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

**₱100,000,000,000 Bond Program
of the Bank of the Philippine Islands**

Under this ₱100,000,000,000 Bond Program (the **Program**), the Bank of the Philippine Islands (the **Issuer** or the **Bank**), subject to compliance with all relevant laws, regulations, and directives, may from time to time issue bonds (each a **Series**, and collectively, the **Bonds**) denominated in Philippine Pesos (as defined below) with each issuance constituting a tranche (**Tranche**) in one or more Series, pursuant to Bangko Sentral ng Pilipinas (**BSP**) Circular No. 1010 and Circular No. 1062. General Banking Law of 2000 (Republic Act No. 8791), and Section 246 of the Manual of Regulations for Banks, and will be subject to the terms of the Master Registry and Paying Agency Agreement, the Trust Indenture, the Program Agreement, and the Master Certificate of Indebtedness.

THE SECURITIES BEING OFFERED OR SOLD UNDER THIS OFFERING CIRCULAR HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE **SEC**) AS THE ISSUANCE IS AN EXEMPT SECURITY UNDER SECTION 9.1(E) OF THE SECURITIES REGULATION CODE (THE **SRC**).

The Bonds, being exempt securities issued by a bank registered as such under the laws of the Republic of the Philippines, constitute exempt securities within the meaning of Section 9.1(e) of the SRC and as such are not required to be registered under the provisions thereof before they can be sold or offered for sale or distribution in the Philippines. Any sale or offer of the Bonds in the Philippines, however, can only be made in accordance with the applicable regulations of the BSP and the SEC.

Upon issuance the Bonds shall be simultaneously enrolled as securities that may be traded at the Philippine Dealing & Exchange Corp. (the **PDEX**) in accordance with the procedures and requirements set forth in this Offering Circular, and the relevant PDEX rules, operating framework, and trading conventions. The Bonds shall be issued in scripless form. Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the designated registrar for the Bonds. A Master Certificate of Indebtedness representing the Bonds shall be issued to and registered in the name of the Trustee, on behalf of the bondholders.

The Bonds shall constitute the direct, unconditional, and unsecured obligations of the Bank and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured obligations of the Bank, other than obligations preferred by law. The Bonds shall effectively be subordinated in right of payment to, among others, all of the Bank's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14)(a) of the Civil Code of the Philippines without a waiver of preference or priority.

The specific terms of the Bonds for each Tranche will be determined by the Bank considering prevailing market conditions and shall be provided in a supplement to be circulated at the time of the offer of the relevant tranche (**Pricing Supplement**).

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

Joint Lead Arrangers



Sole Selling Agent



Participating Selling Agent



The date of this Offering Circular (**Offering Circular**) is 13 January 2020.

The Bank accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances under which they were made, misleading. The Bank, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the Program and the Bonds, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Bank accepts responsibility accordingly.

Neither the delivery of this Offering Circular nor any sale made pursuant to the Offer shall, under any circumstance, create any implication that the information contained or referred to in this Offering Circular is accurate as of any time subsequent to the date hereof. To the fullest extent permitted by law, none of the Joint Lead Arrangers, the Sole Selling Agent, and the Participating Selling Agent (the Sole Selling Agent and the Participating Selling Agent shall collectively be referred to as “**Selling Agents**”), accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Joint Lead Arrangers or the Selling Agents or on their respective behalf in connection with the Bank, the Program, or the issue and offering of the Bonds. Each of the Joint Lead Arrangers and the Selling Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No person is or has been authorised by the Bank to give any information or to make any representation other than those contained in this Offering Circular or any other information supplied in connection with the Program or the Bonds and, if given or made by any other person, such information or representations must not be relied upon as having been authorised by the Bank, the Joint Lead Arrangers and/or the Selling Agents.

None of the Joint Lead Arrangers and the Selling Agents has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Joint Lead Arrangers or any of the Selling Agents as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Bank in connection with the Program.

The contents of this Offering Circular are not to be considered as legal, business or tax advice. Neither this Offering Circular nor any other information supplied in connection with the Program or any Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Bank, the Joint Lead Arrangers, or the Selling Agents, that any recipient of this Offering Circular or any other information supplied in connection with the Program or any Bonds should purchase any of the Bonds. Each investor contemplating purchasing Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. Neither this Offering Circular, nor any other information supplied in connection with the Program or the issue of any Bonds, constitutes an offer or invitation by or on behalf of the Bank, any of the Joint Lead Arrangers or any of the Selling Agents to any person to subscribe for or to purchase any Bonds.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Arrangers and the Selling Agents expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Program or to advise any investor in the Bonds of any information coming to their attention. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Bank since the date hereof or thereof or the date upon which this Offering Circular has been most recently amended or supplemented or create any implication that the information contained herein or therein is correct as at any date subsequent to the date hereof or thereof or the date upon which this Offering Circular has been most recently amended or supplemented. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Bonds.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

CERTAIN DEFINITIONS

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

If the terms of the Program are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, to an extent which is material in the context of the Program, a new offering circular will be prepared.

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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 and the relevant Pricing Supplement carefully, including the Bank's consolidated financial statements and related notes (the "Financial Statements") and "Investment Considerations"

Description of the Bank

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

According to data available from the *Bangko Sentral ng Pilipinas* (**BSP**, the central bank of the Philippines), the Bank is the third largest universal bank in the country in terms of total assets which stood at ₱2,126 billion as of 30 September 2019. The Bank also holds a significant market share in the deposit, lending, and asset management markets. According to industry data on Philippine banks, the Bank is the Philippines' third largest in terms of loans and deposits with market shares of 14.3% and 12.3%, respectively, as of 30 September 2019, and second largest in terms of assets under management with market share of 18.3% as of 30 September 2019. The Bank also enjoys a significant presence in the finance and operating lease business, government securities dealership, securities distribution and foreign exchange business. It is also a market leader in electronic banking where it has been a first mover and innovator in the use of automated teller machines (**ATMs**), cash acceptance machines (**CAMs**), point-of-sale debit systems, kiosk banking, phone banking, internet banking and mobile banking.

As of 31 December 2016, 2017 and 2018 and 30 September 2019, the Bank had a network of 834, 945, 1,059 and 1,111 branches (which include full service branches, express banking centres (**EBCs**) and branch-lite units) respectively, which was among the largest branch networks among Philippine banks. Of the Bank's 1,111 branches, as of 30 September 2019, 1,108 branches were located in the Philippines, of which 702 were BPI branches, 162 were BPI Family Savings Bank branches, and 244 were BPI Direct BanKo branches and branch-lite units. In terms of geographic distribution (excluding BPI Direct BanKo), 458 of the branches were located in Metro Manila, 241 of the branches in Luzon (excluding Metro Manila), 99 of the branches in the Visayas and 66 of the branches in Mindanao. The Bank also provides 24 hour banking services through its call centre and network of 2,395 ATMs and 505 CAMs as of 30 September 2019, the second largest network owned by a single bank in the Philippines, which were located in both branches and off site locations, such as shopping malls and high density office buildings. The Bank's overseas network includes one banking location in Hong Kong and two in London. The Bank also has one representative office in Tokyo and another in Dubai, which market and promote certain of the Bank's products and services. The Bank has three remittance centres in Hong Kong and maintains over 143 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

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

The Bank's consolidated common equity tier 1 (**CET1**) ratio stood at 16.0% while capital adequacy ratio (**CAR**) stood at 16.9%, as of 30 September 2019. These are above the minimum regulatory capital requirements set by the BSP under Basel III. As of 30 September 2019, the Bank had a market capitalisation on the Philippine Stock Exchange (**PSE**) of ₱419.15 billion (based on the closing price on the PSE of ₱93.00 per Share on 30 September 2019). The Bank's significant shareholders include Ayala Corporation (**Ayala**), one of the Philippines' oldest and largest conglomerates, the Roman Catholic Archbishop of Manila, and the Government of Singapore Investment Corp. (**GIC**).

Competitive Strengths

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

Preeminent banking brand in the Philippines

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

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

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

The strength of the Bank's brand is validated by its growing client base, which almost doubled since 2010 to 8.5 million customers as of 30 September 2019. The Bank has likewise won numerous awards in recognition of its outstanding client service and innovative product offerings. In 2018, BPI Capital was awarded "Best Investment Bank" and "Best ECM House in the Philippines" from the *Finance Asia Country Awards* as well as the "Renewable Energy Deal of the Year (Indonesia and Regional)" and "PPP Project of the Year (Philippines)" in the last *Asia Infrastructure Awards by The Asset*.

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

Strong track record of profitability and cost management

Historically, the Bank has been known as one of the most cost-efficient banks with the lowest operating leverage in the industry. As of 30 September 2019, its cost-to-income ratio stood at 52.2% and its cost-to-assets ratio at 2.4%, one of the lowest among Philippine banks based on publicly available financial data. The Bank's cost discipline coupled with its investments in its digital platforms has allowed it to maintain its cost leadership, remain resilient through downturns, and continuously improve productivity and cost-efficiency through the years.

Coupled with its strong income generating capabilities and deposit franchise, the Bank's cost-leadership has allowed it to produce industry leading returns for its equity holders. As of 30 September 2019, its return-on-equity (ROE) and return-on-assets (ROA) stood at 11.3% and 1.4% respectively, one of the highest in the Philippine Banking industry according to BSP data.

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

Well-capitalised with sufficient liquidity

The Bank's stock rights offering in May 2018 brought the Bank's CET1 and CAR to 16.0% and 16.9%, respectively, as of 30 September 2019. The Bank believes these ratios are ahead of most banks in the Philippines and comfortably above the BSP's minimum CET1 and CAR ratios of 6% and 10%, respectively.

The Bank believes that its strong capital base, which primarily consists of common equity, provides sufficient protection to the Bank's current and prospective creditors. The Bank's strong capital base, coupled with its deposit franchise, has also allowed it to limit reliance on debt funding and to maintain comparatively low leverage levels as compared to other banks with its debt/total liabilities, as of 30 September 2019, at 8.4% (calculated as bonds issuances and bills payable over total liabilities).

Aside from its strong capital base, the Bank maintains sufficient liquidity levels with its liquidity coverage ratio at 181.5% and leverage ratio at 11.1% , which are well above the minimum prescribed ratios of 100% and 5%, respectively, set by the BSP.

High quality and diversified asset base driven by prudent risk management

As of 30 September 2019, 75.4% of the Bank's loan book consist of loans to what the Bank believes to be high quality domestic corporate and multinational customers. From 2014-2018, the Bank's loan growth has primarily been driven by corporate loans, which grew at a compound annual growth rate (CAGR) of 17.6% for that period, as compared to the Bank's retail loans, which grew by 11.8% over the same period.

The Bank's strong risk management framework coupled with its prudent approach to growth has allowed it to significantly improve its asset quality metrics, with gross 90-day non-performing loan (NPL) ratios declining from 3.11% as of 31 December 2010 to 1.81% as of 30 September 2019, and NPL coverage increasing from 82.3% as of 31 December 2010 to 99.3% as of 30 September 2019. With the implementation of the BSP Circular 941 effective 1 January 2018, the Bank's NPL ratio and coverage were restated at 1.72% and 100.34%, respectively. The NPL amount increased because under BSP Circular 941, adversely classified accounts (ACAs) are required to be reported as NPLs even if the account is current or without any missed contractual payments since ACAs are considered impaired under existing accounting standards. The Bank's prudent risk management and continuous efforts in this area have been recognised by *Risk Asia* in 2018 with the "House of the Year-Philippines' Risk Management Award." This was the first time this award was given to a Philippine bank.

The Bank believes that its asset base is strategically diversified. It lends to customers in a wide variety of industries including real estate, manufacturing, wholesale and retail, utilities and financial intermediaries, among others. As of 30 September 2019, the Bank's top 20 clients comprised 32.1% of the Bank's loan book. Internally, the Bank abides by strict single borrower limits, with no single customer accounting for more than 3.0% of the Bank's loan book as of 30 September 2019.

Stable and diversified revenue sources

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

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

Over the years, the Bank's fee-based income, has remained as a stable source of income for the Bank, which has been growing at an average rate of 6.9%, annually, since 2013. The Bank's fee generation is backed by its (i) asset management and trust business, which has historically been the largest contributor to fee based income, with assets under management at ₱812 billion as of 30 September 2019, (ii) credit card business, which has the second highest number of credit card users with 1.619 million credit cards in circulation as of 30 September 2019 based on data from the Credit Cards Association of the Philippines (iii) operating lease business, which has provided a steady stream of income for the Bank, and (iv) insurance joint ventures with Mitsumi Sumitomo Insurance Group for non-life insurance (BPI/MS Insurance Corporation), and Philippine American Life and General Insurance Company (BPI Philam Life Assurance, Corp. or BPLAC) for life insurance, with BPLAC being the Philippines' leader in bancassurance, according to the Philippine Insurance Commission, and is continuously growing alongside the increasing BPI branches nationwide.

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

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

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

The Bank has been successful in maintaining long-term relationships with its client base, with customer retention rates increasing from 90.3% in 2012 to 97.2% for the third quarter of 2019.

While the cost of deposits is largely driven by interest rate movements, the Bank has kept its average cost of deposits relatively low by improving its CASA (i.e., demand and savings accounts) to deposits ratio over the past five years. As of 30 September 2019, the Bank's CASA deposits accounted for 69.1% of the Bank's total deposit base, a 7.9% improvement from its 31 December 2012 level of 61.2%. The Bank also believes that its CASA to deposit ratio is one of the highest in the Philippines. The Bank's depositors also typically roll over their deposits at maturity, effectively providing the Bank with a stable base of core liquidity.

The Bank's strong deposit franchise is made possible by its extensive physical and digital distribution networks. The Bank has one of the largest branch networks in the Philippines with 1,108 local branches (which include full service branches, express banking centres (**EBCs**), and branch-lite units), as of 30 September 2019. The Bank's overseas network includes one banking location in Hong Kong and two in London, two representative offices and three remittance centres in Hong Kong. The Bank also maintains over 143 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

As of 30 September 2019, the Bank had the second largest ATM and CAM network in the Philippines, with 2,395 ATMs and 505 CAMs under its *BPI ATM* brand. The Bank also founded the Philippines' first ATM interbank network and is a member of *BancNet*, the Philippines' largest ATM interbank network with over 21,400 ATMs nationwide as of 31 August 2019.

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

Experienced Management and strong performance culture

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

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

Strategies

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

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

Maintain its leading position in the corporate segment

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

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

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

SME

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

To spearhead this initiative, the Bank established the SME business banking group to focus solely on SMEs by addressing their day-to-day needs, such as cash management, payroll, government and supplier payment services, as well as helping them achieve their long-term goals through quick, simple and convenient solutions. The Bank has built a team of focused and well-trained relationship managers in order to gain a better understanding of the needs of the large, growing and underserved SME market segment, and address its needs holistically. The added focus and understanding is anticipated to result in better risk management for the SME sector and overall improved returns.

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

Consumer lending

As of 30 September 2019, only 215,869, or 2.8%, of BPI's retail depositors have availed of the Bank's loan products. The Bank expects strong growth in the consumer lending market due to (i) the stable growth of the Philippine economy and (ii) the passage of the Philippine Tax Reform for Acceleration and Inclusion (**TRAIN**) law, which reduced personal income tax rates and resulted in higher disposable incomes for middle class Filipinos, which can also lead to higher demand for vehicles and family homes.

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

Microfinance

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

Enhance deposit franchise and delivery infrastructure

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

Offering Circular Summary

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

To increase deposits in the corporate, SME business and retail banking segments, the Bank aims to present itself as a provider of an integrated suite of products and services to its clients, such as cash management, payroll, government and supplier payment services, as well as bancassurance, asset management, securities investments, credit facilities, payments and remittances and foreign exchange products and services.

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

The Bank recognises the importance of building strong digital capabilities both in digital distribution platforms to exponentially increase client access points, and also in the back office to increase productivity, automation and manage cost-efficiency.

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

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

Recent Developments

On November 20, 2019, the Australian Transaction Reports and Analysis Centre (**AUSTRAC**), Australia's anti money-laundering and terrorism financing regulator, applied to the Federal Court of Australia for civil penalty orders against Westpac Banking Corporation (**Westpac**), one of Australia's largest banks. The civil penalty orders relate to systemic non-compliance with the Australian Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (**AML/CTF Act**). AUSTRAC alleged that Westpac contravened the AML/CTF Act on over 23 million occasions. Westpac was accused of, among others, failing to carry out appropriate customer due diligence on transactions to the Philippines and South East Asia that have known financial indicators relating to potential child exploitation risks and that Westpac failed to introduce appropriate detection scenarios to detect known child exploitation typologies, consistent with AUSTRAC guidance and their own risk assessments. AUSTRAC alleged that Westpac had violated the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 on over 23 million occasions.

Offering Circular Summary

BPI and Westpac had entered into a remittance arrangement in May 2016 in order to make fund transfers from Australia to the Philippines more convenient through a payments facility known as LitePay. Westpac's clients used the LitePay platform to send remittances to the Philippines for BPI to fulfill, whether for credit to the accounts of BPI clients or for those of other Philippine banks. At the time of initiation of the partnership, Westpac made representations and warranties that they were in compliance with all applicable regulations. From July 2016 to November 2019, a total of 63,816 transactions were coursed through BPI and credited to various recipient banks in the Philippines. Of this number, 34% was credited to BPI accounts. Of the 23 million Westpac transactions cited by AUSTRAC as unreported, only 0.01% was coursed through BPI.

BPI suspended Westpac LitePay on November 24, 2019 and considers the alleged violations as a very serious concern. BPI has asked Westpac to provide detailed information about suspicious and possible illegal transactions that may have been coursed through BPI. BPI has also initiated its own investigation to look into various transactions for compliance violations. As of the date of this Supplement, BPI is not aware of any formal investigation by the BSP on BPI with respect to Westpac related transactions. The Bank has sought to closely cooperate with regulators and authorities to ensure continued compliance with both domestic and global money laundering laws and regulations.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

SELECTED CONSOLIDATED STATEMENTS OF INCOME

	For the years ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
	(₱ millions, except for earnings per share) (audited)			(₱ millions, except for earnings per share) (reviewed)	
Interest income on					
Loans and advances	47,132	54,615	69,401	49,480	65,520
Investment securities.....	9,220	9,185	9,616	7,017	9,467
Deposits with BSP and other banks	1,960	2,049	1,173	841	1,267
	<u>58,312</u>	<u>65,849</u>	<u>80,190</u>	<u>57,338</u>	<u>76,254</u>
Interest and finance charges					
Deposits.....	15,301	16,660	21,255	15,221	22,322
Bills payable and other borrowings	634	1,150	3,092	1,482	5,267
	<u>15,935</u>	<u>17,810</u>	<u>24,347</u>	<u>16,703</u>	<u>27,589</u>
Net interest income	<u>42,377</u>	<u>48,039</u>	<u>55,843</u>	<u>40,635</u>	<u>48,665</u>
Impairment losses	4,800	3,795	4,923	2,844	4,575
Net interest income after impairment losses	<u>37,577</u>	<u>44,244</u>	<u>50,920</u>	<u>37,791</u>	<u>44,090</u>
Other income					
Fees and commissions.....	7,425	7,716	8,224	5,513	6,708
Income from foreign exchange trading.....	1,748	2,136	2,128	1,552	1,525
Income attributable to insurance operations	1,360	1,413	1,223	859	1,053
Trading gain on securities	5,192	923	719	637	4,059
Other operating income.....	8,449	10,793	10,387	7,689	8,992
	<u>24,174</u>	<u>22,981</u>	<u>22,681</u>	<u>16,250</u>	<u>22,337</u>
Other expenses					
Compensation and fringe benefits	13,463	13,897	15,315	11,435	12,879
Occupancy and equipment-related expenses	10,156	11,344	13,146	10,010	12,035
Other operating expenses	11,322	13,292	15,141	10,639	12,175
	<u>34,941</u>	<u>38,533</u>	<u>43,602</u>	<u>32,084</u>	<u>37,089</u>
Income before income tax	<u>26,810</u>	<u>28,692</u>	<u>29,999</u>	<u>21,957</u>	<u>29,338</u>
Provision for income tax					
Current	5,419	6,418	7,404	5,210	7,556
Deferred	(884)	(462)	(734)	(418)	(433)
	<u>4,535</u>	<u>5,956</u>	<u>6,670</u>	<u>4,792</u>	<u>7,123</u>
Net income	<u>22,275</u>	<u>22,736</u>	<u>23,329</u>	<u>17,165</u>	<u>22,215</u>
Attributable to:					
Equity holders of the Bank.....	22,050	22,416	23,078	17,010	22,031
Non-controlling Interest	225	320	251	155	184
Net income	<u>22,275</u>	<u>22,736</u>	<u>23,329</u>	<u>17,165</u>	<u>22,215</u>

Selected Consolidated Financial Information

	For the years ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
	(₱ millions, except for earnings per share) (audited)			(₱ millions, except for earnings per share) (reviewed)	
Basic and Diluted Earnings Per Share					
Attributable to Equity Holders of the Bank	5.60	5.69	5.35	3.78	4.89

STATEMENTS OF CONDITION

	As of 31 December			As of 30 September
	2016	2017	2018	2019
	(₱ millions) (audited)			(₱ millions) (reviewed)
Resources				
Cash and other cash items	35,692	35,132	43,536	28,729
Due from BSP	239,514	255,948	225,907	196,225
Due from other banks.....	23,037	14,406	12,477	13,786
Interbank loans receivable and securities purchased under agreements to resell	15,236	18,586	34,323	40,142
Financial assets at fair value through profit or loss	17,596	10,313	16,721	29,625
Financial assets at fair value through other comprehensive income.....	-	-	37,206	78,642
Investment securities at amortized cost, net	-	-	287,571	287,847
Available-for-sale securities, net	24,301	23,313	-	-
Held-to-maturity securities	268,483	277,472	-	-
Loans and advances, net	1,040,720	1,202,338	1,354,896	1,371,671
Assets held for sale, net	3,667	3,578	3,363	3,325
Bank premises, furniture, fixtures and equipment, net	13,809	15,056	16,252	23,153
Investments in subsidiaries and associates, net	6,818	6,386	5,659	6,583
Assets attributable to insurance operations	16,326	17,406	16,582	16,807
Deferred income tax assets, net	7,543	8,091	8,536	8,848
Other assets, net	12,954	15,880	22,199	20,398
Total resources	1,725,696	1,903,905	2,085,228	2,125,781
Liabilities and Capital Funds				
Liabilities				
Deposit liabilities	1,431,300	1,562,200	1,585,746	1,619,900
Derivative liabilities.....	3,112	4,788	3,891	3,041
Bills payable.....	61,973	83,517	166,901	154,923
Due to BSP and other banks	670	1,218	3,988	1,473
Manager's checks and demand drafts outstanding	7,579	7,022	6,931	6,110
Accrued taxes, interest and other expenses.....	6,853	7,117	9,057	10,510
Liabilities attributable to insurance operations	14,367	14,513	14,056	13,215
Deferred credits and other liabilities.....	32,158	39,979	43,120	45,399
Total liabilities	1,558,012	1,720,354	1,833,690	1,854,571
Capital funds attributable to the equity holders of the Bank				
Capital stock	39,308	39,336	44,961	44,989
Paid-in-surplus	29,591	29,771	74,181	74,379
Reserves	2,711	254	4,096	3,740
Surplus	98,602	116,415	127,459	146,062
Accumulated other comprehensive loss	(5,078)	(5,088)	(2,176)	(1,315)
	165,134	180,688	248,521	267,855
Non-controlling interest	2,550	2,863	3,017	3,355
Total capital funds	167,684	183,551	251,538	271,210
Total liabilities and capital funds	1,725,696	1,903,905	2,085,228	2,125,781

Selected Consolidated Financial Information

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
	(P millions) (audited)			(P millions) (reviewed)	
Net cash provided by (used in) operating activities	4,505	7,070	(104,550)	(92,513)	31,408
Net cash provided by (used in) investing activities	(9,635)	(10,349)	(30,130)	(5,104)	(46,056)
Net cash provided by (used in) financing activities	34,125	14,662	125,821	59,852	(19,860)
Cash and cash equivalents at beginning of the year	281,751	310,746	322,129	322,129	313,270
Cash and cash equivalents at end of the year.....	310,746	322,129	313,270	284,364	278,762

SELECTED CONSOLIDATED FINANCIAL RATIOS AND PER SHARE DATA

	As of and for the years ended 31 December			As of and for the nine months ended 30 September	
	2016	2017	2018	2018	2019
Return on average assets ⁽¹⁾	1.4%	1.3%	1.2%	1.2%	1.4%
Return on average equity ⁽²⁾	13.8%	12.8%	10.2%	10.4%	11.3%
Net interest margin ⁽³⁾	2.9%	2.9%	3.1%	3.1%	3.3%
Cost-to-income ratio ⁽⁴⁾	52.5%	54.3%	55.5%	56.4%	52.2%
Gross loans to deposits ⁽⁵⁾	72.7%	77.0%	85.4%	83.2%	85.8%
Tier 1 capital adequacy ratio ⁽⁶⁾	12.1%	11.8%	15.2%	16.1%	16.0%
Total capital adequacy ratio ⁽⁷⁾	13.0%	12.7%	16.1%	17.0%	16.9%
Total tangible capital funds to total tangible assets ⁽⁸⁾	9.7%	9.6%	11.8%	12.6%	12.6%
Total gross non-performing loans (90-day) to total gross loans ⁽⁹⁾	1.5%	1.3%	1.9%	1.8%	1.8%
Allowances for credit losses to total gross loans ⁽¹⁰⁾	1.7%	1.7%	1.7%	1.7%	1.8%
Allowances for credit losses to total gross non-performing loans (90-day) ⁽¹¹⁾	118.7%	129.2%	88.3%	95.7%	99.3%
Specific provisions to gross loans	1.8%	1.7%	1.7%	1.8%	1.8%
Dividend payout ratio ⁽¹²⁾	38.9%	32.2%	36.2%	23.4%	23.6%
Dividend per Share (₱)	₱1.80	₱1.80	₱1.80	₱0.90	₱0.90
Earnings per Share (₱) ⁽¹³⁾	₱5.60	₱5.69	₱5.35	₱3.78	₱4.89

Notes:

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

INVESTMENT CONSIDERATIONS

An investment in the Bonds 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 Bonds. 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 Bonds could decline due to any one of these risks, and all or part of an investment in the Bonds 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 Bonds. Prospective Holders are encouraged to make their own independent legal, financial, and business examination of the Bank and the market. Neither the Bank nor the Joint Lead Arrangers make any warranty or representation on the marketability or price on any investment in the Bonds.

Risks Relating to the Bank and its Business

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

As part of its strategy, the Bank intends to:

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

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

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

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

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

Investment Considerations

As of 30 September 2019, the Bank's total exposure to borrowers was ₱1.4 trillion. The ten largest individual borrowers in aggregate accounted for approximately 11.8% of the Bank's total exposure, and its ten largest borrower groups in aggregate accounted for approximately 22.0% of the Bank's total exposure. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth. The Bank is committed to ensure strict compliance with laws, regulations and reporting requirements relating to single borrower limits. The largest borrower group as of 30 September 2019 accounted for approximately 3.1% of the Bank's total exposure and for 15.9% of the Bank's net worth. Credit losses on these large single borrower and group exposures could adversely affect the business, financial condition and results of operations of the Bank.

The Bank extends loans to several sectors in the Philippines. As of 30 September 2019, the Bank's top five industries loan exposure account for 72.0% of the Bank's total loan portfolio, namely real estate, manufacturing, wholesale and retail trade, electricity, gas and water, and financial institutions. The Bank's aggregate exposure to these industries amounted to ₱1.0 trillion. The Bank's largest loan exposure is to the real estate industry, which accounted for 24.1% of the Bank's loan portfolio as of 30 September 2019. Although the Bank continues to adopt risk controls and diversification strategies to minimise risk concentrations, financial difficulties in these industries could increase the level of non-performing assets and restructured assets, and adversely affect the Bank's business, its financial condition and results of operations.

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

The Bank's results of operations have been, and continue to be, affected by the level of its non-performing loans (NPLs). The Bank's total gross NPLs were equal to ₱15,368 million, ₱15,713 million and ₱25,391 million as of 31 December 2016, 2017 and 2018, respectively, and ₱25,088 million as of 30 September 2019. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, the Bank's provisions for credit losses on receivables from customers were ₱4,955 million, ₱4,317 million, ₱4,828 million, ₱2,816 million and ₱4,414 million respectively, representing approximately 11.7%, 9.0%, 8.6%, 6.9% and 9.1% of the Bank's net interest income for these periods, respectively. The Bank plans to continue to expand its microfinance, SME and consumer loan operations, including credit card services. Such expansion plans will increase the Bank's exposure to microfinance, SME and consumer debt and volatile economic conditions in the Philippines may adversely affect the future ability of the Bank's borrowers, including microfinance and SME borrowers and credit card holders, to meet their obligations under their indebtedness and, as a result, the Bank may continue to experience increasing levels of non-performing loans and provisions for impairment losses in the future.

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

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

As of 30 September 2019, the Bank's secured loans represented 31.7% of the Bank's total loans, and 58.7% of the collateral on these secured loans consisted of real property. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realised value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its provisions for credit losses may be inadequate and the Bank may need to increase such provisions. Any increase in the Bank's provisions for credit losses could adversely affect its business, its financial condition, results of operations and CAR.

Investment Considerations

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

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

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

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

In addition, the level of loan loss provisions which the Bank recognises may increase significantly in the future due to the introduction of new accounting standards or a turn in the credit cycle and implementation of tighter regulations on credit risk. In January 2017, the BSP issued Circular No. 941, which amended the regulatory definitions of past due accounts, restructured loans and non-performing loans. Among others, the said Circular cites the conditions under which an account will be classified as NPL. To comply with the new standards, banks were required to revise their management reporting systems to align them with the circular's definition of NPLs, past due accounts and restructured loans.

Certain accounting standards based on International Accounting Standards have been adopted in the Philippines. Effective 1 January 2018, banks adopted PFRS 9 estimates provisioning based on Expected Credit Loss (ECL) model. This model poses a risk of variability of provisioning across banks due to the subjective assumptions, complex data, and unforeseen changes in macroeconomic conditions.

While the new model affirmed the Bank's prudent stance in its historical provisioning, there is no guarantee that such new accounting standards may result in the Bank recognizing significantly higher provisions for loan loss in the future. Moreover, while the Bank believes its current level of provisions and collateral position are more than adequate to cover its non-performing loan exposure, an unexpected or significant increase in non-performing loan levels may result in the need for higher levels of loan loss provisions in the future.

Investment Considerations

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

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

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

In support of certain Government policies, BSP has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts, equivalent to a certain percentage of its total loan portfolio to agrarian beneficiaries and the agricultural sectors (**Agri-Agra**) of the Philippines. In addition, for a period of ten years until 16 June 2018, BSP requires banks to allocate a certain percentage of its total loan portfolio for loans to MSMEs. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. These fines are calculated based on the relevant rate multiplied by the prescribed Agri-Agra or MSME loan amount shortfall. As of 30 September 2019, the amount of loans that should have been extended to Agri-Agra and MSMEs was ₱215.2 billion and ₱113.6 billion, respectively. For the years ended 31 December 2016, 2017, and 2018 and nine months ended 30 September 2019, the Bank was fined ₱387.4 million, ₱424.4 million, ₱491.7 million and ₱439.2 million, respectively, for its failure to fully comply with Agri-Agra mandated lending. With respect to MSME loans, for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, the Bank was fined ₱0.78 million, ₱1.02 million, ₱0.25 million and ₱0.26 million, respectively, for failure to comply with mandated lending to MSMEs. Because the Bank is unable to generate sufficient exposure to the Agri-Agra and MSMEs sectors that meet its credit and risk management standards, the Bank has paid fines in the past and may continue to do so in the future. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or the Bank is forced to extend loans to the Agri-Agra or MSMEs sectors that are inconsistent with the Bank's credit and risk management policies, its business, financial condition and results of operations could be adversely affected.

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

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

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

Investment Considerations

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

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

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

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

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

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

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

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

Investment Considerations

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

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

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

- managing business combination and investment transactions often requires significant management resources, which may divert the Bank's attention from other business operations;
- the Bank may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for realizing benefits of a business combination and investment transaction may depend partially upon the actions of employees, advisors, suppliers or other third parties;
- business combination and investment transactions may result in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, goodwill and asset impairment charges, charges from the elimination of duplicative facilities and contracts, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans;
- the Bank's due diligence process may fail to identify significant issues with the acquired company's product quality, financial disclosures, accounting practices or internal control deficiencies;
- the Bank may borrow to finance business combination and investment transactions, and the amount and terms of any potential future acquisition-related or other borrowings, as well as other factors, could affect the Bank's liquidity and financial condition; and
- if disputes arise in connection with business combination and investment transactions, such disputes may lead to litigation, which may be costly and divert the Bank's resources.

Risks Relating to the Philippine Banking Industry

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

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

According to data published by the BSP, there were a total of 46 domestic and foreign universal and commercial banks operating in the Philippines as of 29 November 2019.

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

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

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

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

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

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

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

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

In recent years, existing BSP and BIR rules have been modified, new regulations and rules have been enacted and reforms have been implemented by the BSP and the BIR which are intended to provide tighter control and added transparency in the Philippine banking sector. Rules governing banks' capital adequacy and reserve requirements, ceilings on loans to subsidiaries and affiliates, as well as limits on the amount of loans, credit accommodations and guarantees to a single borrower have also evolved over the years. Guidelines on the monitoring and reporting of suspected money laundering activities were incorporated into the BSP Manual. Institutions that are subject to

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the Anti-Money Laundering Act, as amended (**AMLA**) are required to establish and record the identities of their clients based on official documents. In addition, under the AMLA regulations, all records of customer identification and transaction documents are required to be maintained and stored for a minimum of five years from the date of a transaction. Records of closed accounts must also be kept for at least five years after their closure. The AMLA regulations also require covered institutions to report covered and suspicious transactions as defined under the relevant law.

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

In June 2016, the BSP implemented the interest rate corridor (**IRC**) which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the "special deposit account" prior to the implementation of the IRC, was replaced by the "overnight deposit facility" with a current rate of 4.25%, and forms the lower bound of the IRC. Meanwhile, the rate for the "overnight lending facility", which replaced the previous repurchase facility, and forms the upper bound of the IRC, is currently at 5.25%. The BSP likewise introduced the "term deposit facility" to serve as the main tool for absorbing liquidity through weekly term deposit facility auctions, the frequency for which may be changed depending on the BSP's liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

Additionally, the BSP pursuant to BSP Circular Nos. 1041, 1054, 1056, and 1063 (Series of 2019) reduced the rates of required reserves for universal and commercial banks as follows: (a) commencing on reserve week 6 December 2019 to 14% against demand deposits, negotiable order of withdrawal (**NOW**) accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificates of time deposits (**CTDs**), long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) commencing reserve week 1 November 2019, 3% against bonds; and (c) commencing reserve week 31 May 2019, 0% against basic deposit accounts as defined under Section X222 of the Manual of Regulations for Banks, for interbank call loan transactions (**IBCL**) (Sec. 315) and deposit substitutes evidenced by repurchase agreements commencing, and 4% against long-term negotiable certificates of time deposits (**LTNCDs**).

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

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

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

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

On 15 January 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process (**ICAAP**) which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538.

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The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e. credit concentration risk); and (iii) evaluates the quality of capital.

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

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

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

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

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

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

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

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

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

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

As of 30 September 2019, the Bank had CAR of 16.9%, CET1 ratio of 16.0% and capital conservation buffer of 10.01%. Compliance with these ratios may further increase competition among banks for deposits as well as high quality liquid assets.

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

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

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

The Bank is subject to interest rate risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The sovereign credit ratings of the Philippines directly affect companies resident and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Under the IGA, the Secretary of Finance or Commissioner of Internal Revenue is the competent authority to receive FATCA information for reporting to the U.S. Internal Revenue Service. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force. Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition, and results of operations.

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

Economic conditions in some Eurozone sovereign states could possibly lead to these member states re-negotiating or restructuring their existing debt obligations, which may lead to a material change in the current political and/or economic framework of the European Monetary Union. One potential change that may result from the crisis is an end to the single-currency system that prevails across much of Europe, with some or all European member states reverting to currency forms used prior to adoption of the euro. The crisis could also lead to the restructuring or breakup of other political and monetary institutions within the European Union. The risk may have been exacerbated by the referendum on membership of the European Union, held in the UK on 23 June 2016, where the UK public voted by a majority in favor of the British government taking the necessary action for the UK to leave the European Union. In November 2016, the British High Court ruled that the British government needed the Parliament's approval to trigger Article 50 of the Lisbon Treaty and begin the two-year process of withdrawing the UK from the European Union. On 1 February 2017, then Prime Minister Theresa May won votes from Members of Parliament in the House of Commons for the bill to invoke Article 50 and start the Brexit process in March 2017. On 14 November 2018, the Brexit Withdrawal Agreement was published, and by 25 November 2018, 27 other European Union member states had endorsed the Brexit Withdrawal Agreement. In 2019, however,

the meaningful votes held on the Brexit Withdrawal Agreement in the UK House of Commons resulted in the defeat of the UK Government, and forced then Prime Minister Theresa May to seek extensions on the Article 50 two-year period twice. On 21 October 2019, the UK government introduced in the House of Commons the EU (Withdrawal Agreement) Bill. The same EU (Withdrawal Agreement) Bill was approved on second reading on 22 October 2019. Furthermore, the European Council offered to extend Brexit, for the third time, until 31 January 2020. There are a number of uncertainties in connection with such negotiations, including their timing, and the future of the UK's relationship with the EU. In addition, the UK's decision to withdraw from the EU has also given rise to calls for the governments of other European Union member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets, which could in turn depress economic activity and have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world. Until the terms and timing of the UK's exit from the EU are clearer, it is not possible to determine the impact that the UK's departure from the EU and/or any related matters may have on the stability of the Eurozone or the European Union. These events and uncertainties could adversely impact the Company's business, financial condition and results of operations.

