhile, the senior management is responsible for ensuring that the credit risk-taking activities of a bank are aligned with the credit risk strategy approved by the board of directors. Senior management or an appropriate level of management is mandated to implement a board-approved credit risk management structure that clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process. Banks are required to have in place a sound, comprehensive and clearly defined credit policies, processes and procedures consistent with prudent standards, practices, and relevant regulatory requirements adequate for the size, complexity and scope of their operations.

Priority Lending Requirements

The Agri-Agra Reform Credit Act of 2009 or Republic Act No. 10000 mandates that all banks shall set aside 25.0% of their total loanable funds for agriculture and agrarian reform credit in general, of which at least 10.0% shall be made available for agrarian reform beneficiaries. In the alternative, banks can buy government and debt securities whose proceeds shall be used for lending to the agriculture and agrarian reform sectors, subscription to shares of stock of accredited rural financial institutions (preferred shares only), Quedan and Rural Credit Guarantee Corporation and the Philippine Crop Insurance Corporation; open special deposit accounts with accredited rural financial institutions, provide rediscounting on eligible agriculture, fisheries and agrarian credits, and provide lending for construction and upgrading of infrastructure including farm-to-market roads. The BSP shall impose administrative sanctions and penalties of 0.5% of the total amount of its non-compliance and under-compliance.

BSP regulations also provide that, for a period of ten years from 17 June 2008 to 16 June 2018, banks are required to set aside at least 8.0% for micro and small-sized and 2.0% for medium-sized enterprises, of their total loan portfolio based on their balance sheet as of the end of the previous quarter for lending to such enterprises. Investments in government securities other than the instruments offered by the government-controlled Small Business Corporation will not satisfy such obligation.

Banks may be allowed to report compliance on a group-wide basis (i.e. on a parent-subsidiary consolidated basis), so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group, provided that the subsidiary bank(s) is at least majority-owned by the parent bank, and provided further that the parent bank shall be held responsible for the compliance of the group.

Qualifications of Directors and Officers

Under the Manual of Regulations for Banks, bank directors and officers must meet certain minimum qualifications. For instance, directors must be at least 25 years old, have a college degree or have at least five years' business experience, while officers must be at least 21 years old, have a college degree, or have at least five years' banking or trust experience or related activities or in a field related to his position and responsibilities, and be fit and proper for the position he is being proposed/appointed to.

Certain persons are permanently disqualified from acting as bank directors, including (a) persons who have been convicted by final judgment of a court (i) for an offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of Batas Pambansa Blg. 22 (which penalizes the issuance of checks that are not sufficiently funded), violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), (ii) sentencing them to serve a maximum term of imprisonment of more than six years, (iii) for violation of banking laws, rules and regulations; (b) persons who have been judicially declared insolvent or incapacitated; (c) directors, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board; (d) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; and (e) directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

Meanwhile, certain persons are temporarily disqualified from holding a director position including (a) persons who refuse to fully disclose the extent of their business interests or any material information to the appropriate department of the SES when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the BSP; (b) directors who have been absent for more than half of directors' meetings during their incumbency and directors who failed to physically attend 25% of all board meetings in any year; (c) persons who are delinquent in the payment of their obligations with the bank where he/she is a director or officer or at least two obligations with other banks or financial institutions under different credit lines or loan contracts are past due; (d) directors and officers of closed banks pending their clearance by the Monetary Board; (e) directors disqualified for failure to observe their duties and responsibilities prescribed under existing regulations; (f) directors who failed to attend the required special seminar for board of directors; (g) persons who have been dismissed/terminated from employment for cause; (h) those under preventive suspension; (i) persons with derogatory records as certified by, or on official files of, the judiciary, National Bureau of Investigation, Philippine National Police, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities; (j) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by court; and (k) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed.

When the ground for disqualification ceases to exist, the director or officer concerned may subsequently become a director or officer of institutions regulated by the BSP only upon approval of the Governor of the BSP. In addition, except as may be permitted by the Monetary Board of the BSP, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non- bank financial intermediaries. The same prohibition applies to persons appointed to such positions as representatives of the government or government-owned or controlled entities holding voting shares of stock of banks/quasi-banks/nonbank financial institutions/trust corporations unless otherwise provided under existing laws (see BSP Circular No. 953 dated March 27, 2017).

Under the Manual of Regulations for Banks, independent directors shall have the additional qualifications that he or she: (a) is not or has not been an officer or employee of the bank, its subsidiaries or affiliates within three years from his election; (b) is not a director or officer of the related companies of the bank's majority stockholder; (c) is not a stockholder of the bank with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders; (d) is not a relative (spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law) of any director, officer or a shareholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies, or any of its substantial shareholders; (e) is not acting as a nominee or representative of any director or substantial shareholder or any of its related companies; and (f) is not retained as a professional adviser, consultant or counsel of the bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm, and is independent of the management and free from any business or other relationship.

Loans to DOSRI

In general, dealings of a bank with any of its DOSRI should be in the regular course of business and on terms not less favorable to the bank than those offered to others. The amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and book value of their paid-in capital contribution in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of the bank's net worth or 15.0% of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0% of the aggregate ceiling of the outstanding loans, other credit accommodations and guarantees. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit accommodations and guarantees every week.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

On 31 January 2007, the BSP issued Circular No. 560, which provides that total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the bank and the unsecured loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 5.0% of the bank's net worth. In the aggregate, outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the bank. BSP Circular No. 560 further provides that these subsidiaries and affiliates should not be a related interest of any of the directors, officers and/or stockholders of the lending institution, except where such director, officer, or stockholder sits in the board of directors or is appointed as an officer of such corporation as representative of the bank. However, loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations as well as interbank call loans shall be excluded in determining compliance with these prescribed ceilings.

On 23 June 2016, the BSP issued Circular No. 914 which provides that loans, other credit accommodations and guarantees granted by a bank to its subsidiaries and affiliates engaged in, or for the purpose of undertaking infrastructure, energy and power generation, and other priority programs and projects, including those under the Public-Private Partnership Program of the government shall be subject to a separate individual limit of 25% of the net worth of the lending bank. The unsecured portion thereof shall not exceed 12.5% of such net worth.

Valuation Reserves for Credit Losses Against Loans

Prior to the issuance of BSP Circular No. 940 on 20 January 2017, banking regulations define past due accounts of a bank as referring to all accounts in a bank's loan portfolio, all receivable components of trading account securities, and other receivables that are not paid at maturity. In the case of loans or receivables payable in installments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment	Minimum number of installments in arrears
Monthly	3
Quarterly	1
Semestral	1
Annually	1

When the total amount of arrears reaches 20.0% of the total outstanding balance of the loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of installments in arrears. For modes of payment other than those listed above (e.g., daily, weekly or semi-monthly), the entire outstanding balance of the loan/receivable are considered as past due when the total amount of arrearages reaches ten percent (10%) of the total loan/receivable balance.

However, under BSP Circular No. 940 issued on 20 January 2017, an account that does not pay on contractual date is deemed past due the following day. However, BSP supervised financial institutions ("BFSIs") are allowed to provide for a cure period policy on a credit product-specific basis within which clients may be allowed to catch up on a late payment without being considered past due as long as the cure period policy is based on actual collection experience and reasonable judgment that support tolerance of occasional payment delays. In the case of loans or receivables payable in installments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment	**Past Due**
Monthly/Quarterly/Semestral/Annually	1 day after due date excluding cure period, if any
Daily/Weekly/Semi-monthly/Microfinance	1 day after contractual due date; 11th day if with cure period

BSFIs are given until 31 December 2017 to make the necessary revisions in their management information and reporting systems relating to their past due and non-performing exposures. Effective 1 January 2018, past due and non-performing exposures shall be mandatorily reported in accordance with the requirements of the revised policy.

Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies, and incorporate, at minimum, well-defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures must explicitly narrate and document the necessary operational steps and processes to execute the policies.

BSP regulations allow loans and advances to be written off as bad debts only if they can be justified to be uncollectible. The board of directors of a bank has discretion as to the frequency of write-off provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board is required to write off loans to bank's directors, officers, stockholders and their related interests.

On 26 January 2003, the SPV Act came into force. The SPV Act provides the legal framework for the creation of private management companies that will acquire NPLs, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. The Congress of the Philippines passed the SPV Act's implementing rules and regulations on 19 March 2003, which came into force on 12 April 2003. Under the SPV Act, the original deadline for the creation of asset management companies entitled to tax breaks was 19 September 2004. On 24 April 2006, the Philippine president signed into law an amendment to the SPV Act extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after 14 May 2006, the date the amended SPV took effect, or on 14 November 2007.

Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses shall also be set up as follows: (i) 5.0% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1.0% of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent, less loans which are considered non-risk under existing laws and regulations.

Restrictions on Branch Openings

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 provides various minimum capitalization requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks to a maximum of ₱20 billion for more than 100 branches of universal banks).

Subject to compliance with the requirements provided in BSP Circular No. 624, issued 13 October 2008, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch should be opened within six months from the date of approval (extendible for another six-month period, upon the presentation of justification therefore). Pursuant to BSP Circular 505, issued on 22 December 2005, banks shall be allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig and Quezon, and in the municipality of San Juan, Metro Manila. However, branches of microfinance-oriented banks, microfinance-oriented branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under Republic Act 9178 may be established anywhere upon the fulfillment of certain conditions.

On 23 June 2011, the BSP issued a circular approving the phased lifting of branching restrictions in the eight restricted cities in Metro Manila which are Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig, Quezon, and San Juan. The BSP will implement a two-phased liberalization. For the first phase, only private domestically incorporated universal and commercial banks and thrift banks (with less than 200 branches in the restricted areas) will be allowed to establish branches in the said areas until 30 June 2014. The second phase allows all banks except rural banks and cooperative banks to establish branches in the said areas. Banks will be allowed to establish as many branches as their qualifying capital can support subject to the final adjustment determined by the Monetary Board on the optimal number to be approved. Based on this, banks will be given a pro-rata share on the total number of branches they applied for.

BSP Circular No. 847 (2014) imposed licensing fees on relocation of head offices, branches and other banking offices, approved but unopened branches and other banking offices to restricted areas.

Foreign Ownership in Domestic Banks

There are separate provisions in the Manual of Regulations for Banks regarding foreign ownership in domestic banks depending on whether the acquirer is a foreign bank, individual or non-bank corporation. For a qualified foreign bank, it can purchase or own up to 100% of the voting stock of an existing domestic bank (which include banks under receivership or liquidation, provided no final court liquidation order has been issued). These foreign banks will be subject to the following criteria to be reviewed by the Monetary Board: geographic representation and complementation, strategic trade and investment relationships between the Philippines and the foreign bank's country of incorporation, relationship between the foreign bank and the Philippines, demonstrated capacity and global reputation for financial innovations, reciprocity rights enjoyed by Philippine banks in the foreign bank's country and willingness to fully share technology.

For foreign individuals and non-bank corporations, they can purchase or own up to an aggregate of forty percent (40.0%) of the voting stock of a domestic bank.

Electronic Banking

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of the bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a mobile/non-mobile phone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

Private domestic banks with BSP-approved electronic banking facility may accept payment of fees and other charges of similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of the said government entities.

Anti-Money Laundering Law

The Anti-Money Laundering Act was passed on 29 September 2001 and was amended on 23 March 2003. Under its provisions, as amended, (i) certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, (ii) insurance companies and/or institutions regulated by the Insurance Commission, and (iii) securities brokers, dealers, salesmen, associated persons of brokers and dealers, investment banks, mutual funds, foreign exchange corporations and certain other entities regulated by the SEC, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱0.50 million within one Banking Day.

These institutions are also required to submit a "suspicious" transaction report if any of the circumstances mentioned in Section 3 of the Anti-Money Laundering Act exists or if there is a reasonable ground to believe that any amounts processed are the proceeds of money laundering activities.

BSP regulations also require all banks in the Philippines to have an electronic money laundering transaction monitoring system in place by October 2007. Each system will be required to detect and bring to the relevant institution's attention all transactions and/or accounts that either qualify as "covered transactions" or "suspicious transactions".

The AMLC has also enumerated certain transactions considered red flags that would obligate covered institutions to exercise extra diligence, such as instances where a client was reported in the news to be involved in or is under investigation for terrorist activities.

These transactions are reported to the AMLC within five banking days from the discovery of the transaction by the covered institution. The Court of Appeals, upon application by the AMLC, has the authority to order the freezing of any accounts that it suspects are being used for money laundering. When directed by the AMLC, supervising authorities may also require all suspicious transactions with covered institutions, irrespective of the amounts involved, to be reported to the AMLC when there is a reasonable belief that any money laundering activity or any money laundering offense or any violation of the law is being or has been committed.

BSP Memorandum No.M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the Anti-Money Laundering Risk Rating System ("ARRS"), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation.

Institutions that are subject to the Anti-Money Laundering Act are also required to establish and record the identities of their clients based on official documents. Covered institutions are required to develop clear customer acceptance policies and procedures when conducting business relations or specific transactions. Anonymous accounts, accounts under fictitious names, and all other similar accounts are absolutely prohibited. In addition, all records of transactions are required to be maintained and stored for five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In June 2012, the Senate ratified Senate Bill No. 3009 and Senate Bill No. 3127, which would later be known as Republic Act No. 10167 ("RA 10167") and Republic Act No. 10168 ("RA 10168") upon signing by the President of the Philippines. Both bills were aimed to amend and strengthen the present AMLA laws of the Philippines. RA 10167 allows an ex-parte inquiry into the account of persons when there is probable cause that the funds therein are related to money laundering or an unlawful activity or a predicate crime. It also empowers the Anti-Money Laundering Council (AMLC) to inquire into not just the main account but also related accounts, defined as "other bank deposits, investments, or other monetary instruments, owned or controlled by the person whose account is the subject of freeze order, or the funds which it originated from, or which were transferred to such account" without consent of the suspected money launderers. RA 10168 penalizes any person who assisted the principal of the crime by concealing or destroying the effects of the crime, or by harboring or assisting the escape of criminals. The penalty for these offenses is two degrees lower than the prescribed for the principals of terror financing.

On 15 February 2013, the President of the Philippines signed into law Republic Act No. 10365 (An Act Further Strengthening the Anti-Money Laundering Law, Amending for the Purpose Republic Act No. 9160, Otherwise Known as the "Anti-Money Laundering Act of 2001", As Amended), which act expanded the AMLA covered institutions and crimes. This law took effect on 07 March 2013.

Under Republic Act No. 10365, jewelry dealers will now be required to report transactions worth in excess of P1 Million. The law also required the Land Registration Authority to submit to the Anti-Money Laundering Council reports covering real estate purchases worth in excess of ₱500,000.

Aside from this, predicate crimes -- or those criminal acts where the law may also be applied if money is involved -- were also expanded to cover 20 additional offenses or crimes, including bribery, extortion, malversation of public funds, fraud and financing of terrorism. The original law only mentioned 14 offenses or crimes connected to money laundering such as kidnapping, piracy on high seas, smuggling, robbery and plunder.

On 21 September 2016, the AMLC approved the 2016 Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP Circular No. 950, series of 2017 prescribing the amendments to Part Eight (Anti-Money Laundering Regulations) of the Manual of Regulations for Banks and the Manual of Regulations for Non-Bank Financial Institutions.

Designated non-financial businesses and professions such as (a) jewelry dealers, dealers in precious metals, and dealers in precious stones, (b) company service providers which, as a business, provide any of the following services to third parties: (i) acting as a formation agent of juridical persons; (ii) acting as (or arranging for another person to act as) a director or corporate secretary of a company, a partner of a partnership, or a similar position in relation to other juridical persons; (iii) providing a registered office; business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement; and (iv) acting as (or arranging for another person to act as) a nominee shareholder for another person, and (c) persons, including lawyers and accountants, who provide any of the following services: (i) managing of client money, securities or other assets; (ii) management of bank, savings, securities or other assets; (iii) organization of contributions for the creation, operation or management of companies; and (iv) creation, operation or management of juridical persons or arrangements, and buying and selling business entities, are now included as covered persons.

Furthermore, covered persons are required to establish and record the true and full identity of Politically Exposed Persons as well as their immediate family members and entities related to them. “Politically Exposed Person” (PEP) refers to an individual who is or has been entrusted with prominent public position in (a) the Philippines with substantial authority over policy, operations or the use or allocation of government-owned resources; (b) a foreign State; or (c) an international organization. Moreover, covered persons are required to adopt policies and procedures to prevent correspondent banking activities from being utilized for money laundering or terrorist financing activities.

In addition, if the covered person fails to satisfactorily complete the enhanced due diligence procedures or reasonably believes that performing the enhanced due diligence process will tip-off the customer, it shall file a suspicious transaction report, and closely monitor the account and review the business relationship. This is in stark contrast to the procedure under the previous regulations, where the covered person was directed to immediately close the account and refrain from further conducting business relationship with the customer.

The new regulations also added a new procession on the non-discrimination against certain types of customers, and clarified that for suspicious transactions, “occurrence” refers to the date of determination of the suspicious nature of the transaction, which determination should be made not exceeding ten calendar days from the date of the transaction.

Liberalization of Entry of Foreign Banks

On 15 July 2014, President Aquino III signed into law Republic Act No. 10641 or “An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721.” Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system though any one of the following modes of entry: (a) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing bank; (b) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin.

Under RA 10641, in the exercise of the authority to approve entry applications, the Monetary Board shall adopt such measures as may be necessary to ensure that control of at least sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos.

A foreign bank branch authorized to do banking business in the Philippines under RA 10641 may open up to five (5) sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

Under RA 10641, the Monetary Board was authorized to issue such rules and regulations as may be needed to implement the provisions of RA 10641. As of date, the Monetary Board has not come up with its rules and regulations to implement the provisions of RA 10641.

Data Privacy

The Data Privacy Act was signed into law on 15 August 2012 to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System ("ICT"), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of "personal information", which is defined as "any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual." The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on "personal information controllers" and "personal information processors". It also provides for penal and monetary sanctions for violations of its provisions.

On 24 August 2016, the National Privacy Commission issued the Implementing Rules and Regulations of the Data Privacy Act.

Recent Regulations

On 20 January 2017, the BSP issued Circular No. 940 prescribing the Guidelines on Deposit and Cash Servicing Outside of Bank premises where the BSP allowed banks to (1) solicit and accept deposits outside of their premises through their employees subject to certain conditions, and (2) accredit third party service providers, which may be authorized by customers to perform cash/check pick-up and cash delivery services, or contract third party service entities as cash agents to accept and disburse cash on behalf of the banks in order to promote operational efficiency, improve their service delivery channel and for greater customer convenience.

On 20 January 2017, the BSP also issued Circular No. 941 amending the regulations on past due and non-performing loans, which includes the amendment of the definitions of past due and non-performing exposures, including restructured loans. Under the new definition, the general rule is that an account that does not pay on contractual due date is deemed past due the following day. However, BSFIs are allowed to provide for a cure period policy on a credit product-specific basis within which clients may be allowed to catch up on a late payment without being considered as past due, provided that the cure period policy is based on actual collection experience and reasonable judgment that support tolerance of occasional payment delays.

Meanwhile, an account or exposure is considered non-performing, even without any missed contractual payments, when it is deemed impaired under existing applicable accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, in the case of secured accounts. All other accounts, even if not considered impaired, shall be considered non-performing if any contractual principal and/or interest are past due for more than ninety (90) days, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

BSFIs are given until 31 December 2017 to make the necessary revisions in their management information and reporting systems relating to their past due and non-performing exposures. Effective 1 January 2018, past due and non-performing exposures shall be mandatorily reported in accordance with the requirements of the revised policy.

On 26 January 2017, the BSP issued Circular No. 943, which set out the one-year extension of the Basel III Leverage Ratio monitoring period from 31 December 2016 to 31 December 2017.

On 06 February 2017, the BSP issued Circular No. 944 prescribing the Guidelines for Virtual Currency Exchanges i.e., entities that offer services or engages in activities that provide facility for the conversion or exchange of fiat currency (or the government-issued currency that is designated as legal tender in its country of issuance through government decree, regulation or law) to virtual currency, which is any type of digital unit that is used as a medium of exchange or a form of digitally stored value created by agreement within the community of virtual currency users.

On 17 February 2017, the BSP issued Circular No. 946 prescribing the liquidity floor reserve requirement effective 1 January 2018 as follows:

	Required liquidity floor
Universal banks/ Commercial Banks	0% Government deposits and government deposit substitutes shall continue to be subject to the reserve requirements provided under Section X253.
Thrift banks/ Cooperative banks	50% Inclusive of the required reserves against deposits and/or deposit substitutes

On 15 March 2017, the BSP issued BSP Circular No. 950, series of 2017 prescribing the amendments to Part Eight (Anti-Money Laundering Regulations) of the Manual of Regulations for Banks and the Manual of Regulations for Non-Bank Financial Institutions.

On 20 March 2017, the BSP issued Circular No. 951, prescribing the Guidelines on Business Continuity Management ("BCM"), which requires the BSFIs to adopt a cyclical, process-oriented BCM framework, which at a minimum, should include five phases, namely: business impact analysis and risk assessment, strategy formulation, plan development, plan testing, and personnel training and plan maintenance.

On 17 April 2017, the BSP issued Circular No. 956, requiring banks to submit its Annual Report and Annual Report Assessment Checklist within 180 calendar days after the close of the calendar or fiscal year adopted by the banks. The Annual Report must include a discussion and/or analysis of the following minimum information: corporate policy; financial summary/financial highlights; financial condition and results of operations; risk management framework; corporate governance; corporate information; and audited financial statements. A copy of the latest Annual Report must be posted/displayed in a conspicuous place in the head office, all branches and other offices of the banks, and published in the website of the banks.

On 27 June 2017, the BSP issued Circular No. 964 prescribing revisions to the banks' rediscounting availments. The amendment seeks to reflect the termination of the sunset provision in favor of thrift banks, rural banks, and cooperative banks resulting in a unified rediscount window for all types of banks. The maturities of BSP rediscounts are now as follows:

Type of Credit	Maturity Date
Commercial Credits	180 days from date of rediscount but shall not go beyond the maturity date of the credit instrument
Export Packing	
Trading	
Transport	
Quedan	
Export Bills (EBs)	
At Sight	Fifteen (15) days from date of purchase
Usance EB	Term of draft but not to exceed sixty (60) days from shipment date
Production Credits	180 days from date of rediscount but shall not go beyond the maturity date of the promissory note (PN). Renewable not to exceed 190 days
Other Credits	180 days from date of rediscount but shall not go beyond the maturity date of the PN. (Renewable depending on the type of credit).

BSP Circular No. 964 also provides that the rediscount rates for peso shall now be as follows:

Rediscount Maturities	Rediscount Rates
	Bangko Sentral overnight (O/N) lending rate plus term premium:
1-90 days	Bangko Sentral O/N lending rate +0.0625
91-180 days	Bangko Sentral O/N lending rate +0.1250

On 5 July 2017, the BSP issued Circular No. 965, approving the guidelines on the exclusion from the Single Borrower's Limit (SBL) of banks' and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions.

On 22 August 2017, the BSP issued Circular No. 971, prescribing the Guidelines on Risk Governance for BSFIs, and requiring the appointment of a Chief Risk Officer ("CRO") to head the risk management function. The appointment, dismissal and other changes to the CRO must have prior approval of the board of directors. In cases when the CRO will be replaced, the BSFI must report the same to the BSP within five days from the time it has been approved by the board of directors.

On 22 August 2017, the BSP also issued Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer ("CCO") who shall serve on a full-time basis, functionally report to the board of directors or board-level committee. The CCO will oversee the identification and management of the BFSI's compliance risk and supervise the compliance function staff.

SUMMARY OF THE OFFER PROCEDURE

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular and the Agreements regarding the issuance, maintenance, servicing, trading, and settlement of the CDs. Prospective investors should read this entire Offering Circular and the Agreements fully and carefully. In case of any inconsistency between this summary and the more detailed information in this Offering Circular or the Agreements, then the more detailed portions and/or the Agreements, as the case may be, shall at all times prevail.

OFFERING PERIOD PROCEDURE

Pursuant to the Placement Agreement and the Registry and Paying Agency Agreement entered into by the Issuer with the relevant counterparties in connection with the offering of the CDs, the CDs shall be offered for sale through the Selling Agents during the Offer Period.

The Arranger is a third-party in relation to the Bank, such that: (i) it has no subsidiary/affiliate relationship with the Bank; and (ii) it is not related in any manner to the Bank as would undermine the objective conduct of due diligence on the Bank. The Registrar and Paying Agent is likewise a third-party in relation to the Bank, such that: (i) it has no subsidiary/affiliate relationship with Bank; and (ii) it is not related in any manner to Bank as would undermine its independence.

The Offer Period

During the relevant Offer Period, the Issuer, the Arranger and the Selling Agents shall solicit subscriptions for the CDs. There shall be no limitation on the amount of CDs that an Applicant may apply for. Each interested investor (an "Applicant") will be required to execute an Application to Purchase in four copies and return the completed Applications to Purchase to the Issuer or the relevant Selling Agent, as the case may be (with one duplicate to be provided to the Applicant).

Applications to Purchase must be accompanied by payment for the CDs applied for. Payment may be in the form of cash, manager's checks made out to the order of "**BPI LTNCD – 2023**", debit instructions or other instructions acceptable to the Issuer or the relevant Selling Agent, and must cover the entire purchase price. Each of the Issuer and the Selling Agents shall determine its own settlement procedure for its Applicants. Each of the Issuer and the Selling Agents shall hold the purchase price received from their respective Applicants as deposit for the purchase of the CDs.

Each of the Issuer and the Selling Agents shall prepare a Schedule of Applications to Purchase (the "Applications Schedule"), which sets out the aggregate amount of CDs applied for by their respective Applicants and summarizes the details of the latter. Each of the Issuer and the Selling Agents shall deliver their Applications Schedule (together with a copy of each of the completed Applications to Purchase) to the Arranger no later than 5:00 p.m. of the last day of the Offer Period.

Allocation Period

Based on the aggregate amount of CDs applied for, the Issuer and the Arranger shall consult with each other and agree on the total size of the issue.

The Arranger may, at its discretion, reject any Application to Purchase. In addition, if the CDs are insufficient to accommodate all Applications to Purchase (or in any other case where the Issuer and the Arranger agree that a reduction in size is needed), the Arranger may, in consultation with the Issuer, allocate the CDs among the Issuer and the Selling Agents by accepting or reducing the aggregate amount of CDs covered by each Applications Schedule as the Arranger and the Issuer may mutually determine. The Arranger shall prepare a report which summarizes the total amount of Applications to Purchase accepted and the allocation of CDs among the Issuer and the various Selling Agents (the “Allocation Report”) and provide the Issuer and the Selling Agents with a copy thereof by 5:00 p.m. on the second Banking Day following the end of the Offer Period.

Each of the Issuer and the Selling Agents shall implement the allocation set out in the Allocation Report and establish its own policies and procedures regarding the allocation of CDs among their respective Applicants. The Issuer and Selling Agents shall then accept the corresponding Applications to Purchase, prepare a schedule of purchase advices (each a “Sales Report”) which summarizes the allocations made among the various Applicants, and execute and issue Purchase Advices in accordance with the Sales Report to the corresponding Applicants. The Issuer and Selling Agents shall: (a) deliver the Sales Report and the corresponding Applications to Purchase to the Registry and Paying Agent no later than 5:00 p.m. of the third Banking Day immediately preceding the Issue Date; and (b) deliver the Purchase Advices to the Registry and Paying Agent no later than 5:00 p.m. of the third Banking Day immediately preceding the Issue Date.

Issue Date

On the Issue Date, the Issuer shall issue CDs with the aggregate Issue Price set out in the Allocation Report and complete and execute the Tranche Certificate (indicating therein the relevant Issue Date Interest Rate), and deliver such executed Tranche Certificate to the Registrar

The Registrar and Paying Agent shall record the initial issuance of the CDs in the Registry Book and thereafter issue and distribute the relevant Registry Confirmation to the Holders in accordance with the Sales Report issued by the Issuer (in its capacity as Selling Agent) and the Selling Agents.

The Issuer and Selling Agents shall refund any payments made by Applicants whose Applications were rejected or reduced, in full (in case of rejection) or in a proportionate sum (in case of reduction), in each case, without interest.

SUMMARY OF REGISTRY FEES

SCHEDULE OF FEES

The Registry shall be entitled to charge the CD Holders and/or their counterparties fees as the Registry shall prescribe in line with the services that the Registry shall perform such as, but not limited to, the opening and maintaining of accounts, the maintenance of the records of the CD Holders in the Registry Book, the issuance, cancellation and replacement of any Registry Confirmation. The Registry will charge the following fees to the CD Holders:

Transfer Fees in the Secondary Trading of the CDs:

1. Transfer Fee of ₱100.00 to be paid each by the transferring Holder and the buyer/transferee prior to the registration of any transfer of the CDs in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer. For transfers from a registry account to the depository, the full charge of ₱200.00 per transfer shall be charged to the transferring Holder.
2. Account Opening Fee of ₱100.00 to be paid upfront by a CD transferee who has no existing account in the Registry.
3. Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDSClear System if so duly authorized by a Holder.

Transfer Fees due to Non-Trade Related Transactions:

1. Transaction Fee of ₱100.00 to be paid each by the transferring Holder and the requesting party prior to the registration of any transfer of the CDs in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer.
2. Transaction Fee of ₱500.00 per side plus legal cost, for non-intermediated transfers (e.g. inheritance, donation, pledge).

Other Fees charged to the Holder:

These fees pertain to instances when PDTC is requested to undertake the printing of non-standard reports for the Holders for which appropriate fees are charged to cover the related overhead costs. The fee may vary depending on the type of report, as follows:

1. Fee of ₱200.00 to be paid upon each application for a certification or request of holding.
2. Fee of ₱50.00 to be paid upon each application for a monthly statement of account (in addition to the quarterly statement of account to be issued by the Registrar to each Holder free of charge).
3. Fee of ₱50.00 to be paid upon application for the issuance of a replacement Registry Confirmation for reasons such as mutilated, destroyed, stolen or lost.
4. The fee for Special Reports varies depending on request.
    A. Report without back-up file restoration is subject to a fee of ₱100.00 per request, plus ₱20.00 per page.
    B. Report requiring back-up file restoration is subject to a fee of ₱300.00 per request, plus ₱20.00 per page.

INDEX TO FINANCIAL STATEMENTS

BANK OF THE
PHILIPPINE ISLANDS

6768 Ayala Avenue
Makati City 1226
Philippines
Tel (632) 8185541 to 48
BPI Express Phone 89-100 . (632) 89-10000
www.bpiexpressonline.com

ANNEX "B"

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Bank of the Philippine Islands is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year ended December 31, 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the Bank of the Philippine Islands 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 company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the financial reporting process of the Bank of the Philippine Islands.

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 of the Philippine Islands in accordance with Philippine Standards on Auditing, and in its report to the shareholders, 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

Joseph Albert L. Gotuaco
Executive Vice President and
Chief Financial Officer

Makati City

SUBSCRIBED AND SWORN to before me at Makati City, Metro Manila this MAR 24 2017, affiants exhibited to me their Passport with the following details:

Name	Passport No.	Date/Place of Issue	Valid Until
Jaime Augusto Zobel de Ayala	EC4856934	Aug. 04, 2015/DFA Manila	Aug. 03, 2020
Cezar P. Consing	EB9284966	Oct. 02, 2013/PCG Hong Kong	Oct. 01, 2018
Joseph Albert L. Gotuaco	EC2373461	Oct. 10, 2014/DFA Manila	Oct. 09, 2019

Doc. No. 238;
Page No. 49;
Book No. XXXVII
Series of 2017.

FELIPE I. ILEDAN JR.
Notary Public for and in Makati City
Until Dec. 31, 2018, Appt. No. M-13
Roll No. 27625, TIN 136897808
Rm. 412, 4th Flr. VGP Center, Ayala, Makati City
2017 PTR No. 5942444 issued 12/7/16, Mla.
IBP No. 974042; 8/18/14
MCLE Comp. V-0023610, 8/26/2016

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

					P	W	-	1	2	1

COMPANY NAME

B A N K O F T H E P H I L I P P I N E I S L A N D S

PRINCIPAL OFFICE (No./Street/Barangay/City/Town/Province)

B P I B U I L D I N G , 6 7 6 8 A Y A L A
A V E N U E C O R N E R P A S E O D E R O X A S ,
M A K A T I C I T Y

Form Type	Department requiring the report	Secondary License Type, if Applicable
A F S		N / A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
www.bpiexpressonline.com	(02) 818-5541 to 48	N/A

No. of Stockholders	Annual Meeting (Month/Day)	Fiscal Year (Month/Day)
11,596		December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Joseph Albert Gotuaco	jalgotuaco@bpi.com.ph	816-9619	N/A

CONTACT PERSON's ADDRESS

BPI Building, 6768 Ayala Avenue corner Paseo de Roxas, Makati City

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

Bank of the Philippine Islands

Financial Statements
As at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016

pwc Isla Lipana & Co.

Independent Auditor's Report

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

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying consolidated and parent financial statements present fairly, in all material respects, the financial position of the Bank of the Philippine Islands and Subsidiaries (the "BPI Group") and the parent financial statements of Bank of the Philippine Islands (the "Parent Bank") as at December 31, 2016 and 2015, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2016 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, 2016 and 2015;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2016;
- the consolidated and parent statements of total comprehensive income for each of the three years in the period ended December 31, 2016;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2016;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2016; 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.

BUREAU OF
LARGE TA
LARGE T
Date APR 11 2017
JOSSABELLE D.

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 845 2728, F: +63 (2) 845 2806, www.pwc.com/ph

Isla Lipana & Co. is a Philippine member firm of the PwC network. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

Independence

We are independent of the BPI Group and of 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 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 of 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 financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Date APR 11 2017

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment losses on loans and advances	
Refer to Note 10 of the consolidated financial statements. We focused on this account because of the complexity involved in the estimation process, and the significant judgments that management make in ascertaining the provision for loan impairment. The calculation of impairment losses is inherently judgmental for any bank. The BPI Group has set up a total allowance for impairment for loans and advances amounting to PHP18,676 million as at December 31, 2016 while provision for loan losses recognized in profit or loss amounted to PHP4,955 million for the year then ended. In particular, judgment arises over the determination of objective evidence of impairment which may have a reliably measurable effect on the present value of estimated future cash flows. Further, there are various assumptions utilized in coming up with an impairment loss balance such as the probability of default and loss given default which, to a large extent, are subject to management judgment. Impairment losses are calculated on an individual/ specific basis for significant loans and on a collective basis for portfolio of loans with similar nature and characteristics.	Our audit procedures included evaluating and validating the design and operating effectiveness of controls over loan loss provisioning, including the process for credit risk rating, key reconciliations and management's review of the estimates. Our substantive procedures to assess management's allowance for impairment included the following: <u>Individual/ specific assessment</u> We assessed the BPI Group's review process on the credit worthiness of customers. The appropriateness of provisioning methodology was independently considered for a sample of loans selected on the basis of risk. We formed our independent view on the levels of provision booked based on the counterparty information in the credit file, including consideration of any related collateral. Calculations using the discounted cash flow model for selected loan samples were re-performed. <u>Collective assessment</u> We tested the impairment model used and assessed the reasonableness of management assumptions, mainly the probability of default and loss given default, by reference to the requirements of the accounting standards and industry practice. We also performed independent credit review to determine whether impairment triggers exist for selected loan samples. We recomputed the allowance for

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Key Audit Matter	How our audit addressed the Key Audit Matter (cont.)
	impairment and compared the resulting balance to the allowance recorded by management. Based on the procedures we performed, we determined that the impairment models and assumptions were materially consistent with our independent expectations and analysis.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report, but does not include the consolidated 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 audit 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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS DIVISION
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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 of 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.