The broad ramifications of "Brexit" to the UK, the EU and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. In addition, the uneven and divergent conditions across major economies and the resulting desynchronization in policy environment persist, with the US continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the trade war between the US and China, the 2019 Hong Kong protests against the Extradition Bill Amendment Bill, the ongoing geopolitical crises that include among others, Turkish invasion of Syria and ongoing civil protests throughout Chile. Uncertainties relating to the 2020 US Presidential Elections may also increase downside risk to the global outlook.

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

Risks Relating to the Philippines

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

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

In July 2019, sedition, inciting to sedition, libel, cyber-libel, harboring a criminal and obstruction of justice cases and other criminal cases were filed against several personalities including incumbent Vice President Leni Robredo, former senator Antonio Trillanes, IV, incumbent senators Risa Hontiveros and Leila de Lima, Catholic Archbishops Socrates Villegas and Pablo David, De La Salle University President, Armin Luistro, and seven opposition senatorial candidates who lost in the May 2019 elections – Jose "Chel" Diokno, Romulo Macalintal, Florin Hilbay, Samira Gutoc, and Erin Tanada. In February 2019, journalist Maria Ressa was ordered arrested on charges of cyber libel. Her arrest elicited concern from the international community and has been criticised by various groups as an attempt by the government to silence critical press coverage against President Rodrigo Duterte and his administration. In December 2018, Senator Antonio Trillanes III was ordered arrested in connection with a libel case filed by presidential son Paolo Duterte. In February 2017, Senator Leila de Lima was

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arrested after charges were filed in court accusing her of orchestrating a drug-trafficking ring during her term as Secretary of the Department of Justice from 2010 to 2015. Senator Trillanes and Senator de Lima are outspoken critics of the Duterte administration. In May 2018, the Supreme Court ruled against Maria Lourdes P. Sereno in the quo warranto proceedings initiated by the Office of the Solicitor General, removing her from the post of Chief Justice of the Supreme Court. On June 2018, former President Benigno Aquino III was indicted for usurpation of legislative powers concerning the Disbursement Acceleration Program during his term. Moreover, several individuals who were high-ranking officers under the administration of President Aquino have also been indicted for graft and corruption charges and drug trafficking among other offenses. In addition, according to the United Nations Human Rights Council (UNHRC), there is an “extraordinarily high number of deaths – and persistent reports of extrajudicial killings – in the context of campaigns against drug use” in the Philippines. In July 2019, the UNHRC approved a resolution calling for an investigation into the drug war to prevent more extra-judicial killings.

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

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

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

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

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

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

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

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- foreign exchange rate fluctuations;
- foreign exchange controls;

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- inflation or increase in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Philippine government's fiscal policies;
- Philippine government budget deficits;
- a re-emergence of polio, 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 Bank's operations and result in losses not covered by its insurance.

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

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

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

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with various groups which has been identified as being responsible for kidnapping and terrorist activities in the Philippines as well as clashes with separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in January 2019, bombs were detonated in the Jolo Cathedral in the Municipality of Jolo, Sulu and a Mosque in Zamboanga City, Zamboanga del Sur. In May 2017, a clash erupted in Marawi, Lanao del Sur between government security forces and the ISIS affiliated-Maute group, following the government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared Martial Law in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on 22 July 2017, both Houses of Congress voted to extend Martial Law until the end of 2017. On 17 October 2017,

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President Duterte declared the liberation of Marawi City. The clashes resulted in the loss of lives of civilians, soldiers and ISIS-inspired extremists, as well as damage to property and livelihood of Marawi residents and the reconstruction of the city is on-going. On 13 December 2017, both Houses of Congress again granted President Duterte's request to extend Martial law in Mindanao until 31 December 2018. For the third time on 17 December 2018, Martial Law was extended by both Houses of Congress until 31 December 2019. In January 2019, separate petitions were filed with the Supreme Court challenging the third extension of Martial Law in Mindanao.

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

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

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

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

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

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

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

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

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

The Speaker of the House of Representatives has posited that the House of Representatives alone may proceed to amend the Constitution even without the concurrence of the Senate, but the Senators insist that the lower house of Congress must wait for the Senate concurrence to formally begin proposing amendments to the Constitution. The impasse between the two chambers has resulted to a crisis of government administration, causing conflicts among different political groups. The recent elections have resulted in a higher number of Senators supporting the programs and approach of President Duterte.

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

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

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

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

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

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

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

Investment Considerations

reiterated the temporary ban on importation, distribution and sale of all processed pork meat products from the following countries suspected to be affected by ASF virus: Belgium, Bulgaria, Cambodia, China, Czech Republic, Hungary, Latvia, Moldova, Mongolia, Poland, Romania, Russia, South Africa, Ukraine, Vietnam, and Zambia. In July 2019, the Food and Drug Administration further expanded this list to include Hong Kong, North Korea, Laos, and Germany.

On 6 August 2019, the Department of Health declared a national dengue epidemic in the wake of the 146,062 cases recorded since January up to 20 July 2019 – a number 98% higher than the same period in 2018. There were 662 deaths. Furthermore, seven out of the 17 regions of the Philippines have exceeded the epidemic threshold of dengue in their regions for the past three consecutive weeks. The Department of Health also saw a slight increase in diphtheria in 2019, recording a total of 167 cases and 40 deaths from January to September 2019. This is slightly higher than figures from the same period in 2018, with 122 cases and 30 deaths.

On 19 September 2019, the Department of Health declared a polio epidemic after a case of the disease was recorded in Lanao del Sur. Low vaccination coverage, poor early surveillance of polio symptoms, and substandard sanitation practices are seen as the culprits in this re-emergence.

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

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

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

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

On 18 May 2018, China's People's Liberation Army Air Force announced that it has sent an H-6K bomber in the Paracel Islands in the South China Sea. On 9 June 2019, a fishing boat manned by Filipino fishermen was rammed by a Chinese vessel at Recto Bank, an underwater feature being claimed by both the Philippines and China in the portion of the South China Sea portion that Manila calls the West Philippine Sea. The Filipino fishermen were abandoned in open sea and were eventually rescued by a Vietnamese vessel. This incident increased tensions between China and the Philippines, though the owners of the Chinese vessel have since apologized.

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

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

Investment Considerations

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

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

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

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

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As at 31 December 2018, according to BSP data, the Peso depreciated to ₱52.724 per US\$1.00 from ₱49.923 per US\$1.00 as at the end of 2017. As at 30 September 2019, the Peso was at ₱ 52.042 against the U.S. dollar.

Investors may face difficulties enforcing judgments against the Bank.

The Bank is organized under the laws of the Republic of the Philippines. A substantial portion of the Bank's assets are located in the Philippines. It may be difficult for investors to effect service of process outside of the Philippines upon the Bank. Moreover, it may be difficult for investors to enforce judgments against the Bank outside of the Philippines in any actions pertaining to the Bonds. In addition, substantially all of the directors and officers of the Bank are residents of the Philippines, and all or a substantial portion of the assets of such persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons or enforce against such persons judgments obtained in courts or arbitral tribunals outside of the Philippines predicated upon the laws of jurisdictions other than in the Philippines.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Judgments obtained against the Bank in any foreign court may be recognised and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. However, such foreign judgment or final order may be rejected in the following instances: (i) such judgment was obtained by collusion or fraud, (ii) the foreign court rendering such judgment did not have jurisdiction, (iii) such order or judgment is contrary to good customs, public order, or public policy of the Philippines, (iv) the Bank did not have notice of the proceedings before the foreign court, or (v) such judgment was based upon a clear mistake of law or fact.

Risks Relating to an Investment in the Bonds Generally

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14)(a) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorised to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Bank is aware, none of its Relevant Indebtedness is evidenced by a public instrument, unless it has secured a waiver of the benefits of notarization, and the Bank will undertake in the Conditions and the Trust Indenture not to create or permit to subsist any preference or priority in respect of any Relevant Indebtedness (as defined in Condition 20) pursuant to Article 2244(14)(a). However, a domestic lender may acknowledge debt before a notary or a person authorised to administer oaths without notice to the Bank. Philippine courts have not addressed this matter, and it is uncertain whether a document evidencing the debt, notarised without one party's participation, would be considered documented by a public instrument. If, however, such debt was definitively considered documented by a public instrument, then, as with other documents similarly situated, it would rank ahead of the debt securities if the Bank goes into insolvency and is unable to meet its debt obligations.

Philippine Deposit Insurance Corporation (PDIC) Insurance Coverage of the Bonds

The Bonds are not considered bank deposits, and as such are not insured with the PDIC.

The Bonds may not be a suitable investment for all investors.

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

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

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

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

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

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

The Bonds may have limited liquidity.

Bonds issued under the Program will constitute a new issue of securities for which there is no existing market. The Selling Agents are not obligated to make a market in any Bonds. While a market maker may be appointed for the Bonds, any market-making activity with respect to such Bonds, if commenced, may be discontinued at any time without notice in its sole discretion.

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

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

The Bank intends to list the Bonds on PDEX. However, there can be no assurance that the Bank will obtain or be able to maintain such a listing or that, if listed, a trading market will develop for the Bonds on the PDEX. The Bank does not intend to apply for listing of the Bonds on any securities exchange other than the PDEX. Lack of a liquid, active trading market for the Bonds may adversely affect the price of the Bonds or may otherwise impede a holder's ability to dispose of the Bonds.

The implementation of Basel III guidelines may have an adverse effect on the position of the Bondholders.

On 17 December 2009, the BCBS proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled 'Strengthening the resilience of the banking sector'. On 16 December 2010 and on 13 January 2011, the BCBS issued its final guidance on Basel III. The Basel III reforms require Tier 1 and Tier 2 capital instruments to be more loss-absorbing. The BCBS has proposed that the guidelines should be implemented from 1 January 2013. 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

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adequacy standards under Basel III with effect from 1 January 2014. Under the new Basel III capital standards proposed by the BSP, Philippine banks are required to maintain at least 7.5% and 10.0% Tier 1 and total Capital Adequacy Ratio (CAR), respectively, compared to the current minimum levels of 5% and 10%. These effectively make the proposed BSP requirements more stringent than those of the BIS minimum levels of 6.0% and 8.0% Tier 1 and total CAR, respectively. BSP Circular No. 768 issued in September 2012 provides that eligible capital instruments issued as Lower Tier 2 capital under the conditions for eligibility as capital instruments pursuant to existing regulations shall continue to be recognised as qualifying capital until the BSP issues further guidelines. In March 2016, the Monetary Board announced that it had approved the LCR framework which requires universal and commercial banks to hold sufficient HQLAs that can be easily converted into cash to service liquidity requirements over a 30-day stress period. The approval of the LCR framework by the Monetary Board provides for an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019.

The press release of the BCBS dated 13 January 2011 entitled “Minimum requirements to ensure loss absorbency at the point of non-viability” included an additional Basel III requirement (the **Point of Non-Viability Requirement**) as follows:

“The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

- (a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;
- (b) a peer group review confirms that the jurisdiction conforms with clause (a); and

it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) in this paragraph.”

The release also states as follows: “The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority” (for the purposes of this Offering Circular, each a **Non-Viability Event**).

The BSP has provided guidance to the Philippine banks regarding the minimum capital ratios under the Basel III regime and the terms and conditions of Basel III compliant capital through the issuance of BSP Circular No. 781, Series of 2013, concerning the Basel III Implementing Guidelines on Minimum Capital Requirements. The Implementing Guidelines states that all instruments (other than common equity) qualified as Additional Tier 1 and Tier 2 capital must have contractual terms and conditions requiring them to be written-off or converted into common equity upon occurrence of a specified trigger event. The trigger event occurs when a bank is considered nonviable as determined by the BSP.

Specifically, capital instruments should be written off or converted into Common Equity Tier 1 at the earlier of:

- (a) The occurrence of a deviation from a certain level of Common Equity Tier 1 ratio, specifically, in case the Common Equity Tier 1 ratio falls to 7.25% or below or as may be determined by the BSP;
- (b) The inability of the bank to continued business; or
- (c) any other event as may be determined by the BSP.

There is currently no indication that the BSP is considering having laws in place that would allow it or any other relevant authority the right to impose losses on the capital instruments without there being specific terms and conditions in the capital instruments that would allow it to do so (**Statutory Loss Absorption**).

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The Conditions contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Bondholders and without regard to the individual interests of particular Bondholders.

The Conditions contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without regard to the interests of particular Bondholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds or (ii) determine without the consent of the Bondholders that any Event of Default or potential Event of Default shall not be treated as such, in the circumstances described in Condition 22.

The Bonds are subject to tax

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

The 4th package of the Tax Reform for Acceleration and Inclusion (**TRAIN Package 4**) or House Bill No. 304, also known as the Passive Income and Financial Intermediary Taxation Act (**PIFITA**), has introduced reforms to the taxation of passive income, financial intermediaries, and financial transactions. One of the reforms introduced is the unification the tax rates of passive income through the imposition of a uniform rate of 15 percent (which would be a reduction from the prevailing from 20%) on interest income, dividends, and capital gains on the sale of shares of stock. On 9 September 2019, the House of Representatives passed House Bill (**HB**) No. 304, or Package 4 of the TRAIN bill, on its third reading. Before HB No. 304 can become effective, it needs to be considered and approved by the Senate, which may impose revisions.

Under the terms of the Bonds, if any payments of principal and/or interest under the Bonds shall be subject to deductions or withholding for or on account of any taxes, duties, assessments, or governmental charges of whatever nature (including any additional or new taxes, duties, assessments, or governmental charges arising from changes in tax laws (e.g., PIFITA) 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 then all such taxes shall be for the account of the relevant Bondholder. In the event that TRAIN Package 4 reduces the interest income tax rate affecting the Bonds or imposes a different rate of tax for instruments such as the Bonds, the Bondholders expected yield may be affected.

There is no assurance that HB No. 304 will be passed into law, or in what form such a law may take. HB No. 304 is not final and it may be superseded or amended in such a manner that may impose a different rates or different means or measures of taxation, entirely and no assurance can be given that any final tax measures enacted into law would be favourable to the Bondholders. All sums payable by the Bank 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 Bank through the Registrar and Paying Agent (see "Philippine Taxation" section for a discussion on the taxation of the Bonds).

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

The credit ratings assigned to the Bank or the Bonds may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to the Bank, an issue or Bonds and/or the Program. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Bonds and/or the Program. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Risks Relating to the Structure of a Particular Issue of Bonds

A wide range of Bonds may be issued under the Program. A number of these Bonds may have features which contain particular risks for investors. Set out below is a description of certain such features of the Bonds and associated risks.

Bonds subject to optional redemption by the Bank

An optional redemption feature of Bonds is likely to limit their market value. During any period when the Bank may elect to redeem Bonds, the market value of those Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Bank may be expected to redeem Bonds when its cost of borrowing is lower than the interest rate on the Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed/Floating Rate Bonds

Fixed/Floating Rate Bonds are Bonds which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Bonds since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Bonds may be less favorable than then prevailing spreads on comparable Floating Rate Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Bonds. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Bonds.

Bonds issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

PURPOSE OF THE ESTABLISHMENT OF THE PROGRAM

The proceeds from each Tranche of Bonds under the Program will be used for general corporate purposes, including but not limited to, balance sheet expansion.

GENERAL DESCRIPTION OF THE PROGRAM

Under the Program, the Bank, subject to compliance with all relevant laws, regulations, and directives, may from time to time, issue Bonds denominated in Philippine Pesos in several Tranches in one or more Series, subject to the general terms and conditions as set out in the *General Terms and Conditions of the Bonds*. The applicable terms of any Series will be agreed between the Bank and the relevant Selling Agent prior to the issue of the Bonds and will be set out in the terms and conditions endorsed on, attached to, or incorporated by reference into, the relevant offering circular, or endorsed on, such Bonds. The following sections outline the description of the Program followed by specific indicative terms and conditions applicable to a particular Series.

Issuer:	Bank of the Philippine Islands
Facility:	₱100,000,000,000.00 Bond Program
Purpose:	Proceeds from each Tranche of Bonds under the Program will be used for general corporate purposes, including but not limited to, balance sheet expansion.
Method of Issue:	Each Tranche consisting of one or more Series will be issued on different issue dates. The specific terms of each Tranche (which, save in respect of the issue date, issue price, interest commencement date, and principal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set forth in the corresponding Pricing Supplement.
Form:	Each Series of each Tranche will be represented by a certificate to be issued and registered in the name of the Trustee for the holders of the Bond (the Bondholders). Legal title to the Bonds shall be shown on and recorded in the register of Bondholders maintained by the registrar.
Denomination of Securities:	Minimum face value and increments will be set forth in the corresponding Pricing Supplement.
Status of the Securities:	The Bonds will constitute direct, unconditional and unsecured Peso-denominated obligations of the Bank and will rank <i>pari passu</i> and ratably without any preference or priority among themselves and at least <i>pari passu</i> with all other present and future unsecured obligations of the Bank, other than obligations mandatorily preferred by law.
Taxation:	<p>Except: (1) tax on a Bondholder's interest income on the Bonds whether subject to withholding or not, and (2) income tax, documentary stamp tax and other taxes on the transfer of Bonds (whether by assignment or donation), if any and as applicable, which are for the account of the Bondholder, all payments of principal and interest will be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines or any political subdivision, agency or instrumentality thereof, including, but not limited to, issue, registration, or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Bank; provided, however, that the Bank shall not be liable for:</p> <ul style="list-style-type: none">(a) any withholding tax on interest earned on the Bonds as prescribed under National Internal Revenue Code of 1997, as amended, and its implementing rules and regulations. An investor who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit a tax exemption certificate and other applicable documents;(b) Gross Receipts Tax under Section 121 and 122 of the National Internal Revenue Code of 1997, as amended;(c) taxes on the overall income of any securities Selling Agent or Bondholder, whether or not subject to withholding; and

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- (d) Value Added Tax (**VAT**) under Sections 106 to 108 of the National Internal Revenue Code of 1997, as amended.

Documentary stamp tax on the original issue of the Bonds shall be for the Bank's account.

A Bondholder who is exempt from, subject to, or is subject to a lower rate of final withholding tax on interest income may claim such exemption or preferential withholding tax rate by submitting such documents as may be required by the Bank to evidence any tax exemptions for the relevant Bonds at the prescribed time. The tax treatment of a Bondholder may vary depending upon such person's particular situation and certain Bondholders may be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important and/or relevant to a Bondholder. Bondholders are advised to consult their own tax advisers on the ownership and disposition of the Bonds, including the applicability and effect of any state, local or foreign tax laws.

Issuer Rating: Issuer shall obtain and maintain a rating from an accredited rating agency for as long as any Tranche is outstanding.

Governing Law: Philippine Law

A summary of the terms and conditions of the Bonds (the **Conditions**) appears below, as more fully described under "*Terms and Conditions of the Bonds*".

This Offering Circular will only be valid for listing Bonds on the PDEX in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Bonds previously or simultaneously issued under the Program, does not exceed ₱100,000,000,000.

GENERAL TERMS AND CONDITIONS OF THE BONDS

The following are the General Terms and Conditions of the Bonds (the **Conditions**) which will be incorporated by reference into each Bond Certificate (as defined below). The applicable Pricing Supplement in relation to any Tranche of any Series may specify other terms and conditions which shall, to the extent so specified, replace or modify the following Conditions for the purpose of such Tranche of such Series.

1	DEFINITIONS	In these Terms and Conditions and the Contracts (as hereinafter defined):
	“AGREEMENT DATE”	means, in respect of a Series or Tranche of Bonds, the execution date of an Issue Management and Placement Agreement and Pricing Supplement in relation to such Series or Tranche of Bonds.
	“AUDITORS”	means Isla Lipana & Co./ Pricewaterhouse Coopers;
	“BANK” or “ISSUER”	means Bank of the Philippine Islands;
	“BIR”	means the Philippine Bureau of Internal Revenue;
	“BPI CAPITAL”	means BPI Capital Corporation;
	“BSP”	means the <i>Bangko Sentral ng Pilipinas</i> ;
	“BUSINESS DAY”	means any day (other than a Saturday or Sunday) on which commercial banks and the Philippine Clearing House Corporation in Makati City are not required or authorized to close for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days;
	“BONDHOLDER(S)”	means a person who is not a Prohibited Holder and who, at any relevant time, appears in the Registry as the registered owner of the Bonds.;
	“BONDS”	means the Philippine Peso denominated fixed rate bonds to be issued by the Bank in one or more Tranches or Series under the Program;
	“CONTRACTS”	means (a) the Program Agreement; (b) the Trust Indenture dated on or about 13 January 2020 between the Bank and the Trustee; (c) the Master Registry and Paying Agency Agreement dated on or about 13 January 2020 between the Bank and the Registrar and Paying Agent; (d) the Master Certificate of Indebtedness for each Series or Tranche of Bonds; (e) these Terms and Conditions; (f) the Pricing Supplement for each Series or Tranche of Bonds; (g) the relevant Issue Management and Placement Agreement; and (h) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto
	“EVENT OF DEFAULT”	means an event specified as such under Condition 22 hereof;
	“GOVERNING REGULATIONS”	means all the necessary rules and guidelines for the issuance of the Bonds, including, where applicable, the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks (“ MORB ”), BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019) and any other circulars and regulations as may be relevant, as may be amended from time to time.;

“GROUP”	means the Issuer and its Principal Subsidiaries, taken as a whole.
“INSOLVENCY DEFAULT”	means the acts of bankruptcy referred to under subparagraph (h) of Condition 22, including but not limited to the following: (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of the Bank’s properties; (iii) making of an assignment for the benefit of the Bank’s creditors of all or substantially all of its properties; (iv) admission in writing of the Bank’s inability to pay its debts; or (v) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its properties or assets;
“INTEREST”	means the interest payable on the Bonds at such rate set out in the relevant Pricing Supplement;
“INTEREST PAYMENT DATE”	means the last day of an Interest Period when payment for Interest in respect of the relevant Series or Tranche of the Bonds becomes due, as set out in the relevant (a) Master Certificate of Indebtedness and (b) Pricing Supplement Interest shall be computed based on the outstanding balance of the Bonds. If any Interest Payment Date would otherwise fall on a day that is not a Business Day, payments will be made on the subsequent Business Day without adjustment of the amount due.
“INTEREST PERIOD”	means the period as may be specified in the relevant Pricing Supplement.
“INTEREST RATE”	means the relevant Interest Rate per annum as set out in the relevant Pricing Supplement. The Interest Rate shall be applied to compute for the interest due on a relevant Interest Payment Date; provided that, the interest accruing on the Bonds as of an Interest Payment Date shall be calculated on the basis of a month of 30/360 ISMA days;
“ISSUE DATE”	means, in respect of any Series or Tranche of the Bonds, the date of issue and purchase of such Series or Tranche of Bonds, as indicated in the applicable Pricing Supplement.
“ISSUE MANAGEMENT AND PLACEMENT AGREEMENT”	means an agreement supplemental to the Program Agreement to be executed by the Bank, the relevant Joint Lead Arrangers and Selling Agent(s) appointed for the issuance of a particular Series or Tranche of Bonds, substantially in the form of <u>Annex C</u> to the Program Agreement or in such other form as may be agreed among the parties to such Issue Management and Placement Agreement;
“ISSUE PRICE”	means the price of a Series or Tranche of Bonds as set out in the relevant Pricing Supplement;
“ISSUE SIZE”	means the minimum aggregate principal amount as provided in the relevant Pricing Supplement;
“JOINT LEAD ARRANGERS”	means for purposes of the establishment of the Program and the issuance of the first tranche, Standard Chartered Bank, Philippine Branch and BPI Capital Corporation, and, for purposes of any

	subsequent Series or Tranche, any such entity/ies that may be appointed as such in respect of any particular Series or Tranche of Bonds;
<i>“MAJORITY BONDHOLDER”</i>	means the holders of more than fifty percent (50%) of the principal amount of the Bonds then outstanding, regardless of the Tranche in which the Bonds may be issued;
<i>“MASTER CERTIFICATE OF INDEBTEDNESS”</i>	means the certificate dated the Issue Date to be issued by the Bank to the Trustee (with a copy to the Registrar and Paying Agent) evidencing such amount corresponding to a Series or Tranche of Bonds.
<i>“MATERIAL ADVERSE EFFECT”</i>	means (i) a material adverse effect on the business, properties, condition (financial or otherwise), results of operations, general affairs or prospects of the Issuer and its Principal Subsidiaries, taken as a whole, whether or not arising in the ordinary course of business; or (ii) would have a material adverse effect on the ability of the Issuer to perform its obligations under the Contracts or the Bonds;
<i>“MATURITY DATE”</i>	means the date at which the Series or Tranche of the Bonds will be redeemed in accordance with the relevant Master Certificate of Indebtedness and the relevant Pricing Supplement; provided, that, if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day, without adjustment to the amount of interest to be paid;
<i>“MATURITY VALUE”</i>	means the Issue Price plus unpaid and accrued applicable interests up to but excluding the Maturity Date;
<i>“MORB”</i>	means the Manual of Regulations for Banks;
<i>“OFFERING CIRCULAR”</i>	means the Offering Circular (including, for the avoidance of doubt, the consolidated financial statements of the Issuer included therein) prepared in connection with the Program, as revised, supplemented and amended from time to time by the Bank in accordance with the Program Agreement, including any documents which are from time to time incorporated in the Offering Circular by reference, provided that in relation to each Series or Tranche of Bonds only, the applicable Pricing Supplement shall be deemed included in the Offering Circular;
<i>“PARTICIPATING SELLING AGENT”</i>	means any of the entities identified as such in the relevant Pricing Supplement and includes their respective successor entities, or the selling agent(s) in respect of the Bonds appointed from time to time under the Program Agreement or an agreement supplemental to it. For the first Tranche of Bonds, the Participating Selling Agent is Standard Chartered Bank, Philippine Branch.
<i>“PDEx”</i>	means the Philippine Dealing & Exchange Corp.;
<i>“PDIC”</i>	means Philippine Deposit Insurance Corporation;
<i>“PDTC”</i>	means Philippine Depository & Trust Corp.;
<i>“PFRS”</i>	means the Philippine Financial Reporting Standards;

- “PRICING SUPPLEMENT”** means the pricing supplement issued in relation to each Series or Tranche of the Bonds, which gives details of such Series or Tranche and, in relation to any particular Series or Tranche of the Bonds; **“applicable Pricing Supplement”** means the Pricing Supplement applicable to that Series or Tranche;
- “PRINCIPAL SUBSIDIARIES”** means the entities listed as “Subsidiaries” under the heading “Principal Subsidiaries and Associates” in the Offering Circular;
- “PROGRAM”** means, as of the date of the Program Agreement, the One Hundred Billion Pesos (₱100,000,000,000) peso-denominated bonds and commercial papers to be issued in one or more Tranches over a period of three years approved by the Bank’s Board of Directors on 20 November 2019;
- “PROGRAM AGREEMENT”** means the Program Agreement among the Bank and the Joint Lead Arrangers dated 13 January 2020;
- “PROHIBITED HOLDER”** means persons and entities which are prohibited from purchasing and/or holding the Bonds of BPI pursuant to regulations governing the Bank, specifically:
- (a) the Issuer, including its related parties such as its subsidiaries, affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Issuer exerts direct/indirect control over; the Issuer’s DOSRI (as defined under the MORB) and their close family members, and corresponding persons in affiliated companies; and such other person or entity whose interests may pose potential conflict with the Issuer’s interest or who are identified as related parties pursuant to Section 131 of the MORB in relation with BSP Circular No. 1062, except (i) the Issuer’s trust department or related trust entities, or (ii) an underwriter or arranger that is an Issuer’s related party, provided that the holding of the Bonds is part of the underwriting agreement, and such underwriter or arranger has complied with the requirements of Governing Regulations; or
 - (b) such persons who are otherwise not qualified under the Governing Regulations including any other person whose acquisition, holding or transfer of the Bonds would violate any applicable law or regulation, including but not limited to the rules of the PDEX, BSP, AMLC, or other government regulation in any relevant jurisdiction; or
 - (c) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include: (a) a U.S. citizen (including a dual citizen who may have another citizenship besides having a U.S citizenship); (b) a U.S. resident alien for tax purposes, which includes a person who has substantial presence in the U.S. (“substantial presence” is defined as more than 31 days in the current calendar year or a total of 183 days over the previous three years from the current tax year); (c) a U.S. partnership, U.S. corporation, or U.S. entity; (d) a U.S. estate; (e) a U.S. trust if a court within the United States is able to exercise primary supervision over the administration of the trust, or one or more U.S. persons have the authority to control all substantial decisions of the trust;

- or (f) any other person that is not a non-US person; or
- (d) persons classified as a Restricted Party.

For purposes of the definition of Prohibited Holders, a “**subsidiary**” means, a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held, with power to vote, by the Bank. An “**affiliate**” means, at any particular time, an entity linked directly or indirectly to the Bank by means of: (1) ownership, control, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (2) interlocking directorship or officership, where the director or officer concerned owns, controls, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity; (3) common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the Bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (4) management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity; or (5) permanent proxy or voting trusts in favor of the Bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa. For a company to be “**controlled**” by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has power over more than one-half of the voting rights by virtue of an agreement with other stockholders, power to govern the financial and operating policies of the enterprise under a statute or an agreement, the power to appoint or remove the majority of the members of the board of directors or other equivalent governing body of that company, power to cast the majority votes at meetings of the board of directors or equivalent governing body, or otherwise controls or has the power to control the company through similar arrangements.

“PSE”	means The Philippine Stock Exchange;
“RATING”	The Bank has been rated Baa2 by Moody’s, BBB- by Fitch, and BBB+ by Standard and Poor. These are Bank ratings that are subject to regular annual reviews, or more frequently as market developments may dictate, and are not ratings of the Bonds themselves. The Bonds are not rated;
“REGISTRAR” and/or “PAYING AGENT”	means the PDTC, or any other successor Registrar or Paying Agent acting as registrar or paying agent pursuant to the Registry and Paying Agency Agreement;
“REGISTRY”	means the electronic registry book of the Registrar containing the official information on the Bondholders and the amount of Bonds they respectively hold, including all transfers or assignments thereof or any liens or encumbrances thereon;
“REGISTRY CONFIRMATION”	means the written advice sent by the Registrar to the Bondholders, confirming the registration in the name of such Bondholders of the specified amount of Bonds issued to or purchased by a Bondholder, in the Registry, and setting forth the declarations required by the BSP;

General Terms and Conditions of the Bonds

“RELEVANT INDEBTEDNESS”	means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being or capable of being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, and (ii) any guarantee or indemnity with respect to any such indebtedness.
“SEC”	means the Philippine Securities and Exchange Commission and its successor agency/ies;
“SECURITIES REGULATION CODE”	means Republic Act No. 8799, and its implementing rules and regulations, as the same may be amended and supplemented from time to time.
“SELLING AGENTS”	means the Sole Selling Agent and the Participating Selling Agent for the establishment of the Program and the first Tranche or Bonds, or any other entity appointed as a Selling Agent for any relevant Tranche of Bonds, and excludes any entity whose appointment has been terminated pursuant to the Program Agreement; references to the relevant Selling Agent shall, in relation to any Tranche of Bonds, be references to the Selling Agent(s) with whom the Bank has appointed for the distribution and sale of such Bonds;
“SOLE SELLING AGENT”	means BPI Capital Corporation;
“SERIES”	means a Tranche of the Bonds, as the case may be, together with any further Tranche or Tranches of the Bonds, as the case may be, which are (a) expressed to be consolidated and form a single series, and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions Bonds of the relevant Series, Bondholders of the relevant Series, and related expressions shall (where appropriate) be construed accordingly;
“TERMS AND CONDITIONS”	means these Terms and Conditions of the Bonds as may be amended from time to time;
“TRANCHE”	means all Bonds which are identical in all respects (including as to listing and admission to trading);
“TRUSTEE”	means Development Bank of the Philippines – Trust Banking Group or any other successor Trustee acting as trustee pursuant to the Trust Indenture.
2 PURPOSE OF ISSUANCE/USE OF PROCEEDS	For general corporate purposes (including funding source diversification and balance sheet expansion).
3 FORM	The Bonds shall be issued in scripless form and, subject to the payment of fees to the Registrar and Paying Agent, registered and lodged with the Registrar and Paying Agent in the name of the Bondholders. Once lodged, the Bonds shall be eligible for electronic transfer in the Registry, without the issuance or cancellation of certificates. The Bonds shall comply with the provisions of Republic Act No. 8792 or the Electronic Commerce Act, particularly, on the existence of an assurance on the integrity, reliability and authenticity of the Bonds and in electronic form.

General Terms and Conditions of the Bonds

	<p>A Master Certificate of Indebtedness representing the relevant Series or Tranche of Bonds shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.</p>
4 DENOMINATION	<p>The Bonds will be in minimum denominations as may be provided in the applicable Pricing Supplement and relevant Master Certificate of Indebtedness for each Series or Tranche of Bonds, or such other minimum denomination as may be prescribed or approved by the BSP.</p>
5 TITLE	<p>Legal title to the Bonds shall be shown in the Registry to be maintained by the Registrar for the Bonds. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing from time to time.</p>
6 SEC REGISTRATION AND LISTING	<p>The Bonds have not been and will not be registered with the SEC. Since the Bonds qualify as exempt securities under Section 9.1(e) of the Philippine Securities Regulation Code, the Bonds may be sold and offered for sale or distribution in the Philippines without registration.</p> <p>The Bonds are intended to be listed for electronic trading and settlement on the PDEX on or about the Issue Date. Trading, transfer, and/or settlement of the Bonds shall be performed in accordance with the procedures to be set by the PDEX and the Registrar.</p>
7 ELIGIBLE PURCHASERS	<p>In general, the Bonds may be issued or transferred to any person of legal age, regardless of nationality or residency, any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, except, in each case, to Prohibited Holders.</p>
8 QUALIFICATION DETERMINATION	<p>The Selling Agent or PDEX Trading Participant (in the case of transfers or assignments of the Bonds) shall verify the identity and relevant details of each proposed Bondholder and ascertain that said proposed Bondholder is an Eligible Purchaser and is not a Prohibited Holder.</p> <p>Proposed Bondholders shall be required to submit any and all information reasonably required by the Selling Agent or the PDEX Trading Participant, as the case may be, in order for the said Sole Selling Agent to be able to determine that such proposed Bondholder is an Eligible Purchaser and is not a Prohibited Holder. Any question on such determination shall be referred to the Bank.</p>

General Terms and Conditions of the Bonds

9 INTEREST ACCRUAL AND PAYMENT	<p>The Bonds will bear Interest on its principal from and including the Issue Date up to but excluding: (a) the Maturity Date (if the Redemption Option is not exercised); or (b) the relevant redemption date .</p> <p>Interest shall be payable on each Interest Payment Date. The amount of Interest payable in respect of the Bonds shall be calculated by the Paying Agent on the basis of the number of days elapsed from (and including) the Issue Date (for the first interest period) or the last Interest Payment Date (for succeeding interest periods) to the next (but excluding) the next Interest Payment Date, using a 30/360 calendar-day count.</p> <p>The determination by the Paying Agent of the amount of Interest payable (in the absence of manifest error) is final and binding upon all parties.</p>
10 MANNER OF PAYMENT OF INTEREST AND PRINCIPAL	<p>On each Interest Payment Date and Maturity Date (as applicable), the Bank shall make available cleared funds to the Paying Agent for payment to the relevant Bondholders of the Bonds as shown in the Registry to be maintained by the Registrar.</p>
11 PRINCIPAL REPAYMENT	<p>The Bonds shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall fall on the immediately succeeding Business Day, without adjustment to interest payable in respect of the Bonds.</p>
12 FINAL REDEMPTION	<p>All Bonds outstanding on Maturity Date will be redeemed at par or 100% face value.</p>
13 PRETERMINATION BY THE BONDHOLDER	<p>Presentation of the Bonds to the Bank for termination or redemption before the Maturity Date is not allowed, unless there occurs (i) an event under “Events of Default” and following the procedures set out in these Terms and Conditions, or (ii) the Issuer exercises its early redemption option under Condition 28. Bondholders may, however, transfer or assign their Bonds to another holder who is not a Prohibited Holder. Such transfer or assignment shall not be considered a pre-termination, subject to Condition 14.</p>
14 SECONDARY TRADING	<p>The Bonds are freely transferable across tax categories, if and when so allowed under PDEX rules, conventions, and guidelines.</p> <p>All transfers or assignments of the Bonds shall be coursed through a PDEX Trading Participant, subject to the PDEX rules. All trading in the secondary market should be in denominations of ₱10,000.00. The denominations for trading the Bonds on PDEX will be subject to PDEX rules, as may be in effect at the relevant time.</p> <p>As a condition precedent for any transfer or assignment of the Bonds, the transferee Bondholder must present to the Registrar, and in such forms as prescribed by the Registrar: (i) the Registry Confirmations of both the transferor and the transferee (if any); (ii) the Trade-Related Transfer Form or Non-Trade Related Transfer Form; (iii) the Investor Registration Form; (iv) Tax Exempt/Treaty Documents, if applicable; (v) written consent of the transferee Bondholder to be bound by the terms of the Bonds and the Registry Rules, in the form agreed upon between the Bank and the Registrar; and (vi) such other documents as may be reasonably required by the Registrar.</p>

General Terms and Conditions of the Bonds

A service charge shall be imposed for any registration of transfer or assignment of the Bonds, and the Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or assignment of the Bonds, each for the account of the Bondholder requesting the registration of transfer or assignment of the Bonds.

Subject to Conditions 15 and 17 and payment by the relevant Bondholder of the proper fees, if any, to PDEX and/or the Registrar, a transfer or assignment of Bonds may generally be done at any time.

15 TRANSFERABILITY

All transfers and assignment of, as well as change in title to, the Bonds shall be recorded in the Registry. Settlement in respect of such transfer and assignment of, or change of title to, the Bonds, including settlement of applicable taxes (subject to Condition 26), if any, arising from such transfers, assignments or change in title, shall be for the account of the transferee and/or transferor Bondholder.

Transfers or assignments of the Bonds made in violation of the restrictions on transfer under these Terms and Conditions shall be null and void and shall not be registered by the Registrar.

16 PLACE OF REGISTRY AND COMPLIANCE WITH REGISTRY RULES

The Registry shall be kept at the specified office of the Registrar.

To the extent not inconsistent with or contrary to these Terms and Conditions, the registry rules of the Registrar (a copy of which shall be separately provided by the Registrar to the Bank and the Bondholders) shall be observed and complied in the implementation of the functions of the Registrar, including, without limit, transfers of the Bonds.

17 CLOSING OF REGISTRY

The Registrar shall not register any transfer or assignment of the Bonds for a period of two (2) Business Days preceding the due date for any payment of Interest on the Bonds, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Bonds, or register the transfer or assignment of any Bonds previously called for redemption or pre-termination (**Closed Period**). The Registrar will treat the person in whose name the Bonds is registered immediately before the relevant Closed Period as the owner of such Bonds for the purpose of receiving distributions pursuant to these Terms and Conditions and for all other purposes whatsoever, and the Registrar shall not be affected by any notice to the contrary.

18 STATUS/RANKING

The Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Bank and shall at all times rank *pari passu* and ratably without any preference or priority among themselves and with all other present and future direct, unsecured and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws

19 MANNER OF DISTRIBUTION

Retail and institutional offering

20 REPRESENTATIONS AND WARRANTIES

1.1 The Bank represents and warrants:

(a) that:

- (i) the most recently published audited (if any) unconsolidated and (if produced) consolidated financial statements of the Bank (the “**Audited Accounts**”); and
 - (ii) the most recently published unaudited interim (if any) unconsolidated and (if produced) consolidated financial statements of the Bank,
 - i. are in accordance with the books and records of the Bank and are complete and correct in all material respects;
 - ii. were prepared in accordance with Philippine Financial Reporting Standards (**PFRS**) and the accounting policies of the Bank applied on a consistent basis throughout the periods involved;
 - iii. fairly present in all material respects the financial condition of the Bank as at the relevant dates and of the results of operations, cash flows and the changes in shareholder’s equity of the Bank, for the relevant periods in respect of which they have been prepared in accordance with PFRS; and
 - iv. there has been no material change in the financial condition or results of operations of the Bank sufficient to impair its ability to perform its obligations under the Bonds and the Contracts according to their terms;
 - (b) that the Offering Circular and any written roadshow materials prepared by or on behalf of the Bank and approved by the Bank, do not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to statements in or omissions from the Offering Circular made in reliance upon and in conformity with information furnished to the Bank in writing by the Selling Agents expressly for use therein, it being understood and agreed that the only such information furnished by the Selling Agents consists of the names and addresses of the Selling Agents;
 - (c) that the other financial and statistical data set forth in the Offering Circular relating to the Bank are accurately presented and derived from the financial statements and books and records of the Bank which the Bank in good faith believes are reliable, accurate and fair and not misleading presentation of the data purported to be shown; and except as may be disclosed in the Offering Circular and its audited financial statements or its unaudited financial statements attached to the Offering Circular, the Bank has, as of the date hereof, no liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise (including any off-balance sheet liabilities and obligations), 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 Bank’s ability to discharge its obligations under the Bonds and the Contracts;
 - (d) that each expression of opinion, belief, intention, expectation or policy contained in the Offering Circular (including, without limitation any such statement concerning prospects, dividends and working capital) has been
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made only after due and proper consideration, is reasonable and truly and honestly held, is based on all relevant facts known or which ought on reasonable enquiry to have been known to the Bank or its directors and can be properly supported;

- (e) that each of the Bank and its subsidiaries is in compliance with all of its obligations under any outstanding guarantees or contingent obligations, other than to an extent which would not, individually or in aggregate, have a Material Adverse Effect;
- (f) neither the Bank 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 Bank or any of its subsidiaries, such as structured finance entities and special purpose entities that are reasonably likely to have a Material Adverse Effect on the liquidity of the Bank or any of its subsidiaries or the availability thereof or the requirements of the Bank or any of its subsidiaries for capital resources;
- (g) the issuance of the Bonds in the manner described in the Offering Circular and the issue of the Offering Circular will comply, where relevant, with all applicable laws, governmental or other regulations of the Philippines;
- (h) each of the Bank and its Principal Subsidiaries is a corporate banking institution or a corporation, as the case may be, duly incorporated and validly existing under the laws of its place of incorporation, is not in liquidation or receivership and has full power and authority to own, lease and operate its assets and properties, as the case may be, to conduct its business in the manner described in the Offering Circular, is capable of suing and being sued, and is lawfully qualified to do business and is in good standing in those jurisdictions in which business is conducted by it. The Bank has full power and authority to enter into and perform its obligations under the Contracts. The Bank's and its Principal Subsidiaries' articles of incorporation and by-laws (or equivalent constitutive documents) comply with the requirements of the laws of their respective jurisdiction of incorporation and are in full force and effect. All material licenses, consents, approvals, authorizations, permits, permissions, clearances, certificates, orders, concessions, qualifications, registrations, sanctions, declarations and/or filings with any relevant authority with respect to the establishment of the Bank have been duly and validly made or obtained;
- (i) that the interests of the Bank in the capital stock of its Principal Subsidiaries are fully and accurately described in the Offering Circular. All of the Bank's shares in the Principal Subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable, have been issued in compliance with all applicable laws without violating any mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, claim, right or preference, or any other encumbrance, or security interest, granted to any third party ("**Encumbrance**") and are owned by the Bank free of any Encumbrance. No options, warrants or other rights to purchase or subscribe for, agreements or other obligations to allot, issue or sell or other rights to convert any obligation into, share capital or other equity interest of the Bank in the Principal Subsidiaries are outstanding;
- (j) that the establishment of the Program, issue of the Bonds and the execution and delivery of the Contracts by the Bank have been duly authorized by the Bank and, in case of the Bonds, upon due execution, issue and delivery in accordance with the Trust Indenture, will constitute valid and legally

binding obligations of the Bank enforceable in accordance with their terms, subject to the laws of bankruptcy, moratorium and other similar laws affecting the rights of creditors and general principles of equity;

- (k) that the Bank has power under its constitutional documents to enter into and perform its obligations under the Contracts, to create and issue the Bonds in accordance with the Contracts without any authority, sanction or consent by the stockholders of the Bank and there are no internal consents other than as contemplated by this Agreement on the proposed Issue Date required by the Bank for the issue of the Bonds or the consummation of the transactions provided for in the Contracts which have not been unconditionally obtained;
- (l) that the Bank has received (or will, prior to the Issue Date, receive) all consents, clearances, approvals, authorizations, exemptions, orders, licenses, permits, registrations and qualifications from all courts, governmental agencies and regulatory bodies in the Philippines as required by the Bank for the execution and delivery of the Contracts by the Bank and the issuance and distribution of the Bonds and the performance of the terms of the Bonds and the Contracts by the Bank and such consents, clearances, approvals, authorizations, exemptions, orders, licenses, permits, registrations and qualifications are (or will, on the Issue Date, be) in full force and effect;
- (m) that the Bank has not prepared, executed or filed any public instrument, as provided in Article 2244(14)(a) of the Civil Code of the Philippines, relating to any Relevant Indebtedness of the Bank, or consented to the preparation, execution or filing of any such public instrument, unless it has secured a waiver of the benefits of notarization;
- (n) that, except for the disclosure notices to be filed with the SEC, PSE and PDEX post-issuance of the Bonds and the payment of documentary stamp tax on the issuance of the Bonds (as applicable), all necessary actions and things required to be taken, fulfilled or done (including the giving of any updates to the BSP) for the issue of the Bonds, the carrying out of the other transactions contemplated by the Contracts or the compliance by the Bank with the terms of the Contracts (including with respect to the payment of principal and interest on the Bonds, as the case may be) have been, or by the Issue Date, will be, taken fulfilled or done;
- (o) that the Bank has been (or will be), in connection with the offering of the Bonds represented by Philippine counsel experienced in such transactions; the Bank is knowledgeable regarding the structure of the issue and offering of the Bonds and the transactions contemplated thereby and the roles of each of the respective parties thereto, and acknowledges that the structure of the offering of the Bonds and the issue of the Bonds is customary in transactions of this type in the Philippines and internationally, is beneficial to the Bank, is in accordance with the intentions and objectives of the Bank and is necessary for the completion of the offering of the Bonds and the fulfilment of the purposes thereof as described in the Offering Circular; the Bank has not been induced to engage in the offering of the Bonds nor enter into the Contracts or the transactions contemplated thereby by means of any fraud, manipulation or other deceptive means;
- (p) that the Bonds will, upon due execution, issue and delivery in accordance with the Trust Indenture, be in proper legal form under the laws of the Philippines, and to ensure the legality, validity, enforceability and admissibility into evidence in the Philippines of the Contracts, it is not necessary that the Contracts, the Bonds or any other document or instrument be filed or recorded with any court or other authority in the

Philippines or that any stamp or similar tax be paid in the Philippines on or in respect of the Contracts, the Bonds or any such other document, except that Philippine documentary stamp tax, if due on the issuance of the Bonds, will be paid by the Bank within the period required under Philippine law;

- (q) that there are no other contracts, agreements or understandings between the Bank and any person in connection with the distribution of the Bonds that would give rise to a valid claim against the Bank the Joint Lead Arrangers, or the Selling Agents for a brokerage commission, finder's fee or other like payment, other than the arrangements between the Bank and the Joint Lead Arrangers and the Selling Agents;
- (r) that the execution, delivery and performance of the Contracts and the offer and sale of the Bonds, the consummation of the transactions herein and therein contemplated and compliance with the terms hereof and thereof do not, and will not, whether with or without the giving of notice or passage of time or both, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, (i) the Bank's or its Principal Subsidiaries' articles of incorporation, or by-laws, or other organizational or constitutional documents or business licenses, or (ii) any indenture, trust deed, mortgage or other agreement or instrument to which the Bank or any of its Principal Subsidiaries is a party or by which it or any of its properties are bound, or (iii) infringe any existing applicable law, rule, regulation, judgment, order, writ, notice, circular, authorization, ruling or decree of any government, governmental body or court, domestic or foreign having jurisdiction over any of the Bank, its Principal Subsidiaries or any of their respective properties or assets;
- (s) that all Bonds will, upon issue, constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Bank, from time to time outstanding;
- (t) that the auditors, who have audited the financial statements of the Bank (the "**Independent Auditors**") contained and incorporated by reference in the Offering Circular and delivered the reports with respect to such audited financial statements and the unaudited but reviewed interim financial statements included or incorporated by reference in the Offering Circular, are, with respect to the Bank, independent auditors, duly licensed under all applicable regulatory requirements of the Philippines including pursuant to the rules of the Philippine Board of Accountancy;
- (u) that since the date of the last Audited Accounts appearing in or incorporated by reference in the Offering Circular, there has been no event or development which has had or is reasonably expected to result in a prospective Material Adverse Effect;
- (v) that the Bank and its Principal Subsidiaries have good, valid and marketable title to, service contract rights for, or use rights for, all properties and to all assets necessary to conduct the business now operated by each of them in each case free from liens, encumbrances, or defects in title or use rights, except as would not have a Material Adverse Effect;
- (w) that the Bank has established procedures which provide a reasonable basis for the directors and officers to make proper judgments as to the financial position and prospects of the Bank and the Bank maintains a system of internal financial and accounting controls sufficient to provide assurance

that transactions are recorded as necessary to permit preparation of complete and accurate accounting records, preparation of financial statements that fairly present the financial condition, results of operations and cash flows of the Bank in accordance with PFRS;

- (x) that the Bank has established and maintains and evaluates a system of disclosure and corporate governance controls and procedures to ensure that (i) material information relating to the Bank is made known in a timely manner to the Bank's board of directors and management, and (ii) the Bank and its board of directors complies in a timely manner with the requirements of the SEC, PSE and PDEX and any other applicable laws, rules, regulations, statutes, ordinances, guidelines, opinions, notices, circulars, orders, judgments, decrees or ruling (collectively, "**Laws**") of any Governmental, Authority, including, without limitation, including, without limitation, the requirements of the SEC and the PSE on disclosure of material information and transactions required to be disclosed, and such disclosure and corporate governance controls and procedures are effective to perform the functions for which they were established and documented properly and the implementation of such disclosure and corporate governance controls and procedures are monitored by the responsible persons; for the purposes of this subsection, the term "disclosure and corporate governance controls and procedures" means controls and other procedures that are designed to ensure that information required to be disclosed by the Bank, including, without limitation, information in reports that it files or submits under any applicable Laws, material information and information on related party transactions required to be disclosed under the requirements of the SEC and the PSE, is recorded, processed, summarized and reported, in a timely manner and in any event within the time period required by applicable Law;
- (y) that no Event of Default or event has occurred and is subsisting, or to the knowledge of the directors and officers of the Bank after due and careful inquiry, is about to occur, which constitutes or would (whether with the expiry of any applicable grace period or the giving of any notice or otherwise) constitute (i) an Event of Default, or (ii) an event of default under any obligations under any agreement, undertaking, instrument or arrangement to which the Bank or any of its Principal Subsidiaries is a party or by which the Bank or any of its Principal Subsidiaries or their respective properties or assets are bound, except in the case of (ii) where such default would not have a Material Adverse Effect;
- (z) that all transactions between the Bank and any of its respective directors, officers, management, associates, shareholders (including any other person formerly holding such positions) or any other related party, have been entered into on an arm's length basis and commercially reasonable terms that are available from third parties;
- (aa) that (i) each of the Bank and its Principal Subsidiaries possesses all certificates, licenses, authorizations or permits issued by appropriate governmental agencies or bodies then required to be obtained to conduct the business now operated by each of them; (ii) neither of the Bank nor any of its Principal Subsidiaries has received any notice of proceedings or other notices relating to the revocation or modification of any such certificate, license, authorization or permit, and (iii) each of the Bank and its Principal Subsidiaries is in compliance with all applicable Philippine laws and regulations, including data privacy laws and regulations, relating to the conduct of its business as conducted as of the date hereof, in the case of (i) and (iii) except where failure to do so would not have a Material Adverse Effect;

- (bb) that no strike, lockout or similar labor dispute with the employees of any of the Bank or its subsidiaries exists or, to the best knowledge of the Bank, is imminent that would have a Material Adverse Effect;
- (cc) that each of the Bank and its Principal Subsidiaries possesses adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property (collectively, “**Intellectual Property Rights**”) necessary or material to conduct the business now operated. Neither the Bank nor any of its Principal Subsidiaries has received any notice or communication of infringement of or conflict with asserted rights of others with respect to any Intellectual Property Rights of others that, if determined adversely to the Bank or any of its Principal Subsidiaries would, individually or in the aggregate, have a Material Adverse Effect;
- (dd) that except as disclosed in the Offering Circular, there are no pending actions, suits or proceedings against or affecting any of the Bank or its Principal Subsidiaries or any of their respective properties, which are reasonably likely to be determined adversely to the Bank, such Principal Subsidiary or such property, as the case may be, and if so determined would individually or in the aggregate have a Material Adverse Effect or would materially and adversely affect the ability of the Bank to perform its obligations under this Agreement, and to the Bank’s knowledge, no such actions, suits or proceedings are threatened or contemplated;
- (ee) that (i) neither the Bank nor any of its Principal Subsidiaries is in violation of any statute, rule, regulation or order of any Philippine governmental agency or body or any Philippine court, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, “**Environmental Laws**”); (ii) neither the Bank nor any of its Principal Subsidiaries owns or operates any real property contaminated with any substance that is subject to any Environmental Laws, is liable for any off-site disposal or contamination pursuant to any Environmental Laws, or is subject to any claim relating to any Environmental Laws, except in each case where such violation, ownership, operation or liability would not have a Material Adverse Effect; and (iii) the Bank and each of its Principal Subsidiaries are in compliance in all respects with all applicable Environmental Laws except for such non-compliance as would not have a Material Adverse Effect;
- (ff) that all computer systems, communications systems, software and hardware which are currently owned, licensed or used by the Bank or its Principal Subsidiaries (collectively, “**Information Technology**”) comprise all of the information technology systems and related rights necessary to conduct, or material to, the respective businesses of the Bank and its Principal Subsidiaries as currently conducted. The Bank or its Principal Subsidiaries either legally and beneficially owns, or has obtained licenses for, or other rights to use, all of the Information Technology;
- (gg) that the Bank and its subsidiaries maintain 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 Bank or the subsidiary, as the case may be, operates;
- (hh) that none of the Bank or its subsidiaries has sustained, since the date of its last audited financial statements, any loss or interference with its business from fire, explosion, flood, typhoon, landslide, act of terrorism or other
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calamity, regardless of whether covered by insurance, except for such loss or interference as would not have a Material Adverse Effect;

- (ii) that all tax returns required to be filed by the Bank and its Principal Subsidiaries have been filed, and all taxes and other assessments of a similar nature (whether imposed directly or through withholding) including any interest, additions to tax or penalties applicable thereto due or claimed to be due from the Bank and its Principal Subsidiaries, have been paid or for which adequate reserves have been provided, except in each case for such tax returns and taxes the failure to file or pay which, respectively, would not have a Material Adverse Effect or are being or will be contested in good faith by the Bank in appropriate proceedings;
- (jj) that no order has been made or petition presented or resolution passed for the winding-up or judicial management or administration of the Bank or any of its Principal Subsidiaries or for the appointment of a provisional liquidator, nor are there any reasonable grounds on which any person would be entitled to have the Bank or any of its Principal Subsidiaries wound-up or placed in judicial management or administration or to have a provisional liquidator appointed for the Bank or any of its Principal Subsidiaries, nor, to the knowledge of the Bank, (i) has any person threatened to present such a petition or convened or threatened to convene a meeting of the Bank or any of its Principal Subsidiaries to consider a resolution to wind up the Bank or any of its Principal Subsidiaries or any other resolutions, or (ii) has any step been taken in relation to the Bank or any of its Principal Subsidiaries under the law relating to insolvency or the relief of debtors;
- (kk) that the application of the net proceeds from the sale of the Bonds, as set forth in and contemplated by the Offering Circular, will not contravene any applicable law or the articles of incorporation or by-laws of the Bank or any of its subsidiaries, or contravene the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, note, lease or other agreement or instrument binding upon the Bank or any of its subsidiaries that, singly or in aggregate, will result in any applicable judgment, order or decree of any public, regulatory or governmental agency or any court having jurisdiction over the Bank or any of its subsidiaries;
- (ll) other than as described in the conditions of the Bonds and under the section "Taxation" in the Offering Circular, all such payments of principal and interest on the Bonds will not be subject to income, withholding or other taxes under laws and regulations of Philippines, and will otherwise be free and clear of any other tax, duty, withholding or deduction in the Philippines and will not require any consent, approval, authorization, order, registration, clearance or qualification of or with any court or governmental agency or body or any stock exchange authorities having jurisdiction over the Bank or any of its properties;
- (mm) that the Bank has the full power, authority and legal right under the laws of the Philippines to enter into and perform its obligations of indemnification set forth in the Contracts;
- (nn) neither the Bank nor any of its subsidiaries, nor any person acting on behalf of the Bank or any of its subsidiaries (other than the Sole Selling Agent and any of its respective subsidiaries as to which the Bank makes no representation or warranty) has taken or will take, directly or indirectly, any action designed to cause or to result in, or that has constituted or which might be expected to cause or result in (i) the stabilization of the price of the Bonds in violation of applicable laws or orders of government

authorities or (ii) the manipulation of the price of any security to facilitate the sale or resale of the Bonds;

- (oo) that in relation to the Bonds, the Bank has not issued and will not issue, without the prior consent of Selling Agents, any press or other public announcement referring to the proposed issue of Bonds;
- (pp) that under the laws of the Philippines, neither the Bank nor any of its properties, assets or revenues are entitled to any right of immunity on the grounds of sovereignty from any legal action, suit or proceedings, from set-off or counterclaim, from the jurisdiction of any court, from services of process, from attachment prior to or in aid of execution of judgment, or from other legal process or proceedings for the giving of any relief or for the enforcement of any judgment;
- (qq) that the Bank 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 (including, but not limited to, the UK Bribery Act 2010, the U.S. Foreign Corrupt Practices Act of 1977) 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 Bonds, directly or indirectly, in violation of applicable anti-bribery or anti-corruption laws. There are no pending or (to the best knowledge of the Bank 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 Bank and its subsidiaries and affiliates;
- (rr) that the operations of the Bank 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 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 Bank 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 Bank and its subsidiaries and affiliates after due and careful inquiry, threatened. The proceeds of the Bonds shall not be used directly or indirectly in violation of the Anti-Money Laundering and Anti-Terrorism Financing Laws;
- (ss) none of the Bank, its subsidiaries or any of their respective directors or officers, or, to the best knowledge of the Bank, any of their respective employees, agents, affiliates or other persons associated with or acting on behalf of the Bank or any of its subsidiaries:
- (i) is an individual or entity (“**Person**”) that is, or is owned or controlled by a Person that is, targeted by or the subject of any sanctions laws, regulations, embargoes or restrictive measures administered by the United States government, including the Office of Foreign Assets Control of the U.S. Treasury Department (“**OFAC**”), or by the U.S. Department of State, or any sanctions imposed by the European Union, the United Nations Security Council, Her Majesty’s Treasury

or any other relevant governmental entity, including without limitation the Philippines (collectively, the “**Sanctions**”);

- (ii) is located, organized or resident in a country, region or territory that is the subject or the target of Sanctions, including, without limitation, Crimea, Cuba, Iran, North Korea, Sudan and Syria (each, a “**Sanctioned Country**”);
- (iii) is listed on, or is owned or controlled by a Person that is listed on, a Sanctions List;
- (iv) directly or indirectly, has conducted, conducts or is otherwise involved with any business with or involving any government (or any sub-division thereof), or any Person targeted by, or located in any country that is the subject of Sanctions or directly or indirectly supports or facilitates, or plans to support or facilitate or otherwise become involved with, any such Person or government;
- (v) is engaged in any activities sanctionable under the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, the Iran Sanctions Act, the Iran Threat Reduction and Syria Human Rights Act, or any other applicable executive order; or
- (vi) is or ever has been in violation of or subject to any claim, action, proceeding, investigation, notice or demand relating to Sanctions (“**Sanctions Claim**”).

(vii)(i) to (vi) collectively, a “**Restricted Party**”

1.2 These representations and warranties, as well as all representations and warranties made by the Bank in the Offering Circular, are true and correct as of the date hereof and are deemed repeated on each Agreement Date and each Issue Date, by reference to the facts and circumstances then existing. The Bank shall also be deemed to repeat the representations and warranties contained in this Agreement on each date on which the Offering Circular or this Agreement is revised, supplemented or amended, by reference to the facts and circumstances then existing.

1.3 With regard to each issue of Bonds, the Issuer shall be deemed to repeat the representations, warranties and undertakings contained in this Condition 20 as at the Agreement Date for such Bonds (any agreement on such Agreement Date being deemed to have been made on the basis of, and in reliance on, those representations, warranties and undertakings) and as at the Issue Date of such Bonds.

1.4 The Issuer shall be deemed to repeat the representations, warranties and undertakings contained in this Condition 20 on each date on which the Offering Circular is revised, supplemented or amended and on each date on which the aggregate nominal amount of the Program is increased in accordance with the Program Agreement.

1.5 The representations, warranties and undertakings contained in this Condition 20 shall continue in full force and effect notwithstanding the actual or constructive knowledge of any Joint Lead Arranger or Selling Agent with respect to any of the matters referred to in the representations, warranties and undertakings set out above, any investigation by or on behalf of the Joint Lead Arrangers or Selling Agents or completion of the issue of any Bonds.

21 COVENANTS

For as long as the Bonds or any portion thereof remain outstanding, the Bank 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 Bank; 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 Bank 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 Bank. The Registrar shall be notified by the Bank 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 Bank under the Bonds 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 Bank, or would materially and adversely affect the Bank's ability to duly perform and observe its obligations and duties under the Bonds;
- (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 Bonds at the times and in the manner specified herein, and perform all its obligations, undertakings, and covenants under the Bonds;
 - (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 Bonds at the earliest time possible;
 - (i) ensure that any documents related to the Bonds 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 Bondholders financial and other information regarding the Bank by filing with the SEC, PDEx and/or the 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 Bank shall cease to be the external auditor of the Bank for any reason, the Bank 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 Bank to receive any priority or preference arising under Article 2244(14)(a) of the Civil Code of the Philippines over the claims of the Bondholders hereunder, which claims shall at all times rank *pari passu* in all respects with all other unsecured unsubordinated obligations of the Bank; *provided*, this paragraph shall not apply to 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 Bondholders, or if the Bank is the surviving entity and provided that such event will have no Material Adverse Effect on the financial condition of the Bank, 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 Bank 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;
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- (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 Bank's ability to perform its material obligations under the Bonds;
- (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 Bonds or other transaction(s) contemplated by these Terms and Conditions and the Contracts 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 Bank being in breach of any Sanctions (if and to the extent applicable to it) or becoming a Restricted Party;
- (w) as long as any obligations under the Bonds 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 Bank, unless such obligations rank *pari passu* with, or junior to, the Bank's obligations under the Bonds in any proceedings in respect of the Bank for insolvency, winding up, liquidation, receivership, or other similar proceedings; and
- (x) The Bank shall not permit any indebtedness to be secured by or to benefit from any lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Bank or the right of the Bank to receive income; Provided, however that this shall not prohibit the following:
 - (i) any liens, encumbrances, restrictions, pledges, mortgages or security over the properties of the Bank existing as of the date of the Offering Circular;
 - (ii) any netting or set-off arrangement entered into by the Bank in the ordinary course of its banking business for the purpose of netting debit and credit balances;
 - (iii) any payment or close out netting or set-off arrangement pursuant to any hedging transactions (including credit support agreements) entered into by the Bank;
 - (iv) any lien which secures foreign currency and swap transactions and derivative transactions undertaken by the Bank in the ordinary course of its business;

- (v) any lien over those properties which are acquired by the Bank 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 Bank;
- (vi) any lien arising by operation of law, such as carrier's, warehousemen's and mechanic's liens, liens arising from workmen's compensation laws, pensions, social security legislations and redemption rights;
- (vii) any lien arising in the ordinary course of trading or business; Easements, rights of way, reservations, restrictions, covenants, agreements for joint or common use, land owner's right of distraint and other similar encumbrances affecting any property of the Bank, granted in the ordinary course of business;
- (viii) any lien for taxes, assessments or governmental charges on properties or assets of the Bank 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 not materially and adversely affect the Bank's ability to discharge its obligations under the Bonds;
- (ix) any purchase-money liens on any property acquired by the Bank;
- (x) any lien arising under any retention of title, repurchase agreements, hire purchase, asset leasing agreements, or conditional sale arrangement or arrangements having similar effect in respect of assets or goods supplied to the Bank;
- (xi) any lien arising from sale, refinancing, discounting or rediscounting of receivables or other assets on a with recourse basis, repurchase agreements or other similar arrangements;
- (xii) any lien arising from a debt factoring on a with recourse basis;
- (xiii) any lien arising from secured lending transactions between members of the Group on an arm's length basis in respect of which securities are provided by the borrowing entity to the lending entity as collateral to comply with internal credit policy and/or applicable rules and regulations on related party transactions;
- (xiv) any lien required by the BSP for liquidity purposes;
- (xv) all cash, property, other types of bonds and other security provided as part of the proceedings of a court, administrative body, stock exchange or other regulatory body;
- (xvi) any liens arising from any securitization arrangement such as asset-backed securities;

(xvii) any lien similar to those enumerated above entered into in the ordinary course of business; and

(xviii) any extension, renewal or replenishment in whole or in part of the foregoing liens.

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

22 EVENTS OF DEFAULT

The Bank shall be considered in default under the Bonds in case any of the following events shall occur:

- (a) The Bank fails to pay any principal and/or interest due on the Bonds within ten (10) calendar days of the due date of payment;
 - (b) Any representation and warranty of the Bank or any certificate or opinion submitted by the Bank in connection with the issuance of the Bonds is untrue, incorrect, or misleading in any material respect and the same is irremediable or, if remediable, is not remedied within a period of thirty (30) calendar days from notice to the Bank;
 - (c) The Bank fails to perform or violates its covenants under these Terms and Conditions (other than the payment obligation under paragraph (a) above) or the Contracts, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of thirty (30) calendar days from notice to the Bank;
 - (d) The Bank (i) defaults in the repayment of any amount of principal and premium (if any) or interest, in respect of any contract (other than the Bonds) executed by the Bank 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 Bank within 30 days or is otherwise not contested by the Bank, 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;
 - (e) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the Bonds expires or is terminated, revoked or modified and the result thereof is to make the Bank unable to discharge its obligations hereunder or thereunder, and if the same is remediable, is not remedied by the Bank within thirty (30) calendar days from notice to the Bank;
 - (f) It becomes unlawful for the Bank to perform any of its material obligations under the Bonds;
 - (g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Bank or any material portion of its properties or assets and the same is not discharged or dismissed
-

within a period of sixty (60) calendar days from notice to the Bank;

- (h) The Bank becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, including: (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) making of an assignment for the benefit of its creditors of all or substantially all of its properties; (iv) admission in writing of its inability to pay its debts; or (v) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its property or assets (each, an “**Insolvency Default**”);
- (i) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) calendar 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 Bank’s ability to perform its obligations under the Bonds;
- (j) Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Bank's assets, singly or in the aggregate, and such writ, warrant, execution or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy; and
- (k) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or *force majeure*, and, provided that, in any such event, there is no Material Adverse Effect.

23 EFFECTS OF EVENTS OF DEFAULT

The Trustee shall, within thirty (30) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as defined under the Events of Default in the Terms and Conditions of the Bonds, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days (at the expense of the Bank), further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

If any one or more of the Events of Default (other than an Insolvency Default, the effects of which are set forth in Condition 22 hereof) shall have occurred and be continuing after any applicable cure period shall have lapsed, the Trustee, upon the written direction of the Majority

Bondholders whose written instruction/consent/letter shall be verified by the Registrar and by written notice to the Bank, may declare the Bank in default in respect of the Bonds held by such Bondholders, stating the Event of Default relied upon, and require the principal amount of the Bonds held by such Bondholders, and all accrued interests (including any default interest) and other charges due thereon, to be immediately due and payable, and forthwith collect said outstanding principal, accrued interests (including any default interest) and other charges, without prejudice to any other remedies which such Bondholder or the other holders of the Bonds may be entitled.

In case of an Event of Default under Condition 22 (a), the Bank shall, in addition to the payment of the unpaid amount of principal and accrued interest, pay default interest at the rate of twelve percent (12%) per annum, which shall accrue after the lapse of the curing period.

Any money delivered to the Paying Agent by the Bank pursuant to an Event of Default shall be applied by the Paying Agent in the order of preference as follows: *first*, to the pro-rata payment to the Registrar and Paying Agent and to the Trustee of the costs, expenses, fees, and other charges of collection incurred by them respectively without gross negligence or bad faith; to the payment to the Registrar and Paying Agent and to the Trustee of their respective fees, and other outstanding charges due to them; *second*, to the pro-rata payment of all outstanding interest owing to the Bondholders, including any default interest as specified in this Condition 23, in the order of maturity of such interest; and *third*, to the pro-rata payment of the whole amount then due and unpaid on the Bonds for principal owing to the Bondholders.

24 REMEDY FOR NON-PAYMENT IN AN INSOLVENCY DEFAULT

The payment of principal on the Bonds may be accelerated only in the event of insolvency of the Bank. Recovery of amounts owing in respect of the Bonds against the Bank is available to any Bondholder only through the institution of proceedings for the insolvency of the Bank.

25 WAIVER OF DEFAULT BY THE BONDHOLDERS

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of the Bondholders waive any past default, except the events of default defined as a payment default, Insolvency Default, or closure default, and its consequences. In case of any such waiver, the Bank, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders 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 Bonds.

26 TAXATION

Interest on the Bonds is subject to final withholding tax at a rate between 20% to 30%, or such other rates as may be required by law or regulations.

Payments of principal and interest will be made free and clear of any deductions or withholding for or on account of any present or future taxes, duties or charges imposed by or on behalf of Republic of the

Philippines. If such taxes, duties or charges are imposed, the same shall be for the account of the Bank. *Provided, however*, that the Bank shall not be liable for:

- (a) any withholding tax on interest earned on the Bonds as prescribed under Tax Code. A corporate and institutional investor who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit a tax exemption certificate and other applicable documents;
- (b) Gross Receipts Tax under Section 121 and 122 of the Tax Code;
- (c) taxes on the overall income of any securities Selling Agent or Bondholder, whether or not subject to withholding; and
- (d) Value Added Tax (**VAT**) under Sections 106 to 108 of the Tax Code.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Contracts, if any, shall be for the Bank's account.

27 CLAIM OF TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

Bondholders who are exempt from or not subject to final withholding tax, or who are entitled to preferential tax rate may avail of such exemption or preferential tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in form and substance prescribed by the Bank, to the Registrar or to the Selling Agent (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

- (a) Proof of Tax Exemption or Entitlement to Preferential Tax Rates
 - (i) For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed “valid, current and subsisting” if it has not been more than 3 years since the date of issuance thereof;
 - (ii) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;
 - (iii) For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;
 - (iv) For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the

form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (“CORTT”) Form prescribed under Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and

- (v) Any other document that the Bank or PDTC may require from time to time.

In addition, upon the request of the Joint Lead Arrangers, Sole Selling Agent, the Bank or the Registrar, the Bondholder shall submit an updated Part II (A), (B), (C) and (D) of the CORTT Form.

Only the originals should be submitted to the Joint Lead Arrangers, Sole Selling Agent, the Bank or the Registrar.

- (b) A duly notarized declaration (in the prescribed form) warranting that the Bondholder's tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder's entitlement to preferential treaty rates, and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Bank 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; and
- (c) Such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Transfers taking place in the Register of Bondholders after the Bonds are listed on the PDEX may be allowed between taxable and tax-exempt entities and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC.

A selling or purchasing Bondholder claiming tax-exempt status is required to submit to the Registrar the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar.

Income arising from gains on the sale or disposition of the Bonds will form part of the relevant Bondholders' income and may be subject to tax. Bondholders should consult their own tax advisers on the ownership and disposition of the Bonds, including the applicability of any state, local or foreign tax laws.

The BIR's tax treatment of the fixed rate bonds may vary from the tax treatment described herein. Any adverse tax consequences upon the Bondholder arising from any variance in tax treatment shall be for such Bondholder's sole risk and account.

Moreover, the tax treatment of a Bondholder may vary depending upon such person's particular situation and certain Bondholders may

be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important and/or relevant to a Bondholder. Bondholders are advised to consult their own tax advisers on the ownership and disposition of the Bonds, including the applicability and effect of any state, local or foreign tax laws.

28 REDEMPTION FOR CHANGES IN TAX OR INCREASE IN REGULATORY RESERVES

If after the Issue Date, (a) payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date, or (b) the Bank becomes subject to increased reserve requirements against Peso denominated obligations that include the Bonds, each as a result of changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax or reserve requirement by Law or by regulation of the BSP cannot be avoided by use of reasonable measures available to the Bank, the Bank may redeem the Bonds in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days' prior written notice to the Trustee) at par or 100% face value plus accrued interest.

29 REPLACEMENT REGISTRY CONFIRMATIONS

In case any Registry Confirmation shall be mutilated, destroyed, lost or stolen, the Registrar upon receipt of a written request in the form specified by the Registrar, shall cause the reprinting and delivery of the Registry Confirmation to the relevant Bondholder, subject to applicable fees.

30 CHANGE OF TRUSTEE BY THE BONDHOLDERS

(a) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Bank of the required evidence under the provisions on Evidence Supporting the Action of the Bondholders in the Terms and Conditions of the Bonds.