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

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Report on Bureau of Internal Revenue Requirement

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

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

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert. No. 105660
P.T.R. No. 0024447, issued on January 6, 2017, Makati City
SEC A.N. (individual) as general auditors 1176-AR-1, Category A; effective until January 13, 2018
SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018
TIN 221-755-698
BIR A.N. 08-000745-77-2015, issued on January 29, 2015; effective until January 28, 2018
BOA/PRC Reg. No. 0142, with extended validity until April 30, 2017 pursuant to
Board Resolution No. 37 series of 2017

Makati City
February 15, 2017

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

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
BPI Building, Ayala Avenue
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 32 to the financial statements.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 6, 2017, Makati City
SEC A.N. (individual) as general auditors 1176-AR-1, Category A; effective until January 13, 2018
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Makati City
February 15, 2017

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Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 845 2728, F: +63 (2) 845 2806, www.pwc.com/ph

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BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2016 and 2015
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2016	2015	**2016**	2015
RESOURCES					
CASH AND OTHER CASH ITEMS	4	**35,692**	35,681	**34,855**	34,797
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	**239,514**	214,960	**203,743**	174,370
DUE FROM OTHER BANKS	4	**23,037**	22,238	**20,558**	17,181
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	**15,236**	12,902	**9,049**	6,163
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					
- DERIVATIVE FINANCIAL ASSETS	6	**2,993**	4,529	**2,993**	4,529
- TRADING SECURITIES	7	**14,603**	8,084	**10,314**	5,442
AVAILABLE-FOR-SALE SECURITIES, net	8	**24,301**	42,287	**19,603**	36,685
HELD-TO-MATURITY SECURITIES	9	**268,483**	244,809	**245,921**	225,077
LOANS AND ADVANCES, net	10	**1,040,720**	872,861	**821,545**	664,619
ASSETS HELD FOR SALE, net		**3,667**	4,385	**933**	1,771
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	**13,809**	12,826	**9,395**	8,715
INVESTMENT PROPERTIES, net	12	**669**	733	**669**	733
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	13	**6,818**	6,453	**8,948**	8,068
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	**16,326**	16,320	**-**	-
DEFERRED INCOME TAX ASSETS, net	14	**7,543**	6,433	**4,571**	3,936
OTHER RESOURCES, net	15	**12,285**	10,855	**7,738**	6,386
Total resources		**1,725,696**	1,516,356	**1,400,835**	1,198,472

(forward)

LARGE TAXPAYERS SERVICE
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BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2016 and 2015
(In Millions of Pesos)

		Consolidated		Parent	
	Notes	**2016**	2015	**2016**	2015
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	16	**1,431,300**	1,275,699	**1,184,478**	1,033,385
DERIVATIVE FINANCIAL LIABILITIES	6	**3,112**	3,216	**3,112**	3,216
BILLS PAYABLE	17	**61,973**	20,941	**52,257**	12,826
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**670**	431	**670**	431
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**7,579**	8,308	**5,893**	6,693
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**6,853**	5,685	**4,707**	4,026
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	**14,367**	14,648	**-**	-
DEFERRED CREDITS AND OTHER LIABILITIES	18	**32,158**	34,698	**26,836**	29,095
Total liabilities		**1,558,012**	1,363,626	**1,277,953**	1,089,672
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	19				
Share capital		**39,308**	39,285	**39,308**	39,285
Share premium		**29,591**	29,439	**29,591**	29,439
Reserves		**2,711**	2,563	**2,695**	2,555
Surplus		**98,602**	83,761	**56,095**	42,401
Accumulated other comprehensive loss		**(5,078)**	(4,764)	**(4,807)**	(4,880)
		165,134	150,284	**122,882**	108,800
NON-CONTROLLING INTERESTS		**2,550**	2,446	**-**	-
Total capital funds		**167,684**	152,730	**122,882**	108,800
Total liabilities and capital funds		**1,725,696**	1,516,356	**1,400,835**	1,198,472

(The notes on pages 1 to 111 are an integral part of these financial statements.)

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JOSSABELLE D. OFRECIO

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016
(In Millions of Pesos, Except Per Share Amounts)

		Consolidated			Parent		
	Notes	2016	2015	2014	2016	2015	2014
INTEREST INCOME							
On loans and advances		**48,843**	42,156	36,441	**32,515**	27,270	23,282
On held-to-maturity securities		**8,746**	8,790	8,141	**7,987**	8,064	7,545
On deposits with BSP and other banks		**2,059**	2,083	1,769	**930**	1,485	1,135
On available-for-sale securities		**469**	757	831	**443**	688	778
On trading securities		**180**	241	406	**155**	197	370
Gross receipts tax		**(1,985)**	(1,728)	(1,596)	**(1,435)**	(1,247)	(1,147)
		58,312	52,299	45,992	**40,595**	36,457	31,963
INTEREST EXPENSE							
On deposits	16	**15,301**	13,326	10,834	**9,616**	8,383	6,735
On bills payable	17	**634**	332	350	**406**	115	138
		15,935	13,658	11,184	**10,022**	8,498	6,873
NET INTEREST INCOME		**42,377**	38,641	34,808	**30,573**	27,959	25,090
IMPAIRMENT LOSSES	8,10,15	**4,800**	3,976	2,807	**2,930**	2,298	1,787
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**37,577**	34,665	32,001	**27,643**	25,661	23,303
OTHER INCOME							
Trading gain on securities		**5,400**	1,311	1,362	**5,398**	1,254	1,034
Fees and commissions		**7,998**	7,530	7,370	**6,094**	5,899	5,400
Income from foreign exchange trading		**1,951**	1,545	2,007	**1,601**	1,190	1,683
Income attributable to insurance operations	2	**1,360**	1,109	1,007	**-**	-	-
Other operating income	20	**8,955**	10,650	10,668	**11,730**	8,051	9,971
Gross receipts tax		**(1,490)**	(1,427)	(1,435)	**(1,210)**	(1,169)	(1,195)
		24,174	20,718	20,979	**23,613**	15,225	16,893
OTHER EXPENSES							
Compensation and fringe benefits	22	**13,463**	12,463	11,850	**10,713**	9,949	9,568
Occupancy and equipment-related expenses	11,12,21	**10,156**	9,194	9,017	**8,172**	7,314	7,144
Other operating expenses	22	**11,322**	10,213	9,093	**8,148**	7,529	6,593
		34,941	31,870	29,960	**27,033**	24,792	23,305
INCOME BEFORE INCOME TAX		**26,810**	23,513	23,020	**24,223**	16,094	16,891
PROVISION FOR INCOME TAX	23						
Current		**5,419**	5,736	5,374	**3,777**	4,269	3,759
Deferred	14	**(884)**	(598)	(416)	**(439)**	(238)	(138)
		4,535	5,138	4,958	**3,338**	4,031	3,621
NET INCOME FOR THE YEAR		**22,275**	18,375	18,062	**20,885**	12,063	13,270
Attributable to:							
Equity holders of BPI		**22,050**	18,234	18,039	**20,885**	12,063	13,270
Non-controlling interests		**225**	141	23	**-**	-	-
		22,275	18,375	18,062	**20,885**	12,063	13,270
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	19	**5.60**	4.64	4.62	**5.30**	3.07	3.40

(The notes on pages 1 to 111 are an integral part of these financial statements.)

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BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF TOTAL COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016
(In Millions of Pesos)

		Consolidated			Parent		
	Note	**2016**	2015	2014	**2016**	2015	2014
NET INCOME FOR THE YEAR		**22,275**	18,375	18,062	**20,885**	12,063	13,270
OTHER COMPREHENSIVE INCOME	19						
Items that may be subsequently reclassified to profit or loss							
Net change in fair value reserve on available-for-sale securities, net of tax effect		**543**	(526)	(903)	**502**	(153)	(1,043)
Share in other comprehensive (loss) income of associates		**(74)**	(451)	254	**-**	-	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		**(131)**	(334)	169	**-**	-	-
Currency translation differences		**(113)**	77	(65)	**-**	-	-
Item that will not be reclassified to profit or loss							
Actuarial (losses) gains on defined benefit plan, net of tax effect		**(579)**	(382)	500	**(429)**	(225)	352
Total other comprehensive (loss) income, net of tax effect		**(354)**	(1,616)	(45)	**73**	(378)	(691)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**21,921**	16,759	18,017	**20,958**	11,685	12,579
Attributable to:							
Equity holders of BPI		**21,736**	16,693	17,972	**20,958**	11,685	12,579
Non-controlling interests		**185**	66	45	**-**	-	-
		21,921	16,759	18,017	**20,958**	11,685	12,579

(The notes on pages 1 to 111 are an integral part of these financial statements.)

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BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 19)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance, January 1, 2014	**35,563**	**8,316**	**1,680**	**62,137**	**(3,161)**	**104,535**	**1,272**	**105,807**
Comprehensive income								
Net income for the year	-	-	-	18,039	-	18,039	23	18,062
Other comprehensive (loss) income for the year	-	-	-	-	(67)	(67)	22	(45)
Total comprehensive income (loss) for the year	-	-	-	**18,039**	(67)	**17,972**	**45**	**18,017**
Transactions with owners								
Proceeds from the stock rights offering	3,709	21,025	-	-	-	24,734	-	24,734
Executive stock plan amortization	-	-	21	-	-	21	-	21
Cash dividends	-	-	-	(3,538)	-	(3,538)	-	(3,538)
Transfer from surplus to reserves	-	-	397	(397)	-	-	-	-
Change in ownership interest in a subsidiary that did not result in loss of control	-	-	-	336	-	336	-	336
Others	-	-	-	(2)	5	3	-	3
Other changes in non-controlling interests	-	-	-	-	-	-	1,299	1,299
Total transactions with owners	**3,709**	**21,025**	**418**	**(3,601)**	**5**	**21,556**	**1,299**	**22,855**
Balance, December 31, 2014	**39,272**	**29,341**	**2,098**	**76,575**	**(3,223)**	**144,063**	**2,616**	**146,679**
Comprehensive income								
Net income for the year	-	-	-	18,234	-	18,234	141	18,375
Other comprehensive loss for the year	-	-	-	-	(1,541)	(1,541)	(75)	(1,616)
Total comprehensive income (loss) for the year	-	-	-	**18,234**	**(1,541)**	**16,693**	**66**	**16,759**
Transactions with owners								
Proceeds from issuance of shares	-	1	-	-	-	1	-	1
Executive stock plan amortization	13	97	33	-	-	143	-	143
Cash dividends	-	-	-	(10,617)	-	(10,617)	-	(10,617)
Transfer from surplus to reserves	-	-	432	(432)	-	-	-	-
Others	-	-	-	1	-	1	-	1
Other changes in non-controlling interests	-	-	-	-	-	-	(236)	(236)
Total transactions with owners	**13**	**98**	**465**	**(11,048)**	-	**(10,472)**	**(236)**	**(10,708)**
Balance, December 31, 2015	**39,285**	**29,439**	**2,563**	**83,761**	**(4,764)**	**150,284**	**2,446**	**152,730**
Comprehensive income								
Net income for the year	-	-	-	22,050	-	22,050	225	22,275
Other comprehensive loss for the year	-	-	-	-	(314)	(314)	(40)	(354)
Total comprehensive income (loss) for the year	-	-	-	**22,050**	**(314)**	**21,736**	**185**	**21,921**
Transactions with owners								
Executive stock plan amortization	23	152	45	-	-	220	-	220
Cash dividends	-	-	-	(7,087)	-	(7,087)	-	(7,087)
Transfer from surplus to reserves	-	-	103	(103)	-	-	-	-
Change in ownership interest in a subsidiary	-	-	-	(19)	-	(19)	(10)	(29)
Other changes in non-controlling interests	-	-	-	-	-	-	(71)	(71)
Total transactions with owners	**23**	**152**	**148**	**(7,209)**	-	**(6,886)**	**(81)**	**(6,967)**
Balance, December 31, 2016	**39,308**	**29,591**	**2,711**	**98,602**	**(5,078)**	**165,134**	**2,550**	**167,684**

(The notes on pages 1 to 111 are an integral part of these financial statements.)

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BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016
(In Millions of Pesos)

	Parent (Note 19)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2014	**35,563**	**8,316**	**1,680**	**32,053**	**(3,810)**	**73,802**
Comprehensive income						
Net income for the year	-	-	-	13,270	-	13,270
Other comprehensive loss for the year	-	-	-	-	(691)	(691)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**13,270**	**(691)**	**12,579**
Transactions with owners						
Proceeds from the stock rights offering	3,709	21,025	-	-	-	24,734
Executive stock option plan amortization	-	-	18	-	-	18
Cash dividends	-	-	-	(3,538)	-	(3,538)
Transfer from surplus to reserves	-	-	397	(397)	-	-
Total transactions with owners	**3,709**	**21,025**	**415**	**(3,935)**	**-**	**21,214**
Balance, December 31, 2014	**39,272**	**29,341**	**2,095**	**41,388**	**(4,501)**	**107,595**
Comprehensive income						
Net income for the year	-	-	-	12,063	-	12,063
Other comprehensive loss for the year	-	-	-	-	(378)	(378)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**12,063**	**(378)**	**11,685**
Transactions with owners						
Issuance of shares	-	1	-	-	-	1
Executive stock option plan amortization	13	97	28	-	-	138
Cash dividends	-	-	-	(10,617)	-	(10,617)
Transfer from surplus to reserves	-	-	432	(432)	-	-
Others	-	-	-	(1)	(1)	(2)
Total transactions with owners	**13**	**98**	**460**	**(11,050)**	**(1)**	**(10,480)**
Balance, December 31, 2015	**39,285**	**29,439**	**2,555**	**42,401**	**(4,880)**	**108,800**
Comprehensive income						
Net income for the year	-	-	-	20,885	-	20,885
Other comprehensive income for the year	-	-	-	-	73	73
Total comprehensive income for the year	**-**	**-**	**-**	**20,885**	**73**	**20,958**
Transactions with owners						
Executive stock option plan amortization	23	152	37	-	-	212
Cash dividends	-	-	-	(7,087)	-	(7,087)
Transfer from surplus to reserves	-	-	103	(103)	-	-
Others	-	-	-	(1)	-	(1)
Total transactions with owners	**23**	**152**	**140**	**(7,191)**	**-**	**(6,876)**
Balance, December 31, 2016	**39,308**	**29,591**	**2,695**	**56,095**	**(4,807)**	**122,882**

(The notes on pages 1 to 111 are an integral part of these financial statements.)

Date APR 11 2017

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016
(In Millions of Pesos)

	Notes	Consolidated 2016	Consolidated 2015	Consolidated 2014	Parent 2016	Parent 2015	Parent 2014
CASH FLOWS FROM OPERATING ACTIVITIES							
Income before income tax		**26,810**	23,513	23,020	**24,223**	16,094	16,891
Adjustments for:							
Impairment losses	8,10,15	**4,800**	3,976	2,807	**2,930**	2,298	1,787
Depreciation and amortization	11,12	**3,878**	3,661	3,587	**2,541**	2,347	2,299
Share in net income of associates	13	**(814)**	(627)	(257)	**-**	-	-
Dividend and other income	20,31	**(56)**	(1,554)	(22)	**(6,083)**	(1,895)	(2,000)
Share based compensation	19	**45**	33	21	**37**	28	18
Interest income		**(60,297)**	(54,027)	(47,588)	**(42,030)**	(37,704)	(33,110)
Interest expense		**15,935**	13,658	11,184	**10,022**	8,498	6,874
Interest received		**59,447**	53,556	45,984	**41,369**	37,411	31,608
Interest paid		**(15,716)**	(13,509)	(11,117)	**(9,920)**	(8,470)	(6,672)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		**1,316**	650	(5,045)	**2,381**	820	(5,010)
Trading securities		**(6,507)**	7,746	(11,218)	**(4,861)**	1,152	(3,952)
Loans and advances, net		**(171,462)**	(76,140)	(167,393)	**(159,101)**	(45,371)	(142,705)
Assets held for sale		**1,007**	941	764	**1,119**	1,022	878
Assets attributable to insurance operations		**(54)**	(374)	(910)	**-**	-	-
Other resources		**(2,269)**	1,996	(2,897)	**(2,056)**	1,744	(1,545)
Increase (decrease) in:							
Deposit liabilities		**155,601**	99,487	187,627	**151,093**	80,704	167,278
Due to Bangko Sentral ng Pilipinas and other banks		**239**	(256)	(1,364)	**239**	(257)	(1,364)
Manager's checks and demand drafts outstanding		**(729)**	(46)	1,170	**(800)**	29	637
Accrued taxes, interest and other expenses		**947**	(218)	623	**579**	(104)	419
Liabilities attributable to insurance operations		**(281)**	1,088	500	**-**	-	-
Derivative financial instruments		**1,432**	(177)	(935)	**1,433**	(179)	(935)
Deferred credits and other liabilities		**(3,122)**	(496)	3,737	**(2,692)**	(139)	2,684
Net cash from operations		**10,150**	62,881	32,278	**10,423**	58,028	34,080
Income taxes paid		**(5,645)**	(5,853)	(4,500)	**(3,974)**	(4,371)	(2,920)
Net cash from operating activities		**4,505**	57,028	27,778	**6,449**	53,657	31,160

(forward)

Date APR 11 2017
JOSSABELLE D. OFRECIO

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2016**	2015	2014	**2016**	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Available-for-sale securities, net	8	**18,435**	8,027	35,013	**17,519**	4,623	38,452
Held-to-maturity securities	9	**(23,874)**	(34,995)	(111,906)	**(21,078)**	(31,722)	(105,811)
Bank premises, furniture, fixtures and equipment, net	11	**(4,109)**	(1,503)	(3,434)	**(2,543)**	(406)	(2,061)
Investment properties, net		**(35)**	-	709	**-**	-	709
Investment in subsidiaries and associates, net		**28**	(1,983)	(95)	**(880)**	(1,342)	(248)
Assets attributable to insurance operations		**(136)**	589	(851)	**-**	-	-
Dividends received	20	**56**	48	22	**6,084**	389	572
Proceeds from sale of interest in a subsidiary	31	**-**	-	-	**-**	-	1,744
Net cash used in investing activities		**(9,635)**	(29,817)	(80,542)	**(898)**	(28,458)	(66,643)
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid		**(7,082)**	(7,078)	(6,739)	**(7,082)**	(7,078)	(6,739)
Increase (decrease) in:							
Collection on stock subscriptions		**175**	112	24,733	**175**	112	24,733
Bills payable		**41,032**	(12,052)	6,812	**39,431**	(13,462)	7,300
Proceeds from sale of interest in a subsidiary	31	**-**	-	1,744	**-**	-	-
Net cash from (used in) financing activities		**34,125**	(19,018)	26,550	**32,524**	(20,428)	25,294
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**28,995**	8,193	(26,214)	**38,075**	4,771	(10,189)
CASH AND CASH EQUIVALENTS							
January 1	4	**281,751**	273,558	299,772	**228,381**	223,610	233,799
December 31		**310,746**	281,751	273,558	**266,456**	228,381	223,610

(The notes on pages 1 to 111 are an integral part of these financial statements.)

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Date APR 11 2017
JOSSABELLE D. OFREDIO

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2016 and 2015 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2016

Note 1 - General Information

Bank of the Philippine Islands ("BPI" or the "Parent Bank") is a domestic commercial bank with an expanded banking license and has its registered office address, which is also its principal place of business, at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries as detailed in Note 31.3 (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2016, the BPI Group has 15,201 employees (2015 - 14,647 employees) and operates 834 branches and 3,061 ATMs (2015 - 823 branches and 2,760 ATMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities. The BPI shares have been traded in the Philippine Stock Exchange (PSE) since October 12, 1971. As at December 31, 2016, the Parent Bank has 11,596 common shareholders (2015 - 11,754).

These financial statements have been approved and authorized for issuance by the Board of Directors of the Parent Bank on February 15, 2017.

Note 2 - Assets and Liabilities Attributable to Insurance Operations

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

	2016	2015
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 4)	**122**	306
Insurance balances receivable, net	**4,929**	4,889
Investment securities		
Available-for-sale	**6,020**	4,538
Held-to-maturity	**2,681**	3,143
Accounts receivable and other assets, net	**2,424**	3,286
Land, building and equipment	**150**	158
	16,326	16,320
Liabilities		
Reserves and other balances	**13,118**	13,457
Accounts payable, accrued expenses and other payables	**1,249**	1,191
	14,367	14,648

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Date APR 11 2017

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

	2016	2015	2014
		(In Millions of Pesos)	
Premiums earned and related income	**3,356**	3,071	2,868
Investment and other income	**959**	801	423
	4,315	3,872	3,291
Benefits, claims and maturities	**2,025**	1,655	1,363
Decrease in actuarial reserve liabilities	**(462)**	(159)	(162)
Management and general expenses	**656**	575	515
Commissions	**726**	681	554
Other expenses	**10**	11	14
	2,955	2,763	2,284
Income before income tax and minority interest	**1,360**	1,109	1,007

Note 3 - Business Segments

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

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

The BPI Group's main operating business segments follow:

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

- Corporate banking - this segment consists of the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers. These customers include both high-end corporations as well as various middle market clients.

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

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

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

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

(2)

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. The funds transfer pricing (FTP) prior to 2014 was computed on a gross basis. In 2014, the manner of reporting has changed, in which interest income and interest expense are no longer presented separately, considering that the calculation of FTP shifted from gross to net. In addition, majority of the segment's revenues are from interest and the chief executive officer relies primarily on net interest income to assess the performance of the segments and to make decisions concerning the segments.

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

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

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

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

	2016			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
		(In Millions of Pesos)		
Net interest income	29,225	9,724	6,374	**45,323**
Impairment charge	3,072	1,692	7	**4,771**
Net interest income after impairment charge	26,153	8,032	6,367	**40,552**
Fees and commission income	5,986	851	1,326	**8,163**
Other income	5,072	1,667	9,423	**16,162**
Gross receipts tax	(724)	(72)	(630)	**(1,426)**
Other income, net	10,334	2,446	10,119	**22,899**
Compensation and fringe benefits	9,133	1,279	1,035	**11,447**
Occupancy and equipment - related expenses	4,146	1,135	55	**5,336**
Other operating expenses	12,056	1,535	1,477	**15,068**
Total operating expenses	25,335	3,949	2,567	**31,851**
Operating profit	11,152	6,529	13,919	**31,600**
Share in net income of associates				**814**
Provision for income tax				**4,535**
Total assets	536,231	770,413	386,550	**1,693,194**
Total liabilities	1,459,741	14,587	61,326	**1,535,654**

(3)

	2015			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	22,487	5,982	12,091	40,560
Impairment charge	2,552	1,195	72	3,819
Net interest income after impairment charge	19,935	4,787	12,019	36,741
Fees and commission income	6,026	582	1,135	7,743
Other income	6,657	1,616	5,330	13,603
Gross receipts tax	(834)	(58)	(488)	(1,380)
Other income, net	11,849	2,140	5,977	19,966
Compensation and fringe benefits	8,733	1,116	905	10,754
Occupancy and equipment - related expenses	4,435	1,170	80	5,685
Other operating expenses	9,826	2,239	1,312	13,377
Total operating expenses	22,994	4,525	2,297	29,816
Operating profit	8,790	2,402	15,699	26,891
Share in net income of associates				627
Provision for income tax				5,138
Total assets	506,593	634,840	348,058	1,489,491
Total liabilities	1,304,298	14,163	23,578	1,342,039

	2014			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	21,984	7,242	5,956	35,182
Impairment charge	2,047	755	-	2,802
Net interest income after impairment charge	19,937	6,487	5,956	32,380
Fees and commission income	5,294	649	1,677	7,620
Other income	6,632	1,958	4,673	13,263
Gross receipts tax	(775)	(44)	(502)	(1,321)
Other income, net	11,151	2,563	5,848	19,562
Compensation and fringe benefits	8,122	1,041	904	10,067
Occupancy and equipment - related expenses	4,392	1,174	132	5,698
Other operating expenses	7,031	4,147	1,402	12,580
Total operating expenses	19,545	6,362	2,438	28,345
Operating profit	11,543	2,688	9,366	23,597
Share in net income of associates				257
Provision for income tax				4,958
Total assets	463,989	598,184	361,061	1,423,234
Total liabilities	1,205,684	10,168	70,255	1,286,107

(4)

Reconciliation of segment results to consolidated results of operations:

	2016		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
	(In Millions of Pesos)		
Net interest income	45,323	(2,946)	**42,377**
Impairment charge	4,771	29	**4,800**
Net interest income after impairment charge	40,552	(2,975)	**37,577**
Fees and commission income	8,163	(165)	**7,998**
Other income	16,162	1,504	**17,666**
Gross receipts tax	(1,426)	(64)	**(1,490)**
Other income, net	22,899	1,275	**24,174**
Compensation and fringe benefits	11,447	2,016	**13,463**
Occupancy and equipment - related expenses	5,336	4,820	**10,156**
Other operating expenses	15,068	(3,746)	**11,322**
Total operating expenses	31,851	3,090	**34,941**
Operating profit	31,600	(4,790)	**26,810**
Share in net income of associates (included in Other income)	814	-	**814**
Provision for income tax	4,535	-	**4,535**
Total assets	1,693,194	32,502	**1,725,696**
Total liabilities	1,535,654	22,358	**1,558,012**

	2015		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	40,560	(1,919)	38,641
Impairment charge	3,819	157	3,976
Net interest income after impairment charge	36,741	(2,076)	34,665
Fees and commission income	7,743	(213)	7,530
Other income	13,603	1,012	14,615
Gross receipts tax	(1,380)	(47)	(1,427)
Other income, net	19,966	752	20,718
Compensation and fringe benefits	10,754	1,709	12,463
Occupancy and equipment - related expenses	5,685	3,509	9,194
Other operating expenses	13,377	(3,164)	10,213
Total operating expenses	29,816	2,054	31,870
Operating profit	26,891	(3,378)	23,513
Share in net income of associates (included in Other income)	627	-	627
Provision for income tax	5,138	-	5,138
Total assets	1,489,491	26,865	1,516,356
Total liabilities	1,342,039	21,587	1,363,626

(5)

	2014		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	35,182	(374)	34,808
Impairment charge	2,802	5	2,807
Net interest income after impairment charge	32,380	(379)	32,001
Fees and commission income	7,620	(250)	7,370
Other income	13,263	1,781	15,044
Gross receipts tax	(1,321)	(114)	(1,435)
Other income, net	19,562	1,417	20,979
Compensation and fringe benefits	10,067	1,783	11,850
Occupancy and equipment - related expenses	5,698	3,319	9,017
Other operating expenses	12,580	(3,487)	9,093
Total operating expenses	28,345	1,615	29,960
Operating profit	23,597	(577)	23,020
Share in net income of associates (included in Other income)	257	-	257
Provision for income tax	4,958	-	4,958
Total assets	1,423,234	26,963	1,450,197
Total liabilities	1,286,107	17,411	1,303,518

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

Note 4 - Cash and Cash Equivalents

The account at December 31 consists of:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Cash and other cash items	**35,692**	35,681	**34,855**	34,797
Due from Bangko Sentral ng Pilipinas (BSP)	**239,514**	214,960	**203,743**	174,370
Due from other banks	**23,037**	22,238	**20,558**	17,181
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	**12,381**	8,566	**7,300**	2,033
Cash and cash equivalents attributable to insurance operations (Note 2)	**122**	306	**-**	-
	310,746	281,751	**266,456**	228,381

Cash and cash equivalents are classified as current.

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

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
BSP	**4,576**	6,513	**-**	-
Other banks	**10,651**	6,365	**9,042**	6,141
	15,227	12,878	**9,042**	6,141
Accrued interest receivable	**9**	24	**7**	22
	15,236	12,902	**9,049**	6,163

As at December 31, 2016, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P12,381 million (2015 - P8,566 million) for BPI Group and P7,300 million (2015 - P2,033) for the Parent Bank are classified as cash equivalents in the statement of cash flows (Note 4).

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Current	**14,721**	12,332	**8,688**	5,767
Non-current	**515**	570	**361**	396
	15,236	12,902	**9,049**	6,163

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date. All collateral agreements mature within 12 months.

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

	Consolidated		Parent	
	2016	2015	**2016**	2015
Peso-denominated	**3.32 - 4.14**	3.93 - 4.23	**3.29 - 4.41**	3.91 - 4.22
US dollar-denominated	**0.13 - 1.76**	1.21 - 2.83	**0.13 - 1.76**	1.21 - 2.83

Note 6 - Derivative Financial Instruments

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

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

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

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

- Cross currency swaps refer to spot exchange of notional amounts on two currencies at a given exchange rate and with an agreement to re-exchange the same notional amounts at a specified maturity date based on the original exchange rate. Parties on the transaction agree to pay a stated interest rate on the borrowed notional amount and receive a stated interest rate on the lent notional amount, payable or receivable periodically over the term of the transaction.

- Credit-Linked Notes (CLNs) are structured notes whose value is derived from the creditworthiness of an underlying reference entity. A CLN may be viewed as a bundled note that consists of a bond and a credit default swap, allowing the issuer to transfer the credit risk of a reference entity to the investor during the reference period.

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

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

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

Consolidated and Parent

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2016	2015	**2016**	2015	**2016**	2015
			(In Millions of Pesos)			
Free-standing derivatives						
Foreign exchange derivatives						
Currency swaps	**101,378**	120,182	**926**	1,377	**826**	513
Currency forwards	**103,040**	266,663	**963**	2,519	**1,037**	1,480
Interest rate swaps	**148,432**	111,796	**1,032**	564	**1,243**	1,211
Credit default swaps	**994**	1,411	**-**	-	**6**	12
Embedded credit derivatives	**-**	-	**72**	69	**-**	-
Total	**353,844**	500,052	**2,993**	4,529	**3,112**	3,216

Note 7 - Trading Securities

The account at December 31 consists of:

	Consolidated		**Parent**	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Debt securities				
Government securities	**9,162**	7,672	**5,372**	5,425
Commercial papers of private companies	**5,286**	71	**4,914**	-
	14,448	7,743	**10,286**	5,425
Accrued interest receivable	**31**	19	**28**	17
	14,479	7,762	**10,314**	5,442
Equity securities - listed	**124**	322	**-**	-
	14,603	8,084	**10,314**	5,442

All trading securities are classified as current.

Note 8 - Available-for-Sale Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2016	2015	**2016**	2015
Debt securities	(In Millions of Pesos)			
Government securities	**2,205**	26,254	**1,965**	25,072
Commercial papers of private companies	**19,688**	14,218	**17,259**	11,212
	21,893	40,472	**19,224**	36,284
Accrued interest receivable	**69**	162	**63**	126
	21,962	40,634	**19,287**	36,410
Equity securities				
Listed	**2,144**	1,490	**399**	367
Unlisted	**516**	493	**126**	126
	2,660	1,983	**525**	493
	24,622	42,617	**19,812**	36,903
Allowance for impairment	**(321)**	(330)	**(209)**	(218)
	24,301	42,287	**19,603**	36,685

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Current	**13,507**	24,039	**12,836**	23,253
Non-current	**11,115**	18,578	**6,976**	13,650
	24,622	42,617	**19,812**	36,903

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
At January 1	**330**	324	**218**	218
(Reversal of) provision for impairment losses	**(9)**	6	**(9)**	-
At December 31	**321**	330	**209**	218

The range of average interest rates (%) of available-for-sale debt securities for the years ended December 31 follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
Peso-denominated	**0.98 - 1.42**	2.67 - 3.06	**2.14 - 2.60**	3.48 - 3.74
Foreign currency-denominated	**1.03 - 1.53**	1.80 - 2.47	**1.00 - 1.52**	1.85 - 2.85

The movement in available-for-sale securities is summarized as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
At January 1	**42,287**	51,309	**36,685**	41,866
Additions	**51,831**	68,847	**50,237**	58,274
Disposals and maturities	**(70,231)**	(70,310)	**(67,401)**	(56,302)
Reclassification to held-to-maturity securities	**-**	(6,928)	**-**	(6,928)
Amortization of (premium) discount, net	**(154)**	624	**(81)**	577
Fair value adjustments	**517**	(910)	**124**	(526)
Exchange differences	**135**	131	**93**	130
Net change in allowance for impairment	**9**	(6)	**9**	-
Net change in accrued interest receivable	**(93)**	(470)	**(63)**	(406)
At December 31	**24,301**	42,287	**19,603**	36,685

On November 11, 2015, the BPI Group reclassified certain available-for-sale securities aggregating P6.9 billion to held-to-maturity category. The reclassification was triggered by management's change in intention over the securities in the light of volatile market prices due to rising interest rate environment. Management believes that despite the market uncertainties, the BPI Group has the capability to hold those reclassified securities until maturity dates.

The aggregate fair value loss of those securities at reclassification date that was recognized in Accumulated other comprehensive income (under Capital funds), and which will be amortized over the remaining lives of the instruments using the effective interest rate method amounts to P505 million. Unamortized fair value loss as at December 31, 2016 amounts to P486 million (2015 - P502 million). The net change in fair value reserve that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P421 million loss for the year ended December 31, 2016 (2015 - fair value loss of P224 million). There are no other gains or losses recognized in profit or loss apart from the amortization of fair value loss on securities.

On January 9, 2014, the BPI Group reclassified certain available-for-sale securities aggregating P63.5 billion to held-to-maturity category. The reclassification was triggered by management's change in intention over the securities in the light of volatile market prices due to rising interest rate environment. Management believes that despite the market uncertainties, the BPI Group has the capability to hold those reclassified securities until maturity dates.

The aggregate fair value loss of those securities at reclassification date that was recognized in Accumulated other comprehensive income (under Capital funds), and which will be amortized over the remaining lives of the instruments using the effective interest rate method amounts to P4,534 million. Unamortized fair value loss as at December 31, 2016 amounts to P3,471 million (2015 - P3,712 million). The net change in fair value reserve that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P2,529 million loss for the year ended December 31, 2016 (2015 - fair value loss of P1,264 million). There are no other gains or losses recognized in profit or loss apart from the amortization of fair value loss on securities.

On October 22, 2008, the BPI Group reclassified certain available-for-sale securities aggregating P19.1 billion to held-to-maturity category. Likewise, on November 12, 2008, an additional portfolio of US dollar-denominated available-for-sale securities totaling US$171.6 million (or peso equivalent of P9.2 billion) was further reclassified from available-for-sale to held-to-maturity. The reclassification was triggered by management's change in intention over the securities in the light of volatile market prices due to global economic downturn. Management believes that despite the market uncertainties, the BPI Group has the capability to hold those reclassified securities until maturity dates.

(10)

The aggregate fair value loss of those securities at reclassification dates that was recognized in Accumulated other comprehensive income (under Capital funds), and which will be amortized over the remaining lives of the instruments using the effective interest rate method amounts to P1,757 million. Unamortized fair value loss as at December 31, 2016 amounts to P28 million (2015 - P188 million). The net change in fair value reserve that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P149 million gain for the year ended December 31, 2016 (2015 - P94 million loss). There are no other gains or losses recognized in profit or loss apart from the amortization of fair value loss on securities.

Note 9 - Held-to-Maturity Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Government securities	**196,210**	211,152	**176,528**	193,911
Commercial papers of private companies	**68,741**	29,924	**66,247**	27,785
	264,951	241,076	**242,775**	221,696
Accrued interest receivable	**3,532**	3,733	**3,146**	3,381
	268,483	244,809	**245,921**	225,077

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Current	**30,722**	23,305	**29,235**	22,581
Non-current	**237,761**	221,504	**216,686**	202,496
	268,483	244,809	**245,921**	225,077

The range of average interest rates (%) of held-to-maturity securities for the years ended December 31 follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
Peso-denominated	**3.68 - 3.88**	3.89 - 4.19	**3.65 - 3.85**	3.86 - 4.16
Foreign currency-denominated	**3.10 - 3.61**	3.75 - 4.16	**3.15 - 3.73**	3.86 - 4.26

The movement in held-to-maturity securities is summarized as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
At January 1	**244,809**	209,409	**225,077**	193,001
Additions	**116,942**	53,347	**113,151**	46,968
Maturities/disposals	**(90,396)**	(16,551)	**(89,564)**	(13,505)
Amortization of premium, net	**(3,012)**	(1,971)	**(2,894)**	(1,893)
Exchange differences	**341**	171	**386**	151
Net change in accrued interest receivable	**(201)**	404	**(235)**	355
At December 31	**268,483**	244,809	**245,921**	225,077

In June 2016, the BPI Group sold certain held-to-maturity securities aggregating P65.4 billion. The sale was triggered by the need to strengthen the capital position of the BPI Group in view of more stringent capital requirements by the BSP.

Note 10 - Loans and Advances

Major classifications of this account at December 31 are as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Corporate entities				
Large corporate customers	**760,558**	607,083	**743,926**	581,216
Small and medium enterprise	**83,516**	94,659	**44,672**	54,148
Retail customers				
Credit cards	**39,995**	35,879	**39,137**	35,313
Real estate mortgages	**116,079**	99,519	**83**	107
Auto loans	**53,485**	45,911	**-**	-
Others	**4,545**	5,473	**4,407**	3,743
	1,058,178	888,524	**832,225**	674,527
Accrued interest receivable	**4,475**	3,278	**3,321**	2,312
Unearned discount/income	**(3,257)**	(2,579)	**(2,273)**	(1,596)
	1,059,396	889,223	**833,273**	675,243
Allowance for impairment	**(18,676)**	(16,362)	**(11,728)**	(10,624)
	1,040,720	872,861	**821,545**	664,619

The Parent balances above include amounts due from related parties (Note 27). The Consolidated balances above also include amounts due from related parties (Note 27) except for accounts considered as intercompany transactions.

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Current	**454,072**	390,363	**426,403**	357,996
Non-current	**605,324**	498,860	**406,870**	317,247
	1,059,396	889,223	**833,273**	675,243

The current loan and advances balances are those which are expected to be realized within 12 months after reporting date while the non-current balances pertain to those expected to be collected beyond 12 months after reporting date.

The amount of loans and advances above includes finance lease receivables as follows:

	Consolidated	
	2016	2015
	(In Millions of Pesos)	
Total future minimum lease collections	**7,982**	7,179
Unearned finance income	**(910)**	(807)
Present value of future minimum lease collections	**7,072**	6,372
Allowance for impairment	**(213)**	(182)
	6,859	6,190

Details of future minimum lease collections follow:

	Consolidated	
	2016	2015
	(In Millions of Pesos)	
Not later than one year	**2,944**	1,441
Later than one year but not later than five years	**5,038**	5,738
	7,982	7,179
Unearned finance income	**(910)**	(807)
	7,072	6,372

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

The Parent Bank has no finance lease receivables as at December 31, 2016 and 2015.

There is no contingent rent recognized as income during the years ended December 31, 2016 and 2015.

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

1) As to industry/economic sector (in %)

	Consolidated		Parent	
	2016	2015	**2016**	2015
Real estate, renting and other related activities	**23.06**	22.03	**15.25**	12.62
Manufacturing	**15.93**	19.07	**19.48**	24.20
Wholesale and retail trade	**11.53**	12.54	**12.61**	14.67
Financial institutions	**9.48**	12.20	**11.85**	15.80
Consumer	**9.21**	9.75	**5.08**	5.66
Agriculture and forestry	**4.03**	1.82	**5.04**	2.28
Others	**26.76**	22.59	**30.69**	24.77
	100.00	100.00	**100.00**	100.00

2) As to collateral

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**241,363**	232,433	**103,191**	103,326
Chattel mortgage	**61,484**	54,230	**178**	136
Others	**334,039**	261,390	**324,056**	251,611
	636,886	548,053	**427,425**	355,073
Unsecured loans	**418,035**	337,892	**402,527**	317,858
	1,054,921	885,945	**829,952**	672,931

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

Loans and advances aggregating P312 million (2015 - P393 million) and P280 million (2015 - P319 million) are used as security for bills payable (Note 17) of the BPI Group and the Parent Bank, respectively.

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

	Consolidated		Parent	
	2016	2015	**2016**	2015
Commercial loans				
Peso-denominated loans	**4.11 - 4.16**	4.12 - 4.23	**3.88 - 3.94**	3.82 - 3.97
Foreign currency-denominated loans	**2.66 - 2.84**	2.50 - 2.78	**2.66 - 2.84**	2.50 - 2.78
Real estate mortgages	**6.75 - 6.97**	7.10 - 7.52	**5.72 - 8.00**	4.75 - 13.75
Auto loans	**9.51 - 9.68**	9.80 - 9.90	**-**	-

Non-performing accounts (over 30 days past due) of the BPI Group and the Parent Bank, net of specific allowance for credit losses, following BSP Circular 772 are as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Non-performing accounts (NPL 30)	**15,792**	14,727	**7,654**	8,023
Specific allowance for credit losses	**10,070**	9,368	**5,033**	5,382
Net NPL 30	**5,722**	5,359	**2,621**	2,641

Reconciliation of allowance for impairment by class at December 31 follows:

Consolidated

	2016						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	**Total**
	(In Millions of Pesos)						
At January 1	6,406	3,039	2,751	1,791	2,010	365	**16,362**
Provision for impairment losses	1,066	940	1,448	143	1,185	173	**4,955**
Write-off/disposal	(168)	(168)	(1,618)	(28)	(177)	(94)	**(2,253)**
Unwind of discount	(134)	(56)	-	-	-	-	**(190)**
Transfers	111	(68)	2	(68)	(174)	(1)	**(198)**
At December 31	**7,281**	**3,687**	**2,583**	**1,838**	**2,844**	**443**	**18,676**

	2015						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	Total
	(In Millions of Pesos)						
At January 1	5,581	2,316	2,292	1,533	1,702	282	13,706
Provision for impairment losses	975	829	1,230	345	526	194	4,099
Write-off/disposal	(8)	(33)	(771)	(1)	(102)	(95)	(1,010)
Unwind of discount	(216)	-	-	-	-	-	(216)
Transfers	74	(73)	-	(86)	(116)	(16)	(217)
At December 31	6,406	3,039	2,751	1,791	2,010	365	16,362

Parent

	2016						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	**Total**
				(In Millions of Pesos)			
At January 1	5,406	2,228	2,711	24	-	255	**10,624**
Provision for impairment losses	1,267	417	1,391	17	-	142	**3,234**
Write-off/disposal	(159)	(85)	(1,581)	(18)	-	(94)	**(1,937)**
Unwind of discount	(134)	(56)	-	-	-	-	**(190)**
Transfers	53	(47)	2	(10)	-	(1)	**(3)**
At December 31	**6,433**	**2,457**	**2,523**	**13**	**-**	**302**	**11,728**

	2015						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	Total
				(In Millions of Pesos)			
At January 1	4,698	1,963	2,279	25	-	213	9,178
Provision for impairment losses	839	413	1,197	(1)	-	138	2,586
Write-off/disposal	(8)	(32)	(765)	-	-	(95)	(900)
Unwind of discount	(216)	-	-	-	-	-	(216)
Transfers	93	(116)	-	-	-	(1)	(24)
At December 31	5,406	2,228	2,711	24	-	255	10,624

Transfers pertain to reclassification of allowance for impairment between accounts.

Note 11 - Bank Premises, Furniture, Fixtures and Equipment

The account at December 31 consists of:

Consolidated

	2016				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2016	3,070	6,564	13,961	4,721	**28,316**
Additions	3	572	2,540	2,099	**5,214**
Disposals	(8)	(6)	(2,144)	(1,968)	**(4,126)**
Amortization	-	(185)	-	-	**(185)**
Transfers	10	(35)	-	-	**(25)**
December 31, 2016	**3,075**	**6,910**	**14,357**	**4,852**	**29,194**
Accumulated depreciation					
January 1, 2016	-	2,784	10,994	1,712	**15,490**
Depreciation	-	327	1,552	1,063	**2,942**
Disposals/transfers	-	(1)	(1,859)	(1,187)	**(3,047)**
December 31, 2016	**-**	**3,110**	**10,687**	**1,588**	**15,385**
Net book value, December 31, 2016	**3,075**	**3,800**	**3,670**	**3,264**	**13,809**

	2015				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2015	3,074	6,162	13,839	4,912	27,987
Additions	-	573	1,627	1,658	3,858
Disposals	(7)	(5)	(1,502)	(1,849)	(3,363)
Amortization	-	(152)	-	-	(152)
Transfers	-	(19)	-	-	(19)
Others	3	5	(3)	-	5
December 31, 2015	3,070	6,564	13,961	4,721	28,316
Accumulated depreciation					
January 1, 2015	-	2,521	11,002	1,704	15,227
Depreciation	-	263	1,417	1,092	2,772
Disposals/transfers	-	(2)	(1,423)	(1,084)	(2,509)
Others	-	2	(2)	-	-
December 31, 2015	-	2,784	10,994	1,712	15,490
Net book value, December 31, 2015	3,070	3,780	2,967	3,009	12,826

Parent

	2016			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2016	2,657	5,758	12,866	**21,281**
Additions	-	458	2,307	**2,765**
Disposals	(7)	(5)	(2,017)	**(2,029)**
Amortization	-	(129)	-	**(129)**
Transfers	10	(35)	-	**(25)**
December 31, 2016	**2,660**	**6,047**	**13,156**	**21,863**
Accumulated depreciation				
January 1, 2016	-	2,440	10,126	**12,566**
Depreciation	-	285	1,413	**1,698**
Disposals/transfers	-	(3)	(1,793)	**(1,796)**
December 31, 2016	**-**	**2,722**	**9,746**	**12,468**
Net book value, December 31, 2016	**2,660**	**3,325**	**3,410**	**9,395**

	2015			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2015	2,664	5,389	12,811	20,864
Additions	-	494	1,481	1,975
Disposals	(7)	(5)	(1,426)	(1,438)
Amortization	-	(101)	-	(101)
Transfers	-	(19)	-	(19)
December 31, 2015	2,657	5,758	12,866	21,281
Accumulated depreciation				
January 1, 2015	-	2,214	10,183	12,397
Depreciation	-	228	1,316	1,544
Disposals/transfers	-	(2)	(1,373)	(1,375)
December 31, 2015	-	2,440	10,126	12,566
Net book value, December 31, 2015	2,657	3,318	2,740	8,715

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

Note 12 - Investment Properties

The account at December 31 consists of:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Land	**97**	97	**97**	97
Buildings	**2,067**	2,032	**2,067**	2,032
	2,164	2,129	**2,164**	2,129
Accumulated depreciation	**(1,493)**	(1,394)	**(1,493)**	(1,394)
Allowance for impairment	**(2)**	(2)	**(2)**	(2)
	669	733	**669**	733

The movement in investment properties is summarized as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
At January 1	**733**	808	**733**	808
Transfers	**35**	19	**35**	19
Depreciation	**(99)**	(94)	**(99)**	(94)
At December 31	**669**	733	**669**	733

Investment properties have aggregate fair value of P3,090 million as at December 31, 2016 (2015 - P3,050 million). The fair value of investment property is determined on the basis of appraisal made by an internal or an external appraiser duly certified by the General Administrative and Shared Services Group. Valuation method employed by the appraisers mainly includes the market data approach.

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

All investment properties generate rental income. Rental income from investment properties recognized in the statement of income, as part of Other operating income, amounts to P243 million for the year ended December 31, 2016 (2015 - P262 million; 2014 - P298 million). Direct operating expenses (including repairs and maintenance) arising from these investment properties amount to P190 million for the year ended December 31, 2016 (2015 - P165 million; 2014 - P125 million).

Note 13 - Investments in Subsidiaries and Associates

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

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**6,818**	6,453	**-**	-
Investments at cost method	**-**	-	**8,948**	8,068
	6,818	6,453	**8,948**	8,068

Investments in associates carried at equity method in the consolidated statement of condition follow:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest (%)		Acquisition cost		Measurement method
		2016	2015	**2016**	2015	
			(In Millions of Pesos)			
BPI-Philamlife Assurance Corporation	Philippines	**47.67**	47.67	**371**	371	Equity
AF Payments, Inc.	Philippines	**20.00**	20.00	**590**	460	Equity
National Reinsurance Corporation*	Philippines	**13.69**	13.69	**204**	204	Equity
Beacon Property Ventures, Inc.	Philippines	**20.00**	20.00	**80**	100	Equity
CityTrust Realty Corporation	Philippines	**40.00**	40.00	**2**	2	Equity
Global Payments-Asia Pacific Philippines Incorporated	Philippines	**49.00**	49.00	**1,342**	1,342	Equity
				2,589	2,479	

**BPI Group has significant influence due to its representation on the governing body of National Reinsurance Corporation*

For BPI-Philamlife Assurance Corporation, BPI acts as distribution channel for the former's insurance products. In 2014, the distribution agreement with Philamlife has been extended for another twenty years or until November 27, 2039 unless earlier terminated.

In August 2015, BPI subscribed to primary shares of Global Payments-Asia Pacific Philippines Incorporated for a total consideration of P1.3 billion; thereby acquiring a 49% stake in the entity.

Details and movements of investments in associates carried at equity method in the consolidated financial statements follow:

	2016	2015
	(In Millions of Pesos)	
Acquisition cost		
At January 1	**2,479**	977
Additions	**130**	1,502
Return of capital	**(20)**	-
At December 31	**2,589**	2,479
Accumulated equity in net income		
At January 1	**2,651**	2,024
Share in net income for the year	**814**	627
Dividends received	**(476)**	-
At December 31	**2,989**	2,651
Accumulated share in other comprehensive income		
At January 1	**1,323**	1,783
Share in other comprehensive loss for the year	**(83)**	(460)
At December 31	**1,240**	1,323
	6,818	6,453

As the associates are not considered to be individually material to impact the financial statements of the BPI Group, the unaudited financial information of associates as at and for the years ended December 31 has been aggregated as follows:

	2016	2015
	(In Millions of Pesos)	
Total assets	**109,662**	95,029
Total liabilities	**90,386**	76,281
Total revenues	**23,231**	23,769
Total net income	**1,338**	1,138

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

	Acquisition cost		Allowance for impairment		Carrying value	
	2016	2015	**2016**	2015	**2016**	2015
			(In Millions of Pesos)			
Subsidiaries						
BPI Europe Plc.	**1,910**	1,910	**-**	-	**1,910**	1,910
BPI Direct BanKO, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.)	**1,009**	392	**-**	-	**1,009**	392
Ayala Plans, Inc.	**863**	863	**-**	-	**863**	863
BPI Capital Corporation	**623**	623	**-**	-	**623**	623
BPI Asset Management and Trust Corporation	**600**	-	**-**	-	**600**	-
BPI Card Finance Corp.	**340**	50	**-**	-	**340**	50
BPI Century Tokyo Lease and Finance Corporation	**329**	329	**-**	-	**329**	329
FGU Insurance Corporation	**303**	303	**-**	-	**303**	303
BPI Globe BanKO, Inc.	**-**	607	**-**	-	**-**	607
BPI Forex Corp.	**195**	195	**-**	-	**195**	195
BPI Express Remittance Corp. USA	**191**	191	**-**	-	**191**	191
BPI Family Savings Bank, Inc.	**150**	150	**-**	-	**150**	150
First Far-East Development Corporation	**91**	91	**-**	-	**91**	91
Green Enterprises S.R.L. in Liquidation	**54**	54	**-**	-	**54**	54
FEB Stock Brokers, Inc.	**25**	25	**-**	-	**25**	25
BPI Computer Systems Corp.	**23**	23	**-**	-	**23**	23
BPI Express Remittance Spain S.A	**26**	26	**-**	-	**26**	26
Others	**321**	321	**(104)**	(104)	**217**	217
Associates	**1,999**	2,019	**-**	-	**1,999**	2,019
	9,052	8,172	**(104)**	(104)	**8,948**	8,068

On August 30, 2016, the Parent Bank made an additional capital infusion to BPI Card Finance Corp. amounting to P290 million.

Effective September 20, 2016, the Parent Bank has assumed full ownership of BPI Globe BanKO, Inc., from prior 40% ownership, after acquiring the combined 60% stake held by two other shareholders for a consideration of P29 million. Refer to Note 31.3 for details.

On October 6, 2016, BPI Asset Management and Trust Corporation, with an initial paid-in capital of P600 million, was incorporated with the SEC as a wholly-owned subsidiary of the Parent Bank. The primary business purpose of BPI Asset Management and Trust Corporation is to carry and engage in the business of trust, other fiduciary activities and investment management activities.

There is no individual subsidiary with non-controlling interest considered material to the Parent Bank.

Note 14 - Deferred Income Taxes

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

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	**6,843**	6,466	**4,173**	4,116
Pension liability	**796**	496	**597**	449
Bonus accruals	**301**	-	**245**	-
Net operating loss carry over (NOLCO)	**63**	63	**-**	-
Fair value loss on securities	**48**	-	**48**	-
Minimum corporate income tax (MCIT)	**1**	1	**-**	-
Others	**35**	74	**32**	8
Total deferred income tax assets	**8,087**	7,100	**5,095**	4,573
Deferred income tax liabilities				
Revaluation gain on properties	**(519)**	(511)	**(519)**	(523)
Fair value gain on securities	**-**	(39)	**-**	(106)
Others	**(25)**	(117)	**(5)**	(8)
Total deferred income tax liabilities	**(544)**	(667)	**(524)**	(637)
Deferred income tax assets, net	**7,543**	6,433	**4,571**	3,936

The movement in the deferred income tax account is summarized as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
At January 1	**6,433**	5,718	**3,936**	3,595
Amounts credited to statement of income	**884**	598	**439**	238
Amounts credited to other comprehensive income	**226**	117	**196**	103
At December 31	**7,543**	6,433	**4,571**	3,936

The deferred tax (credit) charge in the statement of income comprises the following temporary differences:

	Consolidated			Parent		
	2016	2015	2014	**2016**	2015	2014
	(In Millions of Pesos)					
Allowance for impairment	**(377)**	(670)	(298)	**(57)**	(322)	(163)
Bonus accruals	**(301)**	-	-	**(245)**	-	-
Fair value (loss) gain on securities	**(142)**	81	(41)	**(142)**	81	(41)
Pension	**(52)**	40	76	**36**	31	75
NOLCO	**-**	-	(107)	**-**	-	-
Others	**(12)**	(49)	(46)	**(31)**	(28)	(9)
	(884)	(598)	(416)	**(439)**	(238)	(138)

The outstanding NOLCO at December 31 consists of:

Year of Incurrence	Year of Expiration	Consolidated 2016	Consolidated 2015	Parent 2016	Parent 2015
		(In Millions of Pesos)			
2016	2019	**182**	-	**-**	-
2015	2018	**188**	188	**-**	-
2014	2017	**361**	361	**-**	-
2013	2016	**20**	20	**-**	-
2012	2015	**-**	10	**-**	-
		751	579	**-**	-
Used portion/ expired during the year		**(20)**	(10)	**-**	-
NOLCO not recognized		**(521)**	(359)	**-**	-
		210	210	**-**	-
Tax rate		**30%**	30%	**30%**	30%
Deferred income tax asset on NOLCO		**63**	63	**-**	-

The details of MCIT at December 31 are as follows:

Year of Incurrence	Year of Expiration	Consolidated 2016	Consolidated 2015	Parent 2016	Parent 2015
		(In Millions of Pesos)			
2014	2017	**1**	1	**-**	-

Note 15 - Other Resources

The account at December 31 consists of the following:

	Consolidated 2016	Consolidated 2015	Parent 2016	Parent 2015
	(In Millions of Pesos)			
Accounts receivable	**2,898**	2,854	**1,974**	1,989
Intangible assets	**2,336**	2,054	**2,277**	2,009
Residual value of equipment for lease	**2,090**	1,952	**-**	-
Prepaid expenses	**1,752**	906	**1,268**	483
Accrued trust and other fees	**1,124**	1,196	**953**	1,080
Sundry debits	**574**	15	**565**	8
Rental deposits	**510**	403	**430**	336
Creditable withholding tax	**380**	329	**82**	63
Miscellaneous assets	**1,811**	2,602	**1,179**	1,655
	13,475	12,311	**8,728**	7,623
Allowance for impairment	**(1,190)**	(1,456)	**(990)**	(1,237)
	12,285	10,855	**7,738**	6,386

Intangible assets mainly pertain to contractual customer relationships and computer software.

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

Miscellaneous assets include returned checks, prepaid taxes and other office supplies.

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
At January 1	**1,456**	1,478	**1,237**	1,330
(Reversal of) provision for impairment losses	**(39)**	7	**(23)**	(66)
Write-off	**(227)**	(29)	**(224)**	(27)
At December 31	**1,190**	1,456	**990**	1,237

The allowance for impairment as at December 31, 2016 and 2015 mainly pertains to accounts receivable.

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Current	**8,555**	8,270	**5,980**	5,604
Non-current	**4,920**	4,041	**2,748**	2,019
	13,475	12,311	**8,728**	7,623

Note 16 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Demand	**231,525**	214,597	**219,869**	205,061
Savings	**820,181**	707,783	**711,270**	610,725
Time	**379,594**	353,319	**253,339**	217,599
	1,431,300	1,275,699	**1,184,478**	1,033,385

The Parent balances above include amounts due from related parties (Note 27). The Consolidated balances above also include amounts due from related parties (Note 27) except for accounts considered as intercompany transactions.

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Current	**806,779**	720,871	**572,877**	551,682
Non-current	**624,521**	554,828	**611,601**	481,703
	1,431,300	1,275,699	**1,184,478**	1,033,385

Related interest expense on deposit liabilities is broken down as follows:

	Consolidated			Parent		
	2016	2015	2014	**2016**	2015	2014
	(In Millions of Pesos)					
Demand	**557**	513	452	**514**	463	405
Savings	**6,774**	5,886	5,584	**5,497**	4,674	4,320
Time	**7,970**	6,927	4,798	**3,605**	3,246	2,010
	15,301	13,326	10,834	**9,616**	8,383	6,735

Under current and existing BSP regulations as at December 31, 2016 and 2015, the BPI Group should comply with a simplified minimum reserve requirement on statutory/legal and liquidity reserves. Further, BSP requires all reserves be kept at the central bank. The BPI Group is in full compliance with the simplified reserve requirement.

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

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Required reserves (included in Due from BSP)	**210,335**	183,642	**191,507**	165,110

Note 17 - Bills Payable

The account at December 31 consists of:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Local banks	**9,150**	7,052	**61**	120
Foreign banks	**52,823**	13,889	**52,196**	12,706
	61,973	20,941	**52,257**	12,826

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

	Consolidated		Parent	
	2016	2015	**2016**	2015
Bangko Sentral ng Pilipinas	**4.10 - 4.40**	3.55 - 3.85	**-**	-
Private firms and local banks - Peso-denominated	**3.22 - 3.85**	3.34 - 3.60	**4.37 - 4.48**	4.35 - 5.32
Foreign banks - Foreign-currency denominated	**1.08 - 1.30**	0.92 - 1.15	**1.08 - 1.30**	0.92 - 1.15

	Consolidated			Parent		
	2016	2015	2014	**2016**	2015	2014
	(In Millions of Pesos)					
Interest expense	**634**	332	350	**406**	115	138

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Current	**34,268**	16,114	**25,057**	8,008
Non-current	**27,705**	4,827	**27,200**	4,818
	61,973	20,941	**52,257**	12,826

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and BSP which were relent to customers of the BPI Group in accordance with the financing programs of LBP, DBP and BSP and credit balances of settlement bank accounts. The average payment term of these bills payable is 0.95 years (2015 - 1.99 years). Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 10).

Note 18 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Bills purchased - contra	**11,319**	13,485	**11,312**	13,465
Accounts payable	**4,875**	4,483	**3,325**	2,594
Dividends payable	**3,543**	3,539	**3,543**	3,539
Deposits on lease contracts	**1,970**	1,868	**-**	-
Outstanding acceptances	**1,452**	2,494	**1,452**	2,494
Withholding tax payable	**555**	517	**434**	380
Due to the Treasurer of the Philippines	**430**	467	**383**	414
Other deferred credits	**276**	343	**80**	108
Miscellaneous liabilities	**7,738**	7,502	**6,307**	6,101
	32,158	34,698	**26,836**	29,095

Bills purchased - contra represents liabilities arising from the outright purchases of checks before actual clearing as a means of immediate financing offered by the BPI Group.

Miscellaneous liabilities include pension liability, insurance and other employee-related payables.

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Current	**29,126**	32,945	**25,675**	28,274
Non-current	**3,032**	1,753	**1,161**	821
	32,158	34,698	**26,836**	29,095

Note 19 - Capital Funds

Details of authorized share capital of the Parent Bank follow:

	2016	2015	2014
	(In Millions of Pesos, Except Par Value Per Share)		
Authorized capital (at P10 par value per share)			
Common shares	**49,000**	49,000	49,000
Preferred A shares	**600**	600	600
	49,600	49,600	49,600

Details of outstanding common shares follow:

	2016	2015	2014
	(In Number of Shares)		
Issued common shares			
At January 1	**3,932,220,179**	3,932,214,184	3,558,720,023
Issuance of shares during the year	**4,823,424**	5,995	373,494,161
At December 31	**3,937,043,603**	3,932,220,179	3,932,214,184
Subscribed common shares	**6,213,433**	3,685,784	5,056,319

Share premium as at December 31, 2016 amounts to P29,591 million (2015 -P29,439 million).

As at December 31, 2016, 2015 and 2014, the Parent Bank has 11,596, 11,754 and 11,858 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2016, 2015 and 2014.

On November 6, 2013, the Board of Directors of the Parent Bank approved the stock rights offer by way of issuance from the unissued portion of the authorized capital stock. The Parent Bank offered for subscription a total of 370,370,370 common shares to eligible shareholders on a pre-emptive rights basis at P67.50 per share. The stock rights have been fully subscribed and listed on February 10, 2014. The proceeds from the rights offer amounting to P25 billion have increased the Parent Bank's capital base.

Details of and movements in Accumulated other comprehensive income (loss) for the years ended December 31 follow:

	Consolidated			Parent		
	2016	2015	2014	**2016**	2015	2014
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	**(4,381)**	(3,855)	(2,952)	**(4,226)**	(4,072)	(3,029)
Unrealized fair value loss before tax	**(507)**	(542)	(1,153)	**(133)**	(217)	(1,201)
Amount recycled to profit or loss	**1,072**	(26)	(253)	**623**	22	(324)
Deferred income tax effect	**(22)**	42	503	**12**	41	482
At December 31	**(3,838)**	(4,381)	(3,855)	**(3,724)**	(4,226)	(4,072)
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	**(67)**	188	36	-	-	-
Share in other comprehensive (loss) income for the year, before tax	**(108)**	(265)	157	-	-	-
Deferred income tax effect	**17**	10	(5)	-	-	-
At December 31	**(158)**	(67)	188	-	-	-
Share in other comprehensive income (loss) of associates						
At January 1	**1,333**	1,784	1,530	-	-	-
Share in other comprehensive (loss) income for the year	**(74)**	(451)	254	-	-	-
At December 31	**1,259**	1,333	1,784	-	-	-
Translation adjustment on foreign operations						
At January 1	**(691)**	(768)	(703)	-	-	-
Translation differences	**(113)**	77	(65)	-	-	-
At December 31	**(804)**	(691)	(768)	-	-	-
Actuarial losses on defined benefit plan, net						
At January 1	**(958)**	(572)	(1,072)	**(654)**	(429)	(781)
Actuarial (losses) gains for the year	**(827)**	(546)	713	**(613)**	(322)	503
Deferred income tax effect	**248**	160	(213)	**184**	97	(151)
At December 31	**(1,537)**	(958)	(572)	**(1,083)**	(654)	(429)
	(5,078)	(4,764)	(3,223)	**(4,807)**	(4,880)	(4,501)

On December 18, 2015, the Board of Directors of the Parent Bank approved to grant to qualified beneficiaries/ participants up to 3,575,000 shares for Executive Stock Option Plan (ESOP) and 8,000,000 shares for Executive Stock Purchase Plan (ESPP).

On November 12, 2014, the Board of Directors of the Parent Bank approved to grant to qualified beneficiaries/ participants up to 3,200,000 shares for ESOP and 4,100,000 shares for ESPP.

On November 27, 2013, the Board of Directors of the Parent Bank approved to grant to qualified beneficiaries/ participants up to 3,500,000 shares for ESOP and up to 4,300,000 shares for ESPP.

The ESOP has a three-year vesting period with 1/3 of the option being vested at the end of each year from grant date while the ESPP has a five-year payment period.

The exercise price for ESOP is equal to the volume weighted average of BPI share price for the most recent previous 30-trading days from grant date. There were no options granted for the year ended December 31, 2016. The weighted average fair value of options granted determined using the Black-Scholes valuation model was P11.64 and P16.20 for the years ended December 31, 2015 and 2014, respectively.

Movements in the number of employee share options are as follows:

	2016	2015	2014
At January 1	**9,225,000**	6,350,000	3,250,000
Granted	**-**	3,575,000	3,175,000
Exercised	**(16,667)**	(91,667)	-
Cancelled	**(108,333)**	(608,333)	(75,000)
At December 31	**9,100,000**	9,225,000	6,350,000
Exercisable	**3,033,333**	2,650,000	1,058,333

The subscription price for ESPP is equivalent to 15% below the volume weighted average of BPI share price for the most recent previous 30-trading days from grant date. The subscription dates for ESPP were on January 25, 2016, November 12, 2014 and December 23, 2013.

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

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

	Consolidated			Parent		
	2016	2015	2014	**2016**	2015	2014
	(In Millions of Pesos)					
Surplus reserves						
At January 1	**2,563**	2,098	1,680	**2,555**	2,095	1,680
Transfer from surplus	**103**	432	397	**103**	432	397
Executive stock plan amortization	**45**	33	21	**37**	28	18
At December 31	**2,711**	2,563	2,098	**2,695**	2,555	2,095

Surplus reserves consist of:

	Consolidated			**Parent**		
	2016	2015	2014	**2016**	2015	2014
	(In Millions of Pesos)					
Reserve for trust business	**2,577**	2,474	2,043	**2,577**	2,474	2,043
Reserve for self-insurance	**34**	34	34	**34**	34	34
Executive stock option plan amortization	**100**	55	21	**84**	47	18
	2,711	2,563	2,098	**2,695**	2,555	2,095

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

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

Cash dividends declared by the Board of Directors of the Parent Bank during the years 2014 to 2016 follow:

		Amount of dividends	
Date declared	Date approved by the BSP	Per share	Total (In Millions of Pesos)
May 21, 2014	June 19, 2014	0.90	3,538
November 19, 2014	February 2, 2015	0.90	3,539
May 20, 2015	July 20, 2015	0.90	3,539
December 16, 2015	Not applicable, see below.	0.90	3,539
June 15, 2016	Not applicable, see below.	0.90	3,543
December 14, 2016	Not applicable, see below.	0.90	3,543

Prior to October 2015, cash dividends declared are payable to common shareholders of record as of 15th working day from receipt by the Parent Bank of the approval by the BSP and distributable on the 15th working day from the said record date.

In October 2015, BSP Circular No. 888, Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments, was issued which amends the section on recording of dividends. The liability for dividends declared shall be taken up in the bank's books upon its declaration. Prior to the release of BSP Circular No. 888, the liability for recording dividends declared is taken up in the books upon receipt of BSP approval thereof or if no such approval is received, after thirty (30) banking/business days from the date the required report on dividend declaration was received by the appropriate department of the Supervision and Examination Sector, whichever comes earlier.

The calculation of earnings per share (EPS) is shown below:

	Consolidated			**Parent**		
	2016	2015	2014	**2016**	2015	2014
	(In Millions, Except Earnings Per Share Amounts)					
a) Net income attributable to equity holders of the Parent Bank	**22,050**	18,234	18,039	**20,885**	12,063	13,270
b) Weighted average number of common shares outstanding during the year	**3,937**	3,932	3,905	**3,937**	3,932	3,905
c) Basic EPS (a/b)	**5.60**	4.64	4.62	**5.30**	3.07	3.40

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

Note 20 - Other Operating Income

Details of other operating income follow:

	Consolidated			Parent		
	2016	2015	2014	**2016**	2015	2014
	(In Millions of Pesos)					
Trust and asset management fees	**3,605**	3,607	3,433	**2,369**	2,912	2,793
Rental income	**1,687**	1,729	1,796	**353**	382	439
Credit card income	**1,530**	1,537	1,550	**1,519**	1,529	1,548
Gain on sale of assets	**712**	2,530	1,363	**322**	1,950	2,418
Dividend income	**56**	48	22	**6,083**	389	572
Others	**1,365**	1,199	2,504	**1,084**	889	2,201
	8,955	10,650	10,668	**11,730**	8,051	9,971

Trust and asset management fees arise from the BPI Group's asset management and trust services and are based on agreed terms with various managed funds and investments.

Rental income is earned by the BPI Group by leasing out its investment properties (Note 12) and other assets which consist mainly of fleet of vehicles. The BPI Group's operating lease agreements typically pertain to cancellable leases with a period of two to five years.

Credit card income pertains to membership fees arising from issuance of credit cards and various service charges earned from the cardholders.

Gain on sale of assets arises mainly from the sale of assets pertaining to merchant acquiring business, disposals of properties (including equity investments), foreclosed collaterals and non-performing assets.

Dividend income recognized by the Parent Bank substantially pertains to dividend distribution of subsidiaries. During 2016, BPI Family Savings Bank, Inc. and BPI Capital Corporation declared dividends payable to the Parent Bank amounting to P4,500 million and P1,000 million, respectively.

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

Note 21 - Leases

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

	Consolidated	Parent
	(In Millions of Pesos)	
2016	**1,337**	**1,097**
2015	1,259	1,041
2014	1,160	937

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

	2016	2015
	(In Millions of Pesos)	
No later than 1 year	**65**	74
Later than 1 year but no later than 5 years	**101**	126
More than 5 years	**10**	10
	176	210

Note 22 - Operating Expenses

Details of compensation and fringe benefits expenses follow:

	Consolidated			Parent		
	2016	2015	2014	**2016**	2015	2014
			(In Millions of Pesos)			
Salaries and wages	**11,332**	10,158	9,516	**8,998**	8,062	7,610
Retirement expense (Note 25)	**755**	1,039	826	**602**	854	670
Other employee benefit expenses	**1,376**	1,266	1,508	**1,113**	1,033	1,288
	13,463	12,463	11,850	**10,713**	9,949	9,568

Details of other operating expenses follow:

	Consolidated			Parent		
	2016	2015	2014	**2016**	2015	2014
			(In Millions of Pesos)			
Insurance	**3,426**	2,837	2,513	**2,160**	1,921	1,642
Advertising	**1,144**	1,303	1,335	**955**	1,152	1,163
Travel and communication	**812**	770	722	**687**	650	601
Taxes and licenses	**620**	585	469	**369**	375	295
Supervision and examination fees	**606**	541	497	**526**	474	436
Litigation expenses	**512**	397	417	**279**	211	224
Management and other professional fees	**495**	442	297	**424**	343	251
Office supplies	**324**	301	275	**271**	253	226
Amortization expense	**312**	323	316	**308**	320	312
Shared expenses	**-**	-	-	**12**	15	22
Others	**3,071**	2,714	2,252	**2,157**	1,815	1,421
	11,322	10,213	9,093	**8,148**	7,529	6,593

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, periodicals and magazines.

Note 23 - Income Taxes

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

	Consolidated					
	2016		2015		2014	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**8,043**	**30.00**	7,054	30.00	6,906	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(764)**	**(2.85)**	(886)	(3.77)	(1,571)	(6.82)
Tax-exempt income	**(3,942)**	**(14.70)**	(1,515)	(6.44)	(2,062)	(8.96)
Others, net	**1,198**	**4.47**	485	2.06	1,685	7.31
Actual income tax	**4,535**	**16.92**	5,138	21.85	4,958	21.53

	Parent					
	2016		2015		2014	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**7,267**	**30.00**	4,828	30.00	5,067	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(669)**	**(2.76)**	(792)	(4.92)	(1,491)	(8.83)
Tax-exempt income	**(2,577)**	**(10.64)**	(340)	(2.11)	(1,035)	(6.13)
Others, net	**(683)**	**(2.82)**	335	2.08	1,080	6.39
Actual income tax	**3,338**	**13.78**	4,031	25.05	3,621	21.43

Note 24 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2016	2015	**2016**	2015
Return on average equity	**13.77**	12.33	**17.72**	11.04
Return on average assets	**1.39**	1.30	**1.67**	1.08
Net interest margin	**2.85**	2.98	**2.58**	2.69

Note 25 - Retirement Plans

BPI and its subsidiaries, and a non-life insurance subsidiary have separate trusteed, non-contributory retirement benefit plans covering all qualified officers and employees. Effective January 1, 2016, the BPI Group implemented a defined contribution plan, in addition to its existing defined benefit plan, which is accounted for as a defined benefit plan with minimum guarantee. The description of the plans follows:

Defined benefit retirement plan

BPI

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

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

Non-life insurance subsidiary

BPI/MS has a separate 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.

Defined contribution retirement plan

For the defined contribution retirement plan, the defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of Republic Act ("RA") No. 7641. All non-unionized employees hired on or after the effective date are automatically under the new defined contribution plan. Employees hired prior to the effective date shall have the option to elect to become members of the new defined contribution plan.

Plan assets for both the defined benefit and defined contribution plans are held in trusts, governed by local regulations and practice in the Philippines.

Following are the amounts recognized based on recent actuarial valuations:

Defined benefit retirement plan

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

	Consolidated	
	2016	2015
	(In Millions of Pesos)	
Present value of defined benefit obligation	**11,952**	11,991
Fair value of plan assets	**(10,084)**	(10,953)
Pension liability recognized in the statement of condition	**1,868**	1,038

	Parent	
	2016	2015
	(In Millions of Pesos)	
Present value of defined benefit obligation	**9,905**	9,849
Fair value of plan assets	**(8,543)**	(9,106)
Pension liability recognized in the statement of condition	**1,362**	743

Pension liability is shown as part of "Miscellaneous liabilities" within Deferred credits and other liabilities (Note 18).

The movement in plan assets is summarized as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
At January 1	**10,953**	11,133	**9,106**	9,165
Transfer to defined contribution plan	**(659)**	-	**(535)**	-
Interest income	**521**	469	**440**	388
Contributions	**704**	942	**577**	766
Benefit payments	**(1,026)**	(1,208)	**(699)**	(896)
Remeasurement - return on plan assets	**(409)**	(383)	**(346)**	(317)
At December 31	**10,084**	10,953	**8,543**	9,106

The carrying value of the plan assets of the BPI Group as at December 31, 2016 is equivalent to the fair value of P10,084 million (2015 - P10,953 million). The carrying value of the plan assets of the Parent Bank as at December 31, 2016 is equivalent to the fair value of P8,543 million (2015 - P9,106 million).

The plan assets are comprised of the following:

	Consolidated				Parent			
	2016		2015		**2016**		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In Millions of Pesos Except for Rates)							
Debt securities	**4,416**	**44**	4,859	44	**3,741**	**44**	4,039	44
Equity securities	**4,461**	**44**	4,857	44	**3,779**	**44**	4,038	44
Others	**1,207**	**12**	1,237	12	**1,023**	**12**	1,029	12
	10,084	**100**	10,953	100	**8,543**	**100**	9,106	100

Pension plan assets of the unified retirement plan include investment in BPI's common shares with carrying amount of P160 million (2015 - P164 million) and fair value of P373 million at December 31, 2016 (2015 - P362 million). Realized and unrealized gains coming from BPI's common shares amount to P5 million and P213 million in 2016, respectively (2015 - P1,248 million and P197 million). The actual return on plan assets of the BPI Group was P112 million in 2016 (2015 - P85 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movement in the present value of defined benefit obligation is summarized as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
At January 1	**11,991**	11,541	**9,849**	9,498
Transfers to defined contribution plan	**(659)**	-	**(535)**	-
Current service cost	**649**	1,016	**535**	837
Interest cost	**597**	492	**493**	405
Past service cost - plan amendment	**(197)**	-	**(162)**	
Benefit payments	**(1,026)**	(1,208)	**(699)**	(896)
Settlement loss	**163**	-	**123**	-
Remeasurement - change in assumptions and experience adjustment	**434**	150	**301**	5
At December 31	**11,952**	11,991	**9,905**	9,849

The BPI Group has no other transactions with the plan other than the contributions presented above for the years ended December 31, 2016 and 2015.