(b) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any provisions of the Trust Indenture shall become effective upon the earlier of: (i) acceptance of appointment by the successor Trustee as provided in the Trust Indenture; or (ii) effectivity of the resignation notice sent by the Trustee under the Trust Indenture; provided however that, until such successor trustee is qualified and appointed, the resigning Trustee shall continue to discharge its duties and responsibilities solely as custodian of records for turnover to the successor trustee promptly upon the appointment thereof by the Bank; provided finally that, such successor trustee possesses all the qualifications as required by pertinent laws.

31 REPORTS TO THE BONDHOLDERS

(a) The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date until full payment of the Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:

(i) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and

(ii) any action taken by the Trustee in the performance of its duties under the Trust Indenture which it has not previously reported and which in its opinion materially affects the

Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

- (b) The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10.00%) of the aggregate outstanding principal amount of the Bonds at such time.
- (c) The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:
 - (i) Program Agreement
 - (ii) Trust Indenture
 - (iii) Master Registry and Paying Agency Agreement
 - (iv) Articles of Incorporation and By-Laws of the Bank
 - (v) Copies of the Bank's most recent audited financial statements;
 - (vi) A copy of the Offering Circular;
 - (vii) The relevant Pricing Supplement;
 - (viii) The relevant Issue Management and Placement Agreement; and
 - (ix) any other supplement to the Offering Circular.

32 MEETINGS OF THE BONDHOLDERS

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Indenture or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

(a) Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Bank and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be

reimbursed by the Bank within ten (10) days from receipt of the duly supported billing statement.

(b) Failure of the Trustee to Call a Meeting

In case at any time, the Bank, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Bank or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

(c) Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

(d) Procedure for Meetings

- (i) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Bank or by the Bondholders, in which case the Bank or the Bondholders 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 Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year 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 Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) Voting Right

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one (1) vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Bank and its legal counsel.

(f) Voting Requirement

Except as provided in Condition 34 (Amendments), all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at

which there is a quorum except as otherwise provided in the Trust Indenture. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Bank as if the votes were unanimous.

(g) Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, 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.

**33 EVIDENCE SUPPORTING
THE ACTION OF THE
BONDHOLDERS**

Wherever in the Trust Indenture it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and 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 Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

34 AMENDMENTS

The Bank and the Trustee may amend the Terms and Conditions of the Bonds with notice to every Bondholder following the written consent of the Majority Bondholders or a vote of the Majority Bondholders at a meeting called for the purpose. However, without the consent of each Bondholder affected thereby, an amendment may not:

- (a) reduce the percentage of principal amount of Bonds outstanding that must consent to an amendment or waiver;
 - (b) reduce the rate of or extend the time for payment of interest on the Bonds;
 - (c) reduce the principal of or extend the Maturity Date;
 - (d) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
 - (e) reduce the amount payable upon the redemption or repurchase of the Bonds under the Terms and Conditions or change the time at which the Bonds may be redeemed;
 - (f) make the Bonds payable in money other than that stated in the Bonds;
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- (g) subordinate the Bonds to any other obligation of the Bank;
- (h) amend or modify the Payment, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or
- (i) make any change or waiver of this Condition.

Moreover, the Bank and the Trustee may amend or waive any provisions of the Contracts if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency, without prior notice to or the consent of the Bondholders or other parties, provided in all cases that such amendment or waiver does not adversely affect the interests of the Bondholders and provided further that all Bondholders are notified after such amendment or waiver.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Bank shall send a notice briefly describing such amendment to the Bondholders.

Any amendment of these Terms and Conditions is subject to the Governing Regulations.

35 NOTICES

Any communication shall be given by letter, fax, electronic mail (e-mail) or telephone, and shall be given, in the case of notices to the Bank, to it at:

BANK OF THE PHILIPPINE ISLANDS
16th Floor Ayala North Exchange Tower One

6796 Ayala Avenue corner Salcedo Street
Makati City 1229, Philippines
Telephone no.: (632) 8845 5944
Fax no.: (632) 8816 9109
E-mail: investorrelations@bpi.com.ph
Attention: Maria Consuelo A. Lukban

in the case of notices to the Registrar and Paying Agent, to it at:

PHILIPPINE DEPOSITORY & TRUST CORP.

29th Floor, BDO Equitable Tower,
8751 Paseo de Roxas, Makati City, Metro Manila,
Philippines
Telephone no.: (632) 8884 4425
Fax no.: (63) 8757 6025
E-mail: baby_delacruz@pds.com.ph
Attention: Josephine F. Dela Cruz
Director, Securities Services

in the case of notices to the Trustee, to it at:

**DEVELOPMENT BANK OF THE PHILIPPINES –
TRUST BANKING GROUP**

4/F, DBP Building, Sen. Gil J. Puyat Ave. corner Makati
Ave.
Makati City, Metro Manila
Telephone no.: (632) 8892 4652
Fax no.: (632) 8893 0942
E-mail: mttatienza@dbp.ph
Attention: Ma. Teresa T. Atienza

and in the case of notices to the Joint Lead Arranger, to them at:

BPI CAPITAL CORPORATION

11/F Ayala North Exchange Building

6796 Ayala Avenue corner Salcedo Street
Makati City, Philippines 1229
Telephone no.: (632) 8246 5141
Fax no.: (632) 8246 6012
E-mail: fljardeleza@bpi.com.ph
Attention: Francis L. Jardeleza

**STANDARD CHARTERED BANK, PHILIPPINE
BRANCH**

8th Floor, Skyplaza Building, 6788 Ayala Avenue
Makati City, Philippines 1226
Telephone no.: (632) 8878 2967
Fax no.: (632) 8830 1121
E-mail:
E-mail: Erwein-John.Catoto@sc.com
Attention: Erwein Catoto

And in the case of notices to the Bondholders, through publication in two (2) newspapers of general circulation in Metro Manila (one of which shall be the Philippine Daily Inquirer) once a week for two (2) consecutive weeks; or any other address to or mode of service by which written notice has been given to the parties in accordance with this Condition.

Such communications will take effect, in the case of a letter, when delivered or, in the case of fax, when dispatched, provided that any communication by fax shall not take effect until 10:00 a.m. on the immediately succeeding Business Day in the place of the recipient, if such communication is received after 5:00 p.m. on a Business Day or is otherwise received on a day which is not a Business Day.

General Terms and Conditions of the Bonds

	Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.
36 GOVERNING LAW	These Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.
37 JURISDICTION	The courts of Makati City are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and these Terms and Conditions and accordingly, any legal action or proceedings arising out of or in connection with the Bonds or these Terms and Conditions (“ Proceedings ”) may be brought only in such courts. The Bank irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
38 NON-WAIVER	The failure of any party at any time or times to require the performance by the other of any provision of the Bonds or these Terms and Conditions shall not affect the right of such party to require the performance of that or any other provisions and the waiver by any party of a breach under these Terms and Conditions shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself or a waiver of any right under these Terms and Conditions. The remedies herein provided are cumulative in nature and not exclusive of any remedies provided by law.
39 ABILITY TO FILE SUIT	Nothing herein shall be deemed to create a partnership or collective venture between the Bondholders. Each Bondholder shall be entitled, at its option, to take independent measures with respect to its obligations and rights and privileges under these Terms and Conditions, and it shall not be necessary for the other Bondholders to be joined as a party in any judicial or other proceeding for such purpose.
40 SEVERABILITY	If any provision hereunder becomes invalid, illegal or unenforceable under any law, the validity, legality and enforceability of the remaining provisions of these Terms and Conditions shall not be affected or impaired. The parties agree to replace any invalid provision which most closely approximate the intent and effect of the illegal, invalid or enforceable provision.
41 PRESCRIPTION	Any action upon the Bonds shall prescribe in ten (10) years from the time the right of action accrues.
42 WAIVER OF PREFERENCE OR PRIORITY	In the event that a primary obligation for payment shall arise out of the Contracts, such as to constitute any of the Contracts as a contract for the payment of an indebtedness or a loan, then it is understood and expressly agreed by the parties hereto that the obligation created under such Agreement shall not enjoy any priority, preference or special privileges whatsoever over any indebtedness or obligations of the Bank. Accordingly, whatever priorities or preferences that such Agreement may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced.

CAPITALISATION AND INDEBTEDNESS

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

	As of 30 September 2019 Actual (₱ millions)
Short-term liabilities	
Deposit liabilities	780,662
Derivative liabilities	2,948
Bills payable	39,610
Due to BSP and other banks	1,473
Manager's checks and demand drafts outstanding	6,110
Accrued taxes, interest and other expenses	10,510
Liabilities attributable to insurance operations	10,629
Deferred credits and other liabilities	37,151
Total short-term liabilities	889,093
Long-term liabilities	
Deposit liabilities	839,238
Derivative liabilities	93
Bills payable	115,313
Liabilities attributable to insurance operations	2,586
Deferred credits and other liabilities	8,248
Total long-term liabilities	965,478
Total liabilities	1,854,571
Capitalisation	
Capital stock/Paid-in surplus	119,368
Reserves	3,740
Surplus	146,062
Accumulated other comprehensive loss	(1,315)
Non-controlling interest	3,355
Total capital funds.....	271,210
Total capitalisation and indebtedness	2,125,781
 Capital Ratios⁽¹⁾	
Common Equity Tier 1 ratio	16.0%
Tier 1 capital ratio	16.0%
Total capital ratio	16.9%

Note:

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

SELECTED STATISTICAL DATA

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

Average Statements of Condition and Related Interest

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

	For the years ended 31 December								
	2016			2017			2018		
	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)
	(P millions, except percentages)								
Due from other banks	254,206	993	0.39	278,894	1,501	0.54	237,398	413	0.17
Interbank loans receivables and securities purchased under agreements to resell	35,876	1,066	2.97	26,466	649	2.45	23,913	811	3.39
Financial investments	297,322	9,395	3.16	299,002	9,346	3.13	310,620	9,794	3.15
Loans and advances	900,360	48,843	5.42	1,048,014	56,557	5.4	1,222,136	71,816	5.88
Total interest-earning assets.....	1,487,764	60,297	4.05	1,652,376	68,053	4.12	1,794,067	82,834	4.62
Deposit liabilities.....	1,324,241	15,301	1.16	1,465,582	16,660	1.14	1,533,114	21,537	1.40
Derivative instruments: Subordinated debt, bills payable, and other borrowings	34,508	634	1.84	48,204	1,150	2.38	73,460	2,810	3.83
Total interest-bearing liabilities.....	1,358,749	15,935	1.17	1,513,786	17,810	1.18	1,606,574	24,347	1.52

	For the nine months ended 30 September					
	2018			2019		
	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)
	(P millions, except percentages)					
Due from other banks.....	240,849	319	0.18	229,014	397	0.23
Interbank loans receivables and securities purchased under agreements to resell	23,812	557	3.13	28,076	932	4.44
Financial investments.....	304,597	7,151	3.14	368,942	9,642	3.49
Loans and advances	1,202,372	51,214	5.69	1,333,305	67,901	6.81
Total interest-earning assets	1,771,630	59,241	4.47	1,959,337	78,872	5.38
Deposit liabilities	1,534,580	15,221	1.33	1,599,982	22,322	1.87
Derivative instruments: Subordinated debt, bills payable, and other borrowings	56,170	1,482	3.53	139,254	5,267	5.06
Total interest-bearing liabilities.....	1,590,750	16,703	1.40	1,739,236	27,589	2.12

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

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

Selected Statistical Data

	For the year ended 31 December 2016 compared to the year ended 31 December 2017			For the year ended 31 December 2017 compared to the year ended 31 December 2018		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Net Change	Change in Average Volume	Change in Average Rate	Net Change	Change in Average Volume	Change in Average Rate
	(₱ millions)					
Interest income on:						
Financial investments	(49)	1,680	(0.03)	448	11,619	0.03
Loans and advances	7,714	147,654	(0.03)	15,259	173,901	0.48
Deposits with BSP and other banks	91	15,278	(0.01)	(926)	(44,045)	(0.24)
Interest expense on:						
Deposits	1,359	141,341	(0.02)	4,876	67,532	0.27
Bills payable and other borrowings	516	13,696	0.55	1,660	25,256	1.44
Net interest income	5,881	9,575	1.87	8,244	48,687	(5.00)

	For the nine months ended 30 September 2018 compared to the nine months ended 30 September 2019		
	Increase (Decrease) Due to		
	Net Change	Change in Average Volume	Change in Average Rate
	(₱ millions)		
Interest income on:			
Financial investments.....	2,492	64,346	0.36
Loans and advances	16,688	130,933	1.11
Deposits with BSP and other banks	452	(7,571)	0.25
Interest expense on:			
Deposits.....	7,102	65,402	0.54
Bills payable and other borrowings	3,785	83,084	1.53
Net interest income	8,745	39,222	(0.29)

DESCRIPTION OF THE BANK

Overview

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

According to data available from the *Bangko Sentral ng Pilipinas* (BSP, the central bank of the Philippines), the Bank is the third largest universal bank in the country in terms of total assets which stood at ₱2,126 billion as of 30 September 2019. The Bank also holds a significant market share in the deposit, lending, and asset management markets. According to industry data on Philippine banks, the Bank is the Philippines' third largest in terms of loans and deposits with market shares of 14.3% and 12.3%, respectively, as of 30 September 2019, and second largest in terms of assets under management with market share of 18.3% as of 30 September 2019. The Bank also enjoys a significant presence in the finance and operating lease business, government securities dealership, securities distribution and foreign exchange business. It is also a market leader in electronic banking where it has been a first mover and innovator in the use of automated teller machines (ATMs), cash acceptance machines (CAMs), point-of-sale debit systems, kiosk banking, phone banking, internet banking and mobile banking.

As of 31 December 2016, 2017 and 2018 and 30 September 2019, the Bank had a network of 834, 945, 1,059 and 1,111 branches (which include full service branches, express banking centres (EBCs) and branch-lite units) respectively, which was among the largest branch networks among Philippine banks. Of the Bank's 1,111 branches, as of 30 September 2019, 1,108 branches were located in the Philippines, of which 702 were BPI branches, 162 were BPI Family Savings Bank branches, and 244 were BPI Direct BanKo branches and branch-lite units. In terms of geographic distribution (excluding BPI Direct BanKo), 458 of the branches were located in Metro Manila, 241 of the branches in Luzon (excluding Metro Manila), 99 of the branches in the Visayas and 66 of the branches in Mindanao. The Bank also provides 24 hour banking services through its call centre and network of 2,395 ATMs and 505 CAMs as of 30 September 2019, the second largest network owned by a single bank in the Philippines, which were located in both branches and off site locations, such as shopping malls and high density office buildings. The Bank's overseas network includes one banking location in Hong Kong and two in London. The Bank also has one representative office in Tokyo and another in Dubai, which market and promote certain of the Bank's products and services. The Bank has three remittance centres in Hong Kong and maintains over 143 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

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

The Bank's consolidated common equity tier 1 (CET1) ratio stood at 16.0% while CAR stood at 16.9%, as of 30 September 2019. These are above the minimum regulatory capital requirements set by the BSP under Basel III. As of 30 September 2019, the Bank had a market capitalisation on the Philippine Stock Exchange (PSE) of ₱419.15 billion (based on the closing price on the PSE of ₱93.00 per Share on 30 September 2019. The Bank's significant shareholders include Ayala Corporation (Ayala), one of the Philippines' oldest and largest conglomerates, the Roman Catholic Archbishop of Manila, and the Government of Singapore Investment Corp. (GIC).

History

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

Description of the Bank

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

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

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

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

Recent Developments

On November 20, 2019, the Australian Transaction Reports and Analysis Centre (**AUSTRAC**), Australia's anti money-laundering and terrorism financing regulator, applied to the Federal Court of Australia for civil penalty orders against Westpac Banking Corporation (**Westpac**), one of Australia's largest banks. The civil penalty orders relate to systemic non-compliance with the Australian Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (**AML/CTF Act**). AUSTRAC alleged that Westpac contravened the AML/CTF Act on over 23 million occasions. Westpac was accused of, among others, failing to carry out appropriate customer due diligence on transactions to the Philippines and South East Asia that have known financial indicators relating to potential child exploitation risks and that Westpac failed to introduce appropriate detection scenarios to detect known child exploitation typologies, consistent with AUSTRAC guidance and their own risk assessments. AUSTRAC alleged that Westpac had violated the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 on over 23 million occasions.

BPI and Westpac had entered into a remittance arrangement in May 2016 in order to make fund transfers from Australia to the Philippines more convenient through a payments facility known as LitePay Westpac's clients used the LitePay platform to send remittances to the Philippines for BPI to fulfill, whether for credit to the accounts of BPI clients or for those of other Philippine banks. At the time of initiation of the partnership, Westpac made representations and warranties that they were in compliance with all applicable regulations. From July 2016 to November 2019, a total of 63,816 transactions were coursed through BPI and credited to various recipient banks in the Philippines. Of this number, 34% was credited to BPI accounts. Of the 23 million Westpac transactions cited by AUSTRAC as unreported, only 0.01% was coursed through BPI.

BPI suspended Westpac LitePay on November 24, 2019 and considers the alleged violations as a very serious concern. BPI has asked Westpac to provide detailed information about suspicious and possible illegal transactions that may have been coursed through BPI. BPI has also initiated its own investigation to look into various transactions for compliance violations. As of the date of this Supplement, BPI is not aware of any formal investigation by the BSP on BPI with respect to Westpac related transactions. The Bank has sought to closely cooperate with regulators and authorities to ensure continued compliance with both domestic and global money laundering laws and regulations.

Description of the Bank

Mergers, Acquisitions, Offers and Recent Milestones

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank through its wholly-owned subsidiary BPI Investment Management, Inc. (**BIMI**), agreed to assume the management and distribution of the various mutual funds currently under the management of PhilAm Asset Management, Inc. (**PAMI**). The addition of the PAMI funds under BIMI's management will double BIMI's product offerings to 18 and nearly triple its client base from 50,000 to 140,000. The deal will see BIMI's assets under management (AUM) increase to nearly ₱165 billion. BIMI and PAMI expect to complete the assignment and assumption transaction by 20 December 2019.

Competitive Strengths

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

Preeminent banking brand in the Philippines

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

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

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

The strength of the Bank's brand is validated by its growing client base, which almost doubled since 2010 to 8.527 million customers as of 30 September 2019. The Bank has likewise won numerous awards in recognition of its outstanding client service and innovative product offerings. In 2018, BPI Capital was awarded Best Investment Bank and Best ECM House in the Philippines from the *Finance Asia Country Awards* as well as the Renewable Energy Deal of the Year (Indonesia and Regional) and PPP Project of the Year (Philippines) in the last *Asia Infrastructure Awards by The Asset*.

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

Strong track record of profitability and cost management

Historically, the Bank has been known as one of the most cost-efficient banks with the lowest operating leverage in the industry. As of 30 September 2019, its cost-to-income ratio stood at 52.2% and its cost-to-assets ratio at 2.4%, one of the lowest among Philippine banks based on publicly available financial data. The Bank's cost discipline coupled with its investments in its digital platforms has allowed it to maintain its cost leadership, remain resilient through downturns, and continuously improve productivity and cost-efficiency through the years.

Description of the Bank

Coupled with its strong income generating capabilities and deposit franchise, the Bank's cost-leadership has allowed it to produce industry leading returns for its equity holders. As of 30 September 2019, its return-on-equity (**ROE**) and return-on-assets (**ROA**) stood at 11.3% and 1.4% respectively, one of the highest in the Philippine Banking industry according to BSP data.

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

Well-capitalised with sufficient liquidity

The Bank's stock rights offering in May 2018 brought the Bank's Common Equity Tier 1 ratio (**CET1**) and CAR to 16.0% and 16.9%, respectively, as of 30 September 2019, which the Bank believes these ratios are ahead of most banks in the Philippines and comfortably above the BSP's minimum CET1 and CAR ratios of 6% and 10%, respectively.

The Bank believes that its strong capital base, which primarily consists of common equity, provides sufficient protection to the Bank's current and prospective creditors. The Bank's strong capital base, coupled with its deposit franchise, has also allowed it to limit reliance on debt funding and maintain comparatively low leverage levels compared to other banks, versus its peers with its debt/total liabilities, as of 30 September 2019, at 8.4% (calculated as bonds issuances and bills payable over total liabilities).

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

High quality and diversified asset base driven by prudent risk management

As of 30 September 2019, 75.4% of the Bank's loan book consist of loans to what the Bank believes to be high quality domestic corporate and multinational customers. From 2014-2018, the Bank's loan growth has primarily been driven by corporate loans, which grew at a compound annual growth rate (**CAGR**) of 17.6% for that period, as compared to the Bank's retail loans, which grew by 11.8% over the same period.

The Bank's strong risk management framework coupled with its prudent approach to growth has allowed it to significantly improve its asset quality metrics, with gross 90-day non-performing loan (**NPL**) ratios declining from 3.11% as of 31 December 2010 to 1.81% as of 30 September 2019, and NPL coverage increasing from 82.3% as of 31 December 2010 to 99.3% as of 30 September 2019. With the implementation of the BSP Circular 941 effective 1 January 2018, the Bank's NPL ratio and coverage were restated at 1.72% and 100.34%, respectively. The NPL amount increased because under BSP Circular 941, adversely classified accounts (**ACAs**) are required to be reported as NPLs even if the account is current or without any missed contractual payments since ACAs are considered impaired under existing accounting standards. The Bank's prudent risk management and continuous efforts in this area have been recognised by *Risk Asia* in 2018 with the "House of the Year-Philippines' Risk Management Award." This was the first time this award was given to a Philippine bank.

The Bank believes that its asset base is strategically diversified. It lends to customers in a wide variety of industries including real estate, manufacturing, wholesale and retail, utilities and financial intermediaries, among others. As of 30 September 2019, the Bank's top 20 clients comprised 32.1% of the Bank's loan book. Internally, the Bank abides by strict single borrower limits, with no single customer accounting for more than 3.0% of the Bank's loan book as of 30 September 2019.

Stable and diversified revenue sources

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

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

Over the years, the Bank's fee-based income, has remained as a stable source of income for the bank, growing by 6.9% since 2013. The Bank's fee generation is backed by its (i) asset management and trust business, which has

Description of the Bank

historically been the largest contributor to fee based income, with assets under management at ₱812 billion as of 30 September 2019, (ii) credit card business, which has the second highest number of credit card users with 1.619 million credit cards in circulation as of 30 September 2019 based on data from the Credit Cards Association of the Philippines (iii) operating lease business, which has provided a steady stream of income for the Bank, and (iv) insurance joint ventures with Mitsumi Sumitomo Insurance Group for non-life insurance (BPI/MS Insurance Corporation), and Philippine American Life and General Insurance Company (BPI Philam Life Assurance, Corp. or **BPLAC**) for life insurance, with BPLAC being the Philippines' leader in bancassurance, according to the Philippine Insurance Commission, and is continuously growing alongside the increasing BPI branches nationwide.

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

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

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

The Bank has been successful in maintaining long-term relationships with its client base, with customer retention rates increasing from 90.3% in 2012 to 97.2% for the third quarter of 2019.

While the cost of deposits is largely driven by interest rate movements, the Bank has kept its average cost of deposits relatively low by improving its CASA (i.e., demand and savings accounts) to deposits ratio over the past five years. As of 30 September 2019, the Bank's CASA deposits accounted for 69.1% of the Bank's total deposit base, a 7.9% improvement from its 31 December 2012 level of 61.2%. The Bank also believes that its CASA to deposit ratio is one of the highest in the Philippines. The Bank's depositors also typically roll over their deposits at maturity, effectively providing the Bank with a stable base of core liquidity.

The Bank's strong deposit franchise is made possible by its extensive physical and digital distribution networks. The Bank has one of the largest branch networks in the Philippines with 1,108 branches (which include full service branches, express banking centres (**EBCs**), and branch-lite units), as of 30 September 2019. The Bank's overseas network includes one banking location in Hong Kong and two in London, two representative offices and three remittance centres in Hong Kong. The Bank also maintains over 143 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

As of 30 September 2019, the Bank had the second largest ATM and CAM network in the Philippines, with 2,395 ATMs and 505 CAMs under its *BPI ATM* brand. The Bank also founded the Philippines' first ATM interbank network and is a member of *BancNet*, the Philippines' largest ATM interbank network with over 21,400 ATMs nationwide as of 30 September 2019.

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

Experienced Management and strong performance culture

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

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

Strategies

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

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

Maintain its leading position in the corporate segment

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

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

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

SME

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

To spearhead this initiative, the Bank established the SME business banking group to focus solely on SMEs by addressing their day-to-day needs, such as cash management, payroll, government and supplier payment services, as well as helping them achieve their long-term goals through quick, simple and convenient solutions. The Bank has built a team of focused and well-trained relationship managers in order to gain a better understanding of the needs of the large, growing and underserved SME market segment, and address its needs holistically. The added focus and understanding is anticipated to result in better risk management for the SME sector and overall improved returns.

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

Consumer lending

As of 30 September 2019, only 215,869, or 2.8%, of BPI's retail depositors have availed of the Bank's loan products. The Bank expects strong growth in the consumer lending market due to (i) the stable growth of the Philippine economy and (ii) the passage of the Philippine Tax Reform for Acceleration and Inclusion (**TRAIN**) law, which reduced personal income tax rates and resulted in higher disposable incomes for middle class Filipinos, which can also lead to higher demand for vehicles and family homes.

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

Description of the Bank

Microfinance

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

Enhance deposit franchise and delivery infrastructure

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

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

To increase deposits in the corporate, SME business and retail banking segments, the Bank aims to present itself as a provider of an integrated suite of products and services to its clients, such as cash management, payroll, government and supplier payment services, as well as bancassurance, asset management, securities investments, credit facilities, payments and remittances and foreign exchange products and services.

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

The Bank recognises the importance of building strong digital capabilities both in digital distribution platforms to exponentially increase client access points, and also in the back office to increase productivity, automation and manage cost-efficiency.

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

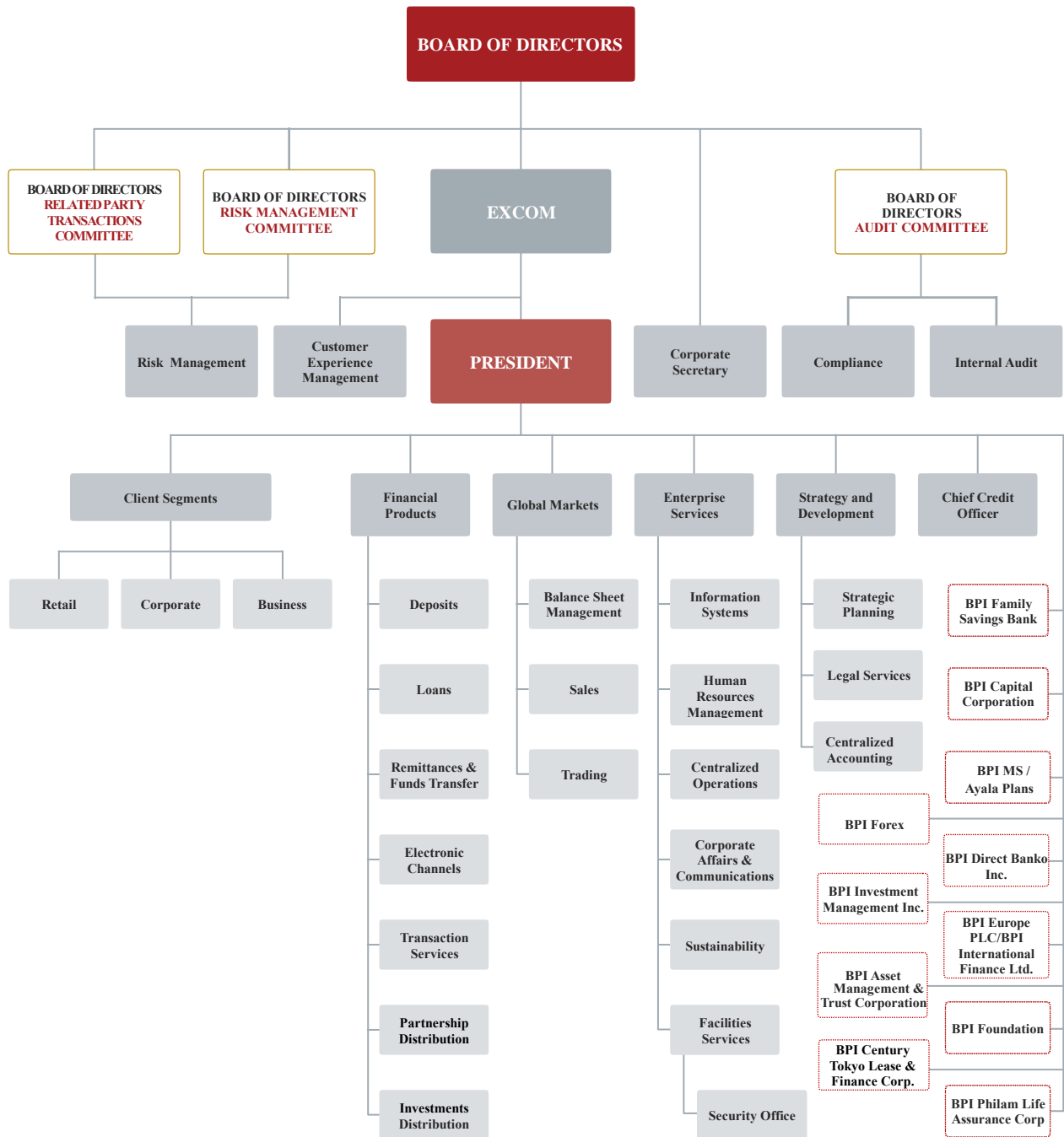
- Focus on cybersecurity to protect our clients' trust in the Bank's digital channels and the Bank's adherence to relevant privacy rules and regulations. The Bank has established the first cybersecurity operations center in the banking industry, and continues to invest in threat analytics and forensics.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

Description of the Bank

of platforms that facilitate online shopping, travel, payment of utilities, and the transfer of funds to e-wallets.

Organisational and Corporate Structure of the Bank

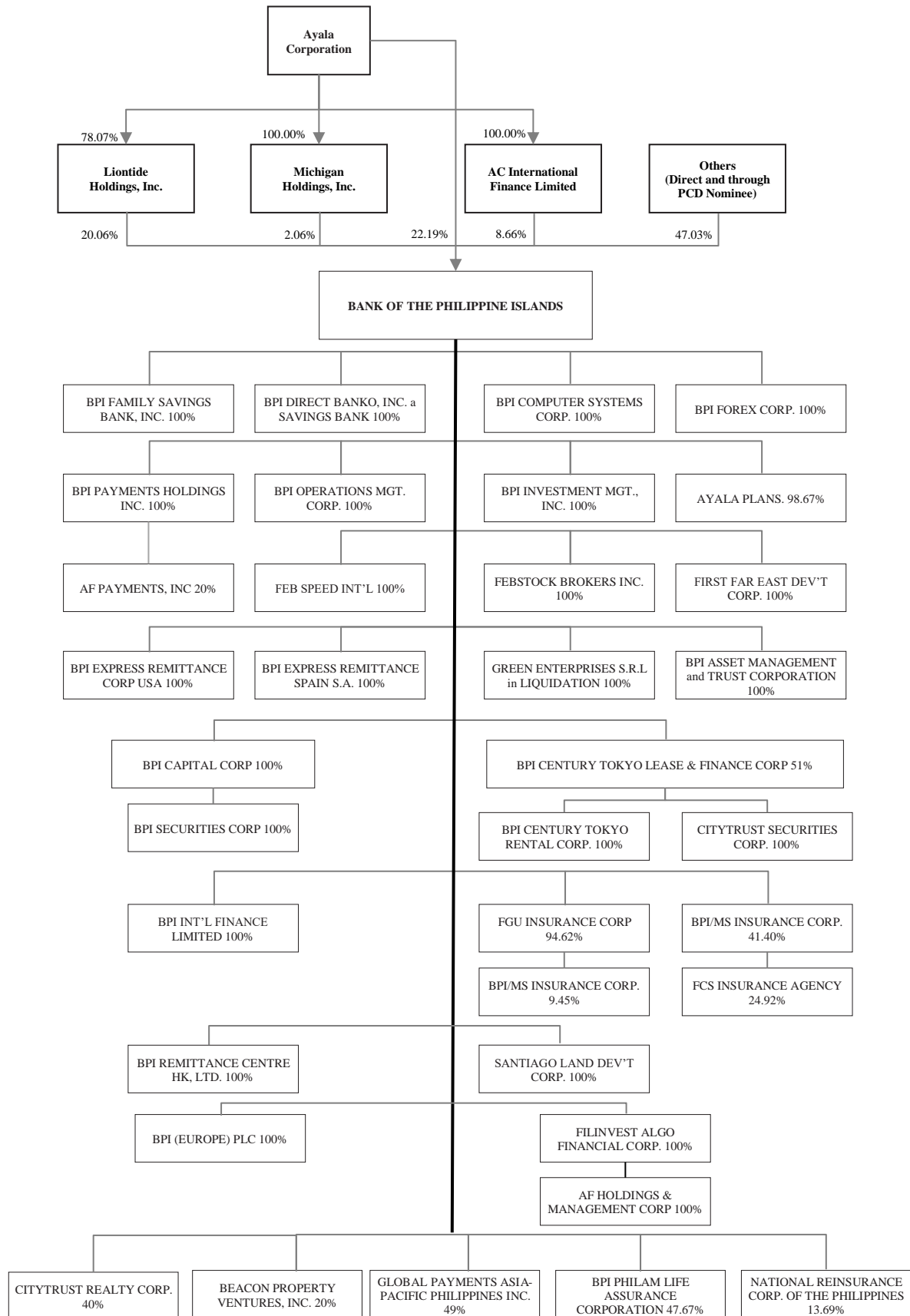
The following chart sets forth an overview of the functional organisational structure of the Bank and its principal activities.



Note: The following Board Level Committees are also in existence: Corporate Governance, Personnel and Compensation, Nomination Committees, and Retirement/Pension Committees.
 The organizational structure of the Bank is as of the 2018 Audited Financial Statements.

Description of the Bank

The following chart sets forth an overview of the corporate structure of the Bank as of 30 September 2019.



Description of the Bank

Client Management Groups of the Bank

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

(i) Retail Banking Group

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

The Bank classifies individual retail clients into various retail client segments based on the amount of funds deposited and invested with the Bank and their specific need for financial solutions. The retail client segments are: (i) private banking for its high net-worth customers, (ii) preferred banking for its mass affluent customers, (iii) personal banking for its regular customers, (iv) overseas Filipinos for its overseas Filipino customers, and (v) self-employed micro entrepreneurs (**SEMEs**). This system of classification allows the Bank to help its customers achieve their financial goals through specific financial advice, access to appropriate products and solutions, and other services. The Bank's retail clients accounted for 63.7% of the Bank's total deposit base as of 30 September 2019.

BPI Direct BanKo, the Bank's microfinance subsidiary, provides the financing for productive and business purposes of SEMEs. BPI Direct BanKo offers quick access to credit facilities through its 244 branches and branch-lite units across the Philippines as of 30 September 2019. The Bank intends to open additional BPI Direct BanKo branches in 2019.

(ii) Corporate Banking Group

The corporate banking group manages the Bank's relationships with a broad range of multinational corporations, large domestic conglomerates, and medium domestic companies. The corporate banking group is responsible for deposit origination from institutional clients, as well as the distribution of lending products developed by the Bank's corporate lending and asset finance teams. Products and services offered to corporate clients include cash management, electronic payments, trade finance, corporate finance and other solutions. Corporate clients account for 27.6% of total deposits and 75.4% of total loans as of 30 September 2019.

(iii) Business Banking Group

The business banking group focuses on the needs of the small-and-medium-sized enterprises segment. The group provides comprehensive coverage to SMEs through dedicated relationship managers and sales officers. The Bank has implemented a tailored set of credit processes and credit-scoring models in order to offer quick and efficient access to capital to SME clients. Products and services offered to SME clients include cash management facilities and a state-of-the-art electronic banking platform branded "BizLink" with a range of pricing options. SME clients are primarily depositors accounting for 8.7% of total deposits as of 30 September 2019, with very few clients borrowing from the Bank.

Principal Products and Services

The Bank offers a wide range of corporate, commercial and retail banking products. The Bank has two major categories for its products and services. The first category covers its deposit taking, lending and investment activities. Revenue from this category is reflected as net interest income in the Bank's financial statements and it accounts for a majority of the Bank's revenues. The second category covers services other than those related to its core deposit taking, lending, and investing business and from which the Bank derives commissions, service charges and other fees. These include investment banking and corporate finance fees, asset management and trust fees, foreign exchange, securities distribution fees, securities trading gains, credit card membership fees, rental on bank assets, income from insurance subsidiaries and service charges/commissions earned on international trade transactions, drafts, fund transfers and various deposit related services. Commissions, service charges and other fees, when combined with trading gains and losses arising from the Bank's fixed income and foreign exchange operations, constitute non-interest income. As of 30 September 2019, net interest income accounted for 69% of net revenues while other income accounted for the remaining 31% of net revenues.