(b) Expense recognized in the statement of income

	Consolidated			Parent		
	2016	2015	2014	**2016**	2015	2014
	(In Millions of Pesos)					
Current service cost	**649**	1,016	759	**535**	837	621
Net interest cost	**76**	23	67	**53**	17	49
Settlement loss	**163**	-	-	**123**	-	-
Past service cost	**(197)**	-	-	**(162)**	-	-
	691	1,039	826	**549**	854	670

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

	2016	2015
Discount rate	**5.35%**	4.98%
Future salary increases	**5.00%**	5.00%

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

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

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

The BPI Group contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The expected contribution for the year ending December 31, 2017 for the BPI Group and the Parent Bank amounts to P583 million and P482 million, respectively. The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2016 is 12 years (2015 - 13 years).

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

Consolidated

(In Millions of Pesos)	**2016**	2015
Less than a year	**1,025**	996
Between 1 to 5 years	**3,446**	3,323
Between 5 to 10 years	**5,533**	5,554
Between 10 to 15 years	**10,785**	10,057
Between 15 to 20 years	**11,886**	13,359
Over 20 years	**53,585**	78,502

Parent

(In Millions of Pesos)	**2016**	2015
Less than a year	**721**	639
Between 1 to 5 years	**2,668**	2,582
Between 5 to 10 years	**4,913**	4,815
Between 10 to 15 years	**9,085**	8,651
Between 15 to 20 years	**10,184**	11,259
Over 20 years	**40,951**	62,274

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

Consolidated

2016

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 1.00%	Increase by 1.05%
Salary growth rate	1.0%	Increase by 1.77%	Decrease by 1.63%

2015

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 1.28%	Increase by 1.32%
Salary growth rate	1.0%	Increase by 2.24%	Decrease by 2.14%

(35)

Parent

2016

	Change in assumption	Impact on defined benefit obligation Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 0.99%	Increase by 1.04%
Salary growth rate	1.0%	Increase by 1.74%	Decrease by 1.61%

2015

	Change in assumption	Impact on defined benefit obligation Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 1.29%	Increase by 1.32%
Salary growth rate	1.0%	Increase by 2.24%	Decrease by 2.14%

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

Defined contribution retirement plan subject to the requirements of RA No. 7641

	December 31, 2016 Consolidated	Parent
	(In Millions of Pesos)	
Fair value of plan assets	**660**	**536**
Present value of defined benefit obligation	**(235)**	**(192)**
	425	**344**
Effect of asset ceiling	**425**	**344**
	-	**-**

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

	2016 Consolidated	Parent
	(In Millions of Pesos)	
At January 1	**-**	**-**
Current service cost	**64**	**53**
Transfer to the Plan	**659**	**535**
Remeasurement - change in assumptions and experience adjustment	**(488)**	**(396)**
At December 31	**235**	**192**

The movements in the fair value of plan assets follow:

	2016	
	Consolidated	Parent
	(In Millions of Pesos)	
At January 1	**-**	**-**
Contribution paid by employer	**24**	**20**
Transfer to the Plan	**659**	**535**
Remeasurement - return on plan assets	**(23)**	**(19)**
At December 31	**660**	**536**

Total expenses for the year ended December 31, 2016 under the defined contribution plan amount to P64 million for BPI Group and P53 million for the Parent Bank.

The major categories of plan assets as a percentage of the fair value of total plan assets as at December 31, 2016 follow:

	Consolidated		Parent	
	(In Millions of Pesos Except for Rates)			
	Amount	Rate	Amount	Rate
Equity instruments	**502**	**76**	**408**	**76**
Debt instruments	**75**	**11**	**61**	**11**
Other assets	**83**	**13**	**67**	**13**
	660	**100**	**536**	**100**

The asset allocation of the Plan is set and reviewed from time to time by the Plan trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor.

Contributions are determined based on the plan provisions. The expected contribution to the defined contribution plan for the year ending December 31, 2017 for the BPI Group and the Parent Bank amounts to P113 million and P90 million, respectively.

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 25 years.

Note 26 - Trust Assets

At December 31, 2016, the net asset value of trust and fund assets administered by the BPI Group amounts to P564 billion (2015 - P538 billion).

Government securities deposited by the BPI Group and the Parent Bank with the BSP in compliance with the requirements of the General Banking Act relative to the trust functions follow:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Government securities (included in Held-to-maturity securities)	**5,881**	5,459	**5,881**	5,455

(37)

Note 27 - Related Party Transactions

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

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

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

Significant related party transactions, which represent movements in the account balance, and outstanding balances as at and for the years ended December 31 are summarized below (transactions with subsidiaries have been eliminated in the consolidated financial statements):

Consolidated

	2016		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**3**	**75**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	**45**	**45**	
AC	**(8,143)**	**5,965**	
Subsidiaries of AC	**7,109**	**22,197**	
Key management personnel	**-**	**-**	
Other related parties	**(552)**	**894**	
	(1,538)	**29,176**	
Deposits from:			
Subsidiaries	**146**	**7,238**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.27% Savings - 0.81% Time - 2.13% to 2.26%
Associates	**135**	**848**	
Ayala Group	**845**	**12,206**	
Key management personnel	**(545)**	**1,340**	
	581	**21,632**	

	2015		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	41	72	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.05% to 7.60% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 11 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	(142)	14,108	
Subsidiaries of AC	507	15,088	
Key management personnel	-	-	
Other related parties	583	1,446	
	989	30,714	
Deposits from:			
Subsidiaries	1,066	7,092	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.27% Savings - 0.81% to 0.82% Time - 2.00% to 2.11%
Associates	(276)	713	
Ayala Group	(20,030)	11,361	
Key management personnel	(836)	1,885	
	(20,076)	21,051	

	2014		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(163)	31	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 0.99% to 5.49% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 23 days to 10 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	8,000	14,250	
Subsidiaries of AC	(1,484)	14,581	
Key management personnel	-	-	
Other related parties	863	863	
	7,216	29,725	
Deposits from:			
Subsidiaries	(910)	6,026	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.24% Savings - 0.83% to 0.86% Time - 1.70% to 1.76%
Associates	317	989	
Ayala Group	10,232	31,391	
Key management personnel	1,707	2,721	
	11,346	41,127	

Parent

2016	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**3**	**75**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	**45**	**45**	
AC	**(8,143)**	**5,965**	
Subsidiaries of AC	**7,109**	**22,197**	
Key management personnel	**-**	**-**	
Other related parties	**(552)**	**894**	
	(1,538)	**29,176**	
Deposits from:			
Subsidiaries	**141**	**7,145**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.25% Savings - 0.76% to 0.77% Time - 1.43% to 1.48%
Associates	**130**	**841**	
Ayala Group	**1,231**	**11,980**	
Key management personnel	**(641)**	**1,132**	
	861	**21,098**	

2015	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	41	72	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.05% to 7.60% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 11 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	(142)	14,108	
Subsidiaries of AC	507	15,088	
Key management personnel	-	-	
Other related parties	583	1,446	
	989	30,714	
Deposits from:			
Subsidiaries	1,059	7,004	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.26% Savings - 0.75% to 0.76% Time - 1.35% to 1.48%
Associates	(264)	711	
Ayala Group	(19,696)	10,749	
Key management personnel	(695)	1,773	
	(19,596)	20,237	

	2014		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(163)	31	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 0.99% to 5.49% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 23 days to 10 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	8,000	14,250	
Subsidiaries of AC	(1,484)	14,581	
Key management personnel	-	-	
Other related parties	863	863	
	7,216	29,725	
Deposits from:			
Subsidiaries	647	5,945	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.23% Savings - 0.77% to 0.80% Time - 0.78% to 0.94%
Associates	303	975	
Ayala Group	9,286	30,445	
Key management personnel	1,454	2,468	
	11,690	39,833	

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

	2016	2015	2014
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**43**	4	10
AC	**169**	474	384
Subsidiaries of AC	**621**	493	495
Other related parties	**31**	34	16
	864	1,005	905
Other income			
Subsidiaries	**946**	923	817
Associates	**885**	900	-
AC	**17**	-	37
Subsidiaries of AC	**49**	12	798
	1,897	1,835	1,652
Interest expense			
Subsidiaries	**41**	12	10
Associates	**8**	2	2
Ayala Group	**74**	38	118
Key management personnel	**15**	17	20
	138	69	150
Other expenses			
Subsidiaries	**836**	813	101
Associates	**36**	-	-
AC	**58**	81	116
Subsidiaries of AC	**211**	74	277
	1,141	968	494
Retirement benefits			
Key management personnel	**44**	42	58
Salaries, allowances and other short-term benefits			
Key management personnel	**749**	602	673
Directors' remuneration	**77**	74	69

Parent

	2016	2015	2014
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**2**	1	1
AC	**169**	474	384
Subsidiaries of AC	**621**	493	495
Other related parties	**31**	34	16
	823	1,002	896
Other income			
Subsidiaries	**893**	820	708
Associates	**777**	773	-
Subsidiaries of AC	**-**	1	729
	1,670	1,594	1,437
Interest expense			
Subsidiaries	**39**	12	9
Associates	**8**	2	2
Ayala Group	**65**	33	115
Key management personnel	**14**	12	15
	126	59	141
Other expenses			
Subsidiaries	**21**	80	45
AC	**50**	63	116
Subsidiaries of AC	**209**	74	51
	280	217	212
Retirement benefits			
Key management personnel	**37**	32	49
Salaries, allowances and other short-term benefits			
Key management personnel	**604**	504	570
Directors' remuneration	**67**	64	61

Other income mainly consists of rental income and revenue from service arrangements with related parties. Also, in November 2014, an investment property was sold to a related party for P1.59 billion resulting in a gain of P729 million.

Other expenses mainly consist of rental expenses and management fees.

Based on the objective assessment done on related party balances, provisions have been recognized against receivables from related parties, as deemed applicable.

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Outstanding DOSRI loans	**6,236**	15,554	**6,187**	15,520

	In percentages (%)			
	Consolidated		Parent	
	2016	2015	**2016**	2015
% to total outstanding loans and advances	**0.59**	1.76	**0.74**	2.31
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	**29.60**	12.12	**29.80**	12.14
Past due DOSRI loans	**0.04**	0.01	**0.04**	0.01
Non-performing DOSRI loans	**0.02**	-	**0.02**	-

At December 31, 2016 and 2015, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

Note 28 - Critical Accounting Estimates and Judgments

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

A. Critical accounting estimates

(i) Impairment losses on loans and advances (Note 10)

The BPI Group reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the BPI Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows of individually impaired accounts and the estimated impairment for collectively assessed accounts differs by +/- 5%, impairment provision for the year ended December 31, 2016 would be an estimated P469 million (2015 - P431 million) higher or lower.

(ii) Fair value of derivatives and other financial instruments (Notes 6 and 29.4)

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

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

(iii) Pension liability on defined benefit plan (Note 25)

The BPI Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 25 and include, among others, the discount rate and future salary increases. The BPI Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. The present value of the defined benefit obligations of the BPI Group at December 31, 2016 and 2015 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the BPI Group's assumptions are reflected as remeasurements in other comprehensive income. The BPI Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The sensitivity analysis on key assumptions is disclosed in Note 25.

(iv) Valuation of assets held for sale

In determining the fair value of assets held for sale, the BPI Group analyzed the sales prices by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as impairment loss in the statement of income.

In 2016, the BPI Group has recognized reversal of impairment loss on its foreclosed assets amounting to P289 million as a result of improvement in fair market values of properties (2015 - reversal of impairment loss of P308 million).

The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of assets held for sale.

B. Critical accounting judgments

(i) Impairment of available-for-sale securities (Note 8)

The BPI Group follows the guidance of PAS 39 to determine when an available-for-sale security is impaired. This determination requires significant judgment. In making this judgment, the BPI Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(ii) Classification of held-to-maturity securities (Note 9)

The BPI Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the BPI Group evaluates its intention and ability to hold such investments to maturity. If the BPI Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not at amortized cost.

(iii) Classification of assets held for sale

Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel) as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value.

(iv) Realization of deferred income tax assets (Note 14)

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

Note 29 - Financial Risk and Capital Management

Risk management in the BPI Group covers all perceived areas of risk exposure, even as it continuously endeavors to identify and manage new and emerging risks. Capital management is understood to be a facet of risk management.

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

To generate acceptable returns to its shareholders' capital, the BPI Group understands that it has to bear risk, and that risk-taking is inherent in its business. Risk is understood by the BPI Group as the uncertainty in its future income - an uncertainty that emanates from the possibility of incurring losses that are due to unplanned and unexpected drops in revenues, increases in expenses, impairment of asset values, or increases in liabilities.

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

Enterprise Risk Management Framework

BPI espouses a comprehensive risk management and capital management framework, which integrates the management of all its financial and non-financial risk exposures. The framework conforms not only to BPI's own rigorous standards, but also to BSP's directives in promoting an effective Internal Capital Adequacy Assessment Process (ICAAP) and other risk management processes. The framework also ensures that BPI has adequate liquidity and capital to mitigate risks. The framework focuses on three key components consisting of:

- Sound risk management governance;
- Effective processes, information systems, and controls; and
- Timely and reliable risk data.

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

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

The most important risks that the BPI Group manages are credit risk, liquidity risk, market risk and operational and information technology (IT) risks.

29.1 Credit risk

The BPI Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the BPI Group by failing to discharge an obligation. Significant changes in the economy, or in the prospects of a particular industry segment that may represent a concentration in the BPI Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements. The Credit Policy and Risk Management Division supports the Credit Committee in managing credit risk, and reports are regularly provided to the Board of Directors.

29.1.1 Credit risk management

(a) Loans and advances

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

The BPI Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. The BPI Group has internal credit risk rating systems, designed for corporate, small and medium-sized enterprises (SMEs), and retail accounts, that measure the borrower's credit risk based on quantitative and qualitative factors. The ratings of individual exposures may subsequently migrate between classes as the assessment of their probabilities of default changes. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. The BPI Group regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary. The BPI Group's internal ratings are mapped to the following standard BSP classifications:

- *Unclassified* - these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

- *Loans especially mentioned* - these are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the BPI Group.

- *Substandard* - these are loans which appear to involve a substantial degree of risk to the BPI Group because of unfavorable record or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral.

- *Doubtful* - these are loans which have the weaknesses similar to those of the substandard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable.

- *Loss* - these are loans which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

(b) Debt securities and other bills

For debt securities and other bills, external ratings such as Standard & Poor's, Moody's and Fitch's ratings or their equivalents are used by the BPI Group for managing credit risk exposures. Investments in these securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements.

29.1.2 Risk limit control and mitigation policies

The BPI Group manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, to industries and sovereigns.

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

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

Exposure to credit risk is also managed through regular analysis of the ability of existing and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

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

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

(a) Collateral

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The BPI Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over real estate properties and chattels; and
- Hold-out on financial instruments such as debt securities deposits, and equities

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

(b) Derivatives

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

(c) Master netting arrangements

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

(d) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the BPI Group on behalf of a customer authorizing a third party to draw drafts on the BPI Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, or letters of credit. With respect to credit risk on commitments to extend credit, the BPI Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The BPI Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

29.1.3 Impairment and provisioning policies

As described in Note 29.1.1, the BPI Group's credit-quality mapping on loans and advances is based on the standard BSP loan classifications. Impairment provisions are recognized for financial reporting purposes based on objective evidence of impairment (Note 31.9).

The table below shows the percentage of the BPI Group's loans and advances and the related allowance for impairment.

	Consolidated			
	2016		2015	
	Loans and advances (%)	**Allowance for impairment (%)**	Loans and advances (%)	Allowance for impairment (%)
Unclassified	**98.31**	**0.90**	98.12	0.91
Loans especially mentioned	**0.24**	**5.01**	0.20	5.03
Substandard	**0.52**	**24.86**	0.69	21.19
Doubtful	**0.58**	**66.78**	0.54	63.75
Loss	**0.35**	**100.00**	0.45	100.00
	100.00		100.00	

	Parent			
	2016		2015	
	Loans and advances (%)	**Allowance for impairment (%)**	Loans and advances (%)	Allowance for impairment (%)
Unclassified	**98.92**	**0.80**	98.67	0.85
Loans especially mentioned	**0.18**	**5.31**	0.11	6.59
Substandard	**0.37**	**31.07**	0.58	22.53
Doubtful	**0.17**	**79.50**	0.15	72.56
Loss	**0.36**	**100.00**	0.49	100.00
	100.00		100.00	

29.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to significant on-balance sheet financial assets are as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Due from BSP	**239,514**	214,960	**203,743**	174,370
Due from other banks	**23,037**	22,238	**20,558**	17,181
Interbank loans receivable and SPAR	**15,236**	12,902	**9,049**	6,163
Financial assets at fair value through profit or loss				
Derivative financial assets	**2,993**	4,529	**2,993**	4,529
Trading securities - debt securities	**14,479**	7,762	**10,314**	5,442
Available-for-sale - debt securities	**21,962**	40,634	**19,287**	36,410
Held-to-maturity securities	**268,483**	244,809	**245,921**	225,077
Loans and advances, net	**1,040,720**	872,861	**821,545**	664,619
Other financial assets				
Accounts receivable, net	**1,625**	1,784	**892**	1,130
Other accrued interest and fees receivable	**637**	704	**584**	644
Sales contracts receivable, net	**460**	-	**460**	-
Rental deposits	**510**	403	**430**	336
Others, net	**1,023**	402	**1,030**	353
	1,630,679	1,423,988	**1,336,806**	1,136,254

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

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Undrawn loan commitments	**94,915**	108,104	**90,933**	97,418
Bills for collection	**20,848**	14,341	**20,848**	14,338
Unused letters of credit	**12,951**	10,953	**12,951**	10,953
Others	**734**	948	**734**	948
	129,448	134,346	**125,466**	123,657

The preceding table represents the maximum credit risk exposure at December 31, 2016 and 2015, without taking into account any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of condition.

Management is confident in its ability to continue to control and sustain minimal exposure to credit risk of the BPI Group resulting from its loan and advances portfolio based on the following:

- 98% of the loans and advances portfolio is considered to be neither past due nor impaired (2015 - 98%);
- Mortgage loans are backed by collateral; and
- The BPI Group continues to implement stringent selection process of granting loans and advances.

29.1.5 Credit quality of loans and advances

Loans and advances are summarized as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Neither past due nor impaired	**1,036,136**	868,886	**820,722**	663,514
Past due but not impaired	**5,301**	3,530	**3,524**	2,824
Impaired	**17,959**	16,807	**9,027**	8,905
	1,059,396	889,223	**833,273**	675,243
Allowance for impairment	**(18,676)**	(16,362)	**(11,728)**	(10,624)
	1,040,720	872,861	**821,545**	664,619

Impaired category as shown in the table above includes loan accounts which are individually (Note 29.1.5c) and collectively assessed for impairment.

The total consolidated gross impairment provision for loans and advances is P4,955 million (2015 - P4,099 million), of which P2,531 million (2015 - P649 million) represents provision for individually impaired loans and the remaining amount of P2,424 million (2015 - P3,450 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Note 10.

When entering into new markets or new industries, the BPI Group focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

Collaterals held as security for Loans and advances are described in Note 10.

(a) Loans and advances neither past due nor impaired

Loans and advances that were neither past due nor impaired consist mainly of accounts with Unclassified rating and those loan accounts in a portfolio to which an impairment has been allocated on a collective basis. Details of these accounts follow:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	**757,037**	605,940	**741,368**	578,779
Small and medium enterprises	**78,289**	87,902	**42,433**	51,725
Retail customers:				
Credit cards	**33,638**	29,987	**32,914**	29,501
Real estate mortgages	**112,349**	96,484	**17**	24
Auto loans	**50,524**	43,537	**-**	-
Others	**4,299**	5,036	**3,990**	3,485
	1,036,136	868,886	**820,722**	663,514

(b) Loans and advances past due but not impaired

The table below presents the gross amount of loans and advances that were past due but not impaired classified by type of borrowers. Collateralized past due loans are not considered impaired when the cash flows that may result from foreclosure of the related collateral are higher than the carrying amount of the loans.

Consolidated

	2016				2015			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	**293**	**243**	**2,325**	**2,861**	134	157	1,716	2,007
Past due 31 - 90 days	**225**	**274**	**1,363**	**1,862**	189	78	863	1,130
Past due 91 - 180 days	**232**	**159**	**110**	**501**	34	85	-	119
Over 180 days	**60**	**14**	**3**	**77**	104	120	50	274
	810	**690**	**3,801**	**5,301**	461	440	2,629	3,530
Fair value of collateral				**1,925**				1,165

Parent

	2016				2015			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	**226**	**46**	**1,923**	**2,195**	42	54	1,683	1,779
Past due 31 - 90 days	**205**	**33**	**933**	**1,171**	172	59	747	978
Past due 91 - 180 days	**89**	**66**	**-**	**155**	25	13	-	38
Over 180 days	**-**	**3**	**-**	**3**	-	29	-	29
	520	**148**	**2,856**	**3,524**	239	155	2,430	2,824
Fair value of collateral				**527**				208

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances (included in Impaired category) by class, along with the fair value of related collateral held by the BPI Group as security, are as follows:

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	**4,594**	4,182	**4,385**	3,746
Small and medium enterprises	**4,690**	4,245	**2,405**	2,662
Retail customers:				
Credit cards	**1,527**	1,899	**1,498**	1,876
Auto loans	**2**	3	-	-
Others	**378**	318	**259**	220
	11,191	10,647	**8,547**	8,504
Fair value of collateral	**6,977**	8,003	**6,481**	7,430

29.1.6 Credit quality of other financial assets

(a) Due from BSP

Due from BSP are considered fully performing. As at December 31, 2016, the account consists of clearing account and other deposit facilities amounting to P239,514 million (2015 - 214,960 million) for BPI Group and P203,743 million (2015 - P174,370 million) for the Parent Bank.

(b) Due from other banks

Due from other banks are considered fully performing at December 31, 2016 and 2015. The table below presents the credit ratings of counterparty banks based on international and domestic credit assessment agencies.

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
AA- to AA+	**201**	2,524	**201**	2,524
A- to A+	**16,235**	15,641	**16,196**	11,755
Lower than A-	**3,992**	1,808	**3,500**	1,777
Unrated	**2,609**	2,265	**661**	1,125
	23,037	22,238	**20,558**	17,181

(c) Interbank loans receivable and securities purchased under agreement to resell

Interbank loans receivable are considered fully performing at December 31, 2016 and 2015. The table below presents the credit ratings of counterparty banks based on international and domestic credit assessment agencies.

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
A- to A+	**8,207**	1,882	**7,210**	1,882
Lower than A-	**444**	-	**-**	-
Unrated	**2,009**	4,507	**1,839**	4,281
	10,660	6,389	**9,049**	6,163

Securities purchased under agreements to resell includes reverse repurchase agreements amounting to P4,576 million and nil for the BPI Group and Parent Bank, respectively (2015 - P6,513 million and nil for the BPI Group and Parent Bank, respectively), which are made with a sovereign counterparty and are considered fully performing.

(d) Derivative financial assets

The table below presents the ratings based on international and domestic credit assessment agencies of counterparties for derivative financial assets at December 31, 2016 and 2015 presented in the consolidated and parent financial statements.

	Consolidated and Parent	
	2016	2015
	(In Millions of Pesos)	
AA- to AA+	**231**	1,217
A- to A+	**1,976**	2,904
Lower than A-	**701**	91
Unrated	**85**	317
	2,993	4,529

(e) Debt securities, treasury bills and other government securities

The table below presents the ratings of debt securities, treasury bills and other government securities at December 31, 2016 and 2015 based on international and domestic credit assessment agencies:

	Consolidated				Parent			
	Trading securities	Available-for-sale	Held-to-maturity	**Total**	Trading securities	Available-for-sale	Held-to-maturity	**Total**
				(In Millions of Pesos)				
AAA	4,074	2,270	4,371	**10,715**	-	2,018	4,045	**6,063**
AA- to AA+	2,002	7,778	10,105	**19,885**	2,002	7,684	9,889	**19,575**
A- to A+	2,692	8,784	29,543	**41,019**	2,692	8,530	28,352	**39,574**
Lower than A-	5,711	1,230	223,330	**230,271**	5,620	1,055	202,557	**209,232**
Unrated	-	1,900	1,134	**3,034**	-	-	1,078	**1,078**
At December 31, 2016	**14,479**	**21,962**	**268,483**	**304,924**	**10,314**	**19,287**	**245,921**	**275,522**

	Consolidated				Parent			
	Trading securities	Available-for-sale	Held-to-maturity	Total	Trading securities	Available-for-sale	Held-to-maturity	Total
				(In Millions of Pesos)				
AAA	72	105	785	962	-	-	785	785
AA- to AA+	6,814	27,186	4,831	38,831	4,698	26,518	3,979	35,195
A- to A+	-	5,757	19,089	24,846	-	5,009	19,089	24,098
Lower than A-	876	5,605	218,856	225,337	744	4,883	199,977	205,604
Unrated	-	1,981	1,248	3,229	-	-	1,247	1,247
At December 31, 2015	7,762	40,634	244,809	293,205	5,442	36,410	225,077	266,929

(f) Other financial assets

The BPI Group's other financial assets (shown under Other resources) at December 31, 2016 and 2015 consist mainly of sales contracts receivable, accounts receivable, accrued interest and fees receivable from various unrated counterparties with good credit standing.

29.1.7 Repossessed or foreclosed collaterals

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2016, the BPI Group's foreclosed collaterals have carrying amount of P3,667 million (2015 - P4,385 million). The related foreclosed collaterals have aggregate fair value of P9,753 million (2015 - P10,954 million). Foreclosed collaterals include real estate (land, building, and improvements), auto and chattel.

Repossessed properties are sold as soon as practicable and are classified as "Assets held for sale" in the statement of condition.

29.1.8 Concentrations of risks of financial assets with credit risk exposure

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

Consolidated

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	239,514	-	-	-	-	-	**239,514**
Due from other banks	23,037	-	-	-	-	-	**23,037**
Interbank loans receivable and SPAR	15,236	-	-	-	-	-	**15,236**
Financial assets at fair value through profit or loss							
Derivative financial assets	2,960	-	17	2	14		**2,993**
Trading securities - debt securities	4,937	-	1	367	9,174	-	**14,479**
Available-for-sale - debt securities	19,456	-	190	104	2,212	-	**21,962**
Held-to-maturity securities	54,610	68	3,226	502	210,077	-	**268,483**
Loans and advances, net	100,395	97,618	168,760	244,152	448,471	(18,676)	**1,040,720**
Other financial assets							
Accounts receivable, net	-	-	-	-	2,433	(808)	**1,625**
Other accrued interest and fees receivable	-	-	-	-	637	-	**637**
Sales contracts receivable, net	-	-	-	-	465	(5)	**460**
Rental deposits	-	-	-	-	510	-	**510**
Others, net	-	-	-	-	1,106	(83)	**1,023**
At December 31, 2016	**460,145**	**97,686**	**172,194**	**245,127**	**675,099**	**(19,572)**	**1,630,679**

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	214,960	-	-	-	-	-	214,960
Due from other banks	22,238	-	-	-	-	-	22,238
Interbank loans receivable and SPAR	12,902	-	-	-	-	-	12,902
Financial assets at fair value through profit or loss							
Derivative financial assets	4,415	-	2	-	112	-	4,529
Trading securities - debt securities	1	-	4	35	7,722	-	7,762
Available-for-sale - debt securities	13,821	-	-	105	26,708	-	40,634
Held-to-maturity securities	25,661	-	270	502	218,376	-	244,809
Loans and advances, net	106,226	88,612	166,926	194,484	332,975	(16,362)	872,861
Other financial assets							
Accounts receivable, net	-	-	-	-	2,848	(1,064)	1,784
Other accrued interest and fees receivable	-	-	-	-	704	-	704
Sales contracts receivable, net	-	-	-	-	6	(6)	-
Rental deposits	-	-	-	-	403	-	403
Others, net	-	-	-	-	499	(97)	402
At December 31, 2015	400,224	88,612	167,202	195,126	590,353	(17,529)	1,423,988

Parent

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	203,743	-	-	-	-	-	**203,743**
Due from other banks	20,558	-	-	-	-	-	**20,558**
Interbank loans receivable and SPAR	9,049	-	-	-	-	-	**9,049**
Financial assets at fair value through profit or loss							
Derivative financial assets	2,960	-	17	2	14	-	**2,993**
Trading securities - debt securities	4,937	-	-	-	5,377	-	**10,314**
Available-for-sale - debt securities	17,167	-	149	-	1,971	-	**19,287**
Held-to-maturity securities	52,232	-	3,226	502	189,961	-	**245,921**
Loans and advances, net	98,727	42,350	162,291	127,117	402,788	(11,728)	**821,545**
Other financial assets							
Accounts receivable, net	-	-	-	-	1,509	(617)	**892**
Other accrued interest and fees receivable	-	-	-	-	584	-	**584**
Sales contracts receivable, net	-	-	-	-	465	(5)	**460**
Rental deposits	-	-	-	-	430	-	**430**
Others, net	-	-	-	-	1,106	(76)	**1,030**
At December 31, 2016	**409,373**	**42,350**	**165,683**	**127,621**	**604,205**	**(12,426)**	**1,336,806**

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	174,370	-	-	-	-	-	174,370
Due from other banks	17,181	-	-	-	-	-	17,181
Interbank loans receivable and SPAR	6,163	-	-	-	-	-	6,163
Financial assets at fair value through profit or loss							
Derivative financial assets	4,415	-	2	-	112	-	4,529
Trading securities - debt securities	-	-	-	-	5,442	-	5,442
Available-for-sale - debt securities	10,947	-	-	-	25,463	-	36,410
Held-to-maturity securities	23,711	-	270	502	200,594	-	225,077
Loans and advances, net	104,446	38,208	160,751	84,730	287,108	(10,624)	664,619
Other financial assets							
Accounts receivable, net	-	-	-	-	1,983	(853)	1,130
Other accrued interest and fees receivable	-	-	-	-	644	-	644
Sales contracts receivable, net	-	-	-	-	6	(6)	-
Rental deposits	-	-	-	-	336	-	336
Others, net	-	-	-	-	443	(90)	353
At December 31, 2015	341,233	38,208	161,023	85,232	522,131	(11,573)	1,136,254

Trading, available-for-sale and held-to-maturity securities under "Others" category include local and US treasury bills. Likewise, Loans and advances under the same category pertain to loans granted to individual and retail borrowers belonging to various industry sectors.

29.2 Market risk

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

Market risk management

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

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

The BPI Group has exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities. Derivatives are also used to hedge open exposures to mitigate price risk inherent in the bank's portfolios.

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 Bank'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**	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Local fixed-income	**66**	171	**60**	150
Foreign fixed-income	**61**	118	**40**	102
Foreign exchange	**51**	70	**17**	42
Derivatives	**71**	54	**71**	54
Equity securities	**30**	42	**-**	-
Mutual fund	**3**	4	**-**	-
	282	459	**188**	348

(59)

29.2.1 Foreign exchange risk

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

The BPI Group takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the BPI Group's exposure to more material foreign currency exchange rate risk at December 31, 2016 and 2015. Included in the table are the BPI Group's financial instruments at carrying amounts, categorized by currency.

Consolidated

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2016						
Financial Assets						
Cash and other cash items	2,566	103	157	29	-	**2,855**
Due from other banks	15,482	1,744	3,393	240	-	**20,859**
Interbank loans receivable and SPAR	9,182	-	-	524	-	**9,706**
Financial assets at fair value through profit or loss						
Derivative financial assets	2,002	-	70	101	-	**2,173**
Trading securities - debt securities	8,945	-	-	-	-	**8,945**
Available-for-sale securities - debt securities	18,960	-	-	-	-	**18,960**
Held-to-maturity securities	90,110	-	-	741	-	**90,851**
Loans and advances, net	121,204	61	138	2,161	(622)	**122,942**
Others financial assets						
Accounts receivable, net	81	-	-	4	(16)	**69**
Other accrued interest and fees receivable	334	-	14	66	-	**414**
Total financial assets	**268,866**	**1,908**	**3,772**	**3,866**	**(638)**	**277,774**
Financial Liabilities						
Deposit liabilities	210,223	1,618	3,494	1,450	-	**216,785**
Derivative financial liabilities	1,944	-	50	116	-	**2,110**
Bills payable	54,301	-	26	-	-	**54,327**
Due to BSP and other banks	268	-	-	-	-	**268**
Manager's checks and demand drafts outstanding	133	-	13	3	-	**149**
Other financial liabilities						
Accounts payable	92	-	2	-	-	**94**
Total financial liabilities	**266,961**	**1,618**	**3,585**	**1,569**	**-**	**273,733**
Net on-balance sheet financial position (in Philippine Peso)	**1,905**	**290**	**187**	**2,297**	**(638)**	**4,041**

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2015						
Financial Assets						
Cash and other cash items	1,912	102	119	22	-	2,155
Due from other banks	14,691	1,312	1,836	1,331	-	19,170
Interbank loans receivable and SPAR	4,985	-	-	323	-	5,308
Financial assets at fair value through profit or loss						
Derivative financial assets	2,783	-	41	37	-	2,861
Trading securities - debt securities	7,534	-	-	-	-	7,534
Available-for-sale securities - debt securities	37,313	-	5	-	-	37,318
Held-to-maturity securities	59,182	-	1,509	915	-	61,606
Loans and advances, net	91,311	340	310	31	(469)	91,523
Others financial assets						
Accounts receivable, net	78	-	11	4	(15)	78
Other accrued interest and fees receivable	246	-	97	43	-	386
Total financial assets	220,035	1,754	3,928	2,706	(484)	227,939
Financial Liabilities						
Deposit liabilities	199,776	1,381	3,570	1,375	-	206,102
Derivative financial liabilities	1,820	-	39	40	-	1,899
Bills payable	13,889	-	41	-	-	13,930
Due to BSP and other banks	224	-	-	-	-	224
Manager’s checks and demand drafts outstanding	21	-	12	1	-	34
Other financial liabilities						
Accounts payable	119	-	12	1	-	132
Total financial liabilities	215,849	1,381	3,674	1,417	-	222,321
Net on-balance sheet financial position (in Philippine Peso)	4,186	373	254	1,289	(484)	5,618

Parent

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2016						
Financial Assets						
Cash and other cash items	2,390	103	157	27	-	**2,677**
Due from other banks	13,836	1,744	3,387	152	-	**19,119**
Interbank loans receivable and SPAR	7,210	-	-	-	-	**7,210**
Financial assets at fair value through profit or loss						
Derivative financial assets	2,002	-	70	101	-	**2,173**
Trading securities - debt securities	5,246	-	-	-	-	**5,246**
Available-for-sale securities - debt securities	18,840	-	-	-	-	**18,840**
Held-to-maturity securities	80,318	-	-	-	-	**80,318**
Loans and advances, net	121,179	61	115	2,142	(617)	**122,880**
Other financial assets						
Accounts receivable, net	77	-	-	-	(16)	**61**
Other accrued interest and fees receivable	326	-	14	49	-	389
Total financial assets	**251,424**	**1,908**	**3,743**	**2,471**	**(633)**	**258,913**
Financial Liabilities						
Deposit liabilities	195,466	1,618	3,494	1,183	-	**201,761**
Derivative financial liabilities	1,944	-	50	115	-	**2,109**
Bills payable	52,196	-	-	-	-	**52,196**
Due to BSP and other banks	268	-	-	-	-	**268**
Manager's checks and demand drafts outstanding	133	-	13	3	-	**149**
Other financial liabilities						
Accounts payable	90	-	2	-	-	**92**
Total financial liabilities	**250,097**	**1,618**	**3,559**	**1,301**	-	**256,575**
Net on-balance sheet financial position (in Philippine Peso)	**1,327**	**290**	**184**	**1,170**	**(633)**	**2,338**

(62)

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2015						
Financial Assets						
Cash and other cash items	1,750	102	112	19	-	1,983
Due from other banks	10,367	1,309	1,672	1,047	-	14,395
Interbank loans receivable and SPAR	4,252	-	-	-	-	4,252
Financial assets at fair value through profit or loss						
Derivative financial assets	2,783	-	41	37	-	2,861
Trading securities - debt securities	5,417	-	-	-	-	5,417
Available-for-sale securities - debt securities	35,768	-	5	-	-	35,773
Held-to-maturity securities	52,200	-	1,509	-	-	53,709
Loans and advances, net	91,063	340	223	1	(468)	91,159
Other financial assets						
Accounts receivable, net	75	-	-	-	(15)	60
Other accrued interest and fees receivable	242	-	97	24	-	363
Total financial assets	203,917	1,751	3,659	1,128	(483)	209,972
Financial Liabilities						
Deposit liabilities	185,462	1,381	3,376	1,064	-	191,283
Derivative financial liabilities	1,820	-	39	39	-	1,898
Bills payable	12,706	-	-	-	-	12,706
Due to BSP and other banks	224	-	-	-	-	224
Manager's checks and demand drafts outstanding	20	-	12	1	-	33
Other financial liabilities						
Accounts payable	99	-	1	-	-	100
Total financial liabilities	200,331	1,381	3,428	1,104	-	206,244
Net on-balance sheet financial position (in Philippine Peso)	3,586	370	231	24	(483)	3,728

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

		Effect on pre-tax income (In Millions of Pesos)	
Year	Change in currency	Consolidated	Parent
2016	**+/- 2.33%**	**+/- 30**	**+/- 17**
2015	+/- 2.38%	+/- 94	+/- 80

29.2.2 Interest rate risk

Interest rate risk is the risk that the BPI Group will experience deterioration in its financial position brought about by movements in the absolute level of interest rates. Interest rate risk in the banking book arises from the BPI Group's core banking activities. The main source of this type of interest rate risk is re-pricing risk, which reflects the fact that the BPI Group's assets and liabilities have different maturities and are re-priced at different interest rates. The Bank employs two methods to measure the potential impact of interest rate risk in Group's financial positions - (i) one that focuses on the economic value of the banking book, and (ii) one that focuses on net interest earnings. The RMC sets limits on the two interest rate risk metrics which are monitored monthly by the Market Risk Division of the RMO.

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

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

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
BSVaR	**3,142**	2,315	**2,695**	1,923

The second re-pricing risk metric used by the Bank is Earnings-at-Risk (EaR). This metric measures the potential deterioration in the Bank's net interest income due to changes in interest rates. The Bank's earnings are affected when movements in borrowing and lending rates are not perfectly synchronized, which create a gap due to such mismatch. Based on the banking book positions as at particular valuation dates, the Group projects interest receivables out of its assets, and interest payables on its liabilities, in the next 12 months. Net interest income - the difference between interest receipts and payments - is projected in this exercise. BPI, on a group level, is positively gapped hence increase in rates becomes beneficial to the Bank. As of December 31, 2016, the net interest income impact of movement in interest rates amounts to P293 million (2015 - P473 million).

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

Consolidated

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2016					
Financial Assets					
Cash and other cash items	-	-	-	35,692	**35,692**
Due from BSP	-	-	-	239,514	**239,514**
Due from other banks	-	-	-	23,037	**23,037**
Interbank loans receivable and SPAR	-	-	-	15,236	**15,236**
Financial assets at fair value through profit or loss					
Derivative financial assets	1,574	627	792	-	**2,993**
Trading securities - debt securities	-	-	-	14,479	**14,479**
Available-for-sale - debt securities	12,476	1,996	245	7,245	**21,962**
Held-to-maturity securities	1	-	1	268,481	**268,483**
Loans and advances, net	743,278	66,798	167,822	62,822	**1,040,720**
Other financial assets					
Accounts receivable, net	-	-	-	1,625	**1,625**
Other accrued interest and fees receivable	-	-	-	637	**637**
Sales contracts receivable, net	-	-	-	460	**460**
Rental deposits	-	-	-	510	**510**
Others, net	-	-	-	1,023	**1,023**
Total financial assets	**757,329**	**69,421**	**168,860**	**670,761**	**1,666,371**
Financial Liabilities					
Deposit liabilities	806,779	580,998	43,523	-	**1,431,300**
Derivative financial liabilities	1,985	319	808	-	**3,112**
Bills payable	-	19,693	-	42,280	**61,973**
Due to BSP and other banks	-	-	-	670	**670**
Manager's checks and demand drafts outstanding	-	-	-	7,579	**7,579**
Other financial liabilities					
Accounts payable	-	-	-	4,875	**4,875**
Outstanding acceptances	-	-	-	1,452	**1,452**
Deposits on lease contracts	-	-	-	1,970	**1,970**
Dividends payable	-	-	-	3,543	**3,543**
Others	-	-	-	1,786	**1,786**
Total financial liabilities	**808,764**	**601,010**	**44,331**	**64,155**	**1,518,260**
Total interest gap	**(51,435)**	**(531,589)**	**124,529**	**606,606**	**148,111**

	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, 2015					
Financial Assets					
Cash and other cash items	-	-	-	35,681	35,681
Due from BSP	-	-	-	214,960	214,960
Due from other banks	-	-	-	22,238	22,238
Interbank loans receivable and SPAR	-	-	-	12,902	12,902
Financial assets at fair value through profit or loss					
Derivative financial assets	3,791	422	316	-	4,529
Trading securities - debt securities	-	-	-	7,762	7,762
Available-for-sale - debt securities	4,497	-	-	36,137	40,634
Held-to-maturity securities	-	3	-	244,806	244,809
Loans and advances, net	612,854	74,234	126,292	59,481	872,861
Other financial assets					
Accounts receivable, net	-	-	-	1,784	1,784
Other accrued interest and fees receivable	-	-	-	704	704
Rental deposits	-	-	-	403	403
Others, net	-	-	-	402	402
Total financial assets	621,142	74,659	126,608	637,260	1,459,669
Financial Liabilities					
Deposit liabilities	438,832	242,198	593,022	1,647	1,275,699
Derivative financial liabilities	2,601	364	251	-	3,216
Bills payable	-	-	-	20,941	20,941
Due to BSP and other banks	-	-	-	431	431
Manager’s checks and demand drafts outstanding	-	-	-	8,308	8,308
Other financial liabilities					
Accounts payable	-	-	-	4,483	4,483
Outstanding acceptances	-	-	-	2,494	2,494
Deposits on lease contracts	-	-	-	1,868	1,868
Dividends payable	-	-	-	3,539	3,539
Others	-	-	-	1,161	1,161
Total financial liabilities	441,433	242,562	593,273	44,872	1,322,140
Total interest gap	179,709	(167,903)	(466,665)	592,388	137,529

Parent

	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, 2016					
Financial Assets					
Cash and other cash items	-	-	-	34,855	**34,855**
Due from BSP	-	-	-	203,743	**203,743**
Due from other banks	-	-	-	20,558	**20,558**
Interbank loans receivable and SPAR	-	-	-	9,049	**9,049**
Financial assets at fair value through profit or loss					
Derivative financial assets	1,574	627	792	-	**2,993**
Trading securities - debt securities	-	-	-	10,314	**10,314**
Available-for-sale - debt securities	12,476	1,996	245	4,570	**19,287**
Held-to-maturity securities	1	-	1	245,919	**245,921**
Loans and advances, net	672,099	26,674	111,374	11,398	**821,545**
Other financial assets					
Accounts receivable, net	-	-	-	892	**892**
Other accrued interest and fees receivable	-	-	-	584	**584**
Sales contracts receivable, net	-	-	-	460	**460**
Rental deposits	-	-	-	430	**430**
Others, net	-	-	-	1,030	**1,030**
Total financial assets	**686,150**	**29,297**	**112,412**	**543,802**	**1,371,661**
Financial Liabilities					
Deposit liabilities	572,877	515,446	96,155	-	**1,184,478**
Derivative financial liabilities	1,985	319	808	-	**3,112**
Bills payable	-	19,693	-	32,564	**52,257**
Due to BSP and other banks	-	-	-	670	**670**
Manager's checks and demand drafts outstanding	-	-	-	5,893	**5,893**
Other financial liabilities					
Accounts payable	-	-	-	3,325	**3,325**
Outstanding acceptances	-	-	-	1,452	**1,452**
Dividends payable	-	-	-	3,543	**3,543**
Others	-	-	-	1,245	**1,245**
Total financial liabilities	**574,862**	**535,458**	**96,963**	**48,692**	**1,255,975**
Total interest gap	**111,288**	**(506,161)**	**15,449**	**495,110**	**115,686**

	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, 2015					
Financial Assets					
Cash and other cash items	-	-	-	34,797	34,797
Due from BSP	-	-	-	174,370	174,370
Due from other banks	-	-	-	17,181	17,181
Interbank loans receivable and SPAR	-	-	-	6,163	6,163
Financial assets at fair value through profit or loss					
Derivative financial assets	3,791	422	316	-	4,529
Trading securities - debt securities	-	-	-	5,442	5,442
Available-for-sale - debt securities	-	4,497	-	31,913	36,410
Held-to-maturity securities	-	3	-	225,074	225,077
Loans and advances, net	534,063	38,152	78,033	14,371	664,619
Other financial assets					
Accounts receivable, net	-	-	-	1,130	1,130
Other accrued interest and fees receivable	-	-	-	644	644
Rental deposits	-	-	-	336	336
Others, net	-	-	-	353	353
Total financial assets	537,854	43,074	78,349	511,774	1,171,051
Financial Liabilities					
Deposit liabilities	551,682	394,382	87,321	-	1,033,385
Derivative financial liabilities	2,601	364	251	-	3,216
Bills payable	-	-	-	12,826	12,826
Due to BSP and other banks	-	-	-	431	431
Manager's checks and demand drafts outstanding	-	-	-	6,693	6,693
Other financial liabilities					
Accounts payable	-	-	-	2,594	2,594
Outstanding acceptances	-	-	-	2,494	2,494
Deposits on lease contracts	-	-	-	-	-
Dividends payable	-	-	-	3,539	3,539
Others	-	-	-	1,043	1,043
Total financial liabilities	554,283	394,746	87,572	29,620	1,066,221
Total interest gap	(16,429)	(351,672)	(9,223)	482,154	104,830

29.3 Liquidity risk

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

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

29.3.1 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or as borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity gaps against internal and regulatory requirements (Note 16);
- Managing the concentration and profile of debt maturities; and
- Performing periodic liquidity stress testing on the BPI Group's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities (Notes 29.3.3 and 29.3.4) and the expected collection date of the financial assets.

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

29.3.2 Funding approach

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

29.3.3 Non-derivative cash flows

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

Consolidated

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2016				
Financial Assets				
Cash and other cash items	35,692	-	-	**35,692**
Due from BSP	239,539	-	-	**239,539**
Due from other banks	23,037	-	-	**23,037**
Interbank loans receivable and SPAR	14,833	238	371	**15,442**
Financial assets at fair value through profit or loss				
Trading securities - debt securities	13,615	532	864	**15,011**
Available-for-sale securities - debt securities	15,393	4,094	3,339	**22,826**
Held-to-maturity securities	45,425	61,683	230,340	**337,448**
Loans and advances, net	501,878	106,506	475,347	**1,083,731**
Other financial assets				
Accounts receivable, net	1,625	-	-	**1,625**
Other accrued interest and fees receivable	637	-	-	**637**
Sales contracts receivable, net	460	-	-	**460**
Rental deposits	510	-	-	**510**
Others, net	1,023	-	-	**1,023**
Total financial assets	**893,667**	**173,053**	**710,261**	**1,776,981**
Financial Liabilities				
Deposit liabilities	480,124	234,072	734,648	**1,448,844**
Bills payable	35,306	28,372	-	**63,678**
Due to BSP and other banks	670	-	-	**670**
Manager's checks and demand drafts outstanding	7,579	-	-	**7,579**
Other financial liabilities				
Accounts payable	4,875	-	-	**4,875**
Outstanding acceptances	1,452	-	-	**1,452**
Deposits on lease contracts	1,970	-	-	**1,970**
Dividends payable	3,543	-	-	**3,543**
Others	1,786	-	-	**1,786**
Total financial liabilities	**537,305**	**262,444**	**734,648**	**1,534,397**
Total maturity gap	**356,362**	**(89,391)**	**(24,387)**	**242,584**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2015				
Financial Assets				
Cash and other cash items	35,681	-	-	35,681
Due from BSP	214,976	-	-	214,976
Due from other banks	22,238	-	-	22,238
Interbank loans receivable and SPAR	12,526	61	636	13,223
Financial assets at fair value through profit or loss				
Trading securities - debt securities	2,266	316	5,991	8,573
Available-for-sale securities - debt securities	24,691	6,763	9,059	40,513
Held-to-maturity securities	38,288	67,963	211,233	317,484
Loans and advances, net	497,093	147,604	353,432	998,129
Other financial assets				
Accounts receivable, net	1,784	-	-	1,784
Other accrued interest and fees receivable	704	-	-	704
Sales contracts receivable, net	-	-	-	-
Rental deposits	403	-	-	403
Others, net	402	-	-	402
Total financial assets	851,052	222,707	580,351	1,654,110
Financial Liabilities				
Deposit liabilities	729,638	529,520	29,826	1,288,984
Bills payable	21,106	4,896	54	26,056
Due to BSP and other banks	431	-	-	431
Manager's checks and demand drafts outstanding	8,308	-	-	8,308
Other financial liabilities				
Accounts payable	4,483	-	-	4,483
Outstanding acceptances	2,494	-	-	2,494
Deposits on lease contracts	1,868	-	-	1,868
Dividends payable	3,539	-	-	3,539
Others	1,161	-	-	1,161
Total financial liabilities	773,028	534,416	29,880	1,337,324
Total maturity gap	78,024	(311,709)	550,471	316,786

Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2016				
Financial Assets				
Cash and other cash items	34,855	-	-	**34,855**
Due from BSP	203,747	-	-	**203,747**
Due from other banks	20,558	-	-	**20,558**
Interbank loans receivable and SPAR	8,785	223	181	**9,189**
Financial assets at fair value through profit or loss				
Trading securities - debt securities	9,870	46	858	**10,774**
Available-for-sale securities - debt securities	13,141	3,735	3,241	**20,117**
Held-to-maturity securities	42,447	57,001	209,576	**309,024**
Loans and advances, net	444,691	70,089	342,750	**857,530**
Other financial assets, net				
Accounts receivable, net	892	-	-	**892**
Other accrued interest and fees receivable	584	-	-	**584**
Sales contracts receivable, net	460	-	-	**460**
Rental deposits	430	-	-	**430**
Others, net	1,030	-	-	**1,030**
Total financial assets	**781,490**	**131,094**	**556,606**	**1,469,190**
Financial Liabilities				
Deposit liabilities	377,784	196,485	624,237	**1,198,506**
Bills payable	25,615	28,131	-	**53,746**
Due to BSP and other banks	670	-	-	**670**
Manager's checks and demand drafts outstanding	5,893	-	-	**5,893**
Other financial liabilities				
Accounts payable	3,325	-	-	**3,325**
Outstanding acceptances	1,452	-	-	**1,452**
Dividends payable	3,543	-	-	**3,543**
Others	1,245	-	-	**1,245**
Total financial liabilities	**419,527**	**224,616**	**624,237**	**1,268,380**
Total maturity gap	**361,963**	**(93,522)**	**(67,631)**	**200,810**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2015				
Financial Assets				
Cash and other cash items	34,797	-	-	34,797
Due from BSP	174,370	-	-	174,370
Due from other banks	17,181	-	-	17,181
Interbank loans receivable and SPAR	5,949	44	417	6,410
Financial assets at fair value through profit or loss				
Trading securities - debt securities	136	236	5,821	6,193
Available-for-sale securities - debt securities	23,838	6,372	7,799	38,009
Held-to-maturity securities	36,145	63,977	191,407	291,529
Loans and advances, net	420,353	63,065	210,711	694,129
Other financial assets, net				
Accounts receivable, net	1,130	-	-	1,130
Other accrued interest and fees receivable	644	-	-	644
Rental deposits	336	-	-	336
Others, net	353	-	-	353
Total financial assets	715,232	133,694	416,155	1,265,081
Financial Liabilities				
Deposit liabilities	583,615	450,782	50	1,034,447
Bills payable	8,073	4,895	-	12,968
Due to BSP and other banks	431	-	-	431
Manager's checks and demand drafts outstanding	6,693	-	-	6,693
Other financial liabilities				
Accounts payable	2,594	-	-	2,594
Outstanding acceptances	2,494	-	-	2,494
Dividends payable	3,539	-	-	3,539
Others	1,043	-	-	1,043
Total financial liabilities	608,482	455,677	50	1,064,209
Total maturity gap	106,750	(321,983)	416,105	200,872

29.3.4 Derivative cash flows

(a) Derivatives settled on a net basis

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

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2016		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	254	372	797	1,423
- Outflow	(210)	(303)	(808)	(1,321)
- Net inflow (outflow)	**44**	**69**	**(11)**	**102**
Non-deliverable forwards and swaps - held for trading				
- Inflow	988	-	-	988
- Outflow	(990)	-	-	(990)
- Net outflow	**(2)**	**-**	**-**	**(2)**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2015		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	689	397	319	1,405
- Outflow	(691)	(315)	(254)	(1,260)
- Net inflow (outflow)	(2)	82	65	145
Non-deliverable forwards and swaps - held for trading				
- Inflow	12,986	-	-	12,986
- Outflow	(12,699)	-	-	(12,699)
- Net inflow	287	-	-	287

(b) Derivatives settled on a gross basis

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

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
Foreign exchange derivatives - held for trading				
2016				
- Inflow	120,012	4,130	-	**124,142**
- Outflow	(120,469)	(3,892)	-	**(124,361)**
- **Net inflow (outflow)**	**(457)**	**238**	**-**	**(219)**
2015				
- Inflow	380,144	36,361	-	416,505
- Outflow	(379,255)	(36,369)	-	(415,624)
- Net inflow (outflow)	889	(8)	-	881

29.4 Fair value of financial assets and liabilities

The table below summarizes the carrying amount and fair value of those significant financial assets and liabilities not presented on the statement of condition at fair value at December 31.

Consolidated

	Carrying amount		Fair value	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Financial assets				
Cash and other cash items	**35,692**	35,681	**35,692**	35,681
Due from BSP	**239,514**	214,960	**239,514**	214,960
Due from other banks	**23,037**	22,238	**23,037**	22,238
Interbank loans receivable and SPAR	**15,236**	12,902	**15,236**	12,902
Held-to-maturity securities	**268,483**	244,809	**261,742**	248,866
Loans and advances, net	**1,040,720**	872,861	**1,225,785**	882,112
Other financial assets				
Accounts receivable, net	**1,625**	1,784	**1,625**	1,784
Other accrued interest and fees receivable	**637**	704	**637**	704
Sales contracts receivable, net	**460**	-	**460**	-
Rental deposits	**510**	403	**510**	403
Others, net	**1,023**	402	**1,023**	402
Financial liabilities				
Deposit liabilities	**1,431,300**	1,275,699	**1,422,203**	1,289,099
Bills payable	**61,973**	20,941	**61,489**	20,878
Due to BSP and other banks	**670**	431	**670**	431
Manager's checks and demand drafts outstanding	**7,579**	8,308	**7,579**	8,308
Other financial liabilities				
Accounts payable	**4,875**	4,483	**4,875**	4,483
Outstanding acceptances	**1,452**	2,494	**1,452**	2,494
Deposits on lease contracts	**1,970**	1,868	**1,970**	1,868
Dividends payable	**3,543**	3,539	**3,543**	3,539
Others	**1,786**	1,161	**1,786**	1,161

Parent

	Carrying amount		Fair value	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Financial assets				
Cash and other cash items	**34,855**	34,797	**34,855**	34,797
Due from BSP	**203,743**	174,370	**203,743**	174,370
Due from other banks	**20,558**	17,181	**20,558**	17,181
Interbank loans receivable and SPAR	**9,049**	6,163	**9,049**	6,163
Held-to-maturity securities	**245,921**	225,077	**238,906**	228,684
Loans and advances, net	**821,545**	664,619	**981,180**	660,783
Other financial assets				
Accounts receivable, net	**892**	1,130	**892**	1,130
Other accrued interest and fees receivable	**584**	644	**584**	644
Sales contracts receivable, net	**460**	-	**460**	-
Rental deposits	**430**	336	**430**	336
Others, net	**1,030**	353	**1,030**	353
Financial liabilities				
Deposit liabilities	**1,184,478**	1,033,385	**1,173,276**	1,030,986
Bills payable	**52,257**	12,826	**51,772**	12,763
Due to BSP and other banks	**670**	431	**670**	431
Manager's checks and demand drafts outstanding	**5,893**	6,693	**5,893**	6,693
Other financial liabilities				
Accounts payable	**3,325**	2,594	**3,325**	2,594
Outstanding acceptances	**1,452**	2,494	**1,452**	2,494
Dividends payable	**3,543**	3,539	**3,543**	3,539
Others	**1,245**	1,043	**1,245**	1,043

(i) Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPAR

The fair value of floating rate placements and overnight deposits approximates their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All of these financial assets have a maturity of one year, thus their fair values approximate their carrying amounts.

(ii) Investment securities

Fair value of held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iii) Loans and advances

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with the use of assumptions regarding appropriate credit spread for the loan, derived from other market instruments.

(iv) Financial liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using market interest rates for new debts with similar remaining maturity.

(v) Other financial assets / liabilities

Carrying amounts of other financial assets / liabilities which have no definite repayment dates are assumed to be their fair values.

29.5 Fair value hierarchy

The following table presents the fair value hierarchy of the BPI Group's assets and liabilities at December 31:

Consolidated

	Fair value		
2016	Level 1	Level 2	**Total**
Recurring measurements		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	2,993	**2,993**
Trading securities			
- Debt securities	9,411	5,068	**14,479**
- Equity securities	124	-	**124**
Available-for-sale financial assets			
- Debt securities	8,282	13,680	**21,962**
- Equity securities	1,991	266	**2,257**
	19,808	22,007	**41,815**
Financial liabilities			
Derivative financial liabilities	-	3,112	**3,112**
Non-recurring measurements			
Assets held for sale, net	-	2,267	**2,267**

	Fair value		
2016	Level 1	Level 2	**Total**
Fair values disclosed		(In Millions of Pesos)	
Financial assets			
Cash and other cash items	-	35,692	**35,692**
Due from BSP	-	239,514	**239,514**
Due from other banks	-	23,037	**23,037**
Interbank loans receivable and SPAR	-	15,236	**15,236**
Held-to-maturity securities	258,266	3,476	**261,742**
Loans and advances, net	-	1,225,785	**1,225,785**
Other financial assets			
Accounts receivable, net	-	1,625	**1,625**
Other accrued interest and fees receivable	-	637	**637**
Sales contracts receivable, net	-	460	**460**
Rental deposits	-	510	**510**
Others, net	-	1,023	**1,023**
Financial liabilities			
Deposit liabilities	-	1,422,203	**1,422,203**
Bills payable	-	61,489	**61,489**
Due to BSP and other banks	-	670	**670**
Manager's checks and demand drafts outstanding	-	7,579	**7,579**
Other financial liabilities			
Accounts payable	-	4,875	**4,875**
Outstanding acceptances	-	1,452	**1,452**
Deposits on lease contracts	-	1,970	**1,970**
Dividends payable	-	3,543	**3,543**
Others	-	1,786	**1,786**
Non-financial assets			
Investment properties	-	3,090	**3,090**

	Fair value		
2015	Level 1	Level 2	Total
Recurring measurements		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	4,529	4,529
Trading securities			
- Debt securities	7,690	72	7,762
- Equity securities	322	-	322
Available-for-sale financial assets			
- Debt securities	37,677	2,957	40,634
- Equity securities	1,338	1	1,339
	47,027	7,559	54,586
Financial liabilities			
Derivative financial liabilities	-	3,216	3,216
Non-recurring measurements			
Assets held for sale, net	-	2,762	2,762

2015	Fair value Level 1	 Level 2	 Total
Fair values disclosed		(In Millions of Pesos)	
Financial assets			
Cash and other cash items	-	35,681	35,681
Due from BSP	-	214,960	214,960
Due from other banks	-	22,238	22,238
Interbank loans receivable and SPAR	-	12,902	12,902
Held-to-maturity securities	248,087	779	248,866
Loans and advances, net	-	882,112	882,112
Other financial assets			
Accounts receivable, net	-	1,784	1,784
Other accrued interest and fees receivable	-	704	704
Sales contracts receivable, net	-	-	-
Rental deposits	-	403	403
Others, net	-	402	402
Financial liabilities			
Deposit liabilities	-	1,289,099	1,289,099
Bills payable	-	20,878	20,878
Due to BSP and other banks	-	431	431
Manager's checks and demand drafts outstanding	-	8,308	8,308
Other financial liabilities			
Accounts payable	-	4,483	4,483
Outstanding acceptances	-	2,494	2,494
Deposits on lease contracts	-	1,868	1,868
Dividends payable	-	3,539	3,539
Others	-	1,161	1,161
Non-financial assets			
Investment properties	-	3,050	3,050

Parent

2016	Fair value Level 1	 Level 2	 **Total**
Recurring measurements		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	2,993	**2,993**
Trading securities - debt securities	5,621	4,693	**10,314**
Available-for-sale financial assets			
- Debt securities	6,068	13,219	**19,287**
- Equity securities	248	-	**248**
	11,937	20,905	**32,842**
Financial liabilities			
Derivative financial liabilities	-	3,112	**3,112**
Non-recurring measurements			
Assets held for sale, net	-	1,036	**1,036**

(80)

2016	Fair value Level 1	Level 2	Total
Fair values disclosed	(In Millions of Pesos)		
Financial assets			
Cash and other cash items	-	34,855	**34,855**
Due from BSP	-	203,743	**203,743**
Due from other banks	-	20,558	**20,558**
Interbank loans receivable and SPAR	-	9,049	**9,049**
Held-to-maturity securities	235,430	3,476	**238,906**
Loans and advances, net	-	981,180	**981,180**
Other financial assets			
Accounts receivable, net	-	892	**892**
Other accrued interest and fees receivable	-	584	**584**
Sales contracts receivable, net	-	460	**460**
Rental deposits	-	430	**430**
Others, net	-	1,030	**1,030**
Financial liabilities			
Deposit liabilities	-	1,173,276	**1,173,276**
Bills payable	-	51,772	**51,772**
Due to BSP and other banks	-	670	**670**
Manager's checks and demand drafts outstanding	-	5,893	**5,893**
Other financial liabilities			
Accounts payable	-	3,325	**3,325**
Outstanding acceptances	-	1,452	**1,452**
Dividends payable	-	3,543	**3,543**
Others	-	1,245	**1,245**
Non-financial assets			
Investment properties	-	3,090	**3,090**

2015	Fair value Level 1	Level 2	Total
Recurring measurements	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	4,529	4,529
Trading securities - debt securities	5,442	-	5,442
Available-for-sale financial assets			
- Debt securities	35,942	468	36,410
- Equity securities	215	-	215
	41,599	4,997	46,596
Financial liabilities			
Derivative financial liabilities	-	3,216	3,216
Non-recurring measurements			
Assets held for sale, net	-	1,599	1,599

2015	Fair value Level 1	Level 2	Total
Fair values disclosed		(In Millions of Pesos)	
Financial assets			
Cash and other cash items	-	34,797	34,797
Due from BSP	-	174,370	174,370
Due from other banks	-	17,181	17,181
Interbank loans receivable and SPAR	-	6,163	6,163
Held-to-maturity securities	228,057	627	228,684
Loans and advances, net	-	660,783	660,783
Other financial assets			
Accounts receivable, net	-	1,130	1,130
Other accrued interest and fees receivable	-	644	644
Sales contracts receivable, net	-	-	-
Rental deposits	-	336	336
Others, net	-	353	353
Financial liabilities			
Deposit liabilities	-	1,030,986	1,030,986
Bills payable	-	12,763	12,763
Due to BSP and other banks	-	431	431
Manager’s checks and demand drafts outstanding	-	6,693	6,693
Other financial liabilities			
Accounts payable	-	2,594	2,594
Outstanding acceptances	-	2,494	2,494
Deposits on lease contracts	-	-	-
Dividends payable	-	3,539	3,539
Others	-	1,043	1,043
Non-financial assets			
Investment properties	-	3,050	3,050

The BPI Group has no financial instruments, other assets or liabilities with non-recurring fair value measurements or with fair values disclosed that fall under the Level 3 category as at December 31, 2016 and 2015. There were no transfers between Level 1 and Level 2 during the years ended December 31, 2016 and 2015.

29.6 Insurance risk management

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

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

29.7 Capital management

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

The BPI Group manages its capital following the framework of Basel Committee on Banking Supervision Accord II (Basel II) and its implementation in the Philippines by the BSP. The BSP through its Circular 538 requires each bank and its financial affiliated subsidiaries to keep its Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. In quantifying its CAR, BPI currently uses the Standardized Approach (for credit risk and market risk) and the Basic Indicator Approach (for operational risk). Capital adequacy reports are filed with the BSP every quarter.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Parent Bank consists of core tier 1 capital and tier 2 capital. Tier 1 capital comprises paid-up capital stock, paid-in surplus, surplus including net income for the year, surplus reserves and minority interest less deductions such as deferred income tax, unsecured credit accommodations to DOSRI, goodwill and net unrealized fair value losses on available-for-sale securities. Tier 2 capital includes general loan loss provisions for BSP reporting purposes.

The Basel II framework following BSP Circular 538 took into effect on July 1, 2007 and was relevant until 2013.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio remains at 10% which includes the capital conservation buffer.

In addition, existing capital requirements as at December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III.

The table below summarizes the CAR of the Bank (combined regular and FCDU books) under the Basel III framework for the years ended December 31, 2016 and 2015.

	Consolidated		Parent	
	2016	2015	**2016**	2015
	(In Millions of Pesos)			
Tier 1 capital	**160,901**	146,181	**160,549**	145,769
Tier 2 capital	**10,299**	8,659	**8,722**	7,076
Gross qualifying capital	**171,200**	154,840	**169,271**	152,845
Less: Regulatory adjustments/required deductions	**22,210**	21,437	**58,155**	57,449
Total qualifying capital	**148,990**	133,403	**111,116**	95,396
Risk weighted assets	**1,145,846**	981,517	**956,478**	793,604
CAR (%)	**13.00**	13.59	**11.62**	12.02
CET1 (%)	**12.10**	12.71	**10.71**	11.13

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

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

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

Note 30 - Commitments and Contingencies

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

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

In the normal course of business, the BPI Group makes various commitments (Note 29.1.4) that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 31 - Summary of Significant Accounting Policies

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

31.1 Basis of preparation

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

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

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

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of trading securities, available-for-sale financial assets and all derivative contracts.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the BPI Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 28.

31.2 Changes in accounting policy and disclosures

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

The following standards have been adopted by the BPI Group effective January 1, 2016:

- *Amendment to PFRS 5, 'Non-current assets held for sale and discontinued operations' on the methods of disposal.* This amendment clarifies that when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.

- *Amendments to PFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to PFRS 1).* This amendment provides specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition.

- *Amendments to PAS 19, 'Employee benefits'.* This amendment clarifies that that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.

- *Amendments to PAS 1, 'Presentation of financial statements' Disclosure initiative.* The amendments provide clarifications on a number of issues, including (a) materiality - an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance. (b) Disaggregation and subtotals - line items specified in PAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals. (c) Notes - confirmation that the notes do not need to be presented in a particular order. (d) other comprehensive income ("OCI") arising from investments accounted for under the equity method - the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

- *Amendments to PFRS 10, 'Consolidated financial statements', PFRS 12 'Disclosure of interests in other entities' and PAS 28, 'Investments in associates and joint ventures'.* The amendments provide clarification that the exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities. An investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities. Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement.

- *Amendments to PAS 16, 'Property, plant and equipment' and PAS 38, 'Intangible assets'.* The amendments clarify that a revenue-based method of depreciation or amortization is generally not appropriate.

- *Amendments to PAS 27, 'Separate financial statements'.* The amendments will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2016 are considered not relevant to the BPI Group.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these financial statements. None of these standards are expected to have a significant effect on the financial statements of the BPI Group, except the following as set out below:

- *PFRS 9, 'Financial instruments'* will replace the multiple classification and measurement models in PAS 39 'Financial instruments: Recognition and measurement' with a single model that has initially only two classification categories: amortized cost and fair value. Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognized at fair value.

All fair value movements on financial assets are taken through the statement of income, except for equity investments that are not held for trading, which may be recorded in the statement of income or in reserves (without subsequent recycling to profit or loss). For financial liabilities that are measured under the fair value option entities will need to recognize the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.

The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

In July 2014, the Financial Accounting Standards Board (FASB) made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, PFRS 9 is now complete. The changes introduce a third measurement category (FVOCI) for certain financial assets that are debt instruments and a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For financial years commencing before February 1, 2015, entities can elect to apply PFRS 9 early for any of the following: (1) the own credit risk requirements for financial liabilities, (2) classification and measurement (C&M) requirements for financial assets, (3) C&M requirements for financial assets and financial liabilities, or (4) C&M requirements for financial assets and liabilities and hedge accounting. After February 1, 2015, the new rules must be adopted in their entirety. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The PFRS 9 Implementation Project of the BPI Group, which will enable the BPI Group to quantify the impact of the new standard, including the Bank's full transition plans and roadmap beginning January 1, 2018, is currently being collaborated upon by the Parent Bank's designated PFRS 9 committee and working groups.

- *PFRS 15, 'Revenue from contracts with customers'* will replace PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied. Key changes to current practice are: (1) Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements; (2) Revenue may be recognized earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, and success of an outcome) - minimum amounts must be recognized if they are not at significant risk of reversal; (3) The point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a contract may have to be recognized over the contract term and vice versa; (4) There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few; and (5) As with any new standard, there are also increased disclosures. These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. Entities will have a choice of full retrospective application, or prospective application with additional disclosures. The BPI Group is currently assessing the impact of PFRS 15.

- *PFRS 16, 'Leases'* will replace the current guidance in PAS 17, 'Leases'. PFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. 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 BPI Group is currently assessing the impact of PFRS 16.

- *Amendments to PAS 12, 'Income taxes'*. The amendments, which are effective January 1, 2017, clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that (a) a temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period; (b) an entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit; (c) where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type; and (d) tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit. The amendments to the standard are not expected to have a material impact on the financial statements of the BPI Group as currently there are no material temporary differences arising from assets measured at fair value.

- *Amendments to PAS 7, 'Statement of cash flows'*. Beginning January 1, 2017, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated. The adoption of the amendments to the standard will result in additional disclosure on changes in liabilities arising from financing activities of the BPI Group.

There are no other standards, amendments or interpretations that are not yet effective that are expected to have a material impact on the financial statements of the BPI Group.

31.3 Consolidation

The consolidated financial statements comprise the financial statements of the BPI Group as at December 31, 2016 and 2015. The subsidiaries financial statements are prepared for the same reporting year as the Parent Bank. The consolidated financial statements include the financial statements of the Parent Bank and the following subsidiaries as at December 31:

Subsidiaries	Country of incorporation	Principal activities	% of ownership	
			2016	2015
BPI Family Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI Capital Corporation	Philippines	Investment house	**100**	100
BPI Direct BanKO, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.)	Philippines	Banking	**100**	100
BPI Asset Management and Trust Corporation	Philippines	Trust	**100**	-
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 Card Finance Corp.	Philippines	Financing	**100**	100
Filinvest Algo Financial Corp.	Philippines	Financing	**100**	100
BPI Investment Management Inc.	Philippines	Investment management	**100**	100
Santiago Land Dev. Corp.	Philippines	Land holding	**100**	100
BPI Operations Management Corp.	Philippines	Operations management	**100**	100
BPI Computer Systems Corp.	Philippines	Business systems service	**100**	100
BPI Forex Corp.	Philippines	Foreign exchange	**100**	100
BPI Express Remittance Corp. USA	USA	Remittance	**100**	100
BPI Remittance Centre HK (Ltd)	Hong Kong	Remittance	**100**	100
Green Enterprises S. R. L. in Liquidation	Italy	Remittance	**100**	100
First Far - East Development Corporation	Philippines	Real estate	**100**	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	**100**	100
BPI Express Remittance Spain S.A	Spain	Remittance	**100**	100
FEB Speed International	Philippines	Remittance	**100**	100
AF Holdings & Management Corp.	Philippines	Financial management consultancy	**100**	100
Ayala Plans, Inc.	Philippines	Pre-need	**98.67**	98.67
FGU Insurance Corporation	Philippines	Non-life insurance	**94.62**	94.62
BPI Century Tokyo Lease and Finance Corporation	Philippines	Leasing	**51**	51
BPI Century Tokyo Rental Corporation	Philippines	Rental	**51**	51
CityTrust Securities Corporation	Philippines	Securities dealer	**51**	51
BPI/MS Insurance Corporation	Philippines	Non-life insurance	**50.85**	50.85
BPI Globe BanKO Inc.	Philippines	Banking	**-**	40

On August 30, 2016, the Parent Bank made an additional capital infusion to BPI Card Finance Corp. amounting to P290 million.

On September 20, 2016, the Bank acquired an additional 60% of the issued shares of BPI Globe BanKO, Inc. for P29 million. Immediately prior to the purchase, the carrying amount of the existing non-controlling interest was P10 million. The BPI Group recognized a decrease in non-controlling interests of P10 million and a decrease in equity attributable to owners of the Parent Bank of P19 million. The effect on the equity attributable to the owners of the Bank for the year ended December 31, 2016 is summarized as follows:

	(In Millions of Pesos)
Consideration paid to non-controlling interests	(29)
Carrying amount of non-controlling interests acquired	10
Excess of consideration paid recognized in equity	(19)

At Parent Bank, the excess of consideration paid recognized in the statement of income for the year ended December 31, 2016 amounts to P19 million.

On October 6, 2016, BPI Asset Management and Trust Corporation, with an initial paid-in capital of P600 million, was incorporated with the SEC as a wholly-owned subsidiary of the Parent Bank. The primary business purpose of BPI Asset Management and Trust Corporation is to carry and engage in the business of trust, other fiduciary activities and investment management activities.

On December 29, 2016, the merger of BPI Direct Savings Bank, Inc. and BPI Globe BanKO, Inc. was approved by the SEC with BPI Direct Savings Bank, Inc. as the surviving corporation. The surviving company's corporate name was changed to BPI Direct BanKO, Inc. as a result of the merger transaction.