Description of the Bank

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

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

(a) Corporate Lending

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

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

(i) Credit Products

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

(ii) Project Finance, Agribusiness and Sustainable Energy Finance Loans

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

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

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

(iii) Trade Finance Products

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

SME Lending

Small Business Loans

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

(b) Consumer Lending

Description of the Bank

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

(i) Home Mortgage Loans

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

As of 30 September 2019, home mortgage loans to individuals on average amount to ₱4.0 million. Interest rates on the Bank's home mortgage loans range from 6.0% to 8.50% over the same period. In accordance with industry practice in the Philippines, interest rates on the Bank's home mortgage loan portfolio are set at a fixed rate applicable for an initial period of between one and 15 years, depending on the maturity of the loan, which ranges from one to 25 years. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable for succeeding periods.

(ii) Auto Loans

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

All of the Bank's auto loans are secured by a first mortgage or legal charge over the cars being purchased. As of 30 September 2019, the prevailing effective interest rates of the Bank's auto loans range from 9.05% to 11.75%, depending on the loan tenor.

(iii) Small Business Loans

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

(c) Unsecured Lending and Cards

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

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

Description of the Bank

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

As of 30 September 2019, the Bank had approximately 1.6 million credit cards issued, 234,108 named prepaid cards and about 1.7 million active debit card users. The total value of transactions executed with the Bank's credit, debit and prepaid cards was approximately ₱190.131 billion.

(d) *Deposits*

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

(e) *Remittance*

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

The Bank has three remittance centres in Hong Kong and maintains over 143 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

(f) *Corporate Finance & Investment Banking*

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

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

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

(g) *Asset Management & Trust*

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

Description of the Bank

The Bank's asset management and trust business is one of the largest in the Philippine investment management community, with total assets under management of ₱812 billion as of 30 September 2019. The Bank has a long track record of managing assets for institutional and individual investors through innovative investment products and solutions. It also distributes the products of BPI-accredited global investment funds to its clients. With both equity and fixed income-oriented fund products, a comprehensive array of institutional fund management solutions and the ability to deal in different currencies, including Pesos, U.S. dollar or Euro, the Bank's product offering is considered to be among the most complete in the Philippine banking industry.

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

(h) *Insurance*

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

BPLAC is the Bank's life insurance joint venture with Philippine American Life and General Insurance Company, a part of the AIA group. The Bank holds a 47.7% equity stake in BPLAC. According to the Philippine Insurance Commission, BPLAC is the Philippines' leader in bancassurance and is continuously growing alongside the increasing BPI branches nationwide. BPLAC's annualised new premiums (ANP) grew from ₱659 million in 2010 to approximately ₱5.4 billion in 2018 and has an ANP of ₱4.3 billion as of 30 September 2019. It offers life and investment-linked insurance products sold through the Bank's branches by bancassurance sales executives. Bancassurance is an arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client base. BPI/MS is the Bank's non-life insurance joint venture with Mitsui Sumitomo Insurance Group (Mitsui). The Bank holds a 50.9% stake in the joint venture company. A majority of BPI/MS originated insurance contracts are re-insured under a treaty with Mitsui. BPI/MS provides insurance coverage on mortgages, travel, fire, and marine.

(i) *Treasury*

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

Distribution Network

As of 31 December 2016, 2017 and 2018 and 30 September 2019, the Bank had a network of 834, 945, 1,059 and 1,111 branches (which include full service branches, express banking centres (EBCs) and branch-lite units) respectively, which was among the largest branch networks among Philippine banks. Of the Bank's 1,111 branches, as of 30 September 2019, 1,108 branches were located in the Philippines, of which 702 were BPI branches, 162 were BPI Family Savings Bank branches, and 244 were BPI Direct BanKo branches and branch-lite units. In terms of geographic distribution (excluding BPI Direct BanKo), 458 of the branches were located in Metro Manila, 241 of the branches in Luzon (excluding Metro Manila), 99 of the branches in the Visayas and 66 of the branches in Mindanao. The Bank also provides 24 hour banking services through its call centre and network of 2,395 ATMs and 505 CAMs as of 30 September 2019, the second largest network owned by a single bank in the Philippines, which were located in both branches and off site locations, such as shopping malls and high density office buildings. The Bank's overseas network includes one banking location in Hong Kong and two in London. The Bank also has one representative office in Tokyo and another in Dubai, which market and promote certain of the Bank's products and services. The Bank has three remittance centres in Hong Kong and maintains over 143 remittance tie-ups and correspondent relationships with over 50 banks and financial institutions globally.

The Bank's branch network is supported by a network of 2,900 ATMs and CAMs as of 30 September 2019, of which 2,395 are ATMs and 505 are CAMs, which together provide cash-related banking services to customers 24/7. In addition, the interconnection with Bancnet in 2016, a Philippine-based interbank network connecting the ATM networks of local and offshore banks, gives the Bank's cardholders access to over 21,400 ATMs across the Philippines as of 30 September 2019. The Bank's ATM network is likewise interconnected with Mastercard, China Union Pay, Discover/Diners, JCB and Visa. The Bank aims to provide more secured cash withdrawals for its

Description of the Bank

depositors through the implementation of the ATM withdrawal notification feature, which allows the Bank's cardholders to receive notifications via e-mail or SMS when withdrawals beyond a specified amount are made.

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

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

Human Resources

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

Information Technology Systems

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

Credit Rating and Credit Approval

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

Description of the Bank

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

Approving Authority	Credit Limit*	
	Secured	Unsecured
Sub-credit Committee	₱1.5 billion	₱1.0 million
Credit Committee	₱2.5 billion	₱2.0 million
Executive Committee	>₱2.5 billion (excluding DOSRI/ subsidiaries and affiliates)	>₱2.0 billion (excluding DOSRI/ subsidiaries and affiliates)
Board of Directors	In excess of ₱8.0 billion and loans to DOSRI/subsidiaries and affiliates	In excess of ₱8.0 billion and loans to DOSRI/subsidiaries and affiliates

Note:

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

Competition

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

According to industry data on Philippine banks, the Bank is the Philippines' third largest in terms of loans and deposits with market shares of 14.3% and 12.3%, respectively, as of 30 September 2019, and second largest in terms of assets under management with market share of 18.3% as of 30 September 2019. The Bank believes its principal competitors are BDO Unibank, Inc. and Metropolitan Bank & Trust Company.

Employees and Labour Relations

As of 30 September 2019, the Bank had 19,776 employees. Approximately 67% of the Bank's employees are covered by existing collective bargaining agreements (CBA), which contain economic and non-economic provisions. Economic provisions cover, among others, salaries, allowances, benefits, and work conditions. Non-economic provisions cover union leaves, rights and responsibilities of parties, rules of engagement on strikes and lock-outs, check-off and grievance procedures. CBAs have a term of a five years with regards to non-economic provisions. Economic provisions are generally renegotiated within 60 days prior to the expiry of the third anniversary of an existing CBA. The latest CBA was executed in 2019. New CBAs are scheduled to be negotiated in November 2020 and April 2021. The Bank's management believes it has a good relationship with its staff.

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

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

	As of 31 December			As of 30 September
	2016	2017	2018	2019
Staff	10,095	11,449	12,250	12,745
Officers	5,106	5,598	6,661	7,031
Total	15,201	17,047	18,911	19,776

Consistent with the Bank's goal of being one of the Philippines' preferred employers, the Bank has adopted a compensation policy that it believes is competitive with industry standards in the Philippines. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new talent. Tied to this is a performance management system that calls for the alignment of individual key results, competencies, and development plans with the Bank's overall business targets and strategy. Performance is reviewed annually and employees are rewarded based on the attainment of pre-defined objectives.

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

Corporate Social Responsibility

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

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

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

Insurance

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

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

Properties

As of 30 September 2019, the Bank (excluding BPI Direct BanKo) owned 245 branch locations and leased an additional 619. The following table provides the geographic breakdown of the Bank's Philippine branch network as of 30 September 2019:

Location*	Number of Branches	
	Owned	Leased
Metro Manila.....	113	345
Provincial	132	274
Total.....	245	619

Note:

* Excluding BPI Direct BanKo branches.

Intellectual Property

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

Legal Proceedings and Permits

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

Description of the Bank

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

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

Principal Subsidiaries and Associates

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

	Effective Ownership ⁽¹⁾	Activity	Issued Capital Stock*	As of and for nine months ended 30 September 2019		
				Total Assets	Total Revenues	Net Income (Loss) ⁽²⁾
				(Unaudited)		
				(P millions)		
Subsidiaries						
BPI Family Savings Bank, Inc.	100%	Banking	1,000	278,597	8,806	2,922
BPI Capital Corporation	100%	Investment House	506	4,566	318	54
BPI Century Tokyo Lease & Finance Corp.	51%	Leasing	81	15,943	440	(18)
BPI Century Tokyo Rental Corp.	51%	Rental	650	5,159	1,240	20
BPI Direct BanKo, Inc., A Savings Bank	100%	Microfinance	406	15,766	2,250	314
BPI International Finance Limited	100%	Financing	492	2,769	150	(108)
BPI Europe, Plc	100%	Banking (deposit)	1,299	4,347	105	7
BPI Securities Corporation	100%	Stock brokerage	200	1,714	185	(2)
BPI/MS Insurance Corporation	50.9%	Non-life insurance	350	12,992	2,813	194
BPI Asset Management and Trust Corporation	100%	Trust services	600	3,913	1,694	439
BPI Investment Management, Inc.	100%	Investment Management	100	3,401	697	518
Associates						
BPI Philam Assurance Corporation	47.7%	Life insurance	750	108,030	14,622	397
AF Payments, Inc.	20%	Financing	3,960	1,602	19	(162)
Global Payments Asia-Pacific Philippines Inc. .	49%	Financing	2,034	4,886	352	82

Notes:

* in millions

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

(2) % share of subsidiaries net income.

(a) Subsidiaries

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

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

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

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

Description of the Bank

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

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

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

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

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

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

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

(b) *Associates*

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

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

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

RISK MANAGEMENT

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

Risk Management

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

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

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

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

Risk Organisation

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

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

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

Risk Management

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

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

Credit Risk

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

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

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

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

Market, Interest Rate in the Banking Book & Liquidity Risks

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

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

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

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

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

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

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

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

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

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

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

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

Operational & IT Risks

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

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

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

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

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

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

Risk Management

management, and business units, communicating the risk awareness culture to the rest of the Bank through various internal channels, facilitating learning programs and awareness campaigns on risk management, and promoting best enterprise-wide practices.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

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

Funding

(a) Overview

The Bank's funding is primarily provided by time, savings and demand deposits. Of the total amount of deposits of ₱1.62 trillion as of 30 September 2019, 31% thereof pertain to time deposits, 53% pertain to savings deposits, and 16% pertain to demand deposits. The Bank also sources part of its funding requirements from the interbank market and occasionally from the BSP rediscount facility, which generally results in lower overall funding cost.

(b) Sources of Funding

The Bank's principal source of deposits is private individuals. As of 30 September 2019, these accounted for 63.7% of total deposit liabilities.

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

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

	For the year ended 31 December					
	2016		2017		2018	
	Volume	Average Cost of Funding ⁽¹⁾	Volume	Average Cost of Funding ⁽¹⁾	Volume	Average Cost of Funding ⁽¹⁾
	(₱ millions, except percentages)					
Deposits by type:						
Demand	231,525	0.3%	252,238	0.3%	256,279	0.3%
Savings	820,181	0.7%	860,612	0.6%	883,650	0.6%
Time	379,594	1.9%	449,350	2.0%	445,817	2.9%
Total	1,431,300	1.0%	1,562,200	1.0%	1,585,746	1.1%
Deposits by currency:						
Peso	1,215,484	1.0%	1,318,169	1.0%	1,337,506	1.2%
Foreign	215,816	0.7%	244,031	0.8%	248,240	0.9%
Total	1,431,300	1.0%	1,562,200	1.0%	1,585,746	1.1%
Deposits by classification:						
Low Cost	1,051,706		1,112,850		1,139,929	
Term	379,594		449,350		445,817	
Total	1,431,300		1,562,200		1,585,746	
Bills Payable:						
Peso	9,150		37,064		96,265	
Foreign	52,823		46,453		70,636	
Total	61,973	1.8%	83,517	2.4%	166,901	3.8%
Acceptances Payable:						
Peso	40		12		5	
Foreign	1,412		2,980		2,389	
Total	1,452		2,992		2,394	

Note:

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

Description of the Bank's Assets and Liabilities

	For the nine months ended 30 September			
	2018		2019	
	Volume	Average Cost of Funding ⁽¹⁾	Volume	Average Cost of Funding ⁽¹⁾
(P millions, except percentages)				
Deposits by type:				
Demand	256,117	1.1	264,116	1.3
Savings	885,558	0.6	855,447	0.5
Time	400,797	2.3	500,337	3.8
Total	1,542,472	1.1	1,619,900	1.6
Deposits by currency:				
Peso	1,295,203	1.3	1,368,530	1.7
Foreign	247,269	0.8	251,370	1.1
Total	1,542,472	1.1	1,619,900	1.6

	For the nine months ended 30 September			
	2018		2019	
	Volume	Average Cost of Funding ⁽¹⁾	Volume	Average Cost of Funding ⁽¹⁾
(P millions, except percentages)				
Deposits by classification:				
Low Cost	1,141,675		1,119,563	
Term	400,797		500,337	
Total	1,542,472		1,619,900	
Bills Payable:				
Peso	21,427		63,591	
Foreign	79,570		91,332	
Total	100,997	3.5%	154,923	5.1%
Acceptances Payable:				
Peso	9		20	
Foreign	3,009		2,149	
Total	3,018		2,169	

Note:

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

As of 30 September 2019, 69.1% of the Bank's outstanding deposits were demand and savings deposits, both of which can be withdrawn on demand without any prior notice from the customer. The following table sets out an analysis of the maturities of the deposit base of the Bank as of the dates indicated:

	As of 31 December			As of 30
	2016	2017	2018	September
(P millions)				
Demand	231,525	252,238	256,279	264,116
Savings	820,181	860,612	883,650	855,447
Time	379,594	449,350	445,817	500,337
Up to 1 year	272,121	313,444	330,845	400,897
> 1 year to 5 years	107,473	135,906	114,972	99,440
Total	1,431,300	1,562,200	1,585,746	1,619,900

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

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

(c) *Liquidity*

As of the date of this Offering Circular, Peso deposits and deposit substitutes of universal and commercial banks are subject to a 14% reserve requirement. Required reserves must be kept in the form of deposits placed in the Bank's demand deposit account (**DDA**) with the BSP. Sufficient asset cover is likewise provided for foreign-denominated liabilities. The Bank follows BSP regulations that require depository banks under the foreign

Description of the Bank's Assets and Liabilities

currency deposit system to maintain at all times a 100% asset cover for their foreign currency liabilities, of which at least 30% must be in the form of liquid assets.

As of 30 September 2019, the Bank's liquid assets amounted to ₱877,910 million, or 41.3% of the Bank's total assets. The Bank's liquid assets consisted largely of government securities and cash and other liquid assets to cover primary reserves requirement for deposits as well as to maintain a significant level of secondary reserves to fund any potential increase in loan demand. The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	As of 31 December			As of 30 September
	2016	2017	2018	2019
	(₱ millions, except percentages)			
Liquid Assets⁽¹⁾	831,697	881,848	950,213	877,910
Cash and Other Cash Items	35,692	35,132	43,536	28,729
Due from BSP	239,514	255,948	225,907	196,225
Due from Other Banks	23,037	14,406	12,477	13,786
Interbank Loans Receivable and Securities				
Purchased Under Agreements to Resell	14,721	18,123	34,253	39,796
Derivative Assets	1,574	73	4,033	3,121
Financial Assets at Fair Value through Profit or Loss..	14,603	5,332	12,088	26,504
Investment Securities, net				
Financial Assets at Fair Value through OCI	13,507	13,288	27,910	31,398
Financial Assets at Amortised Cost	30,722	13,182	30,159	23,044
Loan and Advances, Gross	454,072	521,688	554,183	511,359
Other Financial Assets	4,255	4,676	5,667	3,948
Total Assets	1,725,696	1,903,905	2,085,228	2,125,781
Total Deposits	1,431,300	1,562,200	1,585,746	1,619,900
Net Loans⁽²⁾	1,040,720	1,202,338	1,354,896	1,371,671
Financial Ratios				
Liquid Assets to Total Assets	48.2%	46.3%	45.6%	41.3%
Liquid Assets to Total Deposits	58.1%	56.4%	60.0%	54.2%
Net Loans to Total Deposits	72.7%	77.0%	85.4%	84.7%

Notes:

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

(d) Liquidity Management

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

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

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

Securities Portfolio

The Bank classifies its securities in the following three categories: financial assets at fair value through profit and loss (**FVPL**), financial assets at amortised cost investments and financial assets at fair value through other comprehensive income (**FVOCI**) investments. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Securities are classified as FVOCI investments when purchased and held indefinitely, but which the Bank expects to sell in response to liquidity requirements or changes in market conditions. Financial assets at FVPL include debt and equity securities that

Description of the Bank's Assets and Liabilities

have been acquired principally for the purpose of selling or repurchasing in the near term. Amortised Cost investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the intention and ability to hold to maturity.

As of 30 September 2019, the Bank's investments (exclusive of derivatives) comprised 18% of its total assets. The table below shows the balances of the Bank's securities as of the dates indicated:

	As of 31 December						As of 30 September	
	2016		2017		2018		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(₱ millions)							
Financial Assets at FVTPL	14,603	14,603	5,332	5,332	12,688	12,688	26,504	26,504
Investment Securities, net								
Financial Assets at FVOCI.....	24,301	24,301	23,313	23,313	37,206	37,206	78,642	78,642
Financial Assets at Amortised Cost	268,483	261,742	277,472	268,301	287,571	258,652	287,847	287,094
Total.....	307,387	300,646	306,117	296,946	337,465	308,546	392,993	392,240

Loan Portfolio

As of 30 September 2019, the Bank's total loan portfolio amounted to ₱1.396 trillion, representing 65.7% of total assets. Large corporate loans, SME loans and consumer loans make up 75.4%, 5.7% and 18.9% of the Bank's total loan portfolio as of 30 September 2019.

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

	As of 31 December			As of 30
	2016	2017	2018	September
	(₱ millions)			
Corporate Entities				
Large Corporate Customers	760,558	913,529	1,043,855	1,052,651
Small-and-Medium-Sized Enterprise	83,516	85,324	87,998	80,013
Retail Customers				
Credit Cards	39,995	49,142	60,843	68,837
Real Estate Mortgages	116,079	115,772	126,088	135,047
Auto Loans	53,485	53,343	51,845	52,747
Others	4,545	4,707	5,145	6,692
Total	1,058,178	1,221,817	1,375,774	1,395,987

(a) Industry concentration

The real estate, manufacturing, electricity, gas, and water, wholesale and retail trade, and financial institutions sectors have in general represented the largest sectors of the Bank's loan portfolio, 24.1%, 15.0%, 11.0%, 11.0% and 10.9%, respectively, of the Bank's loan portfolio as of 30 September 2019.

Under guidelines established by the BSP, loan concentration is considered to exist when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. BSP regulations require banks to allocate 25% of their loanable funds for agricultural credit in general, of which at least 10% is to be made available for agrarian reform credit. Alternatively, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. Failure to comply with required credit to the agrarian reform and agricultural sectors may result in sanctions, including an annual penalty of 0.5% of the amount of non-compliance/under-compliance. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, the Bank was fined ₱387.4 million, ₱424.4 million, ₱491.7 million, ₱390.7 million and ₱439.2 million, respectively, for its failure to fully comply with Agri-Agra mandated lending. The amount of loans to be extended by the Bank under Agri-Agra amounts to approximately ₱215.2 billion as of 30 September 2019.

The BSP has also mandated banks to allocate credit resources of at least 8% of their total loan portfolio as of the end of the previous quarter for micro-and-small-enterprises (MSEs) and at least 2% for medium-enterprises (MEs). Sanctions include monetary fines of ₱500,000 for non-compliance while the amount of undercompliance is expressed as a percentage of the applicable requirement multiplied by ₱400,000 for MSEs and by ₱100,000 for

Description of the Bank's Assets and Liabilities

MEs. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, the Bank was fined ₱0.78 million, ₱1.02 million, ₱0.25 million, ₱0.26 million and ₱0.26 million, respectively, for failure to extend loans in a sufficient amount to MSMEs. The amount of credit to be extended by the Bank to MSMEs amounts to ₱113.6 billion as of 30 September 2019. Because the Bank is unable to generate sufficient exposure to the Agri-Agra or MSMEs sectors that meet its credit and risk management standards, the Bank has paid fines in the past and may continue to do so in the future.

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

	As of 31 December						As of 30 September	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Consumer	95,751	9.1%	104,584	8.6%	114,277	8.3%	123,311	8.9%
Manufacturing	167,015	15.8%	198,315	16.3%	223,365	16.3%	208,140	15.0%
Real estate, renting and other related activities	247,038	23.4%	276,890	22.7%	314,398	23.0%	335,297	24.1%
Wholesale and retail	117,123	11.1%	139,885	11.5%	172,597	12.6%	152,630	11.0%
Agriculture, fishing and forestry	42,922	4.1%	40,120	3.3%	37,539	2.7%	39,186	2.8%
Electricity, gas and water	98,556	9.3%	120,304	9.9%	130,944	9.6%	153,246	11.0%
Transport, storage and communication	59,691	5.7%	66,263	5.5%	27,732	2.0%	27,946	2.0%
Construction	22,793	2.2%	22,428	1.8%	27,409	2.0%	30,617	2.2%
Financial intermediaries	100,382	9.5%	91,646	7.5%	83,462	6.1%	150,826	10.9%
Others	103,650	9.8%	157,108	12.9%	237,621	17.4%	167,873	12.1%
Total	1,054,921	100.0%	1,217,543	100.0%	1,369,344	100.0%	1,389,072	100.0%

(b) Loan Maturity Profile

As of 30 September 2019, 36.8% of the Bank's loan portfolio had a maturity of one year or less. The following table sets forth an analysis of the Bank's loan portfolio by maturity as of the dates indicated:

	As of 31 December						As of 30 September	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Within one year(1).....	449,597	42.6%	516,230	42.4%	540,450	39.5%	511,359	36.8%
More than one year.....	605,324	57.4%	701,313	57.6%	828,894	60.5%	877,713	63.2%
Total.....	1,054,921	100.0%	1,217,543	100.0%	1,369,644	100.0%	1,389,072	100.0%

Note:

- (1) Includes past due loans.

(c) Foreign Currency Denominated Loans

As of 30 September 2019, 89.2% of the Bank's loan portfolio was denominated in Pesos while 10.8% was denominated in a foreign currency, 94.3% of which was comprised of U.S. dollars.

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

	As of 31 December						As of 30 September	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Philippine Peso.....	931,873	88.3%	1,076,780	88.4%	1,218,379	89.0%	1,238,506	89.2%
Foreign Currency	123,048	11.7%	140,763	11.6%	150,965	11.0%	150,566	10.8%
U.S. Dollars	120,688	98.1%	135,300	96.1%	145,995	96.7%	141,930	94.3%
Others	2,360	1.9%	5,463	3.9%	4,970	3.4%	8,636	5.7%
Total	1,054,921	100.0%	1,217,543	100.0%	1,369,344	100.0%	1,389,072	100.0%

(d) Interest Rates

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

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

	As of 31 December						As of 30 September	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(P millions, except percentages)							
Repricing.....	974,308	92.4%	1,086,603	89.2%	1,227,757	89.7%	1,237,224	89.1%
Up to one year.....	741,136	76.1%	741,937	68.3%	833,657	67.9%	837,037	67.7%
Over 1 up to 3 years.....	66,575	6.8%	79,326	7.3%	129,410	10.5%	129,109	10.4%
Over 3 years.....	166,597	17.1%	265,340	24.4%	264,690	21.6%	271,078	21.9%
Non-repricing.....	80,613	7.6%	130,941	10.8%	141,587	10.3%	151,848	10.9%
Total Loans.....	1,054,921	100.0%	1,217,544	100.0%	1,369,344	100.0%	1,389,072	100.0%

(e) Sizes and concentration of loans

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

The Bank monitors its financial exposure to its customers in order to ensure that concentration risk is prudently managed. As of 30 September 2019, the Bank's ten largest individual borrowers accounted for 11.8% of the Bank's total outstanding loan portfolio. As of 30 September 2019, the Bank's ten largest borrower groups in the aggregate accounted for 22.0% of its outstanding loan portfolio. There are no NPLs in the top ten loan accounts.

Secured and Unsecured Loans

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

	As of 31 December						As of 30 September	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(P millions, except percentages)							
Secured.....	636,886	60.4%	573,293	47.1%	447,821	32.7%	440,210	31.7%
Real estate mortgage.....	241,363	37.9%	195,432	34.1%	220,587	49.3%	258,224	58.7%
Chattel mortgage.....	61,484	9.7%	64,420	11.2%	54,731	12.2%	69,264	15.7%
Others.....	334,039	52.4%	313,441	54.7%	172,503	38.5%	112,722	25.6%
Unsecured.....	418,035	39.6%	644,250	52.9%	921,523	67.3%	948,862	68.3%
Total.....	1,054,921	100.0%	1,217,543	100.0%	1,369,344	100.0%	1,389,072	100.0%

As of 30 September 2019, 68.3% of the Bank's total loans are unsecured.

(a) Loans to Directors, Officers, Shareholders and their Related Interests

The Bank extends loans to its directors, officers, shareholders and their related interests (collectively referred to as **DOSRI**) in the normal course of business and on equal terms with those offered to unrelated third parties. The BSP imposes an aggregate ceiling of 15% of the bank's loan portfolio for these types of loans or 100% of net worth, whichever is lower with the unsecured portion limited to 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower. As of 30 September 2019, DOSRI loans amounted to 0.73% of the Bank's total loans and advances.

Loan Classification and Loan Loss Provisioning

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

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

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

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

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

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

	As of 31 December						As of 30 September	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
	(P millions, except percentages)							
Classified	17,959	1.69%	17,982	1.47%	22,223	1.62%	26,322	1.88%
Especially mentioned	2,533	0.24%	2,854	0.23%	7,779	0.56%	9,687	0.69%
Substandard secured	3,631	0.34%	3,424	0.28%	2,558	0.19%	2,618	0.19%
Substandard unsecured	1,878	0.18%	1,657	0.14%	5,399	0.39%	7,005	0.50%
Doubtful.....	6,179	0.58%	6,083	0.50%	2,542	0.18%	2,670	0.19%
Loss.....	3,739	0.35%	3,964	0.32%	3,945	0.29%	4,342	0.31%
Unclassified	1,041,426	98.31%	1,205,095	98.53%	1,355,576	98.38%	1,370,873	98.12%
Total	1,059,385	100.00%	1,223,077	100.00%	1,377,799	100.00%	1,397,195	100.00%

(a) *Non-Performing Assets*

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

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	As of December 31			As of 30 September
	2016	2017	2018	2019
	(₹ millions, except percentages)			
Total Loans (gross).....	1,058,178	1,221,817	1,369,344	1,389,072
Non-performing loans (NPLs), gross 30-day ⁽¹⁾	15,792	16,255	25,391	25,088
Non-performing loans (NPLs), net 30-day ⁽¹⁾	5,722	5,776	12,794	11,270
ROPA, Gross.....	7,629	7,319	6,617	6,269
ROPA, Net.....	3,667	3,578	3,363	3,325
Total non-performing assets (NPAs), net.....	9,389	9,354	16,157	14,595
Total assets.....	1,725,696	1,903,905	2,085,228	2,125,781
NPAs to total assets.....	0.54%	0.49%	0.77%	0.69%
Allowance for impairment and credit losses (total).....	22,197	24,045	25,684	27,850
Allowance for credit losses (loans).....	18,235	20,304	22,430	24,906
Allowance for impairment losses (ROPA).....	3,962	3,741	3,254	2,944
Allowance for credit losses (loans) to total non-performing loans, gross.....	115.5%	124.9%	88.3%	99.3%
Allowance for impairment and credit losses (total) to total non-performing assets..	94.8%	102.0%	80.2%	88.2%
Total restructured loans.....	29	8.95	217.3	1,319
Restructured loans to total loans (gross).....	0.00%	0.00%	0.02%	0.09%
Loans – written off.....	2,208	1,651	2,276	1,698

Note:

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

(b) Sectoral analysis of non-performing loans

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

	As of 31 December						As of 30 September	
	2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
(₹ millions, except percentages)								
Consumer.....	4,692	29.8%	5,004	30.8%	5,793	22.8%	6,399	25.5%
Manufacturing (various).....	1,169	7.4%	1,390	8.5%	1,285	5.1%	2,597	10.4%
Real estate, renting and other related activities .	3,916	24.8%	4,128	25.4%	7,760	30.6%	7,303	29.1%
Wholesale and retail.....	1,709	10.8%	1,733	10.7%	3,448	13.6%	2,463	9.8%
Agriculture, fishing and Forestry.....	791	5.0%	730	4.5%	747	2.9%	767	3.1%
Electricity, gas and water.....	45	0.3%	330	2.0%	335	1.3%	349	1.4%
Transport, storage and communication.....	258	1.6%	264	1.6%	392	1.5%	200	0.8%
Construction.....	491	3.1%	390	2.4%	769	3.0%	1,034	4.1%
Financial intermediaries.....	448	2.8%	350	2.2%	276	1.1%	334	1.3%
Others.....	2,273	14.4%	1,936	11.9%	4,586	18.1%	3,642	14.5%
Total.....	15,792	100.0%	16,255	100.0%	25,391	100.0%	25,088	100.0%

(c) Credit Approval Levels

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

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

Approving Authority	Credit Limit	
	Secured	Unsecured
Sub-credit Committee	₹1.5 billion	₹1.0 billion
Credit Committee	₹2.5 billion	₹2.0 billion
Executive Committee	>₹2.5 billion (excluding DOSRI, subsidiaries and affiliates)	>₹2.0 billion (excluding DOSRI, Subsidiaries and affiliates)
Board of Directors	In excess of ₹8.0 billion and loans to DOSRI, subsidiaries and affiliates	In excess of ₹8.0 billion and loans to DOSRI, subsidiaries and affiliates

Credit Management Policies and Procedures

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

(a) *Board of Directors*

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

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

(b) *Executive Committee*

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

(c) *Risk Management Committee*

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

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

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- regularly report to the Board the Bank's over-all risk exposure, actions taken to reduce the risks and recommend further actions and plans whenever necessary;
- ensure the proper implementation of the Bank's risk and capital management plan;
- review and reverse the Bank's risk and capital management plan as needed;
- set strategic targets, portfolio composition and limits; and
- oversee the management, methods, and processes of the Bank's Chief Risk Officer and the Risk Management Office.

(d) *Credit Committee*

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

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

Special Accounts Management

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

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

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

SHAREHOLDERS, DIRECTORS, AND MANAGEMENT

Shareholders

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

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

Board of Directors

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

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

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

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

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

Mr. Zobel serves in Board of the following Philippine Stock Exchange (PSE) – listed companies, namely: Chairman and Chief Executive Officer of Ayala Corporation, Chairman of Globe Telecom, Inc. and Integrated Micro-Electronics, Inc., and Vice-Chairman of Ayala Land, Inc. and Manila Water Company, Inc. He is also the Chairman of AC Education, Ayala Retirement Fund Holdings, Inc., AC Industrial Technology Holdings, Inc., AC Ventures Holdings Corp., AC Infrastructure Holdings Corporation and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Light Rail Manila Holdings, Inc. and AG Holdings Limited.

Outside the Ayala group, he is a member of various international and local business and socio-civic organisations, including the JP Morgan International Council, JP Morgan Asia Pacific Council, Mitsubishi Corporation International Advisory Council and Council on Foreign Relations. He sits on the board of the Singapore

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Management University, the Global Advisory Board of University of Tokyo, and on various advisory boards of Harvard University, including the Global Advisory Council, HBS Board of Dean's Advisors, and HBS Asia-Pacific Advisory Board, which he chairs. He is Chairman Emeritus of the Asia Business Council, Co-Vice Chairman of the Makati Business Club, Chairman of Endeavor Philippines, and a board member of Eisenhower Fellowships.

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

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

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

He has served on BPI's board of directors for 17 years (1995 – 2000, 2004 – 2007, 2010 – present), including 5 years representing J.P. Morgan & Co., then BPI's second largest shareholder, and 3 years as an independent director. Mr. Consing serves as chairman of BPI's thrift bank, investment bank, UK bank, property and casualty insurance, leasing, and rental subsidiaries, and vice chairman of its foundation; and is also a board director of BPI's life insurance and asset management subsidiaries. Mr. Consing is a member of BPI's executive committee, and is chairman of its credit and management committees.

Mr. Consing serves as Chairman of the publicly listed National Reinsurance Corporation, President and board director of Bancnet, Inc., and board director of LGU Guarantee Corporation, three industry consortium institutions where BPI is a minority shareholder.

Outside his association with BPI, Mr. Consing serves on the boards of four private companies: The Rohatyn Group, Sqreem Technologies, Filgifts.com, and Endeavor Philippines. He has also served as an independent board director of three public companies: Jollibee Foods Corporation (2010 – present), CIMB Group Holdings (2006 – 2013) and First Gen Corporation (2005 – 2013). He is also a board director of the US-Philippines Society and a trustee of the Manila Golf Club Foundation. Mr. Consing has been a member of the Trilateral Commission since 2014.

Mr. Consing first worked for BPI, in corporate planning and corporate banking, from 1980 – 1985. He worked for J.P. Morgan & Co., based in Hong Kong and Singapore, from 1985 – 2004, rising to co-head or head the firm's investment banking business in Asia Pacific from 1997 – 2004, the last five years as President of J.P. Morgan Securities (Asia Pacific) Ltd. As a senior Managing Director of J.P. Morgan, Mr. Consing was a member of the firm's global investment banking management committee and its Asia Pacific management committee. Mr. Consing was a partner at The Rohatyn Group from 2004 – 2013, headed its Hong Kong office and its private investing business in Asia, and was a board director of its real estate, and energy and infrastructure private equity investing subsidiaries.

Mr. Consing received an A.B. Economics degree (Accelerated Program), *magna cum laude*, from De La Salle University, Manila, in 1979. At university, he was a member of the student council, the student newspaper and the varsity track and field team. In recent years, he has served on the advisory committees of the university and its school of economics. Mr. Consing obtained an M.A. in Applied Economics from the University of Michigan, Ann Arbor, in 1980.

Ms. Mercedes S. Nollo, Filipino, 78 years old, has been a member of the Board of Directors of BPI since November 1991. She is the Chairman of the Bank's Retirement & Pension Committee and a member of the Bank's Executive Committee and Corporate Governance Committee. Ms. Nollo is also a Director in the following BPI subsidiaries and affiliates: BPI Investment Management, Inc., where she sits as Chairman; BPI Family Savings Bank, Inc., BPI Capital Corporation and BPI Asset Management and Trust Corporation.

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Ms. Nolloedo is a Non-Executive Director of Xurpas, Inc. and an Independent Director of D&L Industries, Inc., both PSE-listed companies. She serves as Director of the following companies: Ayala Land Commercial REIT, Inc., Michigan Holdings, Inc. and Anvaya Cove Beach and Nature Club, Inc.

She is a member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc. as well as Vice-President of Sonoma Properties, Inc. She was a member of the Board of Directors of Ayala Corporation from 2004 until September 2010.

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

Mr. Fernando Zobel de Ayala, Filipino, 59 years old, has been a member of the Board of Directors (Non-Executive Director) of BPI since October 1994 and was elected Vice Chairman in April 2013. He also serves as Chairman of the Bank's Personnel and Compensation Committee, Vice-Chairman of the Executive Committee, and member of the Nomination Committee. He is also a member of the Board of BPI Asset Management and Trust Corporation and Chairman of the Board of Trustees of BPI Foundation, Inc.

Mr. Zobel is the President and Chief Operating Officer of Ayala Corporation; Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; Director of Globe Telecom, Inc. and Integrated Micro-Electronics, Inc.; and an Independent Director of Pilipinas Shell Petroleum Corp, all PSE-listed companies. He is Chairman of AC International Finance Ltd. and AC Energy Holdings, Inc.; Co-Chairman of Ayala Foundation, Inc.; Director of LiveIt Investments, Ltd., Ayala International Holdings Limited and Honda Cars Philippines, Inc. Mr. Zobel is a member of the Board of Georgetown University and INSEAD. He is a member of the World Presidents' Organization and the Chief Executives Organization. He is a Board member of the Habitat for Humanity International and chairs the steering committee of its Asia Pacific Capital Campaign. He also serves on the board of the Asia Society and is a member of the Asia Philanthropy Circle, a board member of the Philippine National Museum and Pilipinas Shell Foundation.

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

Ms. Rebecca G. Fernando, Filipino, 70 years old, served as Director of BPI from 1995 to 2007. She was again re-elected Director of BPI in 2009 up to the present. Ms. Fernando is a member of the following Committees in BPI: Executive Committee, Related Party Transaction Committee and Retirement/Pension Committee. She is also a member of the Board of Directors of BPI Capital Corporation, BPI Family Savings Bank, Inc., and BPI Asset Management and Trust Corporation.

Ms. Fernando is the Financial Consultant and Member of the Finance Boards of The Roman Catholic Archbishop of Manila and of The Roman Catholic Archbishop of Antipolo.

She graduated with a BSBA degree major in accounting from the University of the Philippines in 1970. She took further studies for an MBA at the University of the Philippines and attended an Executive Program on Transnational Business at the Pacific Asian Management Institute at the University of Hawaii. She is a Certified Public Accountant.