On December 23, 2014, BPI sold its 49% interest in BPI Leasing Corporation to Century Tokyo Leasing Corporation for a total consideration of P1,744 million, thereby bringing its remaining ownership interest down to 51%. The BPI Group recognized an increase in non-controlling interest of P1,231 million and an increase in equity attributable to owners of the Parent Bank of P336 million. The name of BPI Leasing has also been changed to BPI Century Tokyo Lease and Finance Corporation as a consequence of the sale. In addition, the Parent Bank's effective ownership in BPI Century Tokyo Rental Corporation and CityTrust Securities Corporation, both wholly-owned subsidiaries of BPI Century Tokyo Lease and Finance Corporation, has been reduced to 51% each as at December 31, 2014.

The effect of change in the ownership interest in BPI Century Tokyo Lease and Finance Corporation on the equity attributable to owners of Parent Bank for the year ended December 31, 2014 is summarized as follows:

	(In Millions of Pesos)
Consideration received from non-controlling interest	1,744
Carrying amount of non-controlling interest sold, including related cost	1,408
Excess of consideration received recognized in equity	336

At Parent Bank, the gain from sale recognized in the statement of income for the year ended December 31, 2014 amounts to P1,428 million.

(a) Subsidiaries

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

(b) Transactions with non-controlling interests

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

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

(c) Associates

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

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

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

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

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

31.4 Investments in subsidiaries and associates

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

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

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

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

31.5 Segment reporting

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

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

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

31.6 Cash and cash equivalents

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

31.7 Repurchase and reverse repurchase agreements

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

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

31.8 Financial assets

31.8.1 Classification

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

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

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

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity securities

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

(d) Available-for-sale securities

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

31.8.2 Recognition and measurement

(a) Initial recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity securities and available-for-sale securities are recognized on trade date, the date on which the BPI Group commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers or when the right to receive payment is established. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized in profit or loss.

(b) Subsequent measurement

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

31.8.3 Reclassification

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

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

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

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

31.8.4 Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the BPI Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

31.9 Impairment of financial assets

(a) Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

31.10 Financial liabilities

31.10.1 Classification

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

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

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

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

(b) Other liabilities measured at amortized cost

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

31.10.2 Recognition and measurement

(a) Initial recognition and measurement

Financial liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial liabilities carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized as expense in profit or loss.

(b) Subsequent measurement

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

31.10.3 Derecognition

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

31.11 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at December 31, 2016 and 2015.

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

(a) Financial instruments

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

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

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

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

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

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

(b) Non-financial assets or liabilities

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

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

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

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

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions. The fair values of BPI Group's investment properties and foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy. The BPI Group has no non-financial assets or liabilities classified under Level 3 as at December 31, 2016 and 2015.

31.12 Classes of financial instruments

The BPI Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

	Categories (as defined by PAS 39)	Classes (as determined by the BPI Group): Main classes	Classes (as determined by the BPI Group): Sub-classes	
Financial assets	Financial assets at fair value through profit or loss	- Trading securities	- Debt securities - Equity securities	
		- Derivative financial assets		
	Loans and receivables	- Cash and other cash items		
		- Loans and advances to banks	- Due from BSP	
			- Due from other banks	
			- Interbank loans receivable and securities purchased under agreements to resell	
		- Loans and advances to customers	- Loans to individuals (retail)	- Real estate mortgages - Auto loans - Credit cards - Others
			- Loans to corporate entities	- Large corporate customers - Small and medium-sized enterprises
		- Others	- Accounts receivables - Sales contracts receivable - Rental deposits - Other accrued interest and fees receivable	
	Held-to-maturity investments	- Investment securities (debt securities)	- Government - Others	
	Available-for-sale financial assets	- Investment securities (debt securities)	- Government - Others	
		- Investment securities (equity securities)	- Listed - Unlisted	
Financial liabilities	Financial liabilities at fair value through profit or loss	- Derivative financial liabilities		
	Financial liabilities at amortized cost	- Deposits from customers	- Demand - Savings - Time	
		- Deposits from banks		
		- Bills payable		
		- Due to BSP and other banks		
		- Manager's check and demand drafts outstanding		
		- Interest payable		
		- Unsecured subordinated debt		
		- Other liabilities	- Accounts payable	
			- Outstanding acceptances	
			- Dividend payable	
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

(99)

31.13 Offsetting of financial instruments

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

As at December 31, 2016 and 2015, there are no financial assets and liabilities that have been offset.

31.14 Derivative financial instruments

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

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The assessment of whether an embedded derivative is required to be separated from the host contract is done when the BPI Group first becomes a party to the contract. Reassessment of embedded derivative is only done when there are changes in the contract that significantly modify the contractual cash flows. The embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

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

31.15 Bank premises, furniture, fixtures and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There are no bank premises, furniture, fixtures and equipment that are fully impaired as at December 31, 2016 and 2015.

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

31.16 Investment properties

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

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

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

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

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

31.17 Foreclosed assets

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

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

(a) Investment property is accounted for using the cost model under PAS 40;

(b) Bank-occupied property is accounted for using the cost model under PAS 16; and

(c) Financial assets are classified as available-for-sale.

31.18 Intangible assets

(a) Goodwill

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

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

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

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

(b) Contractual customer relationships

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

(c) Computer software

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

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

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

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

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

31.19 Impairment of non-financial assets

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

31.20 Borrowings and borrowing costs

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The BPI Group has no qualifying asset as at December 31, 2016 and 2015.

31.21 Interest income and expense

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

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

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

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

31.22 Fees and commission income

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

31.23 Dividend income

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

31.24 Credit card income

Credit card income is recognized upon receipt from merchants of charges arising from credit card transactions. These are computed based on rates agreed with merchants and are deducted from the payments to establishments.

31.25 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Foreign subsidiaries

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

(i) assets and liabilities are translated at the closing rate at reporting date;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component (Translation adjustments) of Accumulated other comprehensive income (loss) in the capital funds. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

31.26 Accrued expenses and other liabilities

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

31.27 Provisions for legal or contractual obligations

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

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

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

31.28 Income taxes

(a) Current income tax

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

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

(b) Deferred income tax

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

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

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

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

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

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

31.29 Employee benefits

(a) Short-term benefits

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

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

(b) Defined benefit retirement plan

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

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

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

Past-service costs are recognized immediately in profit or loss.

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

(c) Defined contribution retirement plan

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

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

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

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

(d) Share-based compensation

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

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

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

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

(e) Profit sharing and bonus plans

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

31.30 Capital funds

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

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

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

31.31 Earnings per share (EPS)

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

31.32 Dividends on common shares

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

31.33 Fiduciary activities

The BPI Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the BPI Group (Note 26).

31.34 Leases

(a) BPI Group is the lessee

(i) Operating lease

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

(ii) Finance lease

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

(b) BPI Group is the lessor

(i) Operating lease

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

(ii) Finance lease

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

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

31.35 Insurance and pre-need operations

(a) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiaries follow: (a) gross premiums written from short-term insurance contracts are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method; (b) acquisition costs are deferred and charged to expense in proportion to the premium revenue recognized; reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs; (c) a liability adequacy test is performed which compares the subsidiaries' reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to profit or loss; (d) amounts recoverable from reinsurers and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts; and (e) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39.

(b) Pre-need

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

31.36 Related party relationships and transactions

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

31.37 Comparatives

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

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

31.38 Subsequent events (or Events after the reporting date)

Post year-end events that provide additional information about the BPI Group's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 32 - Supplementary information required by the Bureau of Internal Revenue

On December 28, 2010, Revenue Regulations (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2016 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	3,609
Trade finance documents	262
Mortgage documents	161
Others	5
	4,037

A portion of the amount disclosed above was passed on to the counterparties.

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2016 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Income taxes withheld on compensation	1,922	218	**2,140**
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,318	127	**1,445**
Final income taxes withheld on income payment	600	37	**637**
Creditable income taxes withheld (expanded)	359	34	**393**
Fringe benefit tax	91	17	**108**
VAT withholding tax	35	18	**53**
	4,325	**451**	**4,776**

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2016 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Gross receipts tax	2,613	250	**2,863**
Real property tax	90	-	**90**
Municipal taxes	104	-	**104**
Others	33	-	**33**
	2,840	**250**	**3,090**

(iv) Tax cases and assessments

As at reporting date, the Parent Bank has pending cases filed in courts and with the tax authorities contesting certain tax assessments and for various claims for tax refund. Management is of the opinion that the ultimate outcome of the said cases will not have a material impact on the financial statements of the Parent Bank.

BANK OF THE PHILIPPINE ISLANDS
Financial Indicators
As at December 31, 2016 and 2015

	2016	2015
Liquidity Ratio	62.44%	66.71%
Debt-to-Equity Ratio	37.53%	13.93%
Asset-to-Equity Ratio	1,045.03%	1,009.00%
Interest Rate Coverage Ratio	292.58%	298.97%
Return on Equity Ratio	13.77%	12.33%
Return on Assets	1.39%	1.30%
Cost to Income Ratio	52.50%	53.69%
Cost to Assets Ratio	2.21%	2.27%
Capital to Assets Ratio	9.57%	9.91%
Net Interest Margin	2.85%	2.98%

Isla Lipana & Co.

Statements Required by Rule 68, Part I, Section 4
Securities Regulation Code (SRC),
As Amended on October 20, 2011

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

We have audited the financial statements of Bank of the Philippine Islands, as at and for the year ended December 31, 2016, on which we have rendered the attached report dated February 15, 2017. 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 and the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2016, as additional components required by Part I, Section 4 of Rule 68 of the Securities Regulation Code, and Schedules A, B, C, D, E, F, G and H, 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 6, 2017, Makati City
SEC A.N. (individual) as general auditors 1176-AR-1, Category A; effective until January 13, 2018
SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018
TIN 221-755-698
BIR A.N. 08-000745-77-2015, issued on January 29, 2015; effective until January 28, 2018
BOA/PRC Reg. No. 0142, with extended validity until April 30, 2017 pursuant to
Board Resolution No. 37 series of 2017

Makati City
February 15, 2017

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 845 2728, F: +63 (2) 845 2806, www.pwc.com/ph

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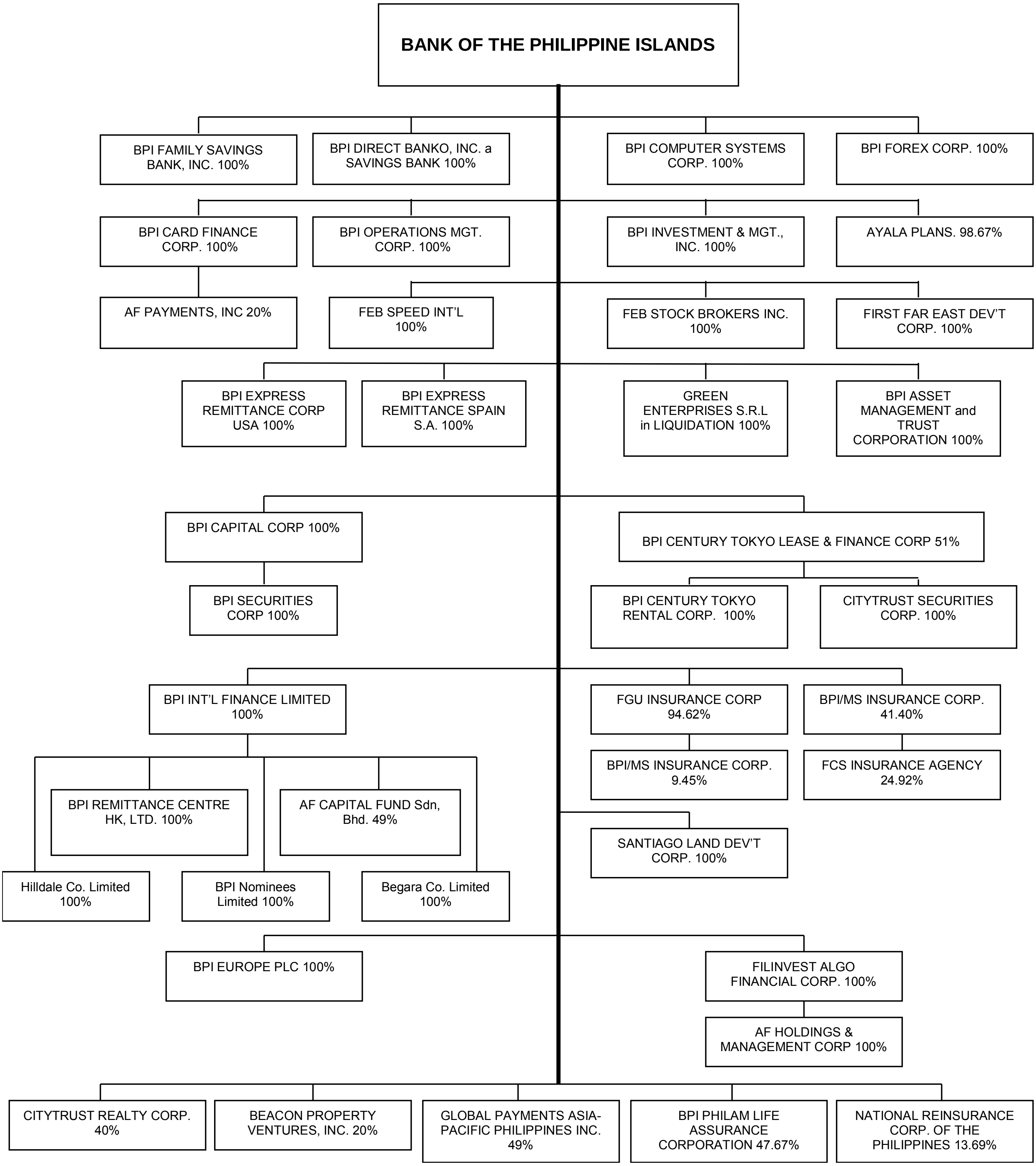
Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2016
(In Millions of Pesos)

BANK OF THE PHILIPPINE ISLANDS
BPI Building
6768 Ayala Avenue, Corner Paseo de Roxas
Makati City

Unappropriated Retained Earnings, based on audited financial statements, December 31, 2015		**42,401**
Add: Net income actually earned/realized during the period	20,885	
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)	-	
Unrealized actuarial gain	-	
Unrealized trading gain	516	
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	-	
	516	
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		**20,369**
Add (Less):		
Dividend declarations during the period	(7,087)	
Appropriations of Retained Earnings during the period	(103)	
Reversals of appropriations	-	
Effects of prior period adjustments/others	-	
Treasury shares	-	
		(7,190)
Total Retained Earnings, End Available for Dividend		**55,580**


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 CARD FINANCE CORP. 100%
BPI OPERATIONS MGT. CORP. 100%
BPI INVESTMENT & MGT., INC. 100%
AYALA PLANS. 98.67%
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 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%
BPI REMITTANCE CENTRE HK, LTD. 100%
AF CAPITAL FUND Sdn, Bhd. 49%
SANTIAGO LAND DEV'T CORP. 100%
Hilldale Co. Limited 100%
BPI Nominees Limited 100%
Begara Co. Limited 100%
BPI EUROPE PLC 100%
FILINVEST ALGO FINANCIAL CORP. 100%
AF HOLDINGS & MANAGEMENT CORP 100%
CITYTRUST REALTY CORP. 40%
BEACON PROPERTY VENTURES, INC. 20%
GLOBAL PAYMENTS ASIA-PACIFIC PHILIPPINES INC. 49%
BPI PHILAM LIFE ASSURANCE CORPORATION 47.67%
NATIONAL REINSURANCE CORP. OF THE PHILIPPINES 13.69%

Bank of the Philippine Islands

Schedule of Philippine Financial Reporting Standards
Effective as at December 31, 2016

The following table summarizes the effective standards, amendments and interpretations as at December 31, 2016:

		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Measurement of Cash-settled Share-based Payment Transactions*		✓	
PFRS 3 (Revised)	Business Combinations	✓		

		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Implementation of PFRS 9*		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Transition Disclosures*		✓	
	Amendments to PFRS 7: Disclosures - Hedge Accounting*		✓	
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments*		✓	
	Amendments to PFRS 9: Transition Disclosures*		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Application of the Consolidation Exception for Investment Entities	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Acquisition of an Interest in a Joint Operation	✓		

		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Application of the Consolidation Exception for Investment Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*		✓	
	Amendment to PFRS 15: Identifying Performance Obligations, Licenses of Intellectual Property, and Principal versus Agent Assessment*		✓	
PFRS 16	Leases*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative*		✓	
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 16 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses*		✓	

		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Contributions from Employees or Third Parties	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Use of Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments of PFRS 10, PFRS 12 and PAS 28: Application of the Consolidation Exception for Investment Entities	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contributions of Assets between an Investor and its Associate or Joint Venture*		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		

		Adopted	Not Adopted	Not Applicable
	Amendments to IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Novation of Derivatives	✓		
	Amendments to PAS 39: Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Transfers of Investment Property*		✓	
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*		✓	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓

		Adopted	Not Adopted	Not Applicable
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration*		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

The standards, amendments and interpretations marked with an asterisk (*) have been issued but are not yet effective for December 31, 2016 financial statements. Unless otherwise stated, these standards, amendments and interpretations have not been early adopted.

The standards, amendments and interpretations that are labeled as "Not Applicable" are already effective as at December 31, 2016 but will never be relevant/applicable to the Bank or are currently not relevant to the Bank because it has currently no related transactions.

BANK OF THE PHILIPPINE ISLANDS
As of December 31, 2016
Annex A - Financial Assets
(in Millions of Pesos)

	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		239,514	
Due from other banks		23,037	
Interbank loans receivable and Securities purchase under agreements to resell		15,236	
Sub-total		277,787	2,059
Financial assets at fair value through profit or loss - Trading securities (*)		14,603	
Financial assets at fair value through profit or loss - Derivative financial assets		2,993	
Sub-total		17,596	180
Available-for-sale securities (*)		24,301	469
Held-to-maturity securities (*)		268,483	8,746
Loans and advances, net		1,040,720	48,843
Others		4,255	-
TOTAL		**1,633,142**	**60,297**

(*) Please refer succeeding pages for the detailed information on these financial assets.

BANK OF THE PHILIPPINE ISLANDS AS OF DECEMBER 31, 2016				
Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (In Millions of Pesos) (ii)	Valued based on market quotation at end of reporting period (iii)	Income received and accrued
A. AVAILABLE FOR SALE SECURITIES				
ALFM Growth Fund	4,190,157	1,006	1,006	
ALFM Money Market Fund	5,104,017	590	590	
ALFM Dollar Bond Fund	5	-	-	
ALFM Peso Bond Fund	3,810,441	1,257	1,257	
ALFM Euro Bond Fund	250	3	3	
ASIAN DEVELOPMENT BANK	49,720,000	48	48	
ASIABEST GROUP	144	-	-	
AUST & NZ BANKING GRP NY	49,720,000	50	50	
BANK OF AMERICA CORP	397,760,000	402	402	
BANK OF CHINA LTD	1,300,000	50	50	
BANK OF NOVA SCOTIA, TORONTO	99,440,000	99	99	
BANK OF TOKYO-MITSUBISHI UFJ	200,000	25	25	
BARCLAYS BANK PLC LONDON	3,927,880,000	3,924	3,924	
BAYER US FINANCE LLC	99,440,000	99	99	
BNP PARIBAS LONDON BRANCH	1,988,800,000	1,984	1,984	
BUREAU OF TREASURY	332,543	-	-	
CANADIAN GOVERNMENT	441,334,418	442	442	
CITIGROUP INC	149,160,000	149	149	
CITIGROUP GLOBAL MARKETS INC.	422,620,000	425	425	
CREDIT SUISSE NEW YORK	248,600,000	248	248	
CREDIT SUISSE ZURICH	248,600,000	249	249	
CREDIT SUISSE LONDON BRANCH	994,400,000	993	993	
EXPORT-IMPORT BANK OF KOREA	101,640,000	176	176	
FILINVEST LAND, INC.	100,000,000	104	104	
FORD MOTOR CREDIT COMPANY LLC	49,720,000	49	49	
HANABANK	49,720,000	50	50	
HDFC BANK LTD BAHRAIN	49,720,000	50	50	
HONGKONG SHANGHAI BANKING CORP	746,300,000	761	761	
HSBC HOLDINGS PLC	49,720,000	49	49	
HUTCH WHAMPOA INTERNATIONAL 14 LTD	500,000	10	10	
ICICI BANK LTD DUBAI	500,000	15	15	
ICICI BANK LTD/HONG KONG	323,180,000	351	351	
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD.	800,000	25	25	
ING BANK NV AMSTERDAM	149,160,000	150	150	
INTEGRATED MICRO-ELECTRONIC INC (IMI)	73,299,800	446	446	
JPMORGAN CHASE & CO	99,540,000	105	105	
MACQUARIE GROUP LTD.	500,000	20	20	
MACQUARIE BANK LTD	50,220,000	68	68	
NATIONAL AUSTRALIA BANK LTD	149,160,000	149	149	
NATIONAL AUSTRALIA BANK NY	26,053,280	24	24	
PETROENERGY	6,141	-	-	
PHILIPPINE CENTRAL DEPOSITORY INC.	5,000	1	1	
Philippine Stock Exchange	240,000	57	57	
Philippine Stock Index Fund	179,789	136	136	
REPUBLIC OF INDONESIA	750,000	91	91	
RIZAL COMMERCIAL BANK FIXED INCOME	20,485,200	25	25	
ROXAS LAND INC.	902,342	48	48	
ROYAL BANK OF CANADA TORONTO	49,720,000	49	49	
SHINHAN BANK	49,720,000	50	50	
SINOPEC GROUP OVERSEAS DEVELOPMENT	1,100,000	40	40	
Special Purpose Trust	5,000	-	-	
STANDARD CHARTERED BANK	248,600,000	250	250	
STANDARD CHARTERED BANK LONDON	4,474,800,000	4,476	4,476	

Forward

BANK OF THE PHILIPPINE ISLANDS AS OF DECEMBER 31, 2016				
Name of Issuing entity and association of each issue (i)	**Number of shares or principal amount of bonds and notes**	**Amount shown in the balance sheet (In Millions of Pesos) (ii)**	**Valued based on market quotation at end of reporting period (iii)**	**Income received and accrued**
STANDARD CHARTERED BANK SINGAPORE	1,740,200,000	1,753	1,753	
STATE BANK OF INDIA/LONDON	260,000	40	40	
THE BANK OF MONTREAL, TORONTO	99,440,000	96	96	
UBS AG STAMFORD BRANCH	49,720,000	50	50	
UNITED OVERSEAS BANK LIMITED, SING.	49,720,000	50	50	
US TREASURY	1,591,040,000	1,522	1,522	
US TREASURY BILL	500,000	148	148	
VICTORIAS	14,494	-	-	
WELLS FARGO BANK SF	49,720,000	50	50	
WHARF FINANCE LIMITED	200,000	10	10	
OTHERS	-	645	645	
SUB TOTAL		**24,232**	**24,232**	**469**
Accrued Int. Receivable (part of Income received and accrued		**69**	**69**	
TOTAL		**24,301**	**24,301**	**469**

BANK OF THE PHILIPPINE ISLANDS AS OF DECEMBER 31, 2016				
Name of Issuing entity and association of each issue (i)	**Number of shares or principal amount of bonds and notes**	**Amount shown in the balance sheet (In Millions of Pesos) (ii)**	**Valued based on market quotation at end of reporting period (iii)**	**Income received and accrued**
B. HELD TO MATURITY SECURITIES				
ABBOTT LABORATORIES	497,200,000	499	479	
ABOITIZ EQUITY VENTURES, INC.	100,000,000	100	98	
AUSTRALIAN GOVERNMENT	179,190,880	182	182	
AUST & NZ BANKING GRP NY	1,391,811,960	1,424	1,379	
AUSTRALIA AND NEW ZEALAND BANK GRP.	50,068,040	55	54	
BANK OF AMERICA CORP	6,168,980,000	6,711	6,535	
BANK OF EAST ASIA	8,500,000	54	54	
BANK OF CHINA/HONG KONG	4,000,000	26	26	
BANK OF MONTREAL	49,720,000	50	49	
BANK OF NOVA SCOTIA, TORONTO	248,600,000	254	249	
BANK OF CHINA LTD	646,360,000	655	647	
BANK OF TOKYO TOKYO JAPAN	49,720,000	51	49	
BANK OF TOKYO MITSUBISHI	198,880,000	217	204	
BANQUE NATIONAL DE PARIS FRANCE	744,562,600	862	841	
BARCLAYS BANK PLC LONDON	397,760,000	402	396	
BAYER US FINANCE LLC	248,600,000	256	245	
BUREAU OF TREASURY	155,789,691,353	171,263	167,708	
BRITISH TELECOM PLC	1,350,000	84	84	
CHEVRON CORP	248,600,000	262	248	
CITIGROUP GLOBAL MARKETS INC.	5,753,604,000	6,056	5,794	
CHINA CONSTRUCTION BANK CORP.	3,500,000	22	22	
Commonwealth Bank Australia	447,480,000	457	425	
CREDIT SUISSE NEW YORK	497,200,000	512	498	
DENDANSKE BANK DENMARK	124,300,000	127	125	
DEUTSCHE BANK AG	939,708,000	934	924	
DEUTSCHE BANK AG LONDON	2,178,829,840	2,160	2,092	
DEVELOPMENT BANK OF THE PHILIPPINES	131,758,000	144	145	
EUROPEAN INVESTMENT BANK	198,880,000	194	197	
EXPORT IMPORT BANK OF CHINA	149,160,000	156	151	
EXPORT-IMPORT BANK OF KOREA	760,970,200	865	816	
FILINVEST LAND, INC.	500,000,000	500	518	
FIRST PACIFIC COMPANY	279,873,880	297	293	
FORD MOTOR CREDIT COMPANY LLC	1,193,280,000	1,282	1,249	
FPMH FINANCE LTD	64,636,000	66	66	
FPT FINANCE LTD	644,918,120	702	693	
GOLDMAN SACHS GROUP INC	497,200,000	512	495	
HONGKONG SHANGHAI BANKING CORP	2,564,557,600	2,809	2,737	
HSBC HOLDINGS PLC	1,585,421,640	1,683	1,628	
ICICI BANK LTD DUBAI	236,976,720	343	341	
ICICI BANK LTD/HONG KONG	1,320,264,880	1,461	1,432	
INDUSTRIAL & COMMERCIAL BANK CHINA	134,244,000	133	132	
ING BANK NV AMSTERDAM	472,340,000	477	472	
JP MORGAN SECURITIES LLC	397,760,000	432	419	
JPMORGAN CHASE & CO	8,352,960,000	8,852	8,685	
KONINKLIJKE PHILIPS NV	298,220,560	320	308	
KOOKMIN BANK	34,804,000	35	35	
KOREA EXCHANGE BANK	16,258,440	16	16	
LAND BANK OF THE PHILIPPINES	(1,932,249)	2	2	
MALAYAN BANKING BERHAD	99,440,000	100	100	
MERCK & CO. INC.	149,160,000	150	147	
MACQUARIE GROUP LTD.	116,792,280	128	126	

Forward

BANK OF THE PHILIPPINES ISLANDS AS OF DECEMBER 31, 2016				
Name of Issuing entity and association of each issue (i)	**Number of shares or principal amount of bonds and notes**	**Amount shown in the balance sheet (In Millions of Pesos) (ii)**	**Valued based on market quotation at end of reporting period (iii)**	**Income received and accrued**
MACQUARIE BANK	1,026,021,920	1,028	1,029	
MARKS & SPENCER PLC	1,000,000	67	69	
MANULIFE FINANCIAL CORP	198,880,000	217	205	
MIZUHO CORPORATE BANK LTD (CORRES)	397,760,000	411	399	
MORGAN STANLEY & CO. INCORPORATED	447,480,000	502	493	
NATIONAL AUSTRALIA BANK LTD	2,000,000	124	125	
NATIONAL AUSTRALIA BANK NY	994,400,000	989	917	
NORDEA BANK SWEDEN AB (PUBL)	27,594,600	30	30	
PFIZER INC.	99,440,000	103	96	
PHIL. LONG DISTANCE TELEPHONE CO.	691,058,280	689	698	
PEPSICO INC.	298,320,000	326	306	
PETRON CORPORATION	1,950,000,000	1,950	1,832	
POWER SECTOR ASSETS & LIABILITIES	4,905,176,320	6,580	6,225	
PROCTER & GAMBLE CO	99,440,000	104	97	
REPUBLIC OF THE PHILIPPINES	17,925,999,080	23,920	22,996	
REPUBLIC OF INDONESIA	447,480,000	491	461	
RIZAL COMMERCIAL BANKING CORPORATION	348,540,000	389	387	
RIZAL COMMERCIAL BANK FIXED INCOME	115,058,800	174	174	
SECURITY BANK CORP.	447,480,000	468	464	
SHELL INTERNATIONAL FINANCE BV	397,760,000	397	382	
SHINHAN BANK	52,206,000	52	51	
SM INVESTMENT CORPORATION	324,000,000	324	315	
SM PRIME HOLDINGS INC	770,000,000	770	687	
STATE BANK OF INDIA/LONDON	1,543,320,000	1,731	1,698	
SUMITOMO MITSUI	447,480,000	487	454	
THE COCA-COLA COMPANY	149,160,000	149	138	
TIME WARNER INC.	180,732,200	199	193	
US TREASURY	6,500,000	321	334	
UK TSY 1.25% 2018	500,000	31	31	
WELLS FARGO BANK SF	3,530,120,000	3,694	3,516	
WESTPAC BANKING SYDNEY	745,800,000	745	735	
WESTPAC BANKING CORP	1,392,160,000	1,403	1,311	
WHARF FINANCE LTD	750,523,400	752	752	
SUB TOTAL		**264,951**	**258,210**	**8,746**
Accrued Int. Receivable (part of Income received and accrued		**3,532**	**3,532**	
TOTAL		**268,483**	**261,742**	**8,746**

BANK OF THE PHILIPPINE ISLANDS AS OF DECEMBER 31, 2016				
Name of Issuing entity and association of each issue (i)	**Number of shares or principal amount of bonds and notes**	**Amount shown in the balance sheet (In Millions of Pesos) (ii)**	**Valued based on market quotation at end of reporting period (iii)**	**Income received and accrued**
C. HELD FOR TRADING SECURITIES				
Ayala Corp Pref B-Series 2	134,540	73	73	
AYALA CORPORATION	500,000	1	1	
AYALA LAND INC.	369,310,000	364	364	
BARCLAYS BANK PLC LONDON	2,486,000,000	2,484	2,484	
BUREAU OF TREASURY	5,201,886,097	5,137	5,137	
FILINVEST LAND, INC.	1,500,000	2	2	
First Gen G series	432,790	52	52	
ICICI BANK LTD DUBAI	248,600,000	241	241	
ING BANK NV AMSTERDAM	198,880,000	199	199	
JG SUMMIT HOLDINGS, INC.	5,306,000	5	5	
REPUBLIC OF THE PHILIPPINES	248,600,000	237	237	
REPUBLIC OF INDONESIA	87,010,000	89	89	
SAN MIGUEL BREWERY, INC.	1,000,000	1	1	
SSI PM Equity	1,693,000	4	4	
STANDARD CHARTERED BANK LONDON	1,988,800,000	1,989	1,989	
SHELL	3,080	-	-	
US TREASURY	3,729,000,000	3,699	3,699	
SUB TOTAL		**14,577**	**14,577**	**-**
Others		**(5)**	**(5)**	**180**
Accrued Int. Receivable (part of Income received and accrued		**31**	**31**	
TOTAL		**14,603**	**14,603**	**180**

BANK OF THE PHILIPPINE ISLANDS
As of December 31, 2016
(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	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
ALI COMMERCIAL CENTER INC.	25	12	-	-	37	-	37
ALI MAKATI HOTEL PROPERTY INC	3,324	1,434	1,531	-	163	3,064	3,227
AMAIA	18	-	9	-	9	-	9
ARVO COMMERCIAL CORPORATION	165	-	9	-	9	147	156
ASIAN I-OFFICE PROPERTIES INC	1,276	378	469	-	448	737	1,185
AVIDA	13	1,795	13	-	1,795	-	1,795
AYALA CORP	14,108	-	8,143	-	1,800	4,165	5,965
AYALA LAND INC	2,286	4,917	1,694	-	3,749	1,760	5,509
AYALA PROPERTY MANAGEMENT CORPORATION	14	-	14	-	-	-	-
BONIFACIO HOTEL VENTURES INC	414	409	414	-	21	388	409
BPI SECURITIES	72	-	72	-	-	-	-
CEBU HOLDINGS, INC.	89	-	89	-	-	-	-
CRESTVIEW E-OFFICE CORPORATION	42	34	42	-	34	-	34
ELTA INDUSTRIES INC	25	17	25	-	17	-	17
ENCHANTED KINGDOM INC	350	200	58	-	259	233	492
GNPOWER KAUSWAGAN LTD. CO.	700	3,240	700	-	7	3,233	3,240
GREENHAVEN PROPERTY VENTURES INC	400	380	400	-	20	360	380
HILLSFORD PROPERTY CORPORATION	66	-	12	-	54	-	54
HLC DEVELOPMENT CORPORATION	1,391	-	180	-	179	1,032	1,211
MDC 100, INC.	380	-	190	-	190	-	190
MEDICAL CENTER TRADING CORP.	130	13	75	-	68	-	68
MERCURY GROUP OF COMPANIES	479	-	475	-	4	-	4
NORTH TRIANGLE DEPOT COMMERCIAL	1,944	-	85	-	119	1,740	1,859
NORTHGATE HOTEL VENTURES INC	125	-	2	-	6	117	123
PHILIPPINE INTEGRATED ENERGY	1,730	-	88	-	88	1,554	1,642
PHILUSA CORP.	38	78	32	-	84	-	84
SOUTHCREST HOTEL VENTURES INC	180	-	2	-	9	169	178
SUBIC BAY TOWN CENTER INC	788	-	96	-	692	-	692
SUNNYFIELD E-OFFICE CORPORATION	98	-	18	-	80	-	80
TELSTAR MANUFACTURING CORP	14	9	14	-	9	-	9
TROPICAL HUT FOODMARKET INC.	30	30	30	-	30	-	30
VARIOUS MANPOWER LOANS	159	72	18	-	89	123	213
VARIOUS CREDIT CARD LOANS	52	3	-	-	54	-	54
ALVEO LAND CORP	-	189	-	-	189	-	189
BPI FOREX	-	75	-	-	75	-	75
GLOBAL PAYMENTS ASIA-PACIFIC	-	45	-	-	45	-	45
AYALA LAND INTERNATIONAL SALES INC	-	12	-	-	12	-	12
AYALA PROPERTY MANAGEMENT CORP.	-	1	-	-	1	-	1
LAGUNA TECHNOPARK, INC.	-	18	-	-	18	-	18
MAKATI DEVELOPMENT CORPORATION	-	159	-	-	159	-	159
	30,925	**13,519**	**15,000**	**-**	**10,622**	**18,823**	**29,445**

BANK OF THE PHILIPPINE ISLANDS
As of December 31, 2016
(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	11	-	7	-	4	-	4
BPI CAPITAL CORP.	3	9	4	-	8	-	8
BPI CENTURY TOKYO LEASE AND FINANCE CORP.	6	1	-	-	7	-	7
BPI CENTURY TOKYO RENTAL CORP.	7	-	3	-	4	-	4
BPI DIRECT SAVINGS BANK, INC.	1	-	1	-	-	-	-
BPI FAMILY SAVINGS BANK, INC.	217	-	138	-	79	-	79
BPI INVESTMENT MANAGEMENT INC.	3	6	-	-	9	-	9
BPI SECURITIES CORP.	2	8	-	-	10	-	10
AYALA PLANS	2	-	-	-	2	-	2
	252	**24**	**153**	**-**	**123**	**-**	**123**

BANK OF THE PHILIPPINE ISLANDS
December 31, 2016
(In Millions of Pesos)

Schedule D - Intangible Assets

Description	Beginning balance (net of allowance for impairment)	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance (net of allowance for impairment)
Contractual customer relationship	1,458	-	278	-	-	1,180
Others	364	925	407	-	-	882
Total	1,822	925	685	-	-	2,062

BANK OF THE PHILIPPINE ISLANDS
December 31, 2016

Schedule E - 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
Nothing to report.			

BANK OF THE PHILIPPINE ISLANDS
December 31, 2016

Schedule F - 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
December 31, 2016

Schedule G - 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.				

BANK OF THE PHILIPPINE ISLANDS

December 31, 2016

Schedule H - 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	3,937,043,603	9,100,000	2,038,075,111	22,598,211	1,876,370,281
Preferred A Shares	60,000,000	-	-	-	-	

** Shares granted but not yet exercised*

Bank of the Philippine Islands and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements
As at and for the six-month period ended June 30, 2017
(With comparative figures as at December 31, 2016 and for the six-month period ended June 30, 2016)

Independent Auditor's Review Report

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of condition of the Bank of the Philippine Islands and Subsidiaries (the "BPI Group") as at June 30, 2017, and the related condensed consolidated interim statements of income, statements of total comprehensive income, statements of changes in capital funds and statements of cash flows for the six-month periods ended June 30, 2017 and 2016, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these 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 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.

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 845 2728, F: +63 (2) 845 2806, www.pwc.com/ph

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Independent Auditor's Review Report
To the Board of Directors and Shareholders of
Bank of the Philippine Islands
Page 2

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the BPI Group as at June 30, 2017, and their financial performance and cash flows for the six-month periods ended June 30, 2017 and 2016 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 6, 2017, Makati City
SEC A.N. (individual) as general auditors 1176-AR-1, Category A; effective until January 13, 2018
SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018
TIN 221-755-698
BIR A.N. 08-000745-77-2015, issued on January 29, 2015; effective until January 28, 2018
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
November 7, 2017

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CONDITION
JUNE 30, 2017
(With Comparative Audited Consolidated December 31, 2016 Figures)
(In Millions of Pesos)

	Notes	**2017**	2016
RESOURCES			
CASH AND OTHER CASH ITEMS	3	**29,401**	35,692
DUE FROM BANGKO SENTRAL NG PILIPINAS	3	**258,841**	239,514
DUE FROM OTHER BANKS	3	**9,078**	23,037
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	3	**8,003**	15,236
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS			
- DERIVATIVE FINANCIAL ASSETS		**2,738**	2,993
- TRADING SECURITIES	4	**14,318**	14,603
AVAILABLE-FOR-SALE SECURITIES, net	5	**14,483**	24,301
HELD-TO-MATURITY SECURITIES, net	6	**260,158**	268,483
LOANS AND ADVANCES, net	7	**1,056,912**	1,040,720
ASSETS HELD FOR SALE, net		**3,615**	3,667
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	8	**13,716**	13,809
INVESTMENT PROPERTIES, net		**619**	669
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net		**6,646**	6,818
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS		**15,990**	16,326
DEFERRED INCOME TAX ASSETS, net		**8,105**	7,543
OTHER RESOURCES, net		**13,365**	12,285
Total resources		**1,715,988**	1,725,696

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CONDITION
JUNE 30, 2017
(With Comparative Audited Consolidated December 31, 2016 Figures)
(In Millions of Pesos)

	Notes	**2017**	2016
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	9	**1,432,464**	1,431,300
DERIVATIVE FINANCIAL LIABILITIES		**2,927**	3,112
BILLS PAYABLE	10	**42,509**	61,973
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**522**	670
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**7,063**	7,579
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**7,289**	6,853
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS		**13,389**	14,367
DEFERRED CREDITS AND OTHER LIABILITIES		**33,613**	32,158
Total liabilities		**1,539,776**	1,558,012
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI			
Share capital	11	**39,323**	39,308
Share premium		**29,683**	29,591
Reserves	11	**2,734**	2,711
Surplus		**106,749**	98,602
Accumulated other comprehensive loss		**(5,007)**	(5,078)
		173,482	165,134
NON-CONTROLLING INTEREST		**2,730**	2,550
Total capital funds		**176,212**	167,684
Total liabilities and capital funds		**1,715,988**	1,725,696

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016
(In Millions of Pesos, Except Per Share Amounts)

	Notes	**2017**	2016
INTEREST INCOME			
On loans and advances		**27,268**	23,379
On held-to-maturity securities		**4,309**	4,560
On available-for-sale securities		**225**	248
On deposits with BSP and other banks		**1,148**	1,199
On trading securities		**116**	114
Gross receipts tax		**(1,053)**	(938)
		32,013	28,562
INTEREST EXPENSE			
On deposits		**7,922**	7,626
On bills payable and other borrowings		**575**	232
		8,497	7,858
NET INTEREST INCOME		**23,516**	20,704
IMPAIRMENT LOSSES	7	**2,461**	3,103
NET INTEREST AFTER IMPAIRMENT LOSSES		**21,055**	17,601
OTHER INCOME			
Fees and commissions		**4,165**	3,651
Income from foreign exchange trading		**1,102**	847
Trading gain on securities		**952**	5,559
Income attributable to insurance operations		**753**	913
Other operating income		**5,555**	4,351
Gross receipts tax		**(703)**	(824)
		11,824	14,497
OTHER EXPENSES			
Compensation and fringe benefits		**6,809**	7,192
Occupancy and equipment-related expenses		**5,331**	4,833
Other operating expenses		**6,113**	5,284
		18,253	17,309
INCOME BEFORE INCOME TAX		**14,626**	14,789
INCOME TAX EXPENSE			
Current	12	**3,358**	2,823
Deferred		**(579)**	(827)
		2,779	1,996
NET INCOME FOR THE PERIOD		**11,847**	12,793
Attributable to:			
Equity holders of BPI		**11,692**	12,670
Non-controlling interest		**155**	123
		11,847	12,793
Earnings per share for net income attributable to the equity holders of BPI during the period:			
Basic and diluted		**2.97**	3.22

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF TOTAL COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016
(In Millions of Pesos)

	Note	**2017**	2016
NET INCOME FOR THE PERIOD		**11,847**	12,793
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value reserve on available-for-sale securities, net of tax effect	12	**486**	582
Fair value reserve on investments of insurance subsidiaries, net of tax effect	12	**183**	288
Share in other comprehensive (loss) income of an associate		**(55)**	608
Currency translation differences		**110**	(140)
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit plan, net of tax effect	12	**(8)**	(4)
Net fair value gains on property and equipment		**2**	-
Remeasurement of insurance liabilities	19	**(622)**	-
Total other comprehensive income, net of tax effect		**96**	1,334
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**11,943**	14,127
Attributable to:			
Equity holders of BPI		**11,763**	13,935
Non-controlling interest		**180**	192
		11,943	14,127

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016
(In Millions of Pesos)

	Attributable to equity holders of BPI (Note 11)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interest	Total equity
Balance, January 1, 2016	**39,285**	**29,439**	**2,563**	**83,761**	**(4,764)**	**150,284**	**2,446**	**152,730**
Comprehensive income								
Net income for the period	-	-	-	12,670	-	12,670	123	12,793
Other comprehensive income for the period	-	-	-	-	1,265	1,265	69	1,334
Total comprehensive income for the period	**-**	**-**	**-**	**12,670**	**1,265**	**13,935**	**192**	**14,127**
Transactions with owners								
Issuance of shares	-	-	-	-	-	-	-	-
Executive stock plan amortization	12	77	22	-	-	111	-	111
Cash dividends	-	-	-	(3,543)	-	(3,543)	-	(3,543)
Transfer from surplus to reserves	-	-	103	(103)	-	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	-	-	-
Total transactions with owners	**12**	**77**	**125**	**(3,646)**	**-**	**(3,432)**	-	**(3,432)**
Balance, June 30, 2016	**39,297**	**29,516**	**2,688**	**92,785**	**(3,499)**	**160,787**	**2,638**	**163,425**
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 period	-	-	-	11,692	-	11,692	155	11,847
Other comprehensive income for the period	-	-	-	-	71	71	25	96
Total comprehensive income for the period	**-**	**-**	**-**	**11,692**	**71**	**11,763**	**180**	**11,943**
Transactions with owners								
Executive stock plan amortization	15	92	23	-	-	130	-	130
Cash dividends	-	-	-	(3,545)	-	(3,545)	-	(3,545)
Total transactions with owners	**15**	**92**	**23**	**(3,545)**	**-**	**(3,415)**	-	**(3,415)**
Balance, June 30, 2017	**39,323**	**29,683**	**2,734**	**106,749**	**(5,007)**	**173,482**	**2,730**	**176,212**

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016
(In Millions of Pesos)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**14,626**	14,789
Adjustments for:		
Impairment losses	**2,461**	3,103
Depreciation and amortization	**2,117**	1,842
Share in net income of associates	**(397)**	(530)
Dividend income	**(38)**	(42)
Share based compensation	**24**	22
Interest income	**(33,065)**	(29,500)
Interest expense	**8,497**	7,859
Interest received	**33,305**	30,432
Interest paid	**(8,078)**	(7,303)
(Increase) decrease in:		
Interbank loans and receivable and securities purchased under agreement to resell	**734**	1,355
Trading securities	**312**	(8,753)
Loans and advances	**(19,092)**	(33,985)
Assets held for sale	**(72)**	202
Assets attributable to insurance operations	**556**	1,385
Other resources	**(1,205)**	(1,053)
Increase (decrease) in:		
Deposit liabilities	**1,164**	51,078
Due to Bangko Sentral ng Pilipinas and other banks	**(148)**	121
Manager's checks and demand drafts outstanding	**(516)**	(649)
Accrued taxes, interest and other expenses	**16**	815
Liabilities attributable to insurance operations	**(977)**	(2,008)
Derivative financial instruments	**70**	2,529
Deferred credits and other liabilities	**1,448**	(4,279)
Net cash (used in) generated from operations	**1,742**	27,430
Income taxes paid	**(3,342)**	(2,815)
Net cash (used in) from operating activities	**(1,600)**	24,615

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016
(In Millions of Pesos)

	Note	**2017**	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) decrease in:			
Available-for-sale securities		**10,304**	6,945
Held-to-maturity securities		**8,367**	27,393
Bank premises, furniture, fixtures and equipment		**(1,604)**	(1,975)
Investment in subsidiaries and associates, net		**187**	512
Assets attributable to insurance operations		**(75)**	(448)
Investment property, net		**-**	(30)
Proceeds from sale of investments		**-**	-
Dividends received		**38**	42
Net cash from investing activities		**17,217**	32,439
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends		**(3,543)**	(3,539)
Issuance of shares via exercise of stock options		**107**	89
(Decrease) increase in bills payable		**(19,464)**	10,503
Net cash (used in) from financing activities		**(22,900)**	7,053
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(7,283)**	64,107
CASH AND CASH EQUIVALENTS	3		
Beginning of period		**310,747**	281,750
End of period		**303,464**	345,857

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017
(With comparative figures as at December 31, 2016 and for the six-month period ended June 30, 2016)
(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 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 June 30, 2017, the BPI Group has 15,625 employees (June 2016 - 14,756 employees) and operates 828 branches and 3,079 ATMs (June 2016 - 817 branches and 3,015 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 BPI shares have been traded in the Philippine Stock Exchange since October 12, 1971. 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. The BPI shares have been traded in the Philippine Stock Exchange (PSE) since October 12, 1971. As at June 30, 2017, the Parent Bank has 11,514 common shareholders (June 2016 - 11,696).

The condensed consolidated interim financial statements have been approved by the Board of Directors of the Parent Bank on July 19, 2017. There are no material events that occurred from July 1, 2017 to November 7, 2017 that required adjustment in the balances.

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 markets served representing a strategic business unit.

The BPI Group's main operating business segments follow:

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

- Corporate banking - this segment consists of the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers. These customers include both high-end corporations as well as various middle market clients.

- 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 from interest (net interest income). The segment report forms part of management's assessment of the performance of the segment, among other performance indicators.

There were no changes in the reportable segments during the 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. The funds transfer pricing (FTP) prior to 2014 was computed on a gross basis. In 2014, the manner of reporting has changed, in which interest income and interest expense are no longer presented separately, considering that the calculation of FTP shifted from gross to net. In addition, majority of the segment's revenues are from interest and the chief executive officer relies primarily on net interest income to assess the performance of the segments and to make decisions concerning the segments.

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

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

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

The segment assets and liabilities as at June 30, 2017 and December 31, 2016 and results of operations of the reportable segments of the BPI Group as at and for the six-month periods ended June 30, 2017 and 2016 follow:

	June 30, 2017			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
		(In Millions of Pesos)		
Net interest income	16,686	2,398	6,196	**25,280**
Impairment charge	1,904	562	(3)	**2,463**
Net interest income after impairment charge	14,782	1,836	6,199	**22,817**
Fees and commission income	2,914	612	776	**4,302**
Other income	3,368	793	3,280	**7,441**
Gross receipts tax	(391)	(49)	(222)	**(662)**
Other income, net	5,891	1,356	3,834	**11,081**
Compensation and fringe benefits	4,521	647	539	**5,707**
Occupancy and equipment - related expenses	2,029	580	40	**2,649**
Other operating expenses	6,599	828	803	**8,230**
Total operating expenses	13,149	2,055	1,382	**16,586**
Operating profit	7,524	1,137	8,651	**17,312**
Share in net income of associates				**397**
Provision for income tax				**2,779**
Total resources				
June 30, 2017	516,624	796,990	371,320	**1,684,934**
December 31, 2016	536,231	770,413	386,550	**1,693,194**
Total liabilities				
June 30, 2017	1,461,264	15,663	44,591	**1,521,518**
December 31, 2016	1,459,741	14,587	61,326	**1,535,654**

	June 30, 2016			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	13,232	3,989	4,097	21,318
Impairment charge	1,807	1,300	3	3,110
Net interest income after impairment charge	11,425	2,689	4,094	18,208
Fees and commission income	2,950	475	351	3,776
Other income	2,466	863	7,460	10,789
Gross receipts tax	(346)	(41)	(404)	(791)
Other income, net	5,070	1,297	7,407	13,774
Compensation and fringe benefits	4,495	614	482	5,591
Occupancy and equipment - related expenses	2,083	553	23	2,659
Other operating expenses	5,582	640	649	6,871
Total operating expenses	12,160	1,807	1,154	15,121
Operating profit	4,335	2,179	10,347	16,861
Share in net income of associates				530
Provision for income tax				1,996
June 30, 2016				
Total resources	483,897	652,957	416,931	1,553,785
Total liabilities	1,360,901	14,145	32,758	1,407,804

Reconciliation of segment results to consolidated results of operations:

	June 30, 2017		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
	(In Millions of Pesos)		
Net interest income	25,280	(1,764)	**23,516**
Impairment charge	2,463	(2)	**2,461**
Net interest income after impairment charge	22,817	(1,762)	**21,055**
Fees and commission income	4,302	(137)	**4,165**
Other income	7,441	921	**8,362**
Gross receipts tax	(662)	(41)	**(703)**
Other income, net	11,081	743	**11,824**
Compensation and fringe benefits	5,707	1,102	**6,809**
Occupancy and equipment - related expenses	2,649	2,682	**5,331**
Other operating expenses	8,230	(2,117)	**6,113**
Total operating expenses	16,586	1,667	**18,253**
Operating profit	17,312	(2,686)	**14,626**
Share in net income of associates (included in Other income)	397		**397**
Provision for income tax	2,779		**2,779**
Total resources			
June 30, 2017	1,684,934	31,054	**1,715,988**
December 31, 2016	1,693,194	32,502	**1,725,696**
Total liabilities			
June 30, 2017	1,521,518	18,258	**1,539,776**
December 31, 2016	1,535,654	22,358	**1,558,012**

	June 30, 2016		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	21,318	(614)	20,704
Impairment charge	3,110	(7)	3,103
Net interest income after impairment charge	18,208	(607)	17,601
Fees and commission income	3,776	(125)	3,651
Other income	10,789	881	11,670
Gross receipts tax	(791)	(33)	(824)
Other income, net	13,774	723	14,497
Compensation and fringe benefits	5,591	1,601	7,192
Occupancy and equipment - related expenses	2,659	2,174	4,833
Other operating expenses	6,871	(1,587)	5,284
Total operating expenses	15,121	2,188	17,309
Operating profit	16,861	(2,072)	14,789
Share in net income of associates (included in Other income)	530		530
Provision for income tax	1,996		1,996
June 30, 2016			
Total resources	1,553,785	30,802	1,584,587
Total liabilities	1,407,804	13,358	1,421,162

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

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents consist of:

	June 30, 2017	December 31, 2016
	(In Millions of Pesos)	
Cash and other cash items	**29,401**	35,692
Due from BSP	**258,841**	239,514
Due from other banks	**9,078**	23,037
Interbank loans receivable and securities purchased under agreements to resell	**5,876**	12,381
Cash and cash equivalents attributable to insurance operations	**268**	122
	303,464	310,746

Due from BSP increased by P19,327 million at June 30, 2017 from the December 31, 2016 balance due to the increase in outstanding placements in term deposit facilities. The interbank loans receivable and securities purchased under agreements to resell declined by P7,233 million for the same period due to lower volume of placement in Reverse Repurchase Agreements (RRP) and interbank term loans with foreign banking/financial institutions

For cash flow statement purposes, cash and cash equivalents at June 30 consist of:

	2017	2016
	(In Millions of Pesos)	
Cash and other cash items	**29,401**	23,026
Due from BSP	**258,841**	232,013
Due from other banks	**9,078**	37,495
Interbank loans receivable and securities purchased under agreements to resell	**5,876**	53,173
Cash and cash equivalents attributable to insurance operations	**268**	150
	303,464	345,857

Note 4 - Trading Securities

The decrease of P285 million in BPI Group's trading securities at June 30, 2017 is mainly due to sales of securities.

Note 5 - Available-for-Sale Securities

Available-for-sale securities fell by P9,818 million at June 30, 2017. This is mainly due to decrease in position taking in various holdings.

Note 6 - Held-to-Maturity Securities

The decrease of P8,325 million in held-to-maturity securities at June 30, 2017 is due primarily to our sales of close to maturity securities.

Note 7 - Loans and Advances

Loans and advances, net increased by P16,192 million at June 30, 2017 mainly due to higher loan demand coming from improvements in both corporate and retail loan portfolio.

The movements in allowance for impairment losses on loans and advances are summarized below:

	June 30, 2017	December 31, 2016
	(In Millions of Pesos)	
Beginning balance	**18,676**	16,362
Provision for impairment losses	**2,644**	4,955
Unwind of discount	**(78)**	(190)
Write off/Disposal	**(339)**	(2,253)
Transfers	**(292)**	(198)
Ending balance	**20,611**	18,676

Note 8 - Bank Premises, Furniture, Fixtures and Equipment

Movements of the account for the six-month period ended June 30, 2017 are summarized as follows:

	2017				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2017	3,075	6,910	14,357	4,852	**29,194**
Additions	-	450	740	1,000	**2,190**
Disposals/transfers	(54)	(146)	(282)	(763)	**(1,245)**
Amortization	-	(150)	-	-	**(150)**
Others	-	4	1	-	**5**
June 30, 2017	3,021	7,068	14,816	5,089	**29,994**
Accumulated depreciation					
January 1, 2017	-	3,110	10,687	1,588	**15,385**
Depreciation	-	155	788	604	**1,547**
Disposals/transfers	-	(73)	(145)	(380)	**(598)**
Others	-	-	1	(57)	**(56)**
June 30, 2017	-	3,192	11,331	1,755	16,278
Net book value, June 30, 2017	**3,021**	**3,876**	**3,485**	**3,334**	**13,716**

	December 31, 2016				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost	3,075	6,910	14,357	4,852	29,194
Accumulated depreciation	-	3,110	10,687	1,588	15,385
Net book value	3,075	3,800	3,670	3,264	13,809

Note 9 - Deposit Liabilities

Growth in total deposits of P1,164 million is driven by the increase in demand deposits and time deposits of P6,770 million and P2,391 million, respectively. This growth in demand and time deposits was partly offset by the decrease in savings deposits of P7,997 million.

Note 10 - Bills Payable

Bills payable declined by P19,464 million at June 30, 2017 due to lower borrowings from foreign banks.

Note 11 - Capital Funds

Details of authorized capital stock of the Parent Bank follow:

	June 30, 2017	December 31, 2016
	(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 June 30, 2017 and December 31, 2016 are 3,939,376,937 and 3,937,043,603, respectively.

There are no preferred shares issued as at June 30, 2017 and December 31, 2016.

Surplus reserves at June 30, 2017 and December 31, 2016 consist of:

	2017	2016
	(In Millions of Pesos)	
Reserve for trust business	**2,577**	2,577
Reserve for self-insurance	**34**	34
Executive stock option plan amortization	**123**	100
	2,734	2,711

In compliance with existing BSP regulations, 10% of the Parent Bank'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 Parent Bank'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.

Details of cash dividends declared by the Parent Bank from January 1, 2016 to June 30, 2017 follow:

	Amount of Dividends	
Date Declared	Per Share	Total
	(In Millions of Pesos)	
June 15, 2016	0.90	3,543
December 14, 2016	0.90	3,543
June 15, 2017	0.90	3,545

Note 12 - Income Taxes

Income tax expense is recognized based on the actual calculation of period-to-date income tax at the cut-off date.

The deferred income tax effect attributable to components of other comprehensive income for the six-month periods ended June 30, 2017 and 2016 is as follows:

	2017	2016
	(In Millions of Pesos)	
Net change in fair value reserve on available-for-sale securities	**1**	13
Fair value reserve on investments of insurance subsidiaries	**16**	(9)
Actuarial losses on defined benefit plan	**230**	(160)
	247	(156)

Note 13 - Commitments and Contingencies

At present, there are law suits, 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.

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 14 - Changes in the composition of the entity

On July 28, 2016, the Bangko Sentral ng Pilipinas (BSP) has approved the spin-off of BPI Asset Management and Trust Group (BPI AMTG) to a newly-established Stand-Alone Trust Corporation (SATC) named BPI Asset Management and Trust Corporation (BPI AMTC). BPI AMTC was granted the license to operate as a SATC on December 29, 2016 and officially commenced its operation on February 1, 2017.

On December 29, 2016, the Securities and Exchange Commission (SEC) approved the merger of BPI Globe BanKO Inc., A Savings Bank with BPI Direct Savings Bank, Inc., with the latter as the surviving corporation. The surviving company's corporate name was renamed to BPI Direct BanKO, Inc., A Savings Bank.

Note 15 - Events occurring after the reporting period

On October 19, 2017, BPI received the advice from the BSP that the Monetary Board approved the request of BPI to issue Long-Term Negotiable Certificates of Time Deposit (LTNCTD) in the aggregate amount of up to P30 billion. The LTNCTD will be issued in one or more tranches with the first tranche targeted to be issued within the year, subject to prevailing market conditions. The issuance will support BPI's expansion plans and diversify the Bank's funding sources.

Note 16 - 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 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 comparable to those offered to non-related parties or to similar transactions in the market.

Details of DOSRI loans follow:

	June 30, 2017	December 31, 2016
	(In Millions of Pesos)	
Outstanding DOSRI loans	6,235	6,236
	In percentage (%)	
	2017	2016
% to total outstanding loans and advances	0.58	0.59
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	29.63	29.60
Past due DOSRI loans	0.02	0.04
Non-performing DOSRI loans	0.01	0.02

At June 30, 2017 and December 31, 2016, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

Note 17 - 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 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, 2016.

Note 18 - Fair value measurements of financial instruments

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

(a) Fair value hierarchy

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

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

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

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at and for the period ended June 30, 2017 and December 31, 2016.

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

The following table presents the BPI Group's assets and liabilities that are measured at fair value at June 30, 2017:

	Level 1	Level 2	Level 3	**Total**
		(In Millions of Pesos)		
Financial assets				
Derivative financial assets	-	2,738	-	**2,738**
Trading securities				
- Debt securities	9,870	1,760	-	**11,630**
- Equity securities	2,687	-	-	**2,687**
Available for sale securities				
- Debt securities	8,528	4,794	-	**13,322**
- Equity securities	668	298	-	**966**
Financial liabilities				
Derivative financial liabilities	-	2,927	-	**2,927**

The following table presents the BPI Group's assets and liabilities that are measured at fair value at December 31, 2016:

	Level 1	Level 2	Level 3	Total
		(In Millions of Pesos)		
Financial assets				
Derivative financial assets	-	2,993	-	2,993
Trading securities				
- Debt securities	9,411	5,068	-	14,479
- Equity securities	124	-	-	124
Available for sale securities				
- Debt securities	8,282	13,680	-	21,962
- Equity securities	1,991	266	-	2,257
Financial liabilities				
Derivative financial liabilities	-	3,112	-	3,112

The BPI Group has no financial instruments, other assets or liabilities with non-recurring fair value measurements or with fair values disclosed that fall under the Level 3 category as at June 30, 2017 and December 31, 2016. There were no transfers between Level 1 and Level 2 during the periods ended June 30, 2017 and December 31, 2016.

(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 (unrecognized)

The BPI Group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts. Significant differences were identified for the following instruments at June 30, 2017:

	Carrying amount	Fair value
Financial assets		
Held-to-maturity securities, net	260,158	255,180
Loans and advances, net	1,056,912	1,096,246
Financial liabilities		
Deposit liabilities	1,432,464	1,418,531

Note 19 - Basis of Preparation

These condensed consolidated interim financial statements as at June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016 have been prepared in accordance with PAS 34, "Interim Financial Reporting". These unaudited condensed consolidated interim financial statements does not include all the notes of the type 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, 2016, which have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

19.1 Changes in accounting policy and disclosures

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

The following standards have been adopted by the BPI Group effective January 1, 2017:

- *Amendments to PAS 7, 'Statement of cash flows'*. Entities are required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated. The adoption of the amendments to the standard did not have a significant impact to the BPI Group.

- *Amendments to PAS 12, 'Income taxes'.* The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that (a) a temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period; (b) an entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit; (c) where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type; and (d) tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit. The adoption of the amendments to the standard did not have a significant impact to the BPI Group.

- *Circular Letter 2016-66 of the Insurance Commission, 'Valuation Standards for Life Insurance Policy Reserves'.* The reserves for traditional life insurance policies shall be valued, where appropriate, using gross premium valuation. Gross premium valuation is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. Under the previous policy, liabilities for future policy benefits for traditional life insurance policies are calculated using a net premium valuation method using mortality and interest rate assumptions. The adoption of the amendments to the Insurance Code resulted in the recognition of P622 million remeasurement loss on insurance liabilities in statement of other comprehensive income coming from the Bank's investments in one of its associates (BPI-Philam Life Assurance Corporation).

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these financial statements. None of these standards are expected to have a significant effect on the financial statements of the BPI Group, except the following as set out below:

- *PFRS 9, 'Financial instruments'* will replace the multiple classification and measurement models in PAS 39 'Financial instruments: Recognition and measurement' with a single model that has initially only two classification categories: amortized cost and fair value. Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognized at fair value. All fair value movements on financial assets are taken through the statement of income, except for equity investments that are not held for trading, which may be recorded in the statement of income or in reserves (without subsequent recycling to profit or loss). For financial liabilities that are measured under the fair value option entities will need to recognize the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.

  The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

  In July 2014, the Financial Accounting Standards Board (FASB) made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, PFRS 9 is now complete. The changes introduce a third measurement category (FVOCI) for certain financial assets that are debt instruments and a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For financial years commencing before February 1, 2015, entities can elect to apply PFRS 9 early for any of the following: (1) the own credit risk requirements for financial liabilities, (2) classification and measurement (C&M) requirements for financial assets, (3) C&M requirements for financial assets and financial liabilities, or (4) C&M requirements for financial assets and liabilities and hedge accounting. After February 1, 2015, the new rules must be adopted in their entirety. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The PFRS 9 Implementation Project that will enable the BPI Group to quantify the impact of the new standard, including the Bank's full transition plans and roadmap beginning January 1, 2018, is currently being collaborated upon by the Parent Bank's designated PFRS 9 committee and working groups.

- *PFRS 15, 'Revenue from contracts with customers'* will replace PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied. Key changes to current practice are: (1) Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements; (2) Revenue may be recognized earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, and success of an outcome) - minimum amounts must be recognized if they are not at significant risk of reversal; (3) The point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a contract may have to be recognized over the contract term and vice versa; (4) There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few; and (5) As with any new standard, there are also increased disclosures. These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. Entities will have a choice of full retrospective application, or prospective application with additional disclosures. The BPI Group is currently assessing the impact of PFRS 15.

- *PFRS 16, 'Leases'* will replace the current guidance in PAS 17, 'Leases'. PFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. 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 standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. At this stage, the BPI Group is currently assessing the impact of PFRS 16.

There are no other standards, amendments or interpretations that are not yet effective that would be expected to have a material impact on the BPI Group.

The BPI Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

STANDARD DOCUMENT COVER SHEET
FOR SEC FILINGS

All documents should be submitted under a cover page which clearly identifies the company and the specific document form as follows:

SEC Identification Number PW-121
File Number

BANK OF THE PHILIPPINE ISLANDS
BPI BUILDING, 6768 AYALA AVE. CORNER PASEO DE ROXAS
MAKATI CITY, METRO MANILA
(632) 816-9705
FISCAL YEAR ENDING DECEMBER 31
(indicate if anything above is new and the date it was changed)

SEC FORM 17–Q QUARTERLY REPORT
AMENDMENT DESIGNATION (if applicable)

PERIOD-ENDED SEPTEMBER 30, 2017
(if a report, financial statement, GIS, or related amendment or show-cause filing)

NONE
EACH ACTIVE SECONDARY LICENSE TYPE AND FILE NUMBER
(state “NONE” if that is the case)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17 (2) (b) THEREUNDER

SATELLITE
NOV 09 2017
ROBINSON G
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

1. For the quarterly period ended **September 30, 2017**

2. Commission identification number **PW-121**

3. BIR Tax identification No. - **TIN: 000-438-366-000**

4. **BANK OF THE PHILIPPINE ISLANDS**
   Exact name of registrant as specified in its chart

5. **Philippines**
   Province, country or other jurisdiction of incorporation

6. Industry Classification Code: (SEC Use Only)

7. **BANK OF THE PHILIPPINE ISLANDS BUILDING**
   6768 Ayala Avenue Corner Paseo de Roxas, Barangay San Lorenzo
   Makati City — **ZIP Code 1226**
   Address of principal office — Postal Code

8. **(632) 816-9705**
   Registrant's telephone number, including area code

9. **Not Applicable**
   Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code

Title of each class	Number of shares of common stock outstanding and amount of debt outstanding
Common	**3,939,401,908**

11. Are any or all of the securities listed on the Philippine Stock Exchange? Yes [x] No [ ]
    If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange	**Common**

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such reports) Yes [✓] No [ ]

(b) Has been subject to such filing requirements for the last 90 days Yes [✓] No [ ]

BANK OF THE PHILIPPINE ISLANDS
CONSOLIDATED STATEMENT OF CONDITION
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(in Thousands of Pesos)

	UNAUDITED SEPTEMBER 30, 2017	AUDITED DECEMBER 31, 2016
RESOURCES		
Cash and Other Cash Items	29,382,403	35,691,756
Due from Bangko Sentral ng Pilipinas	246,116,221	239,514,283
Due from Other Banks	22,974,422	23,037,448
Interbank Loans Receivable and Securities		
Purchased under Agreements to Resell	14,672,852	15,236,366
Financial Assets at Fair Value through Profit or Loss		
Derivative Financial Assets	3,745,245	2,992,803
Trading Securities	12,963,425	14,602,663
Available-for-Sale Securities, net	14,671,434	24,300,671
Held-to-Maturity Securities, net	268,940,657	268,483,227
Loans and Advances, net	1,122,234,711	1,040,719,694
Assets Held for Sale, net	3,532,405	3,667,041
Bank Premises, Furniture, Fixtures and Equipment, net	14,209,973	13,808,741
Investment Properties, net	593,999	668,884
Investments in Subsidiaries and Associates, net	6,337,421	6,817,963
Assets Attributable to Insurance Operations	16,670,015	16,325,575
Deferred Income Tax Assets, net	8,342,013	7,542,531
Other Resources, net	14,433,071	12,286,070
TOTAL RESOURCES	**1,799,820,267**	**1,725,695,717**
LIABILITIES AND CAPITAL FUNDS		
Deposit Liabilities		
Demand	242,372,934	231,524,555
Savings	830,839,837	820,180,867
Time	431,682,594	379,594,879
Sub-total	**1,504,895,365**	**1,431,300,301**
Derivative Financial Liabilities	3,342,879	3,111,927
Bills Payable	48,104,941	61,972,741
Due to Bangko Sentral ng Pilipinas and Other Banks	1,017,053	669,937
Manager's Checks and Demand Drafts Outstanding	6,727,766	7,579,143
Accrued Taxes, Interest and Other Expenses	6,975,362	6,853,015
Liabilities Attributable to Insurance Operations	14,100,381	14,366,567
Deferred Credits and Other Liabilities	32,775,956	32,158,253
TOTAL LIABILITIES	**1,617,939,704**	**1,558,011,884**
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI		
Share Capital	39,329,966	39,308,302
Share Premium	29,728,669	29,591,222
Reserves	161,860	2,710,843
Surplus	114,681,832	98,601,974
Accumulated Other Comprehensive Income/ (Loss)	(4,854,341)	(5,078,357)
	179,047,987	**165,133,983**
NON-CONTROLLING INTERESTS	2,832,576	2,549,851
TOTAL CAPITAL FUNDS	**181,880,563**	**167,683,834**
TOTAL LIABILITIES AND CAPITAL FUNDS	**1,799,820,267**	**1,725,695,717**

BANK OF THE PHILIPPINE ISLANDS
CONSOLIDATED STATEMENTS OF INCOME
For the Quarter Ended September 30, 2017 and 2016
(In Thousands of Pesos)

	2017	2016
INTEREST INCOME		
On loans and advances	14,146,683	12,350,806
On held-to-maturity securities	2,192,304	2,001,745
On available-for-sale securities	56,741	106,156
On deposits with BSP and other banks	564,704	533,275
On trading securities	42,467	37,054
Gross Receipts Tax	(555,428)	(518,443)
	16,447,472	**14,510,592**
INTEREST EXPENSE		
On Deposits	4,190,782	3,800,819
On Bills Payable and other borrowings	271,353	134,301
	4,462,135	3,935,120
NET INTEREST INCOME	**11,985,337**	**10,575,472**
IMPAIRMENT LOSSES	**1,148,270**	**849,799**
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	**10,837,066**	**9,725,674**
OTHER INCOME		
Fees and commissions	2,080,564	1,910,854
Income from foreign exchange trading	586,789	524,498
Trading gain (loss) on securities	(11,880)	(41,475)
Income attributable to insurance operations	488,742	502,697
Other operating income	2,941,916	2,005,947
Gross Receipts Tax	(369,088)	(255,395)
	5,717,042	**4,647,125**
OTHER EXPENSES		
Compensation and fringe benefits	3,467,311	3,045,402
Occupancy and equipment-related expenses	2,903,636	2,459,805
Other operating expenses	3,237,521	2,765,190
	9,608,468	**8,270,398**
INCOME BEFORE INCOME TAX	**6,945,640**	**6,102,401**
PROVISION FOR INCOME TAX		
Current	1,746,347	1,276,609
Deferred	(253,863)	43,206
	1,492,485	**1,319,815**
NET INCOME FOR THE QUARTER	**5,453,155**	**4,782,585**
Attributable to:		
Equity holders of BPI	**5,356,260**	**4,706,460**
Non-controlling interest	**96,894**	**76,125**
	5,453,155	**4,782,585**

BANK OF THE PHILIPPINE ISLANDS
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Quarter Ended September 30, 2017 and 2016
(In Thousands of Pesos)

	2017	2016
NET INCOME BEFORE MINORITY INTEREST	**5,453,155**	**4,782,585**
Other Comprehensive Income:		
Items that may be reclassified subsequently to profit or loss		
Net change in fair value reserve on available-for-sale securities, net of tax effect	109,147	131,204
Fair value reserve on investments of insurance subsidiaries, net of tax effect	61,605	(105,563)
Share in other comprehensive income of associates	(30,332)	(48,531)
Currency translation differences	61,293	31,940
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on defined benefit plan, net of tax effect	0	(10,589)
Net fair value gains on property and equipment	0	0
Remeasurement of Insurance Liabilities	(43,237)	0
Total Other Comprehensive Income (Loss), net of tax effect	**158,477**	**(1,539)**
Total Comprehensive Income for the Year	**5,611,632**	**4,781,047**
Attributable to:		
Equity holders of BPI	5,509,272	4,739,717
Non-Controlling Interest	102,359	41,330
	5,611,632	**4,781,047**

BANK OF THE PHILIPPINE ISLANDS
CONSOLIDATED STATEMENTS OF INCOME
For the Nine Months Ended September 30, 2017 and 2016
(In Thousands of Pesos)

	Unaudited 2017	Unaudited 2016
INTEREST INCOME		
On loans and advances	41,414,718	35,729,945
On held-to-maturity securities	6,501,127	6,561,784
On available-for-sale securities	281,584	354,103
On deposits with BSP and other banks	1,712,230	1,732,009
On trading securities	158,704	151,522
Gross Receipts Tax	(1,608,768)	(1,456,302)
	48,459,595	**43,073,061**
INTEREST EXPENSE		
On Deposits	12,112,771	11,427,035
On Bills Payable and other borrowings	846,643	366,610
	12,959,414	11,793,645
NET INTEREST INCOME	**35,500,181**	**31,279,416**
IMPAIRMENT LOSSES	**3,608,987**	**3,952,494**
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	**31,891,194**	**27,326,922**
OTHER INCOME		
Fees and commissions	6,245,904	5,561,854
Income from foreign exchange trading	1,688,754	1,371,275
Trading gain (loss) on securities	940,605	5,517,096
Income attributable to insurance operations	1,241,603	1,416,109
Other operating income	8,496,458	6,356,994
Gross Receipts Tax	(1,072,263)	(1,079,339)
	17,541,061	**19,143,988**
OTHER EXPENSES		
Compensation and fringe benefits	10,275,896	10,237,115
Occupancy and equipment-related expenses	8,234,211	7,292,831
Other operating expenses	9,350,483	8,049,352
	27,860,590	**25,579,298**
INCOME BEFORE INCOME TAX	**21,571,666**	**20,891,612**
PROVISION FOR INCOME TAX		
Current	5,104,137	4,099,634
Deferred	(832,546)	(783,364)
	4,271,591	**3,316,270**
NET INCOME FOR THE PERIOD	**17,300,075**	**17,575,342**
Attributable to:		
Equity holders of BPI	**17,047,722**	**17,376,237**
Non-controlling interest	**252,353**	**199,106**
	17,300,075	**17,575,342**
Earnings per share:		
Based on 3,939,401,908 shares as of September 30, 2017 and 3,937,043,603 shares in 2016	**P 4.33**	**P 4.41**