Mr. Geraldo C. Ablaza, Jr., Filipino, 65 years old, was elected as Director (Non-Executive) of BPI in April 2017. He is a member of the Bank's Personnel & Compensation Committee and a Director of BPI Family Savings Bank, Inc. and BPI Capital Corporation.

Mr. Ablaza is currently a Management Consultant at the Ayala Corporation and a member of the Board of Directors in a number of Ayala's subsidiaries including PSE-listed Manila Water Company, Inc. (Non-Executive Director), AC Energy, AC Health, AC Infrastructures and Ayala Foundation. From 1998 to April 2009, he was President and CEO of Globe Telecom, Inc. During this period, he took the company from being the fourth-ranked mobile services provider to the second-largest full-service telecom operator with a subscriber base of 25 million in 2008. From 2010 to 2017, he was the President and CEO of Manila Water Company and was responsible for overseeing the financial and operational growth within Manila Water's service areas in the Metro Manila East Zone and in its expansion areas.

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In 2004, Mr. Ablaza was recognised by CNBC as the Asia Business Leader of the Year, making him the first Filipino CEO to win the award. He was also awarded by Telecom Asia as the Best Asian Telecom CEO. In 2013, he was recognised for his consistent leadership and innovation across the banking, investment, telecommunications and utility service industries through the Citi Distinguished Alumni Award for Leadership and Ingenuity. He was the first Filipino to be awarded with such an honour. In June 2015, he became a member of the International Advisory Panel of the Institute for Water Policy under the Lee Kuan Yew School of Public Policy in Singapore. In 2017, he became a member of the Board of Directors and Executive Committee of Advance Info Services, PLC based in Thailand.

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

Mr. Aurelio R. Montinola III, Filipino, 67 years old, has been a member of the Board of Directors of BPI since 2004. Mr. Montinola served as President and Chief Executive Officer of BPI for eight years from 2005 to 2013, and BPI Family Savings Bank, Inc. for twelve years from 1992 to 2004. He is a member of the Bank's Executive, Risk Management, Personnel & Compensation and Nomination Committees. Among the several BPI subsidiaries and affiliates, Mr. Montinola serves as member of the Board of Directors of the following: BPI Capital Corporation, BPI Family Savings Bank, Inc., BPI/MS Insurance Corporation, and BPI Direct BankKo, Inc., A Savings Bank.

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

Significant awards received by Mr. Montinola include Management Man of the Year 2012 (Management Association of the Philippines), Asian Banker Leadership Award (twice), and Legion d'Honneur (Chevalier) from the French Government.

He obtained his Bachelor of Science in Management Engineering degree at the Ateneo de Manila University in 1973 and his MBA from the Harvard Business School in 1977.

Mr. Jose Teodoro K. Limcaoco, Filipino, 57 years old, was elected as a Director of BPI in February 2019. Previously, he served as President of BPI Family Savings Bank from 2010-2015 and President of BPI Capital Corporation from 2007-2010. He was also Officer-in-Charge for Ayala Life Assurance, Inc. in 2009 and Director/Chairman of Ayala Plans, Inc. in 2010-2011.

He is currently the Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer and Finance Group Head of Ayala Corporation, a PSE-listed company, and Director of Globe Telecom, Inc., and Integrated Micro-Electronics, Inc. He is an Independent Director of SSI Group, Inc., Chairman of Darong Agricultural and Development Corporation and Zapfam Inc., President and CEO of AC Ventures Holdings, Inc., (formerly Water Capital Works, Inc.), AYC Finance Limited, Bestfull Holdings Limited, and Purefoods International Limited. He is the Vice Chairman of Lagdigan Land Corporation, President of Lontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., AC Infrastructure Holdings Corporation, Ayala Aviation Corporation. AC Education, Inc., Asiacom Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc. (formerly Ayala Automotive Holdings Corporation), A.C.S.T. Business Holdings, Inc., LICA Management Inc. and Just For Kids, Inc. He is the Treasurer of Ayala Retirement Fund Holdings, Inc.

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

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

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Mr. Octavio V. Espiritu, Filipino, 75 years old, Independent Director, has been a member of the Board of Directors of BPI since April 2000. He is the Chairman of the Bank's Risk Management Committee and a member of the Audit Committee.

Mr. Espiritu is an Independent Director of International Container Terminal Services, Inc., a PSE-listed company, a member of the Board of Directors of Philippine Dealing System Holdings Corporation and Subsidiaries; Philippine Stratbase Consultancy, Inc., Pueblo de Oro Golf & Country Club, and The Country Club, Inc.

Mr. Espiritu was the former President and Chief Executive Officer of Far East Bank & Trust Company, and also the President of the Bankers Association of the Philippines for three consecutive terms. He was the Chairman of the Board of Trustees of Ateneo de Manila University for 14 years.

He graduated with an A.B. Economics degree from the Ateneo de Manila University in 1963 and obtained his M.A. Economics degree from Georgetown University, U.S.A. in 1966.

Mr. Romeo L. Bernardo, Filipino, 64 years old, has served as a member of the Board of Directors of BPI since February 1998, qualifying as an Independent Director since August 2002. He is the Chairman of the Bank's Nomination Committee and a member of the Personnel & Compensation, Related Party Transaction, and Risk Management Committees. He serves as Director of BPI Capital Corporation, BPI/MS Insurance Corporation, BPI-Philam Life Assurance Corporation and BPI Asset Management and Trust Corporation.

Mr. Bernardo serves as an Independent Director of the following PSE-listed companies: Aboitiz Power Corporation, National Reinsurance Corporation of the Philippines, and RFM Corporation. He is also a Non-Executive Director of Globe Telecom, Inc. He is the Chairman of the Board of Directors (Independent) of Ayala Life Fixed-Income Fund; the Peso, Dollar, Euro, Growth, Money Market CD Funds. He also serves as Vice Chairman of The Foundation for Economic Freedom and is a Board Director of Finex Foundation. He is likewise a public advocate of good corporate and national governance and frequently writes on the subject in his capacity as Vice-Chairman and Co-Founder of the Foundation for Economic Freedom and the Philippine Partner of GlobalSource Partners, Inc., a worldwide association of country-based experts providing insights on global emerging markets.

Mr. Bernardo is a former undersecretary of the Department of Finance and founded his consultancy practice, Lazaro Bernardo Tiu & Associates in 1997. He has been advisor to various multilateral institutions such as the World Bank, International Finance Corporation, Asian Development Bank, and Japan International Cooperation Agency. He has also worked with government institutions and the National Economic Development Authority (NEDA) in policy matters involving pension reform, capital markets reform, and fiscal and debt management.

Mr. Bernardo graduated with a B.S. Business Economics degree (*magna cum laude*), from the University of the Philippines in 1974. He obtained his M.A. Development Economics (Valedictorian) at Williams College, Williamstown, Massachusetts in 1977.

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

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

Ms. Yuvienco worked for 41 years with the Bangko Sentral ng Pilipinas (formerly known as Central Bank of the Philippines) under various capacities until her compulsory retirement in March 2013. She held the post of Assistant Governor in the Supervision and Examination Sector when she retired. Her exposure at the BSP was largely in bank supervision where her responsibilities ranged from the crafting of policies/regulations on banking supervision to on-site examination and off-site monitoring of BSP-supervised entities. As a ranking official in the BSP, she had opportunities to meet and share ideas with her counterparts in other central banks in the region. Owing to her experience, she was tapped as a resource speaker in various training programs of the Southeast Asian Center for Banking in Kuala Lumpur.

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

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Mr. Ignacio R. Bunye, Filipino, 74 years old, was elected as Independent Director of BPI in April 2016. He is the Chairman of the Bank's Related Party Transaction Committee and a member of the Corporate Governance Committee. He serves as an Independent Director of BPI Asset Management and Trust Corporation and BPI Direct BanKo, Inc., A Savings Bank.

Mr. Bunye was a member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2008 to 2014. He previously held the positions of Presidential Political Adviser in 2008, Presidential Spokesperson in 2003, and Press Secretary in 2002. He also worked in BPI's Treasury and Corporate Finance departments from 1983 before he began his government service in the City of Muntinlupa (then a municipality) as officer-in-charge and mayor between 1986 and 1998.

During his twelve-year stewardship in Muntinlupa, Mr. Bunye founded the Muntinlupa Polytechnic College (now Pamantasan ng Lungsod ng Muntinlupa) and laid the foundation for the establishment of the Ospital ng Muntinlupa. In a concurrent capacity, he also served as Chairman of the Metropolitan Manila Authority (now Metropolitan Manila Development Authority) between 1991 and 1992, and was a member of the House of Representatives representing Muntinlupa between 1998 and 2001. A former print and broadcast journalist, he now writes a regular weekly column for Manila Bulletin, Tempo, People's Tonight, Sun Star, BusinessWeek Mindanao, Panay News and Filipino Reporter (in New York).

Mr. Bunye is a member of the Philippine Integrated Bar. He obtained his Bachelor of Arts degree and Bachelor of Laws degree from the Ateneo de Manila University in 1964 and 1969 respectively. He passed the Philippine Bar Examination in 1969. Significant awards and recognition received by Mr. Bunye include the Asian Institute of Management Honor and Prestige Award, the Bangko Sentral Service Excellence Medal, the Gran Oden de Isabela Catolica, and the Order of Lakandula.

Mr. Xavier P. Loinaz, Filipino, 75 years old, has been a member of the Board of Directors of the Bank since 1982 and has served as an Independent Director since March 2009. He held the position of President and Chief Executive Officer of the Bank for 22 years from 1982 to 2004. He is the Chairman of the Bank's Audit Committee and a member of the Nomination Committee. He is also an Independent Director of BPI Family Savings Bank, Inc. and BPI/MS Insurance Corporation.

Mr. Loinaz is an Independent Director of Ayala Corporation, a PSE-listed company since April 2017. He is the Chairman and President of XPL Manitou Properties, Inc. and Vice-Chairman of XPL MTJL Properties Inc. He is a member of the Board of Directors/Trustees of DAOI Condominium Corporation and E. Zobel Foundation; Chairman of the Board of Alay Kapwa Kilusan Pangkalusugan. He was President of the Bankers Association of the Philippines for two terms from 1989 to 1991.

He graduated with an A.B. Economics degree from the Ateneo de Manila University in 1963, and obtained his MBA Finance at the Wharton School of Pennsylvania in 1965.

Mr. Antonio Jose U. Periquet, Filipino, 58 years old, has been an Independent Director of BPI since April 2012. He is a member of the Bank's Executive Committee and is the Chairman/Independent Director of BPI Asset Management and Trust Corporation. He also serves as an Independent Director of BPI Capital Corporation and BPI Family Savings Bank, Inc.

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

He is a trustee of Lyceum University of the Philippines and a member of the Dean's Global Advisory Council at the University of Virginia's Darden School of Business.

Mr. Periquet graduated from the Ateneo de Manila University with an AB Economics degree in 1982. He also holds a Master of Science degree in Economics from Oxford University and an MBA from the University of Virginia.

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

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

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

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

Executive Officers of the Bank

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

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

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

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

Note:

* also member of the Board of Directors.

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

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

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

Mr. Jocson began his career in Manila in 1982, joining IBM Philippines as a Systems Analyst, and subsequently taking on more responsibility as he assumed different positions, including Information Systems Manager, Systems Engineering Manager and Manager of Quality. In 1995, he was assigned in Singapore where he led IBM's Applications/Systems Integration business in ASEAN and South Asia. In 1996, he was appointed as

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Managing Director for IBM Philippines. In 2000, he took on a new assignment as Vice President and GM of IBM Global Services, ASEAN and South Asia. He was then appointed as Vice President and GM of IBM Global Services for Industrial Sector for Asia Pacific in 2005. In 2007, he took on the role of Vice President and GM of Application Services for the Growth Market Unit, where he led IBM's Applications Management and Application Integration Services in Asia Pacific, Central and Eastern Europe, Latin America and Middle East/Africa. He was then appointed as VP & GM of Integrated Technology Services for Asia Pacific in 2010. In 2013, he was appointed as VP & GM of IBM Global Services for Central and Eastern Europe based in Prague, Czech Republic. In this capacity, he was responsible for IBM's services portfolio in Russia/CIS, Turkey, Poland & Baltics, Central Europe and South East Europe. From January 2015 he was in Singapore as IBM Asia Pacific VP & GM for Strategic Outsourcing, until he joined BPI in September 2015.

He was also a member of IBM's Growth & Transformation Team, which is composed of the top senior leaders in IBM which worked directly with the Chairman on key/strategic initiatives. He has served on several external boards, including the Economic Development Board of Singapore, Philamlife and iPeople.

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

Ms. Maria Theresa Marcial Javier, Filipino, 48 years old, is the Chief Financial Officer and Head of Strategy Group of BPI. She is responsible for strategic and corporate planning, accounting and financial control, capital management, investor relations, corporate legal affairs, and management of bank assets. Ms. Marcial joined the bank in 1995 and has 24 years of banking experience with expertise in investment management and trust business, corporate banking, debt and equity capital markets, and strategic planning. She is a member of BPI's Management Committee, Asset & Liability Committee, Credit Committee, and chairs the Capital Expenditure Committee. She previously served on the BPI Trust Committee and the board of BPI Investment Management, Inc.

Prior to her banking career, Ms. Marcial worked for the National Economic and Development Authority and Agricultural Policy Credit Council. She previously served as President of Fund Managers Association of the Philippines, and the Trust Officers Association of the Philippines, Vice-Chairman of Capital Markets Development Committee of FINEX, and Alternate Governor of the Market Governance Board of Philippine Dealing and Exchange Corporation.

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

Ms. Marcial obtained her Master's Degree in Economics in 1995 from the University of the Philippines Diliman and BS Economics (*cum laude*) from the University of the Philippines Los Baños in 1990. She completed the Advanced Management Program at Harvard Business School in 2010 and the CFA Institute Investment Management Workshop also at Harvard Business School in 2006.

Mr. Antonio V. Paner, Filipino, 60 years old, serves as Treasurer and head of the Bank's Global Markets Segment. As such, he is responsible for managing the Bank's interest rate and liquidity gaps, as well as its fixed income and currency market-making, trading, and distribution activities— in the Philippines and abroad. Mr. Paner is Chairman of the Bank's Asset & Liability Committee and is a member of the Management Committee and Asset Management Investment Council. He also serves on the board of BPI Europe Plc.

Mr. Paner joined BPI in 1985, upon acquisition of Family Savings Bank and performed various Treasury and Trust positions until 1989. Between 1989 and 1996, he worked at Citytrust, then the consumer banking arm of Citibank in the Philippines, which BPI acquired in 1996. At BPI, he has been responsible for various businesses of the bank, including Risk Taking, Portfolio Management, Money Management, Asset Management, Remittance and Private Banking.

Mr. Paner served as President of the Money Market Association of the Philippines (MART) in 1998 and remains an active member up to present. He is currently the Vice Chairman of the Bankers Association of the Philippines' (BAP) Open Market Committee. He is also a member of the Makati Business Club, Management Association of the Philippines, British Chamber of Commerce, and the Philippine British Business Council.

He obtained an A.B. Economics degree from Ateneo de Manila University in 1979 and completed various courses in Business and Finance, including Strategic Financial Management in 2006. In 2009, he completed the Advanced Management Program at Harvard Business School.

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Mr. Juan Carlos L. Syquia, Filipino, 52 years old, is Head of the Corporate Client Segment of the Bank. He was the former President of BPI Capital Corporation and Co-Head for Investment Banking for the Bank. He has over 28 years of work experience in the financial services industry.

Prior to joining BPI Capital Corporation in June 2016, Mr. Syquia was the Country Head of Corporate Clients for Standard Chartered Bank in the Philippines serving in that role from late 2011. In that role, he was principally responsible for wholesale banking coverage strategy of the bank in the Philippines.

Mr. Syquia spent 17 years with the ING Group where he started with the Baring Brothers & Co. group in 1994. Within the banking group of ING, he took on various roles in relationship management, corporate finance origination, and investment banking execution. His last role in ING Bank was as the Head of Corporate Finance at ING Bank Manila. In 2007, he moved to a regional role as Head of Strategy and Business Development at ING Asia Pacific Ltd., the regional hub of ING Group's life insurance and asset management practice.

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

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

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

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

Ms. Angelie O. King, Filipino, 57 years old, is the Head of Branch Sales and Service Channels of BPI. She is responsible for the Unibank's Branch Network nationwide, Direct Sales, Retail Enterprise Services, Branch Network and Administration and Strategic Planning. She joined the bank through the Citytrust merger in 1996.

Ms. King has 34 solid years of sales and branch service management experience. She began her career in Citytrust as a contractual specialist hire Field Sales Account Manager. Successfully introducing innovation and exceeding performance benchmarks, she was promoted through the ranks holding different positions to lead and take on bigger areas of responsibility. After the merger in 1996, Ms. King continued to take on expanded areas of responsibility and more senior roles in the organisation. She currently leads close to 9,000 employees across the Unibank.

Over the years, she chaired the Unibank WOW Committee responsible for improving the experience of customers in the branches and the Unibank Excellence Retail Awards Committee. She was also an active member of Unibank Strategy Planning Committee, and Unibank VP Nomination Committee. She is an advocate of social responsibility by spearheading fund raising programs to support public school and orphanage, cleft palate surgery for children, and rehabilitation programs for the Typhoon Yolanda and Marawi siege victims. She served as BFSB Director (2015-2017) and Chairman of BPI Remittance Centre (HK) Ltd (2016-2018).

Ms. King obtained her BS Commerce major in Management of Financial Institutions from De La Salle University in 1983. She also completed the Ayala Leadership Acceleration Program (2011).

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

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

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

Ms. Mary Catherine Elizabeth P. Santamaria, Filipino, 52 years old, is the Chief Marketing Officer of BPI. She is responsible for Core and Mass Retail Customer Strategy, Branch Channels Marketing & Support, Institutional Brand Marketing and Digital, Customer Data & Insighting, Operational Data and Reporting, Data Governance, CRM and Loyalty and Strategic Marketing Project Management. She joined the Bank in 2011 and is currently a member of the Management Committee.

With over 30 years of marketing experience, Ms. Santamaria began her career in the advertising industry with Adformatix, where she was awarded as rookie of the year. Throughout her career she has worked with leading companies such as Philippine Airlines, Monterey and Wyeth-Suaco. Most notable among these was her stint at Kraft Foods Philippines where she held different marketing positions and was appointed Marketing Director with added responsibility for Southeast Asia's consumer insighting projects with major interfaces across Sales, Operations, Research & Development, Finance, Supply Chain and the region office. While here, she received the prestigious Asia Pacific's President Award and Kraft Foods International's President Award, Best Asia Pacific Advertising in Cheese, and achieved "Super Ads" across campaigns developed. She was then appointed to Kraft Foods International headquarters as Director, Business Development where she identified business opportunities for specific market categories across Central Eastern Europe, Brazil, Australia, China and Saudi Arabia. She was also subsequently appointed as General Manager for Kraft Foods Jaya, leading Singapore, Malaysia and Brunei. Prior to joining BPI, Ms. Santamaria was Head of Touch Mobile at Globe Telecom which she successfully repositioned. She was also appointed as Segment Head for the Mobile Business and led the Globe rebranding. She also defined a more effective spending, put together a Marketing Leadership Academy and reformed marketing processes for the telecom leader.

She served as Vice President for the Bank Marketing Association of the Philippines (BMAP) in 2018.

Ms. Santamaria obtained her Bachelor of Science in Business Administration (*cum laude*) from the University of the Philippines in 1988. She also has a Certificate of Strategic Business Economics (with Distinction) and Master in Business Economics from the University of Asia and the Pacific (Philippines) in 2001. She also took a course from the Chicago Business School (Feb 2006, Chicago) and completed a Telecoms Marketing Mini MBA from Informa Telecoms and Media (April 2006, London).

Mr. Joseph Anthony M Alonso, Filipino, 53 years old, is currently the Chief Credit Officer of BPI since January 2017. As Chief Credit Officer, he is responsible for managing the aggregate risk in the BPI Group's loan portfolio - ensuring that portfolio quality and profitability is maintained across the lending units within the BPI Group through establishment of procedures and guidelines that facilitate effective decision making based on overall risk appetite and compliance with internal policies and regulatory requirements. He also serves as Vice Chairman of

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the Bank's Credit Committee and a member of the Fraud Committee. He is also a Board member of BPI Century Tokyo Lease & Finance Corporation and BPI Century Tokyo Rental Corporation.

Mr. Alonso was involved with Corporate Relationship Management for most of his 22 year career in BPI, having started as a Market Head in the Asian Division and eventually becoming Division Head of the Asian Corporates/PEZA Division. The Division also included the Special Projects Team under the Financial Institutions Group and BPI Leasing Corporation and BPI Rental Corporation prior the its merger with Tokyo Century Corporation of Japan.

Mr. Alonso started his banking career with The Mitsubishi Bank, Ltd. in Tokyo in 1990 as a management trainee, holding positions in branch, treasury and international operations and SME and multinational relationship management. Prior to joining BPI in January 1997, Mr. Alonso headed the Japan Desk in the World Corporation Group of Citibank, N.A. Manila Branch from 1994.

Mr. Alonso obtained his BS Business Administration degree at the Faculty of Economics of Oita University in Japan in 1990 under a scholarship grant from the Japan Ministry of Education. He was also a scholar of the National Science and Technology Authority while attending the College of Engineering at the University of the Philippines.

Ms. Rosemarie B. Cruz, Filipino, 56 years old, is the Chief Audit Executive of BPI since January 2012 and leads the Bank's Internal Audit Division. She also serves as the Chief Audit Executive for BPI subsidiaries including BPI Family Savings Bank, BPI Capital Corporation, BPI Securities Corporation, BPI Century Tokyo Lease and Finance, BPI Century Rental Corp, BPI Direct BanKo, BPI Asset Management and Trust Corporation, BPI Investment Management Inc., BPI International Finance Ltd., BPI Forex, BPI MS Insurance and BPI Ayala Plans. As such, she oversees the audit of the different units, systems and processes of BPI and these subsidiaries and provides assessment on the adequacy and effectiveness of their internal control systems, risk management and governance processes. She supports the Audit Committee in the discharge of its oversight function and also works closely with the Chief Risk Officer, Chief Compliance Officer, external auditor and other assurance units for a comprehensive review of risks and compliance systems in the Bank. She also sits as non-voting member in the board-level Related Party Transactions Committee and the management level Fraud and Irregularities Committee. Ms. Cruz joined BPI in 2000, when the Bank acquired Far East Bank and Trust Company, where she was previously in charge of the audit of the retail banking, lending operations and other backroom support operations. She also headed the special examination unit in charge of investigation of fraud and irregularities. Ms. Cruz is a Certified Public Accountant and obtained her BSBA Accounting degree from Philippine School of Business Administration. She completed her Advanced Bank Management program at Asian Institute of Management in 1996. Ms. Cruz currently also serves as a member of the Audit Committee of Ayala Multi-Purpose Cooperative.

Ms. Marita Socorro D. Gayares, Filipino, 57 years old, is the Chief Risk Officer of BPI and Head of its Risk Management Office since January 2018. As Chief Risk Officer, she is primarily responsible for the overall management of the BPI Group's enterprise risks – ensuring that all relevant financial and non-financial risks are appropriately identified, measured, monitored, and controlled within the Bank's approved risk appetite and commensurate to returns on capital. She provides executive and strategic risk support to the Bank's Board of Directors through the Risk Management Committee (RMC) in fulfilling its risk management function and ensuring that the Bank has an established, sound and robust enterprise risk management (ERM) framework. She works closely with the Chief Audit Executive and Chief Compliance Officer for effective risk management governance, compliance and control processes across the Bank. She serves either as Chairperson and/or Member of the Bank's Operational Risk Management Committee, Crisis Resiliency Committee, Fraud and Irregularities Committee, Anti-Money Laundering Evaluation Committee, Data Governance Committee (co-Chair), and Information Technology Steering Committee (advisory capacity).

With career stints in the areas of Corporate Banking, Credit and Transaction Banking, Loans Operations, Project Management, Systems, and Financial Control, and having previously served as the Bank's Chief Compliance Officer, Ms. Gayares's extensive and diverse 33-year banking experience has been instrumental in transforming the Bank's compliance, AML, corporate governance and data privacy frameworks, methods and processes, and in becoming one of the leading and most reputable in the PH banking industry in the areas of governance, risk and compliance (GRC).

Ms. Gayares is a graduate of the University of the Philippines with a Bachelor's degree in Business Economics. She completed her Master's degree in Business Administration (major in Finance and Investments) at George Washington University in Washington, D.C. She has successfully completed the Strategic Compliance in the

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Banking industry certification program by the Association of Bank Compliance Officers (ABCOMP) and De La Salle University (DLSU) Manila, as well as completed corporate governance modules facilitated by the Institute of Corporate Directors (ICD). She has previously served as Director and Treasurer of the ABCOMP, Voting Member of the Bankers Institute of the Philippines (BAIPHIL), and at present, Member of the Risk Management Committee of the Bankers' Association of the Philippines, and Board of Advisors/Executive Committee Member of the Enterprise Risk Management (ERM) Council of the Ayala Group of Companies.

Atty. Noravir A. Gealogo, Filipino, 55 years old, is the Chief Compliance Officer of BPI and Head of the Bank's Compliance Division which oversees the implementation of the Bank's enterprise-wide compliance programs and is composed of the following departments: Regulatory Compliance, AML Compliance, AML Systems and Special Projects, FATCA Compliance, Corporate Governance and the Data Privacy Office. The Compliance Division is also empowered by 21 Group Compliance Officers (GCOs), who are embedded in operational units throughout the Bank.

Having been with Far East Bank and Trust Company (FEBTC) since 1991, which then merged with BPI in 2000, she has 28 years of banking experience. Previously a legal officer of FEBTC, the Head of the Legal Advisory Department of BPI and Legal Officer and Head of Compliance of BPI Capital Corporation, she has extensive business, legal and/or compliance exposure in the areas of corporate and retail banking, corporate finance, project finance, securities distribution, mergers and acquisition, correspondent banking, remittance and trade finance. She is currently a non-voting member of BPI's board-level Related Party Transactions Committee and chairs the management level MSB (Money Service Business) Governance Committee and MLEC (Money Laundering Evaluation Committee).

Atty. Gealogo obtained her Bachelor of Laws from the University of the Philippines Diliman in 1988 and AB History from the University of the Philippines Diliman in 1984. She completed the Development Lawyers Course at the International Development Law Institute in Rome, Italy in 1994 and the Certificate Course in Strategic Compliance for the Banking Industry at the Center for Professional Development in Business of the De La Salle University in 2017. She has regularly undergone corporate governance courses and training provided by the Institute of Corporate Directors (ICD), Bankers Institute of the Philippines (BAIPHIL) and Good Governance Advocates and Practitioners of the Philippines (GGAPP).

She is currently also the Treasurer and a Member of the Board of Directors of the Association of Bank Compliance Officers of the Philippines (ABCOMP).

Ms. Maria Cristina L. Go, Filipino, 49 years old, has been the President of BPI Family Savings Bank since 1 June 2017. Prior to that, she served as Group Head of Retail Loans at BPI Family Savings Bank.

For 11 years, she was the Head of BPI's Payments and Unsecured Lending Group. She led initiatives and innovations that have differentiated BPI in the industry, such as leading the launch of the first EMV-compliant credit cards and Real Thrills, the first instant rewards program. Before joining BPI, Ms. Go was Vice President at Citibank Philippines managing the bank's Retail Bank Marketing then at Citibank Credit Cards Cross Sell Division in New York. She also worked in Ayala Land, Inc. as Head of its Market Planning and Development Division. She started her career in Procter & Gamble as Brand Assistant then promoted to Assistant Brand Manager, managing brands such as Mr. Clean, Perla, Star and Dari Crème.

She graduated *magna cum laude* with a degree in BS Business Administration and Accountancy from the University of the Philippines Diliman, was awarded one of the Ten Outstanding Students of the Philippines, placed first in the CPA licensure exam in 1991, and earned a Master's degree from the Harvard Business School with honors in 1996. She was also awarded as one of UP College of Business Distinguished Alumni in 2012 and one of the Most Influential Filipina Women by the Global Filipina Women's Network in 2016.

She currently serves as the Secretary and Trustee of the Chamber of Thrift Banks, Chairman of the BPI Payments Holdings, Inc. and a Director of the Board of TransUnion Philippines. She is part of the Ayala Group's Innovation Advisory Council since it was organized in 2013.

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

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

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

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

Compensation of Directors and Executive Officers

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

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

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

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

All officers as a group unnamed:

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

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

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

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

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

Board Committees

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

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

(a) ***Executive Committee***

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

(b) ***Nominations Committee***

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

Personnel and Compensation Committee

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

(c) ***Audit Committee***

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

(d) ***Corporate Governance Committee***

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

(e) ***Retirement and Pension Committee***

The Retirement and Pension Committee oversees the fiduciary, administrative, investment portfolio, and other non-investment aspects of the Bank's retirement plan. The committee is chaired by Mercedita S. Nolleddo and its other members are Rebecca G. Fernando and Antonio Jose U. Periquet.

(f) ***Related Party Transaction Committee***

The Related Party Transaction Committee is charged with ensuring that the Bank's dealings with the public and various stakeholders are imbued with the highest standards of integrity. In conjunction with the Executive, Audit, Risk, and Corporate Governance Committees, this Committee endeavours to ensure compliance with BSP regulations and guidelines on related party transactions. It independently reviews, vets, and endorses significant and material related party transactions above the transactions qualifying under directors, officers, shareholders, and related interest restrictions in order to ensure that these transactions are dealt on terms no less favourable to the Bank than those generally available to an unaffiliated third party under the same or similar circumstances. The

committee is chaired by Ignacio R. Bunye and its other members are Maria Dolores B. Yuvienco and Rebecca G. Fernando.

(g) *Risk Management Committee*

The Risk Management Committee implements and oversees the enterprise risk management program to assist the board in fulfilling its corporate governance responsibilities relating to the management of risks, oversees and manages exposure to risks, and monitors regulatory and internal capital adequacy vis-a-vis the exposures to risks. The committee sets risk appetite indicators and is also responsible for approving the capital policy and plan, and the various risk models and methodologies. The committee is chaired by Octavio V. Espiritu and its other members are Romeo L. Bernardo, Aurelio R. Montinola III and Eli. M. Remolona.

Compliance with Corporate Governance Practices

The Bank believes that compliance with the principles of good corporate governance begins with the Board of Directors. It is the Board of Director's duty and responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with its fiduciary responsibilities, which must be exercised in the best interests of the Bank, and in proper cases, its shareholders.

The Bank is led by a Board which is the highest authority in matters of governance and in managing the business of the Bank. The Board establishes the vision, strategic objectives, key policies, and procedures for the management of the Bank, as well as the mechanism for monitoring and evaluating management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

The Board is composed of 15 Directors, seven of whom are independent directors. The roles of the chairman and the President & CEO are separate and clearly defined while the independent directors are a strong source of independent advice and judgment. They bring considerable knowledge and experience to the Board's deliberations.

The Board of Directors meets regularly on a monthly basis to ensure a high standard of business practice for the Bank and its stakeholders and to ensure soundness, effectiveness, and adequacy of the Bank's internal control environment. As part of corporate measures to ensure compliance with the principles and policies embodied in the Bank's manual on corporate governance (the **Manual on Corporate Governance**), the Board of Directors designated Ms. Noravir A. Gealogo as the Bank's compliance officer. Ms. Gealogo is responsible for, among other matters, determining and measuring compliance with the Manual, appearing before the SEC upon summons on matters relating to the Manual on Corporate Governance, identifying, monitoring, and controlling compliance with corporate governance matters and recommending to the Board of Directors the review of the Manual on Corporate Governance. Ms. Gealogo works closely with the Board of Directors through the Audit Committee and the Bank's management to evaluate and monitor compliance with the Manual. Specifically, Ms. Gealogo is responsible for ensuring that the Bank's compliance systems are up to date and in line with regulatory requirements and recommends the adoption of measures to improve such compliance. Likewise, the various Board of Directors' committees perform oversight duties and functions to ensure proper compliance with the Manual on Corporate Governance and other corporate policies. The Bank also submits governance reports required by the PSEC and the PSE to determine compliance with their rules and regulations and the Manual on Corporate Governance.

There has been no deviation from the company's Manual on Corporate Governance. Areas for improvement noted during the accomplishment of the CG Scorecard to match best practices will be addressed with positive action. The Bank's Manual on Corporate Governance is also being reviewed annually or as the need arises for possible revision, to conform with best market practices on corporate governance or comply with new rules and regulations issued by any regulatory body.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loan transactions with a subsidiary and with certain directors, officers, stockholders and related interests. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risk.

For further information on the Bank's related party transactions, including detailed breakdowns of amounts receivable from related parties and the income and expenses relating to related party transactions, see Note 26 to the Bank's audited financial statements as of and for the years ended 31 December 2016, 2017 and 2018 and Note 13 to the Bank's reviewed financial statements as of and for the nine months ended 30 September 2018 and 2019.

The Bank has not included the volume of transactions and maturity dates in the audited financial statements since these loans do not have a material effect on the total loan portfolio and are short term in nature.

DOSRI Loans and Deposits

The following table sets out certain information relating to the Bank's DOSRI loans as of the dates indicated:

	As of 31 December			As of 30 September
	2016	2017	2018	2019
	(₱ millions, except percentages)			
Total outstanding DOSRI loans	6,236	4,376	8,248	10,146
Percentage of DOSRI loans to total loans	0.59%	0.36%	0.60%	0.73%
Percentage of unsecured DOSRI loans to total DOSRI loans	29.60%	29.63%	21.51%	17.28

Certain Relationships and Related Transactions

In the ordinary course of business, the Bank has loan transactions with a subsidiary, and with certain DOSRI. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

On 31 January 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the Bank's subsidiaries and affiliates shall not exceed 10.0% of bank's net worth, and the unsecured portion shall not exceed 5.0% of such net worth. Further, the total outstanding exposures shall not exceed 20.0% of the net worth of the lending bank. The Bank is in compliance with such regulations.

The following table shows information relating to DOSRI accounts of the Bank:

	As of 31 December			As of 30 September
	2016	2017	2018	2019
Total outstanding DOSRI accounts (in ₱ millions)	6,236	4,376	8,248	10,146
Percent of DOSRI accounts to total loans	0.6%	0.4%	0.6%	0.7%
Percent of DOSRI accounts to total capital	3.7%	2.4%	3.3%	3.8%
Percent of unsecured DOSRI accounts to total DOSRI loans	29.6%	29.6%	21.5%	17.3%
Percent of past due DOSRI accounts to total DOSRI loans	0.04%	0.03%	-	0.01%
Percent of nonperforming DOSRI accounts to total DOSRI loans	0.02%	0.02%	-	-

Related Party Transactions

The year-end balances as of 31 December 2017 and 2018 in respect of subsidiaries included in the Bank's financial statements are as follows (amounts in millions):

	As of 31 December	
	2017	2018
Loans and receivables	134	53
Deposit liabilities	8,349	8,722

The income and expenses for the years ended 31 December 2017 and 2018 in respect of subsidiaries included in the Bank's financial statements are as follows (amounts in millions):

	For the year ended 31 December	
	2017	2018
Interest income.....	39	84
Interest expense.....	38	84

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements.

The significant inter-company transactions and outstanding balances of the Bank with its subsidiaries were eliminated in consolidation. The Bank is not a subsidiary of any corporation and had no transactions with promoters.

THE PHILIPPINE BANKING INDUSTRY

The information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government, and has not been prepared or independently verified by the Bank, the Lead Arranger, the Dealers or any of their affiliates or advisers. None of the Bank, the Lead Arranger, the Dealers or any of their affiliates or advisers makes any representation as to the accuracy or completeness of this information.

OVERVIEW

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

According to statistics published on the official website of the BSP, as of 30 November 2019 the commercial sector consisted of 46 universal and commercial banks, of which 21 were universal banks and 25 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were Government banks, and six were branches of foreign banks. Of the 25 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks, and 18 were branches of foreign banks. As of 30 November 2019, the 46 universal and commercial banks had a total of 6,872 branches, including head offices.

Commercial banks have all the general powers incident to corporations and all powers that may be necessary to carry on the business of commercial banking, such as the power to accept drafts and to issue letters of credit, to discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, accept or create demand deposits, receive other types of deposits and deposit substitutes, buy and sell foreign exchange and gold and silver bullion, and extend credit on a secured or unsecured basis. Universal banks are banks that have the authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of businesses not related to banking and to own up to 100% of the equity in a thrift bank, a rural bank or a financial allied or non-allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium-and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for mid-market corporates and individuals. As of 30 November 2019, there were 50 thrift banks according to the BSP.

Rural banks are organised primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As of 30 November 2019, there were 451 rural and cooperative banks, according to the BSP.

Specialised government banks are organised to serve a particular purpose. The existing specialised banks are the Development Bank of the Philippines (**DBP**), Land Bank of the Philippines (**LBP**) and Al-Amanah Islamic Investment Bank of the Philippines (**AAIIB**). DBP was organised primarily to provide banking services catering to the medium-and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for mid-market corporates. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organised to promote and accelerate the socio-economic development of the Autonomous Region in Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings. During the past fifteen years, the Philippine banking industry has been marked by two major trends—the liberalisation of the industry and mergers and consolidation.