BANK OF THE PHILIPPINE ISLANDS
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2017 and 2016
(In Thousands of Pesos)

	Unaudited 2017	Unaudited 2016
NET INCOME BEFORE MINORITY INTEREST	**17,300,075**	**17,575,342**
Other Comprehensive Income		
Items that may be reclassified subsequently to profit or loss		
Net change in fair value reserve on available-for-sale securities, net of tax effect	594,928	713,428
Fair value reserve on investments of insurance subsidiaries, net of tax effect	244,368	182,615
Share in other comprehensive income of associates	(85,533)	559,617
Currency translation differences	171,518	(107,807)
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on defined benefit plan, net of tax effect	(7,832)	(14,960)
Net fair value gains on property and equipment	2,225	0
Remeasurement of Insurance Liabilities	(665,286)	0
Total Other Comprehensive Income (Loss), net of tax effect	**254,389**	**1,332,892**
Total Comprehensive Income for the Year	**17,554,463**	**18,908,234**
Attributable to:		
Equity holders of BPI	17,271,738	18,674,878
Non-Controlling Interest	282,725	233,356
	17,554,463	**18,908,234**

BANK OF THE PHILIPPINE ISLANDS

STATEMENT OF CHANGES IN CAPITAL FUNDS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017 & SEPTEMBER 30, 2016
(In Thousands of Pesos)

	Consolidated							
	Attributable to equity holders of BPI							
	Share Capital	Share Premium	Reserves	Surplus	Accumulated Other Comprehensive Income (Loss)	Total	Non-controlling Interests	Total Equity
Balance, December 31, 2016	**39,308,302**	**29,591,222**	**2,710,843**	**98,601,974**	**(5,078,357)**	**165,133,983**	**2,549,851**	**167,683,834**
Comprehensive Income								
Net Income for the year				17,047,722		17,047,722	252,353	17,300,075
Other Comprehensive Income for the year					224,017	224,017	30,372	254,389
Total Comprehensive Income for the year	**-**	**-**	**-**	**17,047,722**	**224,017**	**17,271,738**	**282,725**	**17,554,463**
Transactions with owners								
Executive Stock Plan amortization	21,665	137,448	28,593			187,705		187,705
Cash Dividends				(3,545,439)		(3,545,439)		(3,545,439)
Reversal of Trust Reserves			(2,577,575)	2,577,575		-		-
Total transactions with owners	**21,665**	**137,448**	**(2,548,983)**	**(967,864)**	**-**	**(3,357,734)**	**(0)**	**(3,357,734)**
Balance, September 30, 2017	**39,329,966**	**29,728,669**	**161,860**	**114,681,832**	**(4,854,341)**	**179,047,987**	**2,832,576**	**181,880,563**

	Consolidated							
	Attributable to equity holders of BPI							
	Share Capital	Share Premium	Reserves	Surplus	Accumulated Other Comprehensive Income (Loss)	Total	Non-controlling Interests	Total Equity
Balance, December 31, 2015	**39,285,344**	**29,438,771**	**2,562,640**	**83,760,945**	**(4,764,253)**	**150,283,447**	**2,446,438**	**152,729,886**
Comprehensive Income								
Net Income for the year				17,376,237		17,376,237	199,106	17,575,342
Other Comprehensive Income for the year					1,298,642	1,298,642	34,250	1,332,892
Total Comprehensive Income for the year	**-**	**-**	**-**	**17,376,237**	**1,298,642**	**18,674,878**	**233,356**	**18,908,234**
Transactions with owners								
Executive Stock Plan amortization	17,261	114,733	33,502			165,497		165,497
Cash Dividends				(3,543,339)		(3,543,339)		(3,543,339)
Transfer from Surplus to Reserves			103,476	(103,476)		-		-
Change in ownership interest in subsidiary that did not result in loss of control				(17,246)		(17,246)		(17,246)
Other changes in non-controlling interest							(81,300)	(81,300)
Total transactions with owners	**17,261**	**114,733**	**136,979**	**(3,664,061)**	**-**	**(3,395,088)**	**(81,300)**	**(3,476,388)**
Balance, September 30, 2016	**39,302,605**	**29,553,504**	**2,699,619**	**97,473,121**	**(3,465,611)**	**165,563,238**	**2,598,494**	**168,161,732**

BANK OF THE PHILIPPINE ISLANDS
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTER ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016
(In Thousands of Pesos)

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Income before income tax	6,945,640	6,102,401
Adjustments for:		
Impairment losses	1,148,270	849,799
Depreciation and amortization	1,053,830	997,486
Share in net income of associates	(287,401)	(343,043)
Share based compensation	4,887	11,544
Dividend income	(5,043)	(5,886)
Interest income	(17,002,900)	(15,029,036)
Interest expense	4,462,135	3,935,120
Operating income before changes in operating assets and liabilities	(3,680,581)	(3,481,616)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Due from Bangko Sentral ng Pilipinas	0	0
Interbank loans receivable and securities purchased under agreements to resell	165,965	106,201
Trading securities	1,330,058	3,665,998
Loans and advances	(65,537,743)	(27,391,273)
Assets held for sale	165,940	61,941
Assets attributable to insurance operations	(685,735)	(686,871)
Other resources	(1,621,191)	(282,268)
Increase (decrease) in:		
Deposit liabilities	72,431,323	(6,622,859)
Due to Bangko Sentral ng Pilipinas and other banks	495,144	15,734
Manager's checks demand drafts outstanding	(335,223)	(788,632)
Accrued taxes, interest and other expenses	(74,017)	(481,716)
Liabilities attributable to insurance operations	711,300	1,045,655
Derivative financial instrument	(591,345)	(706,731)
Deferred credits and other liabilities	2,708,685	(720,259)
Net cash from (used in) operations	5,482,581	(36,266,695)
Income taxes paid	(1,729,355)	(1,258,543)
Interest paid	(4,701,273)	(4,149,484)
Interest received	17,186,788	15,347,174
Net cash from (used in) operating activities	16,238,740	(26,327,548)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in:		
Available for sale securities	(94,472)	9,586,833
Held-to-maturity securities	(9,597,900)	(46,608,424)
Bank, premises, furniture, fixtures and equipment	(1,310,744)	(1,086,695)
Equity investments	644,945	(161,803)
Assets attributable to insurance operations	(12,637)	65,748
Investment property	(80)	(0)
Proceeds from sale of investments	0	0
Dividends received	5,043	5,886
Net cash from (used in) investing activities	(10,365,846)	(38,198,455)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Dividends	(3,545,439)	(3,543,339)
Collection on stock subscriptions	51,875	42,907
Increase (decrease) in bills payable	5,595,691	13,360,957
Net cash from (used in) financing activities	2,102,127	9,860,526
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,975,021	(54,665,477)
CASH AND CASH EQUIVALENTS		
June 30	303,464,641	345,856,636
September 30	**311,439,663**	**291,191,159**

BANK OF THE PHILIPPINE ISLANDS
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016
(In Thousands of Pesos)

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Income before income tax	21,571,666	20,891,612
Adjustments for:		
Impairment losses	3,608,987	3,952,494
Depreciation and amortization	3,170,359	2,839,764
Share in net income of associates	(684,293)	(872,685)
Share based compensation	28,593	33,502
Dividend income	(43,042)	(47,594)
Interest income	(50,068,362)	(44,529,363)
Interest expense	12,959,414	11,793,645
Operating income before changes in operating assets and liabilities	(9,456,680)	(5,938,625)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Due from Bangko Sentral ng Pilipinas	0	0
Interbank loans receivable and securities purchased under agreements to resell	900,161	1,461,407
Trading securities	1,642,294	(5,087,138)
Loans and advances	(84,630,217)	(61,376,237)
Assets held for sale	94,093	264,135
Assets attributable to insurance operations	(129,517)	698,262
Other resources	(2,824,530)	(1,337,320)
Increase (decrease) in:		
Deposit liabilities	73,595,064	44,455,480
Due to Bangko Sentral ng Pilipinas and other banks	347,117	137,132
Manager's checks demand drafts outstanding	(851,377)	(1,437,577)
Accrued taxes, interest and other expenses	(58,024)	332,978
Liabilities attributable to insurance operations	(266,186)	(962,749)
Derivative financial instrument	(521,490)	1,822,305
Deferred credits and other liabilities	4,156,354	(4,998,904)
Net cash from (used in) operations	(18,002,938)	(31,966,850)
Income taxes paid	(5,071,073)	(4,073,591)
Interest paid	(12,779,042)	(11,452,031)
Interest received	50,491,683	45,779,412
Net cash from (used in) operating activities	14,638,630	(1,713,060)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in:		
Available for sale securities	10,209,583	16,532,095
Held-to-maturity securities	(1,230,823)	(19,215,504)
Bank, premises, furniture, fixtures and equipment	(2,914,731)	(3,061,305)
Investment in subsidiaries and associates, net	831,777	350,030
Assets attributable to insurance operations	(87,195)	(382,155)
Investment property,net	(80)	(30,076)
Proceeds from sale of investments	0	0
Dividends received	43,042	47,594
Net cash from (used in) investing activities	6,851,574	(5,759,320)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Dividends	(7,088,778)	(7,082,337)
Collection on stock subscriptions	159,113	131,994
Increase (decrease) in bills payable	(13,867,799)	23,863,685
Net cash from (used in) financing activities	(20,797,465)	16,913,343
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	692,737	9,440,962
CASH AND CASH EQUIVALENTS		
January 1	310,746,924	281,750,197
September 30	**311,439,663**	**291,191,159**

BANK OF THE PHILIPPINE ISLANDS
Financial Indicators
As at September 30, 2017 and 2016

		2017	2016
a)	Liquidity Ratio *	55.9%	56.0%
b)	Debt to Equity Ratio **	26.9%	27.1%
c)	Asset to Equity Ratio	1,005.2%	960.4%
d)	Interest Rate Coverage Ratio ***	290.9%	301.2%
e)	Net Interest Margin on Average Earning Assets	2.9%	2.8%
f)	Return on Average Equity	13.1%	14.7%
g)	Return on Average Assets	1.3%	1.5%
h)	Cost to Income Ratio	52.5%	50.7%
i)	Cost to Assets Ratio	2.1%	2.2%
j)	Capital to Assets Ratio	9.9%	10.4%

* Liquid Assets over Total Deposits

** Bills Payable and Unsecured Subordinated Debt over Total Equity

*** Net Income Before Income Tax add back Interest Expense and Depreciation and Amortization over Interest Expense

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

SEC REQUIREMENT	DISCLOSURE
• Disclosure that the issuer's interim financial report is in compliance with generally accepted accounting principles	• The Bank's interim financial statements have been prepared in accordance with the Phil. Financial Reporting Standards (PFRS) which includes applicable PFRS, PAS (Phil. Accounting Standards) and interpretations approved by the FRSC (Financial Reporting Standards Council).
• The following information, as a minimum, should be disclosed in the notes to financial statements, if material and if not disclosed elsewhere in the interim financial report:	
• A statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.	• The Bank's interim financial statements have been prepared consistent with its most recent annual financial statements as of December 31, 2016 which was in accordance with the PFRS adopted by the SEC.
• Explanatory comments about the seasonality or cyclicality of interim operations	• Nothing to report
• The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents	• Nothing to report
• The nature and amount of changes in estimates of amounts reported in prior interim periods of the current	• The mandatory effective date of PFRS 9 is for annual periods beginning January 1, 2018. The Bank is currently engaged in documenting the

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

SEC REQUIREMENT	DISCLOSURE
financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.	business models for Classification and Measurement of Financial Assets and finalizing the credit models to estimate Expected Credit Losses as specified in the PFRS 9. Full impact of the PFRS 9 will be assessed once the developed models have been validated by an independent model validation team.
• Issuances, repurchases, and repayments of debt and equity securities	• Nothing to report
• Dividends paid (aggregate per share) separately for ordinary shares and other shares	• On January 20, 2017, total cash dividends paid to Common Stockholders of record as December 29, 2016 amounted to P3.5 billion. • On June 21, 2017, the Board declared a regular cash dividend of P0.90 per share on the total outstanding Common shares of the capital stock of BPI, payable to all Common stockholders of record as of July 6, 2017 and payable/distributable on July 27, 2017. Total dividends declared and paid amounted to P3.5 billion.
• Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting. (This shall be provided only if the issuer is required to disclose segment information in its annual financial statements).	• Attached
• Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period	• Nothing to report

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

SEC REQUIREMENT	DISCLOSURE
• The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisitions or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.	• Nothing to report
• Changes in contingent liabilities or contingent assets since the last annual balance sheet date	• Changes in contingent liabilities and contingent assets are in the normal course of business and are not anticipated to cause any material losses from those commitments/contingent liabilities.
• Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.	• Nothing to report
• Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;	• The BPI Group monitors and measures financial risks according to three major classifications: credit, market and liquidity, and operational/IT risks. The Bank is exposed to these financial risks primarily through lending activities, trading and investment in bonds, currencies, financial derivatives and structured investment products, and engaging in operating activities, infrastructure and technology to support the Bank's day-to-day business. The risks associated with these activities are closely monitored through the various key risk indicators (KRIs) and metrics, risk appetite and limits, and management triggers defined and set by the Board through its Risk Management Committee (RMC). The Bank's Risk Management Office (RMO), led by the BPI Group Chief Risk Officer, supports the RMC in identifying, measuring, controlling, and

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

SEC REQUIREMENT	DISCLOSURE
	reporting the Bank's financial and non-financial risks at the Management and business line levels. BPI has since maintained its disciplined risk appetite by establishing and implementing prudent risk management policies and standards, concentrating on sovereign-issued and investment-grade securities, and by ensuring that controls are generally in place and working effectively, thus, exposing the Bank and its key subsidiaries to manageable credit, market, liquidity, and operational/IT risks which are within the RMC approved risk-appetite (BPI subsidiary Board-level RMCs, in the case of key BPI subsidiaries). Dedicated and skilled risk managers, including business risk and subsidiary risk officers, fully support the Bank's three lines-of-defense (3LoD) risk organization. • The persistent challenges observed in the global and local financial markets have resulted to more active risk management strategies in the Bank. Sensitivity analyses, forward-looking simulations and stress testing, daily risk monitoring and escalation procedures, regular risk MIS reporting and in-depth discussions involving Senior Management and the Board of Directors are measures to strengthen the effectiveness of the Bank's enterprise risk management framework. Moreover, the levels of risk exposures and limits are continuously reviewed to reflect the Board's overall risk appetite and strategy.
	• As of the third quarter of 2017, the Value-at-Risk (VAR) and Balance Sheet VaR are well within the Bank's established risk limits approved by the RMC. The Bank conducts regular price stress tests that measure the

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

SEC REQUIREMENT	DISCLOSURE
	potential impact of the adverse movements in interest rates on the Bank's trading and banking book and the corresponding impact on the Capital Adequacy Ratio. The results of the third quarter 2017 price stress test on both the trading and banking book revealed that the Bank's post-shock CAR is well above the minimum regulatory requirement given the adverse movements in risk factors. The Bank's liquidity and interest rate risk exposures were generally within the RMCom-approved limits at consolidated levels. The Bank also conducts liquidity stress tests which have consistently revealed ample liquidity to meet its financial obligations under both name-specific and system-wide crisis scenarios. Moreover, the Bank has been continuously monitoring its Liquidity Coverage Ratio (LCR) per significant currency. The Bank's total LCR for the third quarter of 2017 is well above the prescribed ratio set by the BSP. The RMO continues to improve its monitoring and measurement of risks by updating assumptions and methodologies and regularly conducting back-tests to assess the accuracy and effectiveness of its models and metrics. • The BPI Group is able to manage overall credit risk and maintain asset quality for the period, evidenced by generally low NPL ratios relative to the Bank's total loan portfolio, diversified portfolio across key industries, adequate loan loss provisioning, and general compliance to regulatory ceilings on credit risk (including related party transactions). Credit risk portfolio reviews, internal and regulatory credit stress tests, and regular risk reporting to Senior Management and the RMC were conducted to ensure that the Bank practices sound credit risk

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

SEC REQUIREMENT	DISCLOSURE
	management also in overall compliance with the BSP guidelines. • On the Bank's management of operational and IT risks, for the third quarter of 2017, the Bank has maintained estimated operational and IT losses related to the Bank's operating activities to less than 1% of gross income. Such minimal losses are within the Senior Management and Board/RMC's conservative and prudent risk appetite, and are generally attributed as inherent risks in executing the Bank's day-to-day business operations. The Bank is conscientiously aware of new and emerging industry-wide risks, and duly consider these in regular risk assessments and in updating the Bank's risk strategies. • The Bank, to the best of its knowledge, deems that there are no anticipated and significant changes in risk exposures that shall materially affect the Bank's financial condition and results of operations.
• The significant judgments made in classifying a particular financial instrument in the fair value hierarchy.	• The assumptions/judgments made in the Bank's interim financial statements are consistent with the most recent annual financial statements as of December 31, 2016.
• A comparison of the fair values as of date of the recent interim financial report and as of date of the preceding interim period, and the amount of gain/loss recognized for each of the said periods	• In accordance with PAS 39, trading account securities are marked to market as profit and loss. As such, these are reflected in Other Income – Trading gain (loss) on securities including realized gains (losses) from opportunistic sell down of inventory. • Available for sale securities are marked to market against capital funds and reflected as Accumulated Other Comprehensive Income

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

SEC REQUIREMENT	DISCLOSURE
	(Loss). The movements of these accounts are recognized as Other Comprehensive Income – Net Change in Fair Value Reserve for the banking books and Fair Value Reserve on investments of insurance subsidiaries. • The table below summarizes the carrying amount and fair value of Held To Maturities Securities, net

	Carrying amount	Fair value
	(In Million Pesos)	
September 30, 2017 (unaudited)	268,941	264,045
Dec 31, 2016 (audited)	268,483	261,742

BANK OF THE PHILIPPINE ISLANDS
SEGMENT REPORT
For the Quarter Ended September 30, 2017

In P Mn	CONSUMER BANKING	CORPORATE BANKING	INVESTMENT BANKING / FINANCIAL MARKETS	CORP / ELIM	TOTAL
Net interest income	8,079	1,621	3,193	(908)	11,985
Impairment charge	546	605	(0)	(3)	1,148
Net interest income after impairment charge	7,533	1,016	3,193	(905)	10,837
Fees and commission	1,468	297	360	(44)	2,081
Other income	1,865	441	1,122	578	4,006
GRT	(233)	(29)	(72)	(36)	(369)
Other Income, net	3,100	709	1,410	498	5,717
Compensation and fringe benefits	2,318	335	243	571	3,467
Occupancy and equipment-related expenses	1,043	302	28	1,531	2,904
Other operating expenses	3,584	382	369	(1,098)	3,238
Total operating expenses	6,945	1,019	640	1,004	9,608
Operating profit	3,689	706	3,963	(1,412)	6,946
Share in net income of associates					287
Provision for Income Tax					1,492
Total Assets	523,288	860,694	391,160	24,678	1,799,820
Total Liabilities	1,541,169	18,127	57,457	1,187	1,617,940

BANK OF THE PHILIPPINE ISLANDS
SEGMENT REPORT
For the Nine Months Ended September 30, 2017

In P Mn	CONSUMER BANKING	CORPORATE BANKING	INVESTMENT BANKING / FINANCIAL MARKETS	CORP / ELIM	TOTAL
Net interest income	24,765	4,019	9,389	(2,674)	35,500
Impairment charge	2,450	1,167	(3)	(5)	3,609
Net interest income after impairment charge	22,315	2,852	9,392	(2,668)	31,891
Fees and commission	4,382	909	1,137	(182)	6,246
Other income	5,234	1,234	4,402	1,497	12,367
GRT	(624)	(78)	(294)	(76)	(1,072)
Other Income, net	8,992	2,065	5,245	1,239	17,541
Compensation and fringe benefits	6,839	982	782	1,673	10,276
Occupancy and equipment-related expenses	3,072	882	68	4,212	8,234
Other operating expenses	10,183	1,211	1,172	(3,216)	9,350
Total operating expenses	20,094	3,075	2,022	2,670	27,861
Operating profit	11,213	1,843	12,615	(4,099)	21,572
Share in net income of associates					684
Provision for Income Tax					4,272
Total Assets	523,288	860,694	391,160	24,677	1,799,820
Total Liabilities	1,541,169	18,127	57,457	1,187	1,617,940

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition as of September 30, 2017 versus as of December 31, 2016

Total resources increased P74.1 billion to P1.80 trillion.

While increase in resources was minimal at 4.3%, it was impacted by the following movements:

- **Loans and advances, net,** at P1.12 trillion, increased P81.5 billion, or 7.8%, on higher loan demand from both corporate and retail clients;
- **Other resources, net** at P14.4 billion, increased P2.1 billion, or 17.5%, on account of higher miscellaneous assets. This was largely due to the set-up of Marginal Cash Deposit Top-up, a new requirement of Europe and US counterparties, wherein banks are to cover margin calls for certain derivatives;
- **Deferred income tax assets, net** at P8.3 billion, increased P799.5 million, or 10.6%, due to the impairment losses set up for the year;
- **Derivative financial assets** at P3.7 billion, increased P752.4 million, or 25.1%, on account of the higher positive fair value of certain derivative positions;

Above increases were partially tempered by the following:

- **Available-for-sale securities, net** at P14.7 billion, decreased P9.6 billion or 39.6% due to decrease in position taking in various holdings;
- **Cash and other cash items** at P29.4 billion, decreased P6.3 billion, or 17.7%, on account of lower cash requirement this period as compared to year end 2016;
- **Trading securities,** at P13.0 billion, decreased P1.6 billion or 11.2% due to decrease in holding of securities intended for trading;
- **Investment in subsidiaries and associates, net** at P6.3 billion, decreased P480.5 million, or 7.0%, largely due to lower income contributed by the Bank's bancassurance affiliate;
- **Investment properties, net** at P594.0 million, decreased P74.9 million, or 11.2%, on lower accumulated depreciation of bank premises and equipment.

Total liabilities increased P59.9 billion, or 3.8% and this came from the following:

- **Total deposits** at P1.5 trillion, increased P73.6 billion, or 5.1%, as all deposit products increased (demand up P10.8 billion, or 4.7%, savings up P10.7 billion, or P1.3%,and time deposit up P52.1 billion, or 13.7%);
- **Due to Bangko Sentral ng Pilipinas and other banks** at P1.0 billion, increased P347.1 million, or 51.8% on higher tax collected for the Bureau of Internal Revenues (BIR);
- **Derivative financial liabilities** at P3.3 billion, increased P231.0 million, or 7.4% due to higher negative fair value on certain derivative positions.

These increases in liabilities were partly tempered by the following:

- **Bills payable** at P48.1 billion, decreased P13.9 billion, or 22.4%, because of lower borrowings from foreign banks;
- **Manager's checks and demand drafts outstanding** at P6.7 billion, decreased P851.4 million, or 11.2%, on account of lower level of outstanding manager's checks issued.

Total Capital Funds at P181.9 billion, increased P14.2 billion, or 8.5%, from year-end 2016 owing to the P16.1 billion, or 16.3% increase on **Surplus** as a result of accumulated profits net of cash dividend payments.

Reserves at P161.9 million, decreased P2.5 billion, or 94.0%, driven by the establishment of Stand-Alone Trust Corporation named BPI Asset Management and Trust Corp (BPI AMTC).

Non-Controlling Interests at P2.8 billion, increased P282.7 million, or 11.1%, on higher retained earnings/surplus reserves of the Bank's leasing and non-life insurance subsidiaries.

RESULTS OF OPERATIONS

<u>For the Quarters ended September 30, 2017 and 2016</u>

Net income for the third quarter of 2017 was P5.4 billion, up P649.8 million or 13.8%, from the profit earned in the third quarter of 2016. Total revenues increased P2.5 billion or 16.3%.

Net interest income at P12.0 billion, increased P1.4 billion, or 13.3% on account of the P156.5 billion, or 9.9% expansion in average asset base and an 11-basis point increase in spreads.

Interest income stood at P16.4 billion, up P1.9 billion, or 13.3%, and this was affected by the following movements:

- Increase in interest income **on loans and advances** at P14.1 billion, up P1.8 billion, or 14.5%, **on held-to-maturity securities** at P2.2 billion, up P190.6 million, or 9.5%, and **on deposit with BSP and other banks** at P564.7 million, up P31.4 million or 5.9% largely due to expansion in the average volume;
- Increase **on trading securities** at P42.5 million, up P5.4 million, or 14.6%, due to higher yield, partly offset by lower average volume;
- Decrease in interest income **on available-for-sale securities** at P56.7 million, down P49.4 million, or 46.6%, due to decrease in average volume ;
- Increase in **gross receipts tax** at P555.4 million, up P37.0 million, or 7.1%, as a result of higher interest income.

Interest expense at P4.5 billion, increased P527.0 million, or 13.4%, driven by the following:

- Increase in interest expense **on deposits** at P4.2 billion, up P390.0 million, or 10.3% due to higher average volume, partly offset by lower interest cost;

- Increase in interest expense **on bills payable and other borrowings** at P271.4 million, up P137.1 million, or 102.0% due to higher average volume and interest cost.

Other income at P5.7 billion was P1.1 billion, or 23.0% higher than the P4.6 billion earned in the third quarter of 2016:

- **Other operating income** at P2.9 billion, increased P936.0 million, or 46.7%, driven by credit card fees;
- **Fees and commissions** at P2.1 billion, increased P169.7 million, or 8.9%, on account of higher underwriting fees, bank commissions and service charges;
- **Income from foreign exchange trading** at P586.8 million, increased P62.3 million, or 11.9%, from higher gains on proprietary position;
- **Trading gain (loss) on securities** at (P11.9) million, increased P29.6 million, or 71.4%, from profit taking on certain positions;
- Overall increase in other income resulted in a higher **gross receipts tax,** which ended at P369.1 million, up P113.7 million, or 44.5%.

Other expenses at P9.6 billion, grew P1.3 billion or 16.2% driven by the following:

- **Other operating expenses** at P3.2 billion, increased P472.3 million, or 17.1%, largely due to transaction-servicing costs and product-related insurance costs;
- **Occupancy and equipment-related expenses** at P2.9 billion, up P443.8 million, or 18.0%, on increased rental, depreciation and technology-related costs;
- **Compensation and Fringe Benefits** at P3.5 billion, up P421.9 million, or 13.9% owing to annual pay hikes and increased headcount.

Provision for income tax at P1.5 billion, increased P172.7 million, or 13.1%.

- **Current income tax** at P1.7 billion, increased P469.7 million or 36.8% due to higher income subject to regular corporate income tax.
- **Deferred income tax** at (P253.9) million, was P297.1 million lower from last year's P43.2 million, due to timing difference on accounts and lower write-offs.

Income attributable to non-controlling interest at P96.9 million, increased P20.8 million or 27.3%, largely attributable to BanKo's consolidation with BPI Direct, where the former (with 40% ownership of the bank), contributed losses last year.

Total comprehensive income at P5.5 billion, increased P769.6 million, or 16.2%, due to the P670.6 million, or 14.0% increase in **net income before minority interest**, and the P160.0 million increase in **total other comprehensive income, net of tax effect.**

- **Net change in fair value reserve on available-for-sale securities, net of tax effect** at P109.1 million, decreased P22.1 million, or 16.8%, on account of lower market valuation of the Bank's investment securities;

- **Fair value reserve on investments of insurance subsidiaries, net of tax effect** at P61.6 million, increased P167.2 million, or 158.4% as a result of higher market valuation of the insurance subsidiaries' investment funds;
- **Share in other comprehensive income of associates** at (P30.3) million, increased from (P48.5) million versus third quarter of last year, due to the upward market valuation of the investments of the bancassurance affiliate, as a result of the change in premium recognition from net to gross;
- **Currency translation differences** at P61.3 million, increased P29.4 million or 91.9%, generally due to the weakening of the Philippine Peso against the US Dollar;
- **Actuarial gains (losses) on defined benefit plan net of tax effect,** registered an upward movement from last year's (P10.6 million) which occurred due to a change in financial assumption;
- **Remeasurement liabilities** was recorded at (P43.2) million this quarter, in relation to the change in premium recognition from net to gross of the Bank's life insurance subsidiary. This adjustment is in compliance with the Insurance Commission's new framework effective January 1, 2017;
- **Income attributable to non-controlling interest** at P102.4 million, increased P61.0 million, or 147.7%, impacted by the increase in fluctuation reserves in investment in stocks of the Bank's insurance subsidiaries.

For the Nine Months ended September 30, 2017 and 2016

Net income for the first three quarters of 2017 was P17.0 billion, down P328.5 million or 1.9%, from the same period last year. The decrease was driven largely by the P4.6 billion or 83.0% decline in trading gain (loss) on securities, relative to the one-off trading profit last year. Total revenues increased P2.6 billion or 5.2%, but bottom line impact was negated by the increase in other expenses of P2.3 billion or 8.9%.

Net interest income stood at P35.5 billion, increased P4.2 billion, or 13.5% on account of the P172.6 billion, or 11.1% expansion in average asset base and a 7-basis point increase in spreads.

Interest income stood at P48.5 billion, up P5.4 billion, or 12.5%, and this was affected by the following movements:

- Increase in interest income **on loans and advances** at P41.4 billion, up P5.7 billion, or 15.9%, due to improvement in average volume;
- Decrease in interest income **on available-for-sale securities** at P281.6 million, down P72.5 million, or 20.5%, due to decrease in average volume, partly offset by the increase in yield;
- Increase in **Gross Receipts Tax** at P1.6 billion, up P152.5 million, or 10.5%, as a result of higher interest income.

Interest expense at P13.0 billion, increased P1.2 billion, or 9.9%, and this was driven by the following movements:

- Increase in interest expense **on deposits** at P12.1 billion, up P685.7 million, or 6.0% due to expansion in average volume;
- Increase in interest expense **on bills payable and other borrowings** at P846.6 million, up P480.0 million, or 130.9% due to expansion in average volume and increase in interest cost.

Other income at P17.5 billion was P1.6 billion, or 8.4% lower than the P19.1 billion earned in the first three quarters of 2016:

- **Trading gain (loss) on securities** at P940.6 million, decreased P4.6 billion, or 83.0%, as the Bank booked a one-off gain derived from the sale of the reclassified portion of certain held-to-maturity securities to AFS last year ;
- **Income attributable to insurance operations** at P1.2 billion, decreased P174.5 million, or 12.3%, due to the lower income contribution of the Bank's life insurance subsidiary;
- **Other Operating Income** at P8.5 billion, increased P2.1 billion, or 33.7%, driven by a gain on sale of a bank-owned property and credit card fees;
- **Fees and Commissions** at P6.2 billion, increased P684.1 million, or 12.3%, on account of higher underwriting fees and service charges;
- **Income from foreign exchange trading** at P1.7 billion, increased P317.5 million, or 23.2%, from higher gains on proprietary position.

Other expenses at P27.9 billion, grew P2.3 billion, or 8.9%, from P25.6 billion:

- **Other operating expenses** at P9.4 billion, increased P1.3 billion, or 16.2%, largely due to higher regulatory, transaction-servicing, and product-related insurance costs;
- **Occupancy and equipment-related expenses** at P8.2 billion, up P941.4 million, or 12.9%, on increased depreciation and technology-related costs.

Provision for income tax at P4.3 billion, increased P955.3 million, or 28.8%.

- **Current income tax** at P5.1 billion was P1.0 billion, or 24.5% higher due to higher income subject to regular corporate income tax;
- **Deferred income tax** at (P832.5) million, was P49.2 million lower from last year's (P783.4) million due to accounts with timing difference.

Income attributable to non-controlling interest at P252.4 million, increased P53.2 million or 26.7%, largely attributable to BanKo's consolidation with BPI Direct, where the former (with 40% ownership of the bank), contributed losses last year.

Total comprehensive income at P17.3 billion, decreased P1.4 billion, or 7.5%, due to the P1.1 billion, or 80.9% decline in **total other comprehensive income, net of tax effect.**

- **Net change in fair value reserve on available-for-sale securities, net of tax effect** at P594.9 million, decreased P118.5 million, or 16.6%, on account of lower market valuation of the Bank's investment securities;

- **Fair value reserve on investments of insurance subsidiaries, net of tax effect** at P244.4 million, increased P61.8 million, or 33.8% as a result of higher market valuation of the insurance subsidiaries' investment funds;
- **Share in other comprehensive income of associates** at (P85.5) million, declined from P559.6 million from same period of last year, due to the downward market valuation of the investments of the bancassurance affiliate, as a result of the change in premium recognition from net to gross;
- **Currency translation differences** at P171.5 million, increased P279.3 million or 259.1%, due to the weakening of the Philippine Peso against the US Dollar;
- **Actuarial gains (losses) on defined benefit plan net of tax effect,** at (P7.8) million, increased from (P15.0) million versus last year, as impacted by the change in financial assumption;
- **Income attributable to non-controlling interest** at P282.7 million, increased P49.4 million, or 21.2%, impacted by BanKo's consolidation with BPI Direct.

Two new reporting lines were included in the comprehensive income report in relation to the change in premium recognition from net to gross of the Bank's life insurance subsidiary. This adjustment is in compliance with the Insurance Commission's new framework effective January 1, 2017.

- **Net fair value gains on property and equipment** stood at P2.2 million while **remeasurement liabilities** was recorded at (P665.3) million.

<u>Key Performance Indicators</u>

The following ratios, applied on a consolidated basis, are used to assess the performance of the Bank and its majority owned subsidiaries:

	September 30, 2017	**September 30, 2016**
Return on Equity (%)	13.1	14.7
Return on Assets (%)	1.3	1.5
Net Interest Margin (%)	2.9	2.8
Operating Efficiency Ratio (%)	52.5	50.7
Capital Adequacy Ratio (%)-Basel III	13.4	14.2

Return on equity (ROE), net income divided by average equity was lower at 13.1%, compared to last year's 14.7% due to lower net income. Average equity grew by 10.0%.

Return on assets (ROA), net income divided by average assets, was lower at 1.3%, versus 1.5% last year also due to the decline in net income. Average assets grew by 11.1%.

Net interest margin (NIM), net interest income divided by average interest bearing assets, at 2.9% was higher by 7 basis points than the same period last year on the combined impact of the increase in yields, decrease in cost of deposits, and growth in average interest earning assets.

Operating efficiency ratio (cost to income), operating expenses divided by total revenues, increased to 52.5% from 50.7% as increase in operating expenses outpaced that of the revenues. Cost to income ratio measures the Bank's ability to utilize its overhead to generate revenues.

Capital adequacy ratio (CAR), total qualifying capital divided by total risk-weighted assets, measures the ability of the Bank's capital funds to cover its various risks. The Bank's CAR at 13.4% was lower than last year's 14.2%, as growth in risk weighted assets, led by credit risks, outpaced the growth in qualifying capital. The Bank's CAR is above the BSP's minimum requirement of 10%. CET 1 ratio at 12.5%, was lower than 13.3% last year, but above the minimum regulatory requirement.

Material Events and Uncertainties

The Bank has nothing to report on the following:

1. Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.
2. Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
3. Other material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period other than those mentioned above.
4. Material commitments for capital expenditures.
5. 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 or revenues or income from continuing operations.
6. Events that will cause material change in the relationship between costs and revenues (such as known future increases in cost of labor or materials or price increases or inventory adjustments).
7. Any significant elements of income or loss that did not arise from the registrant's continuing operations.
8. Any seasonal aspects that had a material effect on the financial condition or results of operations.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BANK OF THE PHILIPPINE ISLANDS
Issuer

CEZAR P. CONSING
President
Chief Executive Officer

Date: November 9, 2017

MARIA THERESA M. JAVIER
Senior Vice President &
Chief Finance Officer

Date: November 9, 2017

BPI UNIBANK
CONSOLIDATED AGING OF ACCOUNTS RECEIVABLE
September 30, 2017

No. of Days Outstanding		Amount (In Thousands)
0-90	P	1,426,536
91-180		190,117
181-360		109,091
Over 360		679,573
Total		**2,405,318**
Less : Allow. For Probable Losses		**495,242**
Net of Allowance	P	**1,910,075**

Issuer

BANK OF THE PHILIPPINE ISLANDS
BPI Building
Ayala Avenue corner Paseo de Roxas
Makati City, Philippines

Arranger and Selling Agent

ING BANK N.V., MANILA BRANCH
20F Tower 1, Ayala Triangle
Ayala Avenue
Makati City, Philippines

Other Selling Agents

BANK OF THE PHILIPPINE ISLANDS
BPI Building
Ayala Avenue corner Paseo de Roxas
Makati City, Philippines

BPI CAPITAL CORPORATION
BPI Building
Ayala Avenue corner Paseo de Roxas
Makati City, Philippines

Registrar and Paying Agent

PHILIPPINE DEPOSITORY & TRUST CORP.
37/F, Tower 1,The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City, Philippines

Legal Adviser to the Arranger

SYCIP SALAZAR HERNANDEZ & GATMAITAN
SyCipLawCenter
105 Paseo de Roxas
Makati City, Philippines

Independent Auditors

ISLA LIPANA & CO.
29th Floor, Philamlife Tower
8767 Paseo de Roxas
Makati City, Philippines