Foreign bank entry was initially liberalised in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary or to establish branches with full banking authority. This

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led to the establishment of ten new foreign bank branches in 1995. The General Banking Law enacted in 2000 further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which, prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014, which amended the relevant provisions of the BSP Manual implementing RA 10641, further liberalised foreign bank entry by allowing foreign banks to own up to 100% of the voting stock of an existing bank, a branch, or a subsidiary. See “*Banking Regulation and Supervision—Regulations with Respect to Branches.*”

The liberalisation of foreign ownership regulations in banks has allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to the granting of new licenses to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank and United Overseas Bank and the allowance of equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. As of 30 November 2019, there were 24 foreign banks with branches and two foreign banks with subsidiaries in the Philippines.

The following table sets out a comparison of the leading Philippine banks as of the dates indicated in the footnotes to the table:

	Market Capitalisation ⁽²⁾	Total Capital ⁽³⁾⁽⁴⁾	Total Assets ⁽⁴⁾ (₱ in millions)	Net Loans ⁽⁴⁾	Total Deposits ⁽⁴⁾
Bank of the Philippines Islands ⁽¹⁾	419,146	267,855	2,125,781	1,371,671	1,619,900
BDO Unibank, Inc. ⁽¹⁾	626,339	364,036	3,092,180	2,141,356	2,408,960
Metropolitan Bank & Trust Company ⁽¹⁾	272,233	313,576	2,329,250	1,412,369	1,576,566

Notes:

- (1) Data is provided on a consolidated basis.
- (2) Source: Bloomberg, based on closing prices as of 30 September 2019.
- (3) Includes interests in subsidiaries and allied undertakings.
- (4) Source: Bank, Philippine Securities and Exchange Commission (PSEC) filings, based on quarterly reports for the period ended 30 September 2019.

The following table sets out a comparison of the returns on average equity of certain leading Philippine banks for the periods indicated.

	2012 ⁽²⁾	2013	2014	2015 ⁽²⁾	2016 ⁽²⁾	2017 ⁽²⁾	2018 ⁽²⁾	Nine Months Ended 30 September 2019
Bank of the Philippines Islands ⁽¹⁾	17.5%	18.7%	13.8%	12.3%	13.8%	12.8%	10.2%	11.3%
BDO Unibank, Inc. ⁽¹⁾	11.7%	14.0%	13.4%	13.4%	12.5%	10.2%	10.6%	12.53%
Metropolitan Bank & Trust Company ⁽¹⁾	13.6%	17.8%	14.1%	10.8%	9.3%	9.2%	9.1%	9.79%

Notes:

- (1) Data is provided on a consolidated basis.
- (2) Source: PSEC, based on filed reports.

The following table sets out a comparison of the net interest margins of certain leading Philippine banks for the periods indicated.

	2016 ⁽²⁾	2017 ⁽²⁾	2018 ⁽²⁾	Nine Months Ended 30 September 2019 ⁽²⁾
Bank of the Philippines Islands ⁽¹⁾	2.85%	2.91%	3.11%	3.33%
BDO Unibank, Inc. ⁽¹⁾	3.20%	3.48%	3.64%	4.12%
Metropolitan Bank & Trust Company ⁽¹⁾	3.54%	3.75%	3.82%	3.91%

Notes:

- (1) Data is provided on a consolidated basis.
- (2) Source: PSEC, based on filed reports.

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The following table sets out a comparison of the cost-to-income ratios (calculated as total operating expenses (excluding provisions for credit and impairment losses) over total operating income) of certain leading Philippine banks for the periods indicated.

	2016 ⁽²⁾	2017 ⁽²⁾	2018 ⁽²⁾	Nine Months Ended 30 September 2019
Bank of the Philippines Islands ⁽¹⁾	52.5%	54.3%	55.5%	52.2% ⁽²⁾
BDO Unibank, Inc. ⁽¹⁾	65.3%	65.8%	66.3%	64.74% ⁽³⁾
Metropolitan Bank & Trust Company ⁽¹⁾	56.5%	56.8%	58.5%	54.1% ⁽²⁾

Notes:

(1) Data is provided on a consolidated basis.

(2) Source: PSEC, based on filed reports.

(3) Source: Publicly disclosed Investor Presentations on the BDO website (<https://www.bdo.com.ph/sites/default/files/pdf/BDO-Investor-Presentation-Website-3Q19.pdf>)

Strong historical loan growth with potential for growth from increasing banking penetration

The Philippine banking industry has seen significant growth in activity in recent years, which has coincided with

the strong economic growth of the Philippines. According to Economist Intelligence Unit (EIU) forecasts, the total loan portfolio for the Philippine banking sector grew from US\$110 billion as of 31 December 2013 to an estimated US\$191 billion as of 31 December 2018, representing a compound annual growth rate (CAGR) of 11.7% for that period and based on the Economist Intelligence Unit Forecasts, estimated to grow 15.0% in 2019, 13.2% in 2020 and 13.1% in 2021, representing an estimated CAGR of 13.1% from 2019 to 2021. However, the Philippines remains relatively under-banked with domestic credit to private sector as a percentage of gross domestic product (GDP) of 49.9% for the year ended 31 December 2018 according to the World Bank, compared to other Southeast Asian peers including Thailand, Singapore, Malaysia and Indonesia, which were 144.6%, 121.9%, 119.4% and 38.8%, respectively. In addition, household debt as a percentage of GDP in the Philippines was 9.5% as of 2018 according to CEIC Data compared to Southeast Asian peers including Thailand, Singapore, Malaysia and Indonesia, which were 78.6%, 66.8%, 82.1% and 10.3%, respectively. The table below sets out information for the periods indicated.

Country	Domestic Credit to Private Sector as % of GDP (2018)	Household Debt as % of GDP (2018)
Philippines	49.9%	9.5%
Thailand	144.6%	78.6%
Singapore	121.9%	66.8%
Malaysia	119.4%	82.1%
Indonesia	38.8%	10.3%

Source: World Bank for Domestic Credit to Private Sector as % of GDP, CEIC for Household Debt as % of GDP.

The loan to GDP and historical loan growth of these regions are summarised below:

Region	Loans Outstanding as of 31 December 2018 (in ₱ millions)	% mix	Region's loan to GDP ratio	2017 – 2018 Loan Growth %
Metro Manila	7,746	83.9%	118.5%	13.7%
Luzon (ex- Metro Manila)	707	7.7%	11.8%	20.9%
Visayas	436	4.7%	19.4%	10.8%
Mindanao	342	3.7%	12.9%	26.1%

Source: BSP, NSCB

Restrictions on Branch Opening

Opening of branches by Philippine banks within or outside the Philippines requires BSP's prior approval, subject to certain conditions such as meeting the minimum capital requirements set by the BSP. Upon BSP's approval, these branches may be used by the banks as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. For more information, see "*Banking Regulation and Supervision—*

Regulation Relating to Capital Structure” and “Banking Regulation and Supervision—Regulations with Respect to Branches.”

Competition

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalisation of the banking industry by the Government. Since 2014, a number of foreign banks, which may have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer lending products such as credit cards. The foreign banks have not only increased competition in the corporate market, but have, as a result, caused more domestic banks to focus on the commercial mid-market, placing pressure on margins in both markets.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system to create more globally competitive banking institutions. Mergers and consolidation result in greater competition, as a smaller group of “top tier” banks compete for business. The BSP offered various incentives available for merging or consolidating banks. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of all of the outstanding shares of stock of a bank. Based on BSP data, since the new package of incentives took effect in September 1998, there have been an increasing number of mergers, acquisitions and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were insufficient to pose a challenge to the overall competition levels since market share remained relatively well dispersed among the remaining players.

In the pursuit of liberalisation and to sustain the mergers and consolidations, the BSP issued Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. The suspension of the grant of new banking licenses or the establishment of new banks under the Manual of Regulations for Banks is lifted under a two-phased approach. Under Phase 1, the grant of new universal and commercial banking licenses was allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks was fully lifted and locational restrictions were fully liberalised starting 1 January 2018.

The Philippine Competition Act was signed into law in 2015 and establishes competition related rules and procedures in the Philippines in relation to mergers and acquisitions. See “*Banking Regulation and Supervision—Philippine Competition Act.*”

Certain Government Policies and Regulations in Relation to the Philippine Banking System

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes guidelines on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these and can introduce new regulations to control any particular line of business. Please see “*Banking Regulation and Supervision*” for a more detailed discussion.

BANKING REGULATION AND SUPERVISION

The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

Banking Regulation and Supervision

(a) Introduction

Republic Act No. 8791 (the **General Banking Law**) provides that the operations and activities of banks are subject to the supervision of the BSP. Likewise, Republic Act No. 7653 (the **New Central Bank Act**), as amended, which created the BSP, provides that the BSP shall have supervision over the operations of banks and shall exercise such regulatory powers over the operations of finance companies and non-bank financial institutions performing quasi-banking functions. The BSP exercises its powers through the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock is directly or indirectly owned, controlled or held with power to vote by a bank or quasi-bank. The New Central Bank Act generally defines an affiliate as a corporation whose voting stock, to the extent of 50% or less, is owned by a bank or quasi-bank or which is related or linked directly or indirectly to such institution or intermediary through common stockholders or such other factors as may be determined by the Monetary Board. In this regard, the BSP Manual defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the BSP Manual), or power to vote, of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the BSP Manual), or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity; (c) common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favour of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa.

Under the General Banking Law, the BSP, in the exercise of its supervisory powers, may: (a) issue rules of conduct or standards of operation for uniform application; (b) conduct examination to determine compliance with laws and regulations; (c) oversee compliance with such rules and regulations; and (d) inquire into the solvency and liquidity of the covered entities. Furthermore, Section 7 of the General Banking Law provides that the BSP, in examining a bank, shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The refusal of any officer, owner, agent, manager, director or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or permit an examination is criminally punishable under Section 34 of the New Central Bank Act.

Furthermore, Republic Act No. 9160 (**Anti-Money Laundering Act of 2001**), as amended, provides, among others, that banks must, in addition to the general laws such as the General Banking Law and the Anti-Money Laundering Act of 2001, likewise comply with letters, circulars and memoranda issued by the BSP, some of which are contained in the BSP Manual.

The BSP Manual is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The BSP Manual contains regulations that include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant bank. Supplementing the BSP Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

All regulations pertaining to banks are then implemented by the Supervision and Examination Sector (**SES**) of the BSP. The SES is responsible for ensuring the observance of applicable laws, rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779 or the Savings and Loan Association Act, and pawnshops under Presidential Decree No. 114 or the Pawnshop Regulation Act.

Regulation Relating to Capital Structure

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The Philippine Securities and Exchange Commission will not register the incorporation documents of any bank or any amendments thereto without a certificate of authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorised by the Monetary Board. All treasury shares of a bank must be sold within six months from the time of purchase or acquisition thereof.

Under the BSP Manual, universal banks are required to have capital accounts of at least ₱3 billion for a bank with only a head office, ₱6 billion for a universal bank with up to 10 branches (inclusive of head office), ₱15 billion for a universal bank with 11 to 100 branches (inclusive of head office), and ₱20 billion for a universal bank with more than 100 branches (inclusive of head office). On the other hand, commercial banks are required to have capital accounts of at least ₱2 billion for a commercial bank with only a head office, ₱4 billion for a commercial bank with up to 10 branches (inclusive of head office), ₱10 billion for a commercial bank with 11 to 100 branches (inclusive of head office), and ₱15 billion for a commercial bank with more than 100 branches (inclusive of head office). Thrift banks which maintain only a head office in the National Capital Region are required to have capital accounts of at least ₱500 million, ₱750 million for a thrift bank with up to 10 branches (inclusive of head office), ₱1 billion for a thrift bank with 11 to 50 branches (inclusive of head office) and ₱2 billion for a thrift bank with more than 50 branches (inclusive of head office). Banks that existed prior to 19 November 2014, which will not immediately meet the new minimum capital requirement, may avail themselves of a five-year transition period in order to fully comply with the minimum capitalisation requirements. The same period, reckoned from the same date, is also given to banks granted with special banking authorities/licenses which require compliance with minimum capital requirements. These minimum levels of capitalisation may be changed by the Monetary Board from time to time.

For purposes of these requirements, the BSP Manual as amended by BSP Circular No. 1027, Series of 2018, states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- (a) treasury stock;
- (b) unbooked allowance for probable losses (including allowance for credit losses and impairment losses) and other capital adjustments as may be required by the BSP;
- (c) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- (d) total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
- (e) total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties that are not at an arm's length terms;
- (f) deferred tax assets that rely on future profitability of the bank to be realized net of any (i) allowance for impairment and (ii) associated deferred tax liability if the conditions cited in PAS

12 on income taxes are met, provided that, if the resulting net figure is a net deferred tax liability, such excess cannot be added to net worth;

- (g) reciprocal investment in equity of other banks or enterprises, whether foreign or domestic, the deduction shall be the lower of the investment of the bank or the reciprocal investment of the other bank or enterprise; and
- (h) in the case of rural banks and cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation program.

According to BSP Circular No. 1027 dated 28 December 2018, deposits for stock subscription recognized as equity pursuant to Section X123 of the BSP Manual is required to be added to capital.

Under Republic Act No. 10641 or “An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721” (RA 10641), established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (i) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing bank; (ii) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (iii) by establishing branches with full banking authority. The foreign bank applicant must be established, reputable and financially sound. Additionally, such foreign bank must be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorised to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. On the other hand, locally incorporated subsidiaries of foreign banks authorised to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

Under RA 10641, the Monetary Board is authorised to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on 21 November 2014, the BSP issued Circular No. 858, amending the relevant provisions of the BSP Manual with respect to the entry and operations of foreign banks, accordingly.

Stockholdings of family groups or related interests in banks are also regulated. Under the General Banking Law, the stockholders of individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, are considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons are considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends if at the time of declaration:

- (a) its clearing account with the BSP is overdrawn;
- (b) it is deficient in the required liquidity floor requirement for government funds;
- (c) it is not compliant with the minimum capitalisation requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- (d) it is not compliant with the combined requirement for capital conservation buffer requirement and countercyclical capital buffer as defined in Appendix 63b, Part III of the BSP Manual;
- (e) it is not compliant with the higher loss absorbency (**HLA**) requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with the DSIB framework as provided under Sec. X128 of the BSP Manual, for universal and commercial banks and their subsidiary banks and quasi-banks that are identified as DSIBs; or
- (f) it has committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by the BSP to be grounds for suspension of

dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor of the SES.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

Regulations with Respect to Branches

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of the law also allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 Series of 2014 provides various minimum capitalisation requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks (inclusive of the head office) to a maximum of ₱20 billion for more than 100 branches of universal banks (inclusive of the head office). For a discussion on the breakdown of minimum capital requirements for banks, please see “—*Regulation Relating to Capital Structure.*”

Subject to compliance with the requirements provided in BSP Circular No. 624, issued on 13 October 2008, which provides for BSP’s branching policy and guidelines, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Pursuant to BSP Circular No. 759, issued on 30 May 2012, once approved, a branch should be opened within three years from the date of approval. Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. However, this branching restriction was liberalised pursuant to BSP Circular No. 728, issued on 23 June 2011. Phase 1 of the liberalisation allowed private domestically incorporated universal and commercial banks and thrift banks with limited branch networks in the eight cities or “restricted areas” in Metro Manila until 30 September 2014 to apply for and establish branches in said restricted areas. In Phase 2, branching in the “restricted” areas was opened to all banks except rural banks and cooperative banks. However, branches of microfinance-oriented banks and microfinance-oriented branches of regular banks’ branches that will cater primarily to the credit needs of Barangay Micro Business Enterprises duly registered under the Barangay micro business enterprises Act of 2002 (**Republic Act No. 9178**) may be established anywhere upon the fulfilment of certain conditions. BSP Circular No. 759 further liberalised its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank.

Regulations with Respect to Management of Banks

The board of directors of a bank must have at least five and a maximum of 15 members. According to Republic Act No. 11232, or the Revised Corporation Code, the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. In case of merged or consolidated banks, the number of directors shall not exceed 21. An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests during the past three (3) years counted from the date of his election/appointment. Foreigners are allowed to have board seats to the extent of the foreign equity in the bank.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits to perform an act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

Regulations with Respect to Bank Operations

A universal bank, such as the Bank, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices is treated as one unit. A bank, with prior approval of the BSP, may likewise use any of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise, and prescribe the composition and the manner of determining the net worth and total risk assets of such bank and its subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to exercise and perform: (a) activities allowed for commercial banks; (b) powers of an investment house; (c) investment in non-allied enterprises.

Capital Adequacy Requirements and Reserve Requirements

In July 2001, the Philippines adopted capital requirements based on the Basel Capital Accord.

BSP Circular No. 538, which took effect on 1 July 2007, serves as the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the Basel Committee on Banking Supervision (the **Basel Committee**) containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers and short and medium-term quantitative liquidity ratios. To align with international standards, the BSP issued BSP Circular No. 709 effective 1 January 2011, which adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 capital.

In January 2012, the BSP announced that the Philippine's universal and commercial banks, including their subsidiary banks and quasi-banks, were required to adopt in full the capital adequacy standards under Basel III which took effect from 1 January 2014. It aims to replace Basel II, further strengthen the local bank's loss absorption capacity and encourage banks to rely more on core capital instruments like Common Equity Tier 1 and Tier 1 issues.

BSP Memorandum No. M2012-002 outlines BSP's proposed new minimum ratios and conservation buffers. The revised risk-based capital adequacy framework (which will also cover risk measurement enhancement and provisions concerning the use of third party credit assessment agencies) took effect on 1 January 2014. In March 2012, the BSP also circulated a discussion paper providing draft guidelines for Basel III implementation in the Philippines starting 1 January 2014. Philippine banks were invited to comment on the discussion paper until June 2012, after which the BSP finalised the guidelines for Basel III in the Philippines. Notable provisions include: (i) new categorisation of the capital base with Tier 1 being composed of Common Equity Tier 1 (**CET1**) capital and Additional Tier 1 (**AT1**) capital and elimination of the subcategories of Tier 2 capital; (ii) revised eligibility criteria for the different categories of regulatory capital; (iii) regulatory adjustments to be deducted from CET1 in a full deduction approach; (iv) higher minimum capital requirements; (v) loss absorbency of regulatory capital at the point of non-viability; (vi) introduction of a framework to promote the conservation of capital and the build-up of adequate buffers above the minimum that can be drawn down in times of periods of stress; and (vii) additional disclosure requirements.

On 21 September 2012, BSP Circular No. 768 was issued, which provides, among others, that Hybrid Tier 1 and Lower Tier 2 capital must have loss absorption features providing that the instrument would be written off or converted into common equity upon the occurrence of a trigger event determined by the BSP.

Local banks were allowed one full year of transitioning to the new guidelines prior to the effective date of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to January 2017. On 15 January 2013, the BSP issued the implementing

guidelines for the adoption on 1 January 2014 of the revised capital standards under Basel III for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the CAR. The BSP maintained the minimum CAR at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum Tier 1 capital ratio of 7.5%. The new guidelines also introduced a capital conservation buffer of 2.5% which is made up of CET1 capital. Under BSP Circular No. 1027 dated 28 December 2018, net due from head office, branches and subsidiaries outside the Philippines of foreign banks branches, excluding accumulated net earnings is required to be deducted from CET1 capital.

In addition, banks which issued capital instruments from 2011 were allowed to count these instruments as Basel III-eligible until end of 2015. However, capital instruments that are not eligible in any of the three components of capital were derecognised from the determination of the regulatory capital on 1 January 2014.

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

Under BSP Circular 732 issued on 3 August 2011, as further amended by BSP Circular 753 issued on 29 March 2012, BSP Circular 830 issued on 3 April 2014, BSP Circular 832 issued on 27 May 2014, BSP Circular 997 issued on 15 February 2018, and BSP Circular 1004 issued on 24 May 2018, universal and commercial banks are required to maintain regular reserves of: (a) 18% against demand deposits, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 18% against negotiable order of withdrawal accounts; (c) 0% against deposit substitutes evidenced by repossession agreements, basic deposit accounts as defined under Section X222 of the Manuel of Regulations for Banks and for IBCL; (d) 4% against long-term negotiable certificates of time deposits under Circular No. 304 issued on 25 October 2001, deposit substitutes evidenced by repossession agreement; (e) 6% against bonds; and (f) 7% against long-term negotiable certificates of time deposits under Circular No. 842 issued on 30 January 2014. The BSP pursuant to BSP Circular Nos. 1041, 1054, 1056, and 1063 (Series of 2019) reduced the rates of required reserves for universal and commercial banks as follows: (a) commencing on reserve week 6 December 2019 to 14% against demand deposits, negotiable order of withdrawal (**NOW**) accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificates of time deposits (**CTDs**), long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank) ; (b) commencing reserve week 1 November 2019, 3% against bonds; and (c) commencing reserve week 31 May 2019, 0% against basic deposit accounts as defined under Section X222 of the Manuel of Regulations for Banks, for interbank call loan transactions (**IBCL**) (Sec. 315) and deposit substitutes evidenced by repurchase agreements commencing, and 4% against long-term negotiable certificates of time deposits (**LTNCDs**). In addition, under Circular No. 1061, the definition of deposit substitute was amended to exclude borrowings from financial intermediaries. This effectively removed the reserve requirement for such borrowings.

On 29 October 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on DSIBs by the BSP under Basel III, and was later on amended by BSP Circular No. 1051 (series of 2019). Banks deemed DSIBs by the BSP are required to maintain capital surcharges to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the DSIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their DSIB statuses in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the DSIBs will have varying levels of additional loss absorbency requirements ranging from 1.5% to 2.5%. Aside from the added capital pressure, DSIBs may be put at an undue disadvantage compared to Global Systemically Important Banks (**GSIBs**) given that this framework was patterned for regional/global banks and thus may not be appropriate for local banks. Transitional arrangements for the HLA requirement will be implemented. On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by DSIBs which shall form part of the DSIBs' Internal Capital Adequacy Assessment Process (**ICAAP**) submitted to the BSP every 31st of March of each year. The recovery plan identifies the course of action that a DSIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the DSIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a pre-emptive

measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document, which includes the first recovery plan, was submitted on 30 June 2016 and will be re-submitted on the 31st of March of each year.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratios (calculated by dividing banks' Tier 1 capital over its total on-book and off-book exposure). On 9 June 2015, the BSP issued Circular No. 881 amending the relevant provisions of the previously issued guidelines. Under the BSP Circular No. 881, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III by 1 January 2017 (which compliance period was extended to 1 January 2018 based on BSP Circular No. 943 issued in 2017). The guidelines also provided for a monitoring period up to end of 2016 during which banks were required to submit periodic reports. However, sanctions were not imposed on banks whose leverage ratios fell below the required 5% minimum during the period. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to an increasing regulatory burden on banks. Further, local banks face new liquidity requirements under Basel III, namely, the Liquidity Coverage Ratio (**LCR**) and the Net Stable Funding Ratio (**NSFR**). The LCR requires banks to hold a sufficient level of High-Quality Liquid Assets (**HQLAs**) to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spill-overs to the real economy, compliance with these ratios may further increase competition among banks for deposits as well as HQLAs.

In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks were required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks are required to meet is 90%, and increased to 100% commencing on 1 January 2019. The Monetary Board has yet to release an exposure draft of NSFR requirements. The internationally agreed start date for the phase-in of liquidity requirements was as of 1 January 2015.

In addition, Basel III capital rules for banks include setting up a countercyclical capital buffer (**CCyB**) wherein banks build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. On 6 December 2018, the BSP issued guidelines on CCyB. BSP Circular No. 1024 imposes a capital conservation buffer (**CCB**) of 2.5% and a CCyB of 0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases will be effective immediately. The circular further provides that the HLA requirement is required to be on top of the combined requirement for CCB and CCyB. Under the Bank for International Settlements (**BIS**), the CCB became fully effective on 1 January 2019.

In October 2014, the BSP issued BSP Circular No. 855 which provides for new guidelines on sound credit risk management practices. The circular mandates banks to establish appropriate credit risk strategies and policies, processes and procedures including cash flow-based credit evaluation processes. The circular also mandates tighter provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

Additionally, BSP Circular No. 855 sets the collateral value (**CV**) for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value (**LV**), which is the loan amount extended by banks to its borrowers. The current industry practice is a loan-to-value (**LTV**) ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved guidelines that effectively widened the scope of banks' real estate exposures (**REEs**) to include mortgages and loans extended to individuals to finance the acquisition and construction of residential real estate for own occupancy as well as land developers and construction companies for the development of socialised and low-cost

housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks were required to submit the expanded report starting December 2012.

Further, on 27 June 2014, the BSP issued Circular No. 839 requiring banks to undergo real estate stress test (**REST**) while setting prudential limits for banks' REEs to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks as well as thrift banks must meet a CAR of 10% of qualifying capital after adjusting for the stress test results. Further, universal and commercial banks and their thrift bank subsidiaries are required to maintain a level of CET 1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly report of their real estate exposures, in line with the new REST capital requirements.

Local banks also face new liquidity requirements, namely, the LCR and the Net Stable Funding Ratio (**NSFR**), under Basel III. The LCR requires banks to hold sufficient level of High Quality Liquid Assets (**HQLAs**) to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spill over to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs. In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Starting in 2018, banks were required to meet a 90% LCR threshold that banks will be required to meet was 90%, which was increased to 100% commencing on 1 January 2019 for universal and commercial banks. On 6 June 2018, the BSP issued BSP Circular No. 1007 which sets out the guidelines on the adoption of the Basel III Framework on Liquidity Standards – NSFR. The internationally agreed start date for the phase-in of liquidity requirements was 1 January 2015. On 15 March 2019, the Monetary Board approved the extension of the observation period for the LCR and NSFR for subsidiary banks and quasi-banks of universal and commercial banks until 31 December 2019, moving the effectivity dates of said ratios to 1 January 2020. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70% LCR and NSFR, which shall increase to 100% on 1 January 2020. On 15 March 2019, the Monetary Board also approved amendments to the LCR framework and minimum liquidity ratio guidelines, and disclosure requirements of information related to LCR starting 2019 for universal and commercial banks and 2020 for subsidiary banks and quasi-banks of universal and commercial banks.

Limitations on Operations

(a) *The Single Borrower's Limit*

Consistent with the national interest, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any person, partnership, association, corporation or other entity shall at no time exceed twenty-five percent (25%) of the net worth of such bank. The basis for determining compliance with the single borrower's limit (**SBL**) is the total credit commitment of the bank to or on behalf of the borrower. The total amount of loans, credit accommodations and guarantees above may be increased for specific circumstances as laid out in the relevant provision of the BSP Manual.

BSP Circular 779 issued on 9 January 2013, amended the BSP Manual provisions on Regulations on Single Borrower's Limit. The amendments allowed for increases (on top of the 25% as already mentioned) on the amount of loans, credit accommodations and guarantees that a bank may issue to a borrower. The following are the increases that are conditional: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under PDP/PIP; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from 6 December 2010; and (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation.

The SBL limitations shall not apply to (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to the payment of principal and interest; (c) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit

quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items.

(b) *Limitation on DOSRI Transactions*

A director or officer of any bank may not directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor may become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the board of directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director will be subject to the penal provisions of the New Central Bank Act.

On 2 June 2016, the Monetary Board approved the revisions to prudential policies on loans, other credit accommodations and guarantees granted to DOSRIs. The Monetary Board allowed the exclusion of loans granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include a pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts and assignment of project documents.

On 23 June 2016, the BSP issued Circular No. 914, Series of 2016, amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposure of subsidiaries and affiliates of banks to priority programs, particularly infrastructure projects under the Philippine Development Plan / Public Investment Program (PDP/PIP) needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to certain conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and pre-empt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

Limitations on Loans and Credit Accommodations

As a general rule, loan and other credit accommodation against real estate by a bank shall not exceed 70% of the appraised value of the real estate security plus 70% of the appraised value of the insured improvements and such loans shall not be made unless title to the real estate rests with the mortgagor. In the case of universal and commercial banks, the loan values of real estate given as security for any loan granted will be reduced from 70% to not more than 60% of the appraised value of the real estate security and the insured improvements, except the following which are allowed a maximum value of 70% of the appraised value (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (b) housing loans extended by or guaranteed under the Government's "National Shelter Program", such as the expanded housing loans program of the home development mutual fund and the mortgage and guaranty and credit insurance program of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loans may be made to the title-holder of the unencumbered chattels and intangible properties or his assignee.

On 4 February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans and amending the inclusions and exclusions to be observed in the computation.

On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks and required the submission of a report on project finance exposures to enable the

BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 27 October 2017, the BSP issued BSP Circular No. 978 which provided for exclusion of the portion of loans and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, from the ceilings on total outstanding loans, other credit accommodations and guarantees granted to banks' subsidiaries and affiliates. BSP Circular No. 978 excluded the following in determining compliance with the ceilings provided under BSP Circular No. 914: (1) loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations; (2) interbank call loans; and (3) the portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of the net worth of the said universal bank. Moreover, the equity investment in any one enterprise whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP. The Monetary Board must approve such acquisition of equities. Further, the BSP may impose conditions on the any approval of a major investment and has the authority to seek corrective action.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvements including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate is considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed by the bank within a period of five years or as may be prescribed by the Monetary Board. In addition, the Monetary Board recently approved BSP Circular No. 1042, series of 2019, containing the guidelines on sound risk management practices pertaining to investment activities of a bank.

Prohibition to Act as Insurer

A bank is prohibited from directly engaging in insurance business as the insurer.

Permitted Services

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- (a) receive in custody funds, documents and valuable objects;
- (b) act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities;
- (c) upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- (d) rent out safety deposit boxes.

Anti-Money Laundering Act 2001

The Anti-Money Laundering Act of 2001, as amended, (**AMLA**) requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, keep records and report covered and suspicious transactions.

While the Philippines enacted the AMLA to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the Financial Action Task Force (**FATF**). However, following pressure from the FATF, an amendment to AMLA became effective on 23 March 2003. In January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories (**NCCTs**) and the anti-money laundering systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. Currently, the Philippines is on the “grey list,” as the FATF, in news reports, noted a “high level political commitment” from local authorities to address noted deficiencies in its anti-money laundering regime. Republic Act No. 10168 enacted on 18 June 2012 expanded the AMLA to include the crime of financing terrorism.

A more recent amendment to the anti-money laundering regime, Republic Act No. 10365, was approved on 15 February 2013. This amendment expanded the coverage of the AMLA, which now talks about “covered persons, natural or juridical.” Additions to the enumeration of covered persons include jewellery dealers for transactions in excess of ₱1 million; company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client’s money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organise funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves or relates to the proceeds of any unlawful activity defined under the law:

- (a) transacts said monetary instrument or property;
- (b) converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
- (c) conceals or disguises the true nature, source, location, disposition, movement or ownership or of rights with respect to said monetary instrument or property;
- (d) attempts or conspires to commit money laundering offences referred to in paragraphs (a), (b), or (c);
- (e) aids, abets, assists in or counsels the commission of the money laundering offences referred to in paragraphs (a), (b) or (c);
- (f) performs or fails to perform any act as a result of which he facilitates the offence of money laundering referred to in (a), (b) or (c); and
- (g) knowingly fails to disclose and file with Anti-Money Laundering Council (**AMLC**) any monetary instrument or property required to be disclosed and filed.

Under AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within a period of five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Court of Appeals of the Philippines (**Court of Appeals**), upon verified ex-parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order which is effective immediately, and which shall not exceed six months depending upon the circumstances of the case. However, if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order is deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets. Further, a freeze order or asset preservation order is limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

BSP Circular No. 495 issued on 20 September 2005, as amended by BSP Circular 527 issued on 28 April 2006, required all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under AMLA.

BSP Memorandum No. M2012-017 issued on 4 April 2012, as affirmed by BSP Circular No. 950 issued on 15 March 2017 likewise requires all covered banking institutions to comply with the anti-money laundering risk rating system (**ARRS**), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation. BSP Circular No. 950, further provides for specific requirements on having a risk-based approach to customer identification by covered institutions, an ongoing monitoring of customers, accounts, and transactions, and a policy of non-discrimination against certain types of customers.

In July 2017, Republic Act No. 10927 was signed into law, and it further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5.0 million or its equivalent in any other currency. Furthermore, the law provides that: (a) a freeze order issued by the Court of Appeals pursuant to an *ex parte* petition by the AMLC is effective immediately and such effective period shall not exceed six months and if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order is deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets; and (b) a freeze order or asset preservation order is limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime and will not apply to amounts in the same account in excess of the amount or value of the proceeds of the predicate offense.

Institutions that are subject to AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one Banking Day.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- (a) there is no underlying legal or trade obligation, purpose or economic justification;
- (b) the customer or client is not properly identified;
- (c) the amount involved is not commensurate with the business or financial capacity of the client;
- (d) the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- (e) there is a deviation from the client's profile or past transaction;
- (f) the transaction is related to an unlawful activity or offence under AMLA; or
- (g) similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00.

Malicious reporting of a completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity the fact that a report was made to the AMLC and any information relating to such report. A violation of the said rule is deemed a criminal act.

Philippine Competition Act

On 21 July 2015, the Philippine Competition Act (the **Philippine Competition Act**), was signed into law. It took effect on 8 August 2015. The Competition Act is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The Competition Act was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the Competition Act provides for the creation of a Philippine Competition Commission (the **PCC**), an independent quasi-judicial agency with five commissioners. Among its powers are to conduct investigations, issue subpoenas, conduct administrative proceedings and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court. The PCC prohibits anti-competitive agreements between or among competitors and mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition. It also prohibits practices which involve abuse of a dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

On 3 June 2016 the PCC issued the Implementing Rules and Regulations of the Philippine Competition Act (**PCA IRR**). Under the PCA IRR (as amended by PCC Advisory No. 2019-001 (**Advisory**), which became effective on 1 March 2019), as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or the acquired entities exceed ₱5.6, including the entities that the ultimate parent entity controls, exceeds ₱5.6 billion; and (b) the value of the transaction exceeds ₱2.2 billion, as determined in the Advisory. Parties to a joint venture transaction are required to provide notification if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion. Under the Competition Act and the PCA IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods are considered void and will subject the parties to an administrative fine of 1% to 5% of the value of the transaction. Administrative fines of up to ₱250 million may also be imposed by the PCC on entities that: (a) enter into anti-competitive agreements between competitors that are either prohibited per se or that have the object of substantially preventing, restricting or lessening competition by setting, limiting or controlling production, markets, technical development or investment or by dividing or sharing the market or (b) fail to comply with the compulsory notification and/or enter into prohibited mergers and acquisitions. An entity that enters into anti-competitive agreements, may also be sentenced to imprisonment from two to seven years and a fine of not less than ₱50 million to ₱250 million. The penalty of imprisonment is imposed on the directors and/or management personnel who are knowingly and willfully responsible for the violation. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 9 November 2017, the PCC issued the 2017 Rules of Procedure which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders and consent orders.

On 10 September 2019, the Supreme Court of the Philippines approved the Rules on Administrative Search and Inspection under the Philippine Competition Act. The rules govern the application, issuance, and enforcement of inspection orders for administrative investigations of alleged violations of the Philippine Competition Act. Inspection orders will allow the PCC and its deputized agents to enter, search and inspect business premises, offices, land and vehicles to examine, copy, photograph, record or print information in order to prevent their removal, concealment, tampering with or destruction.

Data Privacy Act

Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012 (Data Privacy Act), was signed into law on 15 August 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System (ICT), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law provides that it does not apply to information necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes.

It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognises the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

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

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

Electronic Banking Operations

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

On 1 September 2006, the BSP released new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank’s board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness program for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and (e) the development of complaint resolution procedure for unauthorised transactions in electronic banking.

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

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa (EMV) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for 1 January 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSP-supervised financial institutions are required to fully comply with the EMV requirement by 30 June 2018. Failure

to do so is considered a serious offence and will subject these institutions to monetary sanctions provided under relevant provision of the BSP Manual.

On 22 February 2019, the BSP issued Circular No. 1033, which amended the BSP Manual by adding regulations on Electronic Payment and Financial Services (**EPFS**). This allows BSP-supervised institution to offer products or services that would enable its customers to receive payments or initiate financial transactions and other related services through an electronic device such as computer, mobile phone, ATM and other devices. EPFS allow customers to electronically access information on their transactions, move or receive funds from one account to another, or avail of credit, investment, trust, or other banking products and/or services.. Transactions can include online loan applications, electronic investment of funds, and the like. To be able to offer this kind of service, the bank must obtain a license from BSP and comply with its corresponding reportorial requirements.

Related Party Transactions

On 14 December 2015, the BSP announced that it approved guidelines strengthening oversight and control standards for managing related party transactions. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher standards should be applied to protect the interests of all stakeholders. It is emphasised that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, the board, as an oversight body, shall have overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The board is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm's length terms, management of conflicts of interest, materiality thresholds and limits, whistle blowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further, banks that are part of conglomerates are required to create a related party transactions committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly require that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

On 25 April 2019, the SEC issued Memorandum Circular No. 10-2019 regarding the Rules on Material Related Party Transactions for Publicly-Listed Companies (**SEC MC 10-2019**). Under SEC MC 10-2019, when the related party transactions amount to 10% or higher of a company's total assets, it is considered a material related party transaction and is disclosable and reportable to the SEC.

Taxation for Banks

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 30%.

Taxable net income refers to items of income specified under Section 32 (A) of Republic Act No. 8424, otherwise known as the Tax Reform Act of 1997, as amended (the **Tax Code**) less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A minimum corporate income tax (**MCIT**) equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the MCIT is greater than the regular corporate income tax computed on net taxable income. Any excess MCIT paid over the regular corporate income tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of MCIT, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

An improperly accumulated earning tax (**IAET**) equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 30% corporate income tax. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue Regulation No. 13-00. The amount of interest expense which banks may

claim as tax deduction is reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

The Tax Code does not allow banks to deduct interest expense or bad debts arising from transactions with the following:

- (a) an individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank; or
- (b) a corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in sub-paragraph (a), either as a personal holding company or a foreign personal holding company.

Similarly, Section 36 (B) of the Tax Code disallows the deduction of bad debts in the case of related party transactions as mentioned in the case of interest expense.

Pursuant to Revenue Regulation 05-99 (as amended by Revenue Regulation 25-02), in order for banks to claim bad debts as tax deductions, they must secure a certification from the BSP that the accounts are worthless and can be written off, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible. The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax. Banks are subject to gross receipts tax (**GRT**), which is a tax levied on the gross receipts of banks and non-bank financial intermediaries. The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which will be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five years. In November 2005, the Government increased the GRT, which is applied to the Bank's non-interest income, from 5% to 7%. On 13 June 2016, the BIR issued Revenue Memorandum Circular 62-2016 (**RMC 62-2016**) seeking to clarify the tax treatment of the GRT, which is passed on by banks through contractual stipulations to their clients. RMC 62-2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income and should itself be subject to a GRT of either 5% or 7% depending on the provision of the tax code covering the type of income or activity.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranche.

Interbank call loans with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes. The interbank call loans are not subject to documentary stamp tax except if they have a maturity of more than seven days.

Real and other acquired properties (**ROPA**) of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, value in the tax declaration or selling price, which is withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realised.

While the Tax Reform for Acceleration and Inclusion (**TRAIN**), which is the first package of the Comprehensive Tax Reform Program (**CTRP**) of the Duterte administration, brought about extensive changes to individual income taxation, it did not include changes in corporate income taxation. This is, instead, expected to be addressed in the second package of the CTRP which reportedly aims to lower corporate income taxes and modernise fiscal incentives in a bid to complement the expected incremental revenues from the first package.

BSP Regulations on Issuances of Securities

Additional Requirements for the Issuance of Bonds and Commercial Papers

On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:

- (a) the bank must have a CAMELS composite rating of at least “3” and a “Management” rating of not lower than “3”;
- (b) the bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
- (c) the bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
- (d) the bonds issued are enrolled and/or traded in a market which is organised in accordance with the SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or -controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank’s listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, must be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

Amendments to Existing Requirements for Issuances of Bank Securities

On 26 November 2019, the BSP issued Circular No. 1062 amending the provisions of the BSP Manual to relax certain requirements on the issuance of Long-Term Negotiable Certificates of Time Deposit, Bonds and Commercial Papers. Under the amendments, universal banks or commercial bank that is a related party of the issuing bank, may serve as the underwriter or arranger of the issuance, subject to the following conditions:

- (a) That there are other third party underwriters or arrangers that are not related in any manner to the issuing bank;
- (b) That the objective conduct of the due diligence review is not undermined; and
- (c) That the appropriate safeguards and controls as provided under Section 136 of the BSP Manual on related party transactions shall be instituted to prevent conflict of interest on the said arrangement.

Further, the underwriter or arranger that is a related party of the issuing bank may be a holder of the bonds or commercial papers, provided that it is part of the underwriting agreement.

Moratorium on the Issuance of Long-Term Negotiable Certificates of Time Deposit (LTNCTDs)

BSP Circular No. 1059 dated 15 November 2019 amended the Manual imposing an indefinite moratorium on the issuance of LTNCTDs beginning 1 January 2021. LTNCTDs that have been approved but remain unissued as of 31 December 2020 may still be issued, provided that this is done within the period allowed by the BSP. Requests for authority to issue LTNCTDs will only be accepted by the appropriate supervising department of the BSP until 30 September 2020.

Other Regulations

Set out below are other regulations applicable to banks operating in the Philippines:

1. *Regulations Governing the Derivatives Activities of Banks.* In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in 8 January 2008 amending the existing regulations governing the derivatives activities of banks and trust entities. Furthermore, Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk-weighted assets for banks that will engage in derivatives activities as end users for hedging purposes and/or under limited-use authority. The Bank expects increased competition in the swaps and other derivative transactions allowed under the regulations.

The BSP also issued Circular No. 891 on 9 November 2015 amending the sales and marketing guidelines for derivatives under the Manual. Banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitisation structures and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank's standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees.

In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives are subject to margin requirements pursuant to the policy framework adopted by the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in times of distress. Variation margin requirements were phased in from 1 September 2016 to 1 March 2017, while initial margin requirements are being phased in from 1 September 2016 to 1 September 2020.

2. *Amendments to UITFs Regulations.* On 3 September 2004, the BSP issued Circular No. 447 (as amended by BSP Circular No. 675 dated 22 December 2009) which provided guidelines for the launching and offering of new products to be known as unit investment trust funds (**UITFs**), and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in Pesos or any acceptable currency that are to be operated and administered by trust entities and made available by participation. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organised exchange, loans traded in an organised market and such other tradable instruments as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued Circular No. 593 to improve risk disclosure on investing in UITFs, to require banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in and to update client's profile at least every three years. In December 2009, the BSP issued Circular No. 676 allowing cross-currency investment for Peso trust, other fiduciary and investment management accounts, including Peso UITFs. In September 2012, the BSP issued Circular No. 767 to include investments by UITFs in units or shares in collective investment schemes as an allowable investment and recognising UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued Circular 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the key information and investment disclosure statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued Circular 907 to amend certain exposure limits and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds. UITF investments shall only be limited to bank deposits and collective investment schemes (i.e., target fund, exchange traded fund), subject to target fund not being structured nor similarly structured as a feeder fund or fund-of-funds.
3. *Exemption of Paired ROP Warrants from Capital Charge for Market Risk.* In connection with the Government's Paired Warrants Program, the BSP issued Circular No. 605 in 5 March 2008 exempting warrants paired with Government bonds from capital charges for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50% of total qualifying capital.

4. *Guidelines on Securities Borrowing and Lending Transactions.* Guidelines by the PSE on securities borrowing and lending govern securities borrowing and lending transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008 provides guidelines on securities borrowing and lending transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors and lenders. In May 2008, the Monetary Board authorised the issuance of BSP Registration documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from securities borrowing and lending transactions, i.e. rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso-denominated Government securities and PSE-listed shares used as collateral.
5. *Reclassification of Financial Assets between Categories.* The BSP issued Circular No. 628 dated 31 October 2008, amending Circular No. 626 dated 23 October 2008 and Resolution of the Monetary Board No. 1423 dated 30 October 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial institutions are allowed to reclassify all or a portion of their financial assets from “held for trading” or “available for sale” categories to the “available for sale” or “held to maturity” or “unquoted debt securities classified as loans” categories effective 1 July 2008 Any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.
6. *Rules and Regulations on the Mandatory Allocation for Agriculture and Agrarian Reform Credit.* In July 2011, the BSP issued Circular No. 736 as a component of the implementing rules and regulations of the Agri-Agra Reform Credit Act. Aside from retaining the mandatory credit allocation, it also rationalises the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided. On 20 July 2018, the BSP issued Circular No. 1009 (2018), which imposed amendments to the alternative modes of compliance to the mandatory agricultural and agrarian reform credits.
7. *Valuations of Government Securities Held by Banks.* In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals is used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids are used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates in accordance with BSP-approved guidelines is used.
8. *Segregation of Customer Funds and Securities Received by Banks.* On 14 August 2015, the BSP issued Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.
9. *Creation of Personal Management Trust.* On 18 August 2016, the BSP issued Circular No. 920 allowing for the creation of the personal management trust (**PMT**), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual’s financial affairs. Upon the effectivity of the circular, all living trust accounts (**LTAs**) were discontinued and all those that remained valid were automatically considered as **PMT**.
10. *Clearing of Checks via Electronic Presentment.* On 7 September 2016, the BSP issued Circular No. 924, amending the Manual in view of the clearing of checks via electronic presentment, which is implemented by the Philippine Clearing House Corporation (**PCHC**). On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information are required to be transmitted to the paying bank. The

clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.

11. *Effective Reporting System Generation and Timely Submission of Reports.* On 26 June 2017, the BSP amended the Manual through Circular No. 963, series of 2017, which issuance instituted governance processes in accordance with the BSP's expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must be comply with those standards prescribed by the BSP, and those banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provided that banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision. Its full implementation started on 1 January 2018.
12. *Guidelines on the Adoption of PFRS 9.* On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option are allowed or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provides that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:
 - (a) In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries is required to be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries will be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures will be accounted for using the equity method in accordance with the provisions of PAS 28.
 - (b) In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, is required to be accounted for using the equity method as described in PAS 28.

Banks shall recognise adequate and timely allowance for credit losses at all times. In this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP Manual.
13. *Marking to market of financial instruments.* BSP Circular No. 1021 dated 15 November 2018 provides that financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9 required to be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission
14. *Basic Deposit Accounts.* BSP Circular No. 992, issued on 1 February 2018, requires banks to establish a basic deposit account which refers to interest or non-interest-bearing account designed to promote financial inclusion. The basic deposit account shall have an opening amount of not more than ₱100.00 and no minimum maintaining balance but with a maximum balance of not more than ₱50,000.00. If the depositor exceeds the ₱50,000.00 maximum balance, the bank shall convert the basic deposit account to a regular deposit account. The basic deposit account shall have no dormancy charges and has no reserve requirement.
15. *Reserves against trust and other fiduciary accounts (TOFA).* BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorised to engage in trust and other fiduciary business shall maintain reserves on TOFA -others, except accounts held under (1) administratorship; (2) trust under indenture; (3) custodianship and safekeeping; (4) depository and reorganisation; (5) employee benefit plans under trust; (6) escrow; (7) personal trust (testamentary trust); (8) executorship; (9) guardianship; (10) life insurance trust; (11) pre-need plans (institutional/individual); (12) Personal Equity And Retirement Account (**PERA**); (13) legislated and quasi-judicial trust; and (14) specialised institutional accounts under trust.
16. *Guidelines on the Management of Interest Rate Risk in the Banking Book and Market Risk Management.* BSP Circular No. 1044 dated 6 August 2019 approved the adoption of guidelines for

managing IRRBB and amendments to the guidelines on market risk management. Under the circular, all banks and quasi-banks must adequately identify their IRRBB exposures, take appropriate steps to measure, monitor and control the risk, and ensure that the IRRBB management system is integrated into the overall risk management framework and strategic business planning process. The circular also requires active board and senior management oversight. The BSP will evaluate the adequacy and effectiveness of the IRRBB management framework, taking into account the size, complexity and nature of a bank or quasi-bank's business.

17. *Circular 1067* dated 13 December 2019 approved the minimum disclosure requirements on IRRBB and required the following disclosures in the bank's annual reports:
 - (a) A description of how the bank defines IRRBB for purposes of risk control and measurement;
 - (b) A description of the bank's overall IRRBB management and mitigation strategies;
 - (c) The periodicity of the calculation of the bank's IRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB;
 - (d) A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and/or in earnings;
 - (e) A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment; and
 - (f) A high-level description of key modelling and parametric assumptions used in IRRBB measurement.

18. *BSP Regulations on Financial Consumer Protection; Guidelines and Procedures Governing the Consumer Assistance and Management System of BSP-Supervised Financial Institutions; and Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions*. BSP Circular No. 1048 dated 6 September 2019 amended the consumer protection framework in the Manual by enumerating the specific responsibilities of the board of directors and senior management in relation to the bank's consumer protection policies and risk management system. The circular discusses the standards of conduct that must be upheld and promoted in the bank's consumer protection policies and programs, such as disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education and awareness. Banks are given six (6) months from the effectivity of the circular: (1) perform a gap analysis of their current consumer protection practices and (2) propose an action plan duly approved by the board of directors to achieve full compliance within a reasonable period of time.

19. *Guidelines on Voluntary Surrender of a Banking License*. BSP Circular No. 1050 dated 18 September 2019 amended the rules on voluntary liquidation in the Manual by formulating guidelines in the event that a bank decides to surrender its banking license either with a view to proceed to voluntary dissolution and liquidation or with the intention to convert into a non-bank entity. The circular lays down the criteria that the BSP must consider in deciding whether to approve the surrender of a bank's banking license. The circular also outlines the application procedure for the cessation of a bank's operations and the documents that the bank must submit to the BSP in support of its application. Once the bank has received notice of the BSP's approval of its voluntary surrender of its banking license, the bank shall immediately cease its operations.

20. *Amendments to the Framework for Dealing with Domestic Systemically Important Banks (D-SIBs)*. BSP Circular No. 1051 dated 27 September 2019 amended the Manual's provision on D-SIBs to change the number of indicators to characterize a D-SIB from ten (10) to nine (9). The circular also provides for a framework for dealing with D-SIBs, including the guidelines on data requirements and reports, schedule of restriction on distribution of dividends during the phased-in implementation period of the Higher Loss Absorbency requirement, and recovery plan.

PHILIPPINE TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Bonds. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or of any person acquiring, selling or otherwise dealing with the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Bonds are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Bonds, including the effect of any national or local taxes, under the tax laws or regulations relevant thereto, such as but not limited to Revenue Memorandum Circular No. 7-2015 and related issuances of the Bureau of Internal Revenue, applicable in the Philippines and any other country of which they may be nationals or residents.

The following is a general description of certain Philippine tax aspects of the Bonds. It is based on the present provisions of the National Internal Revenue Code of 1997, as amended (the Tax Code), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds. Each prospective Bondholder should consult with his own tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the Bonds.

As used herein, the term “resident alien” refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a “non-resident alien” is an individual who is neither a citizen nor a resident of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “non-resident alien doing business in the Philippines,” otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a “non-resident alien not doing business in the Philippines.” A “domestic corporation” is a corporation created or organized in the Philippines of under its laws while a “foreign corporation” is a corporation that is not domestic. A “resident foreign corporation” is a foreign corporation engaged in trade or business in the Philippines; and a “non-resident foreign corporation” is a foreign corporation not engaged in trade or business in the Philippines.

Documentary Stamp Taxes

Under Republic Act No. 10963, which amended certain provisions of the Tax Code, a documentary stamp tax is imposed upon every original issue of debt instruments such as bonds and notes, at the rate of ₱1.50 on each ₱200, or fractional part thereof, of the issue price of such debt instruments. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines.

No documentary stamp tax is imposed on a subsequent sale or disposition of the Bonds if there is no change in the maturity date or remaining term of the Bonds.

Interest on the Bonds

The Tax Code defines “deposit substitutes” as an alternative form of obtaining funds from the public, other deposits, through the issuance endorsement, or acceptance of debt instruments for the borrower’s own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. Obtaining funds from the “public” in this instance means borrowing from twenty (20) or more individual or corporate lenders at any one time.

Philippine Taxation

The Bonds may be considered as deposit substitutes issued by Philippine residents with a maturity period of less than five (5) years. As such, interest income arising from the Bonds are considered as Philippine sourced income subject to final withholding tax at the following rates:

Philippine citizens and resident alien individuals	20%
Non-Resident aliens doing business in the Philippines	20%
Non-resident aliens not doing business in the Philippines	25%
Domestic corporations	20%
Resident foreign corporations	20%
Non-resident foreign corporation	30%

The aforementioned final withholding tax rates may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Bondholder. Most tax treaties to which the Philippines is a party provide for a preferential reduced tax rate of 15% where Philippine sourced interest income is paid to a resident of the other contracting state. However, tax treaties would also normally qualify that the preferential reduced tax rates will not apply if the recipient of the interest income, even if considered a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected to such permanent establishment.

In any case, all Bondholders are required to submit to the Bank, through the Paying Agent, their respective BIR-issued Tax Identification Numbers.

Tax Exempt Status

Bondholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in form and substance prescribed by the Bank, to the Registrar or the Selling Agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed “valid, current and subsisting” if it has not been more than 3 years since the date of issuance thereof; (b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder’s current, valid and subsisting Certificate of Accreditation as PERA Administrator; (c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; (d) With respect to tax treaty relief, (1) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (**CORTT**) Form prescribed under Revenue Memorandum Order No. 8-2017), and (2) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and (e) Any other document that the Bank or PDTC may require from time to time; (ii) a duly notarized declaration and undertaking, in prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities

Philippine Taxation

(i.e. Employee Retirement Fund, etc.), declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities, or any tax or charge arising from the non-withholding of the required tax; and (iii) if applicable, such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Bank to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent.

Transfers taking place in the Register of Bondholders after the Bonds are listed in PDEX may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Registrar, together with the supporting documents specified under the Master Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar: (i) a written notification of the sale or purchase, including the tax status of the transferor or transferee, as appropriate; and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Bank for any tax that may later on be assessed on the Bank on account of such transfer.

Value-Added Tax

Gross receipts derived by dealers in securities from the sale of the Bonds in the Philippines, equivalent to the gross selling price less the acquisition cost of the Bonds sold, shall be subject to value-added tax of 12%.

“Dealer in securities” means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

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

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

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

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

Sale or other Disposition of the Bonds

Philippine Taxation

Income Tax

Bonds that have a maturity period of less than five (5) years, gains realized from the sale, exchange, or retirement of the Bonds are subject to income tax.

If the Bonds are considered ordinary assets of individual Bondholders, gains from the sale or disposition of such Bonds are included in the computation of taxable income, which is subject to the following graduated tax rates for Philippine citizens (whether residents or non-residents), or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines effective 1 January 2018 until December 31, 2022:

Not over ₱250,000	0%
Over ₱250,000 but not over ₱400,000	20% of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱30,000 + 25% of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱130,000 + 30% of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱490,000 + 32% of the excess over ₱2,000,000
Over ₱8,000,000	₱2,410,000 + 35% of the excess over ₱8,000,000

and effective 2 January 2023 and onwards:

Not over ₱250,000	0%
Over ₱250,000 but not over ₱400,000	15% of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱22,500 + 20% of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱102,500 + 25% of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱402,500 + 30% of the excess over ₱2,000,000
Over ₱8,000,000	₱2,202,500 + 35% of the excess over ₱8,000,000

For non-resident aliens not engaged in trade or business, the gain shall be subject to the 25% final withholding tax.

Capital Gains Tax

If the Bonds are considered as capital assets of individual Bondholders, gains from the sale or disposition of such Bonds shall be subject to the same rates of income tax as if the Bonds were held as ordinary assets, except that if the gain is realized by an individual who held the Bonds for a period of more than twelve (12) months prior to the sale, only 50% of the gain will be recognized and included in the computation of taxable income. If the Bonds were held by an individual for a period of twelve (12) months or less, 100% of the gain will be included in the computation of the taxable income.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the Bonds are included in the computation of taxable income which is subject to a 30% income tax. Gains derived by non-resident foreign corporations on the sale or other disposition of the Bonds shall form part of their gross income which is subject to a 30% final withholding tax unless a preferential rate is allowed under a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief. Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax under an applicable tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Estate and Gift Tax

Philippine Taxation

The Bonds will be considered as intangible personal property situated in the Philippines and will form part of the gross estate of any individual holder. As such, the transfer of the Bonds upon the death of an individual holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at a fixed rate of 6% of the net estate. Estate taxation is governed by the statute in force at the time of the death of the decedent and so the tax rate may vary in the future. Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer the Bonds by way of gift or donation are liable to pay Philippine donors' tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 exempt gifts made during the calendar year, whether the donor is a stranger or not.

Estate and gift taxes will not be collected in respect of intangible personal property such as the Bonds (i) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Taxation outside the Philippines

The tax treatment of a non-resident holder of any of the Bonds by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such holder by reason of domicile or business activities and may vary depending upon such holder's situation. Each holder of any of the Bonds should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Bonds, including the applicability and effect of any state, local and national laws.

SUMMARY OF OFFER PROCEDURE

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular, the relevant Pricing Supplement, and the Agreements regarding the issuance, maintenance, servicing, trading, and settlement of the Bonds. Prospective investors should read this entire Offering Circular, the relevant Pricing Supplement, and the Agreements fully and carefully. In case of any inconsistency between this summary and the more detailed information in this Offering Circular, the relevant Pricing Supplement, 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 Master Registry and Paying Agency Agreement and the relevant Issue Management and Placement Agreement for each Tranche, entered into by the Bank with the relevant counterparties, the Bonds shall be offered for sale through the Selling Agents during the Offer Period.

The Offer Period

During the relevant Offer Period of each Series or Tranche of the Bonds, the Bank, the Joint Lead Arrangers and the Selling Agents shall solicit subscriptions for the Bonds. There shall be no limitation on the amount of Bonds that an Applicant may apply for. Each interested investor (an **Applicant**) will be required to execute an Application to Purchase in three copies and return the completed Applications to Purchase to the Bank 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 Bonds applied for. Payment may be in the form of checks made out to the order of BPI as set out in the relevant Pricing Supplement, debit instructions or other instructions acceptable to the Bank or the relevant Selling Agents, and must cover the entire purchase price. Each of the Bank and the Selling Agents shall determine its own settlement procedure for its Applicants. Each of the Bank and the Selling Agents shall hold the purchase price received from their respective Applicants as deposit for the purchase of the Bonds.

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

Allocation Period

Based on the aggregate amount of Bonds applied for, the Bank and the Joint Lead Arrangers shall consult with each other and agree on the total size of the issue.

Each of the Joint Lead Arrangers and the Selling Agents may, at its discretion, reject any Application to Purchase. In addition, if the Bonds are insufficient to accommodate all Applications to Purchase (or in any other case where the Bank and the Joint Lead Arrangers agree that a reduction in size is needed), each of the Joint Lead Arrangers and the Selling Agents may, in consultation with the Bank, allocate the Bonds among the Bank and the Selling Agents by accepting or reducing the aggregate amount of Bonds covered by each Applications Schedule as the Joint Lead Arrangers and the Bank may mutually determine. The Joint Lead Arrangers, in consultation with the Bank, shall prepare a report which summarizes the total amount of Applications to Purchase accepted and the allocation of Bonds among the Bank and the various Selling Agents (the **Allocation Report**) and provide the Registrar 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 Bank 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 Bonds among their respective Applicants. The Bank, in its capacity as Selling Agent, 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 Bank and Selling Agents shall: (a) deliver the Sales Report to the Registry and Paying Agent no later than 5:00 p.m. of the third Banking Day immediately preceding the Issue Date; and (b)

Summary of Offer Procedure

deliver the executed Application to Purchase to the Registry and Paying Agent no later than 5:00 p.m. of the third Banking Day immediately preceding the Issue Date.

Issue Date

On the Issue Date, the Bank shall issue Bonds with the aggregate Issue Price set out in the Allocation Report and complete and execute the Tranche Certificate (indicating therein the Issue Date and Interest Rate), and deliver such executed Tranche Certificate to the Registrar. The Issue Date is indicative and may be adjusted at the determination of the Bank (following consultation with the Arranger) if necessary to achieve an orderly settlement with investors of the Bonds.

The Registrar and Paying Agent shall record the initial issuance of the Bonds in the Registry and thereafter issue and distribute the relevant Registry Confirmation to the Holders in accordance with the Sales Report issued by the Selling Agents.

The Bank and the 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.

Method of Distribution

The Bonds are being issued pursuant to BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019), and other related circulars and issuances of the BSP (the **BSP Rules**). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The Bonds are being issued by the Bank with the Joint Lead Arrangers and the Selling Agent and Philippine Depository & Trust Corp. as Registrar and Paying Agent.

No action has been or will be taken by the Bank, the Joint Lead Arrangers or the Selling Agent in any jurisdiction (other than the Philippines), that would permit a public offering of any of the Bonds, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the Bonds, in any country or jurisdiction where action for that purpose is required.

The Joint Lead Arrangers and the Selling Agent are required to comply with all laws, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the Bonds and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Joint Lead Arrangers and the Selling Agent in connection therewith. Each of the Joint Lead Arrangers is authorized to operate as an investment house in the Philippines, is well capitalized, and well capitalized and has adequate risk management. Except for BPI Capital Corporation, the Joint Lead Arrangers are third-parties 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. BPI Capital Corporation is a wholly owned subsidiary of the Bank; nevertheless, the objective conduct of its due diligence review was not undermined. Further, the appropriate safeguards and controls as provided under Section 136 of the MORB on related party transactions were observed.

The Registrar and Paying Agent and Trustee are likewise third-parties in relation to Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; (ii) they are not related in any manner to Bank as would undermine their independence.

The Bonds are newly issued securities for which there currently is no market. A market maker will be appointed for the relevant Tranches and Series. Market makers will provide live bids good for the minimum denomination under the General Terms and Conditions, and a cumulative trading commitment per trading day, as required under PDEX Trading Rules, Conventions, and Guidelines. The Market Maker is not obligated to make a market for the Bonds. Accordingly, no assurance can be given as to the development or liquidity of any market for the Bonds.

The Joint Lead Arrangers, the Selling Agents (including BPI Capital Corporation subject to compliance with relevant BSP Rules) or their respective affiliates may purchase the Bonds for their own account or enter into secondary market transactions or derivative transactions relating to the Bonds, including, without limitation,

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purchase, sale (or facilitation thereof), stock borrowing or credit or equity-linked derivatives such as asset swaps, repackaging and credit default swaps, at the same time as the offering of the Bonds. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be a purchaser of the Bonds). As a result of such transactions, the Joint Lead Arrangers, the Selling Agents or their respective affiliates may hold long or short positions relating to the Bonds. The Joint Lead Arrangers, the Selling Agents or their respective affiliates may also engage in investment or commercial banking and other dealings in the ordinary course of business with the Bank or its affiliates from time to time and may receive fees and commissions for these transactions. In addition to the transactions noted above, each of the Joint Lead Arrangers, the Selling Agents or their respective affiliates may, from time to time after completion of the offering of the Bonds, engage in other transactions with, and perform services for, the Bank or its affiliates in the ordinary course of their business. The Joint Lead Arrangers, the Selling Agents or their respective affiliates may also purchase Bonds for asset management and/or proprietary purposes but not with a view to distribution or may hold Bonds on behalf of clients or in the capacity of investment advisors. While the Joint Lead Arrangers, the Selling Agents and their respective affiliates have policies and procedures to deal with conflicts of interests, any such transactions may cause the Joint Lead Arrangers, the Selling Agents or their respective affiliates or their clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Bonds. The Joint Lead Arrangers or the Selling Agents may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Bonds.

Applications to Purchase the Bonds during the Offer Period

Applicants may purchase the Bonds during the Offer Period by submitting fully and duly accomplished Applications to Purchase the Bonds, in triplicate together with all the required attachments and the corresponding payments to the Selling Agents from whom such application was obtained no later than 5:00 p.m. of the last day of the Offer Period. Applications received after said date or without the required attachments will be rejected. The Bank and Joint Lead Arrangers reserve the right to adjust the Offer Period as needed.

If the Applicant is an individual, the following documents must also be submitted:

- a. Copies of valid identification documents of the Applicant.

Any one (1) of the following valid identification documents bearing a signature and recent photo, and which is not expired: Passport, Driver's License, Government Service Insurance System e-Card, Social Security System Card, Senior Citizen Card, and company IDs issued by private entities or institutions registered with or supervised or regulated either by the BSP, SEC or IC.;

- b. Two (2) duly accomplished signature cards in the form attached to the application, containing the specimen signature of the Applicant, validated / signed by the Selling Agent's authorized signatory/ies, whose authority/ies and specimen signatures have been submitted to the Registrar;

- c. Tax Identification ID; and

- d. Such other documents as may be reasonably required by the Selling Agents or the Registrar in implementation of its internal policies regarding "know your customer" and anti-money laundering.

If the Applicant is a corporation, partnership, trust, association or institution, the following documents must also be submitted:

- a. An original notarized Certificate of the Corporate Secretary or an equivalent officer of the Applicant setting forth resolutions of the Applicant's Board of Directors, partners, or other equivalent body authorizing the purchase of the Bonds and designating the signatories, with their specimen signatures, for the said purposes;
- b. Copies of its Articles of Incorporation and By-laws and latest amendments thereof, together with the Certificate of Incorporation issued by the Securities and Exchange Commission (SEC) or equivalent government institution, stamped and signed as certified as true copies by such government institution or by the Applicant's Corporate Secretary, or by an equivalent officer/s who is/are authorized signatory/ies;

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- c. Two (2) duly accomplished signature cards containing specimen signatures of the Applicant's authorized signatories, validated by its Corporate Secretary or by an equivalent officer/s who is/are authorized signatory/ies, and further validated/signed by the Selling Agent's authorized signatory/ies whose authority/ies and specimen signatures have been submitted to the Registrar;
- d. BIR certificate of registration showing the applicant's Tax Identification Number; and
- e. Such other documents as may be reasonably required by the Selling Agents or the Registrar in implementation of its internal policies regarding "know your customer" and anti-money laundering.

A corporate and institutional investor who is exempt from or is not subject to withholding tax shall be required to submit at least two sets of the following requirements to the Registrar, subject to acceptance by the Bank as being sufficient in form and substance: (i) proof of tax exemption or entitlement to preferential tax rates: (a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof; (b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator; (c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; (d) With respect to tax treaty relief, (1) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (**CORTT**) Form prescribed under Revenue Memorandum Order No. 8-2017), and (2) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and (e) in addition, upon the request of the Bank, Joint Lead Arrangers, relevant Selling Agent, or the Registrar, as the case may be, the Bondholder shall submit an updated Part II (A), (B), (C) and (D) of the CORTT Form. Only the originals should be submitted to the Bank, Joint Lead Arrangers, relevant Selling Agent, or the Registrar; (ii) a duly notarized declaration and undertaking (in the prescribed form and substance by the Bank) declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation or modification of its tax exemption or treaty privileges, and agreeing to indemnify and hold the Bank and the Registrar free and harmless against any claims, actions, suits, and liabilities, or any tax or charge resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities to and such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent; provided further that, all sums payable by the Bank to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar.

Allocation and Issue of the Bonds

Applications to Purchase the Bonds shall be subject to the availability of the Bonds and acceptance by the Bank. The Joint Lead Arrangers, in consultation with the Bank, reserve the right to accept, reject, scale down or reallocate any Application to Purchase the Bonds applied for.

In the event that payment supporting any Application is returned by the drawee bank for any reason whatsoever, the Application shall be automatically cancelled and any prior acceptance of the Application shall be deemed revoked. If any Application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent.

On the Issue Date, the Selling Agents shall, on behalf of the Bank, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall ipso facto convert such Application to Purchase into a purchase agreement between the Bank and the relevant Bondholder, subject to a cooling-off period (as defined below) if the Applicant is a natural person.

Summary of Offer Procedure

Within two (2) business days from submission of the duly executed Application to the Bank (the **Cooling-Off Period**), the Applicant, who is a natural person, is allowed to cancel, in whole or in part, the Application by providing the relevant Selling Agent within the same period a written notice of such decision to cancel the Application (the **Written Notice of Cancellation**) indicating in such written notice: (a) the amount of the Bonds to be cancelled, (b) the amount of the Bonds to be retained (so long as the same complies with the minimum denomination requirements under the Terms and Conditions), and (c) the reason for such cancellation. In case the Applicant provides the relevant Selling Agents with a Written Notice of Cancellation in the manner set forth above, the cancellation shall be without penalty but shall entitle the Bank and the Selling Agents to charge and collect reasonable amount of fees (including, but not limited to, processing and/or administrative fees plus any mark-to-market costs) incurred from the time of submission of the duly executed Application up to time of cancellation of the purchase of the Bonds.

Upon confirmation by the Bank of acceptance of the relevant Applications and the respective amount of the Bonds, the Registrar and Paying Agent shall issue the relevant registry confirmation (the **Registry Confirmation**) to successful applicants confirming the acceptance of their purchase of the Bonds and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies to the Bank.

The Registrar shall be entitled to rely solely on the Final Sales Reports submitted by the Selling Agents to the Registrar. Where PDTC discovers, after Issue Date, any inconsistency between the Final Sales Report and the Application to Purchase submitted by the Bondholder, PDTC reserves the right to rely subsidiarily on the Applications to Purchase, to the extent that the information in the Final Sales Report is noted to be inconsistent with the Application to Purchase. Within seven (7) Business Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the Bondholders in the mode elected by the Bondholder as indicated in the Application to Purchase.

Transactions in the Secondary Market

All secondary trading of the Bonds shall be coursed the trading facilities of PDEX, as applicable, subject to the payment by the Bondholder of fees to the connection with trading on PDEX, and the Registrar. Transfers shall be subject to the procedures of the BSP, the Registrar and PDEX, including but not limited to the guidelines on minimum trading lots, minimum holding denominations, and record dates.

The Bank shall list the Bonds in PDEX for secondary market trading. Upon listing of the Bonds with PDEX, investors shall course their secondary market trades through the trading participants of PDEX for execution in the PDEX 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. The secondary trading of the Bonds in PDEX may be subject to such fees and charges of PDEX, the trading participants of PDEX, and other providers necessary for the completion of such trades. Transactions on the Bonds on PDEX will be subject to the duly approved and relevant rules of the exchange, including guidelines on minimum trading lots and other guidelines for holding and trading of the Bonds as may be prescribed by the BSP.

The Bonds will be in minimum denominations as may be provided in the applicable Pricing Supplement and Bond Certificate for each Series or tranche of Bonds, or such other minimum denominations as may be prescribed or approved by the BSP. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining Bondholder of the Bonds will hold less than the minimum denomination as prescribed or approved by the BSP.

No transfers will be effected for a period of two (2) Business Days preceding the due date for any payment of interest on the Bonds, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Series or Tranche of the Bonds or during the period when any of the Series or Tranche of Bonds have been previously called for redemption.

The Registrar shall register any transfer of the Bonds upon presentation to it of the following documents in form and substance acceptable to it:

- The relevant Trade- Related Transfer Form or Non-Trade Transfer Form as the case may be, by the relevant PDEX Trading Participant, substantially in the form agreed upon between DBP and the Registrar;

Summary of Offer Procedure

- Investor Registration Form duly accomplished by the transferee Bondholder and endorsed by the relevant PDEX Trading Participant, in the form agreed upon between DBP and the Registrar;
- Tax exempt/Treaty Documents, if applicable, in accordance with the General Terms and Conditions; and
- such other documents that may be required by the Registrar to be submitted by the transferee Bondholder in support of the transfer or assignment of the Bonds in its favor.

Transfers of the Bonds made in violation of the restrictions on transfer under the General Terms and Conditions shall be null and void and shall not be registered by the Registrar.

Interest and Principal Payment

On the relevant Payment Date, the Registrar shall, upon receipt of the corresponding funds from the Bank, make available to the Bondholders the amounts due under the Bonds, net of taxes and fees (if any), by way of credits to the bank accounts identified by the Bondholders in the Applications to Purchase.

SUMMARY OF REGISTRY FEES

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

Transfer Fees in the Secondary Trading:

1. Transfer Fee of ₱100.00 to be paid each by the transferring Holder and the buyer/transferee prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200 per transfer. For transfers from a registry account to the depository, the full charge of ₱200 per transfer shall be charged to the transferring Holder.
2. Account Opening Fee of ₱100.00 to be paid upfront by a transferee who has no existing account in the Registry
3. Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDSClear System if so duly authorized by a Holder

Transfer Fees due to Non-Trade Transactions

1. Transaction Fee of ₱100.00 to be paid each by the transferring Holder and the requesting party prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200 per transfer.
2. Transaction Fee of ₱500.00 per side plus legal cost, for non-intermediated transfers (e.g. inheritance, donation, pledge).

Other Fees charged to the Holder:

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

1. Fee of ₱200.00 to be paid upon each application of a certification request of holding.
2. Fee of ₱50.00 to be paid upon each application for a monthly statement of account (in addition to the quarterly statement of account to be issued by the Registrar to each Holder free of charge).
3. Fee of ₱50.00 to be paid upon application for the issuance of a replacement Registry Confirmation for reasons such as mutilated, destroyed, stolen or lost.
4. The fee for Special Reports varies depending on request. A report that is not available from back-up CD-ROMs and will thus require system personnel intervention to generate.

Other Fees charged to the Selling Agent/ Underwriter:

For every day of delay in the submission of the requirements enumerated in Section 2.4.3.1 to 2.4.3.5, the Registrar shall charge the Selling Agent an administrative fee of ₱10,000.

INDEX TO THE FINANCIAL STATEMENTS

Unaudited condensed consolidated financial statements as at 30 September 2019 and for each of the nine months in the periods ended 30 September 2019 and 2018

Audited consolidated financial statements as at 31 December 2018 and 2017 and for each of the three years in the period ended 31 December 2018, 2017, and 2016

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Bank of the Philippine Islands

Bond Program



OFFERING CIRCULAR

13 January 2020